

Part - B

Som. Ltd.

CASH FLOW STATEMENT
for the year ended 31.3.2007

| Net Particulars | Rs. | Rs. |
|---|------------|-----|
| (A) Cash flow from Operating Activities | | |
| Net loss during the year | (1,00,000) | |
| Add: Transfer to general reserve | 24,000 | |
| Net Profit before tax | 70,000 | |
| Adjustments from non-cash expenses | | |
| Loss on sale of machinery | 55,000 | |
| Interest on debentures | 10,000 | |
| Operating profit before working capital changes | 59,000 | |
| Less: Increase in current assets | | |
| Debtors | (50,000) | |
| Stock | (50,000) | |

| | | |
|--|------------|------------|
| Net cash flow from Operating Activities | | (41,000) |
| (B) Cash flow from Investing Activities | | |
| Proceeds from sale of machinery | 15,000 | |
| Purchase of machinery | (2,20,000) | |
| Net cash used in Investing activities | | (2,05,000) |
| (C) Cash flow from Financing Activities | | |
| Proceeds from issue of ^{equity} share capital | 3,00,000 | |
| Redemption of 10% debentures | (25,000) | |
| Proceeds from issue of 8% preference capital | 25,000 | |
| Dividend paid | (24,000) | |
| Interest on debentures paid | (10,000) | |
| Net cash flow from operating activities | | 2,66,000 |

| | |
|---|---------------|
| Net Increase in cash and cash equivalents | 20,000 |
| Add: Cash and cash equivalents in the beginning | 45,000 |
| Cash and cash equivalents at the end: | <u>65,000</u> |



23. Working Notes

Fixed Assets A/c

| Dr. | | Cr. | |
|--------------------------------|-----------------|-----------------------------|-----------------|
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| To Balance b/d | 3,00,000 | By Bank A/c | 15,000 |
| To Bank A/c | | By Profit & Loss A/c | |
| (Purchases - Balancing figure) | 2,20,000 | (Loss on sale of machinery) | 55,000 |
| | | By Balance c/d | 4,50,000 |
| | <u>5,20,000</u> | | <u>5,20,000</u> |

It has been assumed that debentures were redeemed on 31.3.2007

$$\text{Interest on debentures} = \text{Rs } \frac{10}{100} \times 1,00,000 = \text{Rs } 10,000$$

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Victor Ltd.
COMPARATIVE INCOME STATEMENT
 for the years ended ... 2006 and 2007

| Particulars | 2006 | 2007 | Absolute | Percentage |
|--------------------------|-----------|-----------|----------|------------|
| | Rs | Rs | Change | Change |
| | | | Rs | % |
| Sales | 15,00,000 | 18,00,000 | 3,00,000 | 20 |
| Less: Cost of goods sold | 11,00,000 | 14,00,000 | 3,00,000 | 27.27 |
| Gross profit | 4,00,000 | 4,00,000 | - | - |
| Less: Indirect expenses | 80,000 | 1,00,000 | 20,000 | 25 |
| Net Profit before tax | 3,20,000 | 3,00,000 | (20,000) | 6.25 |
| Less: Income tax | 1,60,000 | 1,50,000 | (10,000) | 6.25 |
| Net Profit after tax | 1,60,000 | 1,50,000 | (10,000) | 6.25 |

$\frac{3}{11} \times 100 = 27.27$
 $\frac{2}{32} \times 100 = 6.25$
 $\frac{2}{16} \times 100 = 12.5$
 $\frac{1}{4} = 25$
 $\frac{2}{32} \times 100 = 6.25$
 $\frac{1}{16} \times 100 = 6.25$

(1)

Q1. (i) Net Profit Ratio = $\frac{\text{Net Profit}}{\text{Net Sales}} \times 100$

K...
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$$\begin{aligned}\text{Net Profit} &= \text{Gross profit} - \text{Indirect expenses} \\ &= \text{Rs } (8,00,000 - 2,00,000) \\ &= \text{Rs } 6,00,000\end{aligned}$$

$$\text{Net Sales} = \text{Rs } 14,00,000$$

$$\begin{aligned}\text{Net Profit Ratio} &= \frac{6,00,000}{14,00,000} \times 100 \\ &= \underline{\underline{42.85\%}}\end{aligned}$$

(ii) Debt - Equity Ratio = $\frac{\text{Long term debt}}{\text{Shareholder's funds}}$

$$\text{Long term debt} = 9\% \text{ debentures} = \text{Rs } 8,00,000$$

$$\begin{aligned} \text{Shareholders funds} &= \text{Paid up Capital} + \text{Capital Reserve} + \text{Net Profit} \\ &= \text{Rs } (20,00,000 + 2,00,000 + 14,00,000) \\ &= \text{Rs } 22,00,000 + 14,00,000 = \text{Rs } 36,00,000 \end{aligned}$$

$$\begin{aligned} \text{Debt - Equity Ratio} &= \frac{8,00,000}{22,00,000} \\ &= \underline{\underline{0.36 : 1}} \end{aligned}$$

$$\begin{aligned} \text{Debt - Equity Ratio} &= \frac{8,00,000}{36,00,000} \\ &= \underline{\underline{0.22 : 1}} \end{aligned}$$

$$\begin{aligned} \text{Shareholders funds} &= \text{Paid up Capital} + \text{Capital Reserve} + \text{Net Profit} \\ &= \text{Rs } (20,00,000 + 2,00,000 + 6,00,000) \\ &= \text{Rs } 28,00,000 \end{aligned}$$

41
572
125
21
2960
1184
5924
7400
11
2300
1184
14800

Debt - Equity Ratio = $\frac{8,00,000}{28,00,000}$
 14 '7
 = 0.28 : 1

20.

BALANCE SHEET OF ... Co. Ltd.
 as on ...

| Figures for Pre-vious year Rs. | Liabilities | Figures for Current year Rs. | Figures for Pre-vious year Rs. | Assets | Figures for Current year Rs. |
|-----------------------------------|-------------|---------------------------------|-----------------------------------|---|---------------------------------|
| | | | | (A) Fixed Assets | |
| | | | | (B) Investments | |
| | | | | (C) Current Assets and Loans & Advances | |
| | | | | (i) Current Assets | |
| | | | | (ii) Loans & Advances | |
| | | | | (D) Miscellaneous Expenditure | |

19. Interest paid by an investment company will be classified as Operating Activity.

18. Depreciation is a non-cash expense, hence it will result in no flow of cash.

17. Debt - Equity Ratio = $\frac{\text{Long term debt}}{\text{Shareholder's funds}}$

Effect - Long term loan is increasing, hence the debt-equity ratio will improve.

Part - A

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16.

Janata . Ltd.

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| Date | Particulars | Debit (Rs.) | Credit (Rs.) |
|------|--|-------------|--------------|
| | Bank A/c Dr. | 4,00,000 | |
| | To Equity Share Application A/c | | 4,00,000 |
| | (Being the application money received on 1,00,000 shares @ Rs 4 per share) | | |
| | Equity Share Application A/c Dr. | 4,00,000 | |
| | To Securities Premium A/c | | 1,40,000 |
| | To Equity Share Capital A/c | | 1,40,000 |
| | To Equity Share Allotment A/c | | 80,000 |
| | To Bank A/c | | 40,000 |
| | (Being 70,000 shares allotted, 10,000 shares rejected and excess application money adjusted towards allotment) | | |

| | | | |
|---|-----|-------------------|-------------------|
| Equity Share Allotment A/c | Dr. | 2,10,000 | |
| To Equity Share Capital A/c | | | 2,10,000 |
| (Being the allotment money due on 70,000 shares @ Rs 3 per share) | | | |
| Bank A/c | Dr. | 1,30,000 | |
| To Equity Share Allotment A/c | | | 1,30,000 |
| (Being the amount received) | | | |
| Equity Share first & final call A/c | Dr. | 3,50,000 | |
| To Equity Share Capital A/c | | | 3,50,000 |
| (Being the call money ^{due} received on 70,000 shares @ Rs 5) | | | |
| Bank A/c | Dr. | 3,46,500 | |
| To Equity Share first & final call A/c | | | 3,46,500 |
| (Being the amount received) | | | |
| Equity Share Capital A/c | Dr. | 7,000 | 3,50,000 |
| To Forfeited Shares A/c | | 70,000 | 66,500 |
| To Equity Share first & final call A/c | | | 3,50,000 |

| | | | |
|---|-----|----------------------------|-------------------|
| Bank A/c | Dr. | 77,000 | 7,000 |
| To Equity Share Capital A/c | | | 70,000 |
| To Securities Premium A/c | | | 7,000 |
| (Being the forfeited shares re-issued for Rs 11,000 fully paid up) | | | 70,000 |
| Forfeited Shares A/c | Dr. | 3,500 66,500 | 3,500 |
| To Capital Reserve A/c | | | 66,500 |
| (Being the amount in Forfeited Shares A/c transferred to capital reserve) | | | |

16. Working Notes

Statement showing adjustment of application money -

| Category | Shares Applied | Shares Alloted | Application Money | Share Capital | Share Allotment | Bank |
|---------------|-----------------|----------------|-------------------|-----------------|-----------------|---------------|
| (i) Rejected | 10,000 | - | 40,000 | - | - | 40,000 |
| (ii) Pro-rata | 90,000 | 70,000 | 3,50,000 | 2,80,000 | 80,000 | - |
| | <u>1,00,000</u> | <u>70,000</u> | <u>4,00,000</u> | <u>2,80,000</u> | <u>80,000</u> | <u>40,000</u> |

15.

Revaluation Account

| Dr | | Cr | |
|---|---------------|----------------------------|---------------|
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| To Profit on Revaluation transferred to Capital Accounts: | | By Land and Building | 20,000 |
| D 17,100 | | By Provision for bad debts | 800 |
| E 5,700 | 22,800 | By Sundry Creditors | 2,000 |
| | <u>22,800</u> | | <u>22,800</u> |

Partners' Capital Accounts

| Dr | | | | Particulars | Cr | | |
|---------------------------------------|--------|--------|------------------|----------------------------|----------|--------|-----|
| | D | E | F | | D | E | F |
| Particulars | Rs. | Rs. | Rs. | Particulars | Rs. | Rs. | Rs. |
| To D's Capital A/c | | | 6,000 | By Balance b/d | 1,00,000 | 70,000 | |
| To D's current A/c (Balancing figure) | 67,100 | | | By General Reserve | 24,000 | 8,000 | |
| To E's current A/c | | 42,700 | | By Revaluation A/c current | 17,100 | 5,700 | |

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Balance Sheet of D, E, F
as on 1.4.2007

| Liabilities | Rs | Assets | Rs |
|-----------------------------|-----------------|-------------------------------|-----------------|
| Creditors | 52,000 | Land and Building | 70,000 |
| Capitals: | | Machinery | 60,000 |
| D 80,000 | | Stock | 15,000 |
| E 40,000 | | Debtors | 40,000 |
| F 40,000 | 1,60,000 | Less: Provision for bad debts | 2,200 |
| D ¹² current A/c | 67,100 | Investments | 50,000 |
| E ¹² current A/c | 43,700 | Cash | 84,000 |
| Working Notes | | E ¹² current A/c | 6,000 |
| ↓ | <u>3,22,800</u> | | <u>3,22,800</u> |

$$D^{12} \text{ new share} = \frac{3}{4} - \frac{1}{4} = \frac{2}{4}$$

$$E^{12} \text{ new share} = \frac{1}{4}$$

New Profit Sharing Ratio = 2:1:1

$$F^{12} \text{ share of goodwill} = \text{Rs } \frac{1}{4} \times 24,000$$

$$= \text{Rs } 6,000$$

For $\frac{1}{4}$ share in profits, F brings Rs 40,000 as his capital, so -

$$\text{Total capital of the new firm} = \text{Rs } 4 \times 40,000$$

$$= \text{Rs } 160,000$$

$$D^{12} \text{ new capital} = \text{Rs } \frac{2}{4} \times 1,60,000$$

$$= \text{Rs } 80,000$$

$$E^{12} \text{ new capital} = \text{Rs } \frac{1}{4} \times 1,60,000$$

$$= \text{Rs } 40,000$$

Answer : -

$$\text{Profit on Renvaluation} = \text{Rs } 22,800$$

$$\text{Balance Sheet total} = \text{Rs } 3,22,800$$

14.

Rachna . Ltd.

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| Date | Particulars | IF | Debit (Rs) | Credit (Rs) |
|------|--|-----|------------|------------------|
| (i) | 97 debentures A/c To Debenture holders (Being the amount due to debenture holders on 740, 97 debentures of Rs 100 each) | Dr. | 74,000 | 74,000 |
| | Debenture holders To Equity Share Capital A/c To Securities Premium A/c (Being 740, 97 debentures converted to equity shares of Rs 100 each issued at a premium of 25%) | Dr. | 74,000 | 59,200 14,800 |
| (ii) | Bank A/c To Debenture Application & Allotment A/c (Being the amount received on 1,875 87 debentures of Rs 100 each issued at a premium of Rs 10 each) | Dr. | 2,06,250 | 2,06,250 |

| | | | | |
|-----|--|-----|----------|------------|
| 2.) | Debtore Application & Allotment A/c | Dr. | 2,06,250 | |
| | To Securities Premium A/c | | | 18,750 |
| | To 9% debentures | | | (1,87,500) |
| 2 | (Being 1875 9% debentures issued) | | | |
| | (iii) Own debentures A/c | Dr. | 76,000 | |
| | To Bank A/c | | | 76,000 |
| 2 | (Being 800 own 9% debentures purchased | | | |
| 2 | for redemption for Rs 95 each) | | | |
| | 9% debentures | Dr. | 80,000 | |
| | To Own debentures A/c | | | 76,000 |
| | To Profit on redemption of debentures | | | 4,000 |
| | (Being the 800 debentures cancelled) | | | |
| | Profit on redemption of debentures A/c | Dr. | 4,000 | |
| | To Capital Reserve A/c | | | 4,000 |
| | (Being the profit on redemption of | | | |
| | 800 9% debentures) | | | |

Working Notes

(i) Number of equity shares = $\frac{\text{Amount payable to debenture holders}}{\text{Issue Price}}$

$$= \frac{74,000}{100 + \frac{25 \times 100}{100}}$$

$$= \frac{74,000}{125}$$

$$= 592 \text{ equity shares.}$$

(iii) It has been assumed that there is adequate amount in debenture redemption reserve before initiating purchase of its own shares.

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| Date | Particulars | L.F. | Debit (Rs) | Credit (Rs) |
|------|--|------|------------|-------------|
| | Bank A/c | DR. | 2,28,000 | |
| | To D ¹² Capital A/c | | | 2,00,000 |
| | To Premium A/c | | | 28,000 |
| | (Being the capital and his share of goodwill bought in by the new partner) | | | |
| | Premium A/c | DR. | 28,000 | |
| | To L ¹² Capital A/c | | | 19,000 |
| | To M ¹² Capital A/c | | | 9,000 |
| | (Being the goodwill transferred to old partners in sacrificing ratio) | | | |

rough
28,000 ₹ 1400

rough
19,000
9,000

Working Notes

Calculation of sacrificing ratio -

Sacrificing ratio = Old Ratio - New Ratio

L¹² sacrifice = $\frac{4}{7} - \frac{3}{10} = \frac{40 - 21}{70} = \frac{19}{70}$

M¹² sacrifice = $\frac{3}{7} - \frac{3}{10} = \frac{30 - 21}{70} = \frac{9}{70}$

Sacrificing ratio = 19 : 9
between L & M

O¹² share of goodwill = Rs $\frac{4}{10} \times 70,000$
= Rs 28,000

12.

Chennai Sports Club
Income and Expenditure Account
for the year ended 31.12.2006

| Dr. | | | | | |
|------------------------|--------|-------------------|----------------------------|--|-------------------|
| Expenditure | | Amount | Income | | |
| | | Rs. | | | Rs. |
| To Salary | 12,000 | | By Subscriptions | | 27,000 |
| Add: Outstanding | 2,000 | 14,000 | By Entrance fee | | 4,000 |
| To Office expenses | | 8,000 | By Sale of old newspapers | | 2,000 |
| To Depreciation on: | | | By Interest on investments | | 4,000 |
| Building | 8,000 | | By excess of expenditure | | |
| Furniture | 3,000 | | over income | | |
| Sports equipment | 4,500 | | (Balancing figure) | | |
| Investment | 4,500 | 20,000 | | | 10,000 |
| To Tournament expenses | | 6,000 | | | |
| | | | | | |
| | | 50,000 | | | 50,000 |
| | | 48,000 | | | 48,000 |

Balance Sheet

AC-22

as on 31.12.2005

| Liabilities | Amount (₹) | Assets | Amount (₹) |
|------------------------------------|------------|--------------------------|------------|
| Capital Fund (Balancing figure) | 1,78,000 | Cash | 5,000 |
| | | Building | 80,000 |
| | | Furniture | 20,000 |
| | | 10% Investment | 45,000 |
| | | Sports equipment | 25,000 |
| | | Outstanding subscription | 3,000 |
| | 1,78,000 | | 1,78,000 |

Working Notes

- (i) Amount to be credited to Income & Expenditure account of subscriptions = ₹ 26,000 + 4,000 - 3,000
= ₹ 27,000

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| Date | Particulars | Dr | Cr |
|------|--|--------|--------|
| | Kumar's Current A/c | 11,100 | |
| | To Raja's Current A/c | | 11,100 |
| | (Being the adjustment entry recorded.) | | |

Working Notes

Profit and Loss Appropriation A/c.
for the year ended 31.3.2007

| Particulars | Rs | Particulars | Rs |
|-------------------------|----------|----------------------|----------|
| To Interest on capital: | | By Profit & Loss A/c | 2,78,000 |
| Kumar 81,000 | | | |
| Raja 36,000 | 1,17,000 | | |
| To Kumar's Salary | 50,000 | | |
| To Raja's Salary | 36,000 | | |
| To Visible Profit: | | | |
| " " | | | |

Statement showing adjustment to be made

| Particulars | Debit (Rs) | Credit (Rs) | Adjustment |
|-------------|------------|------------------------------|------------|
| Kunwar | 1,94,600 | 1,31,000 1,83,500 | 11,100 DR |
| Raja | 83,400 | 94,500 | 11,100 CR |

Rough :

Handwritten calculations for the adjustment:

$$\begin{array}{r}
 45 \\
 27800 \\
 \hline
 180500 \\
 32 \\
 278 \\
 \hline
 80400 \\
 1806 \\
 \hline
 8220 \\
 278 \\
 \hline
 8340 \\
 1806 \\
 \hline
 1946
 \end{array}$$

$$\begin{array}{r}
 22 \\
 278 \\
 \hline
 834
 \end{array}$$

$$\begin{array}{r}
 55 \\
 278 \\
 \hline
 1946
 \end{array}$$

$$\begin{array}{r}
 1946 \\
 834 \\
 \hline
 20
 \end{array}$$

$$\begin{array}{r}
 1946 \\
 1835 \\
 \hline
 111 \\
 131000 \\
 525 \\
 \hline
 183500
 \end{array}$$

$$\begin{array}{r}
 945 \\
 834 \\
 \hline
 111
 \end{array}$$

$$\begin{array}{r}
 72 \\
 225 \\
 \hline
 945
 \end{array}$$

10.

BALANCE SHEET OF Sagax . Ltd.

as on

| Liabilities | Amount Rs | Assets | Amount Rs |
|---------------------------------------|--------------|--------|--------------|
| <u>SHARE CAPITAL</u> | | | |
| Authorized | | | |
| 1,00,000 equity shares of Rs 100 each | 1,00,00,000 | | |
| Issued | | | |
| 60,000 equity shares of Rs 100 each | 60,00,000 | | |
| Subscribed | | | |
| 56,000 equity shares of Rs 100 each | 56,00,000 | | |
| Called up | | | |
| 56,000 equity shares of Rs 100 each | 56,00,000 | | |
| Paid up | | | |
| 56,000 equity shares of Rs 100 each | 56,00,000 | | |
| Less: Calls in Arrears | 14,000 | | |
| | 55,86,000 | | |

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| Date | Particulars | LF. | Debit (Rs.) | Credit |
|------|---|-----|-------------|--------|
| | Q's Capital A/c | Dr. | 24,000 | |
| | R's Capital A/c | Dr. | 12,000 | |
| | To P's Capital A/c | | | 36,000 |
| | (Being the 1/2 share of goodwill adjusted) | | | |
| | | | to. | |
| | Profit & Loss Suspense A/c | Dr. | 10,500 | |
| | To P's Capital A/c | | | 10,500 |
| | (Being the transfer of P's share of profits to his capital A/c) | | | |

Working Notes

Average profits of last four years = Rs. 2,00,000 + 1,80,000 + 2,00,000 + 1,70,000

4

$$= \text{Rs } \frac{420,000}{4} = \text{Rs } 105,000$$

P's share of profits = Rs 1,05,000 × $\frac{2}{5}$ × $\frac{2}{1242}$
 = Rs 10,500

P's share of goodwill = Rs 90,000 × $\frac{2}{5}$
 = Rs 18,000 × 2
 = Rs 36,000

8.

Santa Ltd.
 JOURNAL

| Date | Particulars | L.F. | Debit (Rs) | Credit |
|-------|--|------|------------|------------------|
| 9/000 | Equity Share Capital A/c To Equity share first call A/c To Paid-up, Shares A/c | Dr. | 64,000 | 24,000 40,000 |

Bank A/c

Dr.

AC 98
42,000

To Securities Premium A/c

2,000

To Equity Share Capital A/c

40,000

(Being 400 forfeited shares reissued at the rate of Rs 105 each fully paid up)

Forfeited Shares A/c

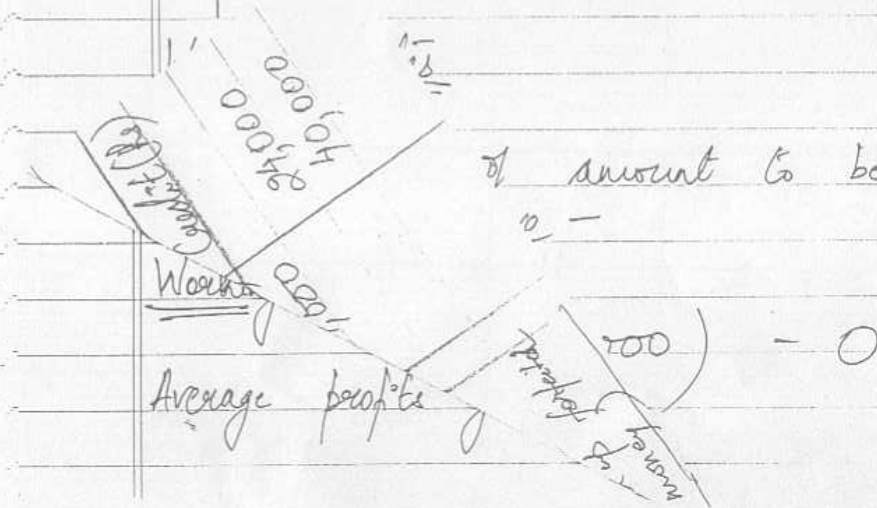
Dr.

20,000

To Capital Reserve A/c

20,000

(Being the balance in forfeited shares account transferred to capital reserve)



7.

Creditors for Sports material A/c

| Dr. | | Cr. | |
|-----------------|---------------|---|---------------|
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| To Bank A/c | 19,000 | By Balance b/d | 2,000 |
| To Balance c/d. | 2,600 | By Stock of sports material (balancing figure) | 19,600 |
| | <u>21,600</u> | | <u>21,600</u> |

| Dr. | | Cr. | |
|---------------------------------------|---------------|---|---------------|
| Particulars | Amount Rs. | Particulars | Amount Rs. |
| To Balance b/d | 7,500 | By Income & Expenditure A/c (balancing figure) | 20,700 |
| To Creditors for sports material A/c. | 19,600 | By Balance c/d | 6,400 |
| | <u>27,100</u> | | <u>27,100</u> |

Amount of sports material to be debited to AC-50
Income & Expenditure A/c = Rs 20,700

6.

Deepak. Ltd.
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| Date | Particulars | LE | Debit (Rs) | Credit |
|------|---|-----|------------|----------|
| | Furniture A/c | Dr. | 2,20,000 | |
| | To M/s Furniture Mart | | | 2,20,000 |
| | (Being the furniture purchased.) | | | |
| | M/s Furniture Mart | Dr. | 1,10,000 | |
| | To Bills Payable | | | 1,10,000 |
| | (Being acceptance of a bills of exchange to M/s Furniture Mart) | | | |
| | M/s Furniture Mart | Dr. | 1,10,000 | |
| | To Securities Premium | | | 1,10,000 |
| | To 9% debentures | | | 1,00,000 |
| | (Being 1,000 9% debentures issued of Rs. 100 @ premium of 10% in favour of) | | | |

Working Notes

$$\begin{aligned} \text{No. of debentures} &= \frac{\text{Purchase Consideration}}{\text{Issue Price}} \\ &= \frac{1,10,000}{100 + \frac{10}{100} \times 100} \\ &= \frac{1,10,000}{110} \\ &= 1000 \text{ debentures} \end{aligned}$$

| <u>Basis</u> | Income and Expenditure Account | Receipts and Payments Account |
|--------------------------|---|--|
| Nature of items recorded | It records items of only revenue nature and which relate to the current year. | It records items of capital as well as revenue nature and also which relate to past, current and |

4. In absence of partnership deed, the provisions of Indian Partnership Act, 1932 are valid according to which profit & losses shall be shared equally by partners. HC-32

Hence, Ravi's claim is not valid.

3. Reasons for preparation of Revaluation Account on the admission of a partner —

(i) To revalue the assets and reassess the liabilities at the date of admission of a partner.

(ii) Neither the incoming partner nor the old partners are put to any advantage or disadvantage.

2. Goodwill is something that puts the enterprise into an advantageous position which enables it to earn higher profits with less efforts. It is an intangible asset.

1. 'Minimum Subscription' refers to the number of shares the amount of which is sufficient according to the deed of the company for following purposes:

- for purchasing necessary assets of the company
- for paying preliminary expenses.

It is usually 90% of the capital issue.