

Financial Accounting
April 2009

N.B: (1) Question No.1 is compulsory.

(2) Attempt any five questions from questions Nos. 2 to 9.

(3) All working notes should form part of answer.

(4) Figures to the right indicate full marks assigned to each question.

a) Following is the Balance Sheet of Satyaraj Ltd. As on 31st March 2008.

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Liabilities	Rs.	Assets	Rs.
Share Capital :		Goodwill	3,40,000
1,60,000 Equity Shares of Rs. 5 each paid	8,00,000	Land & Building	2,60,000
4,000 6 % cumulative Preference shares of Rs. 100 each fully paid	4,00,000	Equipments	2,50,000
8% Debentures (Rs. 100 each)	4,00,000	Sundry Debtors :	2,40,970
Bank Overdraft	1,50,000	Stock	3,30,340
Sundry Creditors	3,40,360	Investment	45,450
(Including Rs. 20,000 interest due on Bank overdraft)		Cash at Bank	20,240
		Profit & Loss A/c	6,03,360
	20,90,360		20,90,360

Preference dividend is in arrears for five years. Following scheme of reconstruction was approved by the court.

- (1) Equity Shares be reduced to Rs. 1.25 each and then to be consolidated into shares of Rs.10 each.
- (2) 6% Preference shares be reduced to Rs. 40 each and then to be subdivided into shares of Rs.10 each.
- (3) Interest accrued but not due on 8% Debentures for half year ended 31st March 2008 has not been provided in the above Balance Sheet. The debenture holders have agreed to receive 40% of this interest in cash immediately and provision for the balance be made in the books of account.
- (4) Rs. 24,000 be paid to Preference shareholders in lieu of arrears of preference dividend.
- (5) The debenture holders have also agreed to accept equal number of 9% debentures of Rs. 60 each in exchange of 8% debentures of Rs. 100 each.
- (6) Bank has agreed to take over 50% of stock in full satisfaction of its claim including interest. The remaining stock be revalued at Rs. 1, 20,000.
- (7) Investments be sold for Rs. 40,000.
- (8) Tangible Fixed Assets be appreciated by 20%, Goodwill be written off in full and provision be made for doubtful debts of Rs. 20,000.

Give journal entries for the above scheme of reconstruction; prepare Capital Reduction Account in the books of Satyaraj Limited and Balance Sheet of the Company after reconstruction.

b) Wide Ltd. took over the business of M/s. Narrow & Sons w.e.f. 1st April 2007. Wide Ltd. Was registered on 1st September 2007.

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Its Profit and Loss account for the year ended 31st March 2008 was as under :-

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	Rs.		Rs.
To Salaries	12,000	By Gross Profit b/d	75,000
To Rent and Taxes	9,600		
To Carriage Outward	7,500		
To Audit Fees	1,200		
To Travelling Expenses	6,600		
To Printing & Stationery	2,400		
To Electricity Charges	3,000		
To Commission on sales	4,800		
To Depreciation	8,000		
To Advertising	2,400		
To Debenture Interest	800		
To Preliminary Expenses	900		
To Net Profit c/d	15,800		
	75,000		75,000

Additional Information:

(1) Trend of sales during April 2007 to March 2008 was as under:

April, May	Rs. 8,500 per month
June, July	Rs. 10,500 per month
August, September	Rs. 12,000 per month
October, November	Rs. 14,000 per month
December onwards	Rs. 15,000 per month

(2) Out of travelling expenses, Rs. 3,000 were incurred by office staff while remaining expenses were incurred by salesmen.

(3) Wide Ltd. Took over a machine worth Rs.72,000 from Narrow and Sons while it purchased a new machine on 1st February 2008 for Rs. 48,000 it provided depreciation @ 10% p.a.

(4) Audit fees are paid for the whole year.

Prepare Profit & Loss account for the year ended 31st march 2008 showing profit for pre and post incorporation periods separately.

c) Balance Sheet of Straight Ltd. As on 31st March 2008 was as under:

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Liabilities	Rs.	Assets	Rs.
Share Capital :			
25,000 Equity Shares of Rs. 100 each fully paid	25,00,000	Fixed Assets	15,00,000
10,000 9% Redeemable Preference shares of Rs 100 each Rs 90 per share paid up	9,00,000	Investments (M V Rs. 10,01,000) (F V Rs. 10,01,000)	10,00,000
General Reserve	3,00,000	Bank balance	50,000
Profit & Loss A/c	2,99,000	Other Current Assets	20,00,000
Dividend Equalisation Reserve	2,00,000		
Sundry Creditors	3,15,000		
	45,50,000		45,50,000

On 1st April 2008 the company made a call of Rs. 10 each on its preference shares and call money was duly received. All preference shares were redeemed at a premium of 2%. The company sold all its investments at market value. For the purpose after utilizing available resources to the maximum extent, keeping in view the provisions shareholder holding 150 preference shares. Pass Journal Entries in the books of the company assuming that redemption is duly carried out and prepare Balance Sheet after redemption.

d) Following are the Balance Sheets of Alpha Ltd. And Beeta Ltd. As on 31st March 2008.

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Liabilities	Alpha Ltd. Rs.	Beeta Ltd. Rs.	Assets	Alpha Ltd. Rs.	Beeta Ltd. Rs.
Share Capital :					
7% Preference Shares of Rs. 100 each	4,50,000	6,00,000	Goodwill	60,000	1,00,000
Equity Shares of Rs. 100 each	8,00,000	12,00,000	Premises	6,50,000	7,00,000
General Reserve	70,000	80,000	Plant &	4,80,000	6,20,000
Profit & Loss A/c	45,000	62,000	Machinery	1,20,000	2,00,000
Statutory Reserves	27,000	48,000	Computer	1,80,000	2,50,000
10% Debentures	1,50,000	84,000	Stock	1,10,000	3,15,000
Sundry Creditors	75,000	1,20,000	Sundry Debtors	30,000	20,000
Bills Payable	25,000	35,000	Bills Receivable	12,000	24,000
			Bank		
	16,42,000	22,29,000		16,42,000	22,29,000

Beeta Ltd. Takes over Alpha Ltd. On 1st April 2008 on the following terms:

- (1) Beeta Ltd. Discharged purchase consideration as under :
 - a) Issued 10000 Equity Shares of Rs. 100 each at a premium of 5% for the equity share holders of Alpha Ltd.
 - b) Issued 8% Preference Shares of Rs. 100 each at par to discharge the preference shareholders of Alpha Ltd. At 10% premium
- (2) The Debentures of Alpha Ltd. To be converted into equivalent number of debentures of Beeta Ltd.
- (3) Sundry Debtors of Beeta Ltd. Include Rs. 25,000 being amount due from Alpha Ltd.
- (4) Bills Payable of Alpha Ltd. Includes Rs. 7,000 being the amount of bills accepted in favour of Beeta Ltd. But the Bills Receivable of Beeta Ltd. Includes Rs. 5,000 only being the amount of bills due from Alpha Ltd.
- (5) The stock of Beeta Ltd. Includes Rs. 30,000 worth of goods purchased from Alpha Ltd. On which Alpha Ltd. Made a profit of 25% on cost.

You are required to :-

- a) Calculate purchase consideration.
- b) Pass Journal Entries in the books of Beeta Ltd. Assuming that amalgamation is in the nature of purchase.
- c) Prepare Balance Sheet of Beeta Ltd. After amalgamation.

5. Charul Associates, Surat purchased Raw Matrerials from Thomas INC New York, U.S.A. of US \$ 50,000 on 1st January 2008. The payments were made as under:

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Date of Payment

US \$

Exchange Rate Rs. Per \$

01-02-2008	10,000	41
01-03-2008	25,000	39
01-04-2008	10,000	39
01-05-2008	5,000	41

The exchange rate on 1/1/2008 and 31/3/2008 were Rs.40 per \$ and Rs. 42 per \$ respectively.

You are required to prepare Thomas INC Account and Foreign Exchange Fluctuation Account in the books of Charul Associates, indication clearly amount in \$, rate of exchange, and amount in Rupees.

Charul Associates follows Financial Year as accounting year.

6. On 1/4/2007 Mr. Ajay had 30,000 equity shares in Vipro Ltd. Face value of the share was Rs. 10 each but his purchase price was Rs. 14 per share. On 1-7-2007, Ajay purchased 6,000 additional equity shares of the same company for a price of Rs. 16 per share. In 31-7-2007 the directors of the company announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every six shares held. Bonus shares were received on 5-8-2007.

Right issue was as per the following terms:

1. Right shares to be issued to the existing holder on 17-8-2007.
2. Rights offered were at the rate of one share for every three shares held at Rs. 15 per share. Full amount was payable by 30-9-2008.
3. Existing shareholders may to the extent of their entitlement, either wholly or in part, transfer their rights to outsiders.
4. Ajay exercised his option and subscribed for 60% of his entitlement and the balance of rights, he sold to vikas for a consideration of RS. 1.50 per share.
5. Dividend for the year ended 31-3-2007 at the rate of 14% was declared by the company and received by Ajay on 22-10-2007.
6. On 1-11-2007 he sold 25,000 shares at Rs. 15 per share.

Prepare Investment Account of Equity Shares in Vipro Ltd. For the year ended 31-3-2008. In the books of Mr Ajay Apply AS-13.

The market price of an equity share was Rs. 14 as on 31-3-2008.

7. Following are the Trial Balance, Schedule of Fixed Assets and the additional information of Sattyam Ltd. As on 31st March 2008.

Trial Balance as on 31st March 2008

Particulars	Debit Rs.	Credit Rs.
Equity Share Capital (99,000 Equity Shares of Rs. 10 each fully paid)		9,90,000
10% Cumulative Preference Share Capital (4,000 Preference shares of Rs. 100 each)		4,00,000
Profit and Loss Account (31st March 2008)	4,09,000	
Preliminary Expenses	14,000	
Prepaid Expenses	9,000	
Underwriting Commission	7,500	
Forfeited Shares Account		6,000

Fixed Assets (Net Block)	4,85,000	1,85,000
Sundry Creditors		
Sundry Debtors	3,45,000	
Loan from Band of India (secured against machinery)		3,15,000
Interest accrued but not due on loan		31,500
12% Deposits from Public		2,00,000
Deposits from Customers		35,000
Cash in hand	3,85,000	
Cash at Bank (Bank of India-Current Account)	1,65,000	
Interest accrued and due on deposits from public		24,000
Outstanding Expenses		17,500
Stock in trade (31st March 2008)	3,84,500	
	22,04,000	22,04,000

Schedule of Fixed Assets as on 31st March, 2008

Asset	Gross Block				Depreciation				Net Block	
	Opening 1-4-07	Addition	Deduction	Closing 31-3-08	Opening 1-4-07	Addition	Deduction	Closing 31-3-08	Opening 1-4-07	Closing 31-3-08
Land	?	—	—	?	—	—	—	—	?	50,000
Building	1,50,000	—	?	?	18,750	2,500	6,250	15,000	?	85,000
Plant & Machinery	7,00,000	—	—	?	2,80,000	70,000	—	?	?	?
Total	9,00,000	—	50,000	8,50,000	2,98,750	72,500	6,250	3,65,000	?	?

Additional Information:

- Authorized share capital of the company consists of 1,50,000 Equity Shares of Rs. 10 each and 5000 10% cumulative preference shares of Rs. 100 each.
- Out of the above Equity Share Capital, 10,000 Equity Shares of Rs. 10 each fully paid have been allotted for consideration other than cash.
- Dividend on Preference Shares is in arrears for 3 years (including current year).
- Of the Sundry Debtors Rs. 1,36,949 are due for more than six months
- Sundry Debtors and advances are unsecured but considered good
- Bills Receivable of Rs. 25,000 maturing on 31st May 2008 have been discounted with the Bank.
- Ignore previous year's figures.

Complete the above schedule of fixed assets and prepare Balance sheet of Sattyam Ltd. As on 31st March 2008 as per the requirements of Schedule VI of the Companies Act, 1956 (in vertical form).

- Attempt any **four** from the following :-
 - Shreenath Ltd. Purchased its 1500 9% own debentures of Rs. 100 each at Rs. 101 per debenture cum-interest on 1st January 2008 for immediate cancellation. Interest payment dates were 30th September and 31st March every year. Pass Journal Entries to record purchase and cancellation of own debentures.

(b) The Balance Sheet of Virendra Ltd. As on 31st March 2008 shows the following details :

	Rs.
40,000 Equity Shares of Rs. 10 each fully paid up	4,00,000
General Reserve	85,000
Securities Premium	12,000
Capital Redemption Reserve	40,000

On 1st April 2008 the directors resolved to issue bonus shares in the ration of one bonus share for every four shares held on the above date.

Pass Journal Entries for issue of Bonus Shares.

(c) Write any four examples of contingent liabilities of a limited company.

(d) (i) Kid Craft Ltd. acquired the business of a firm w.e.f. 1-4-2007. The company was registered on 1-8-2007. Its monthly sales doubled from the date of incorporation. Its monthly sales from the date of certificate of commencement of business were three times the monthly sales of pre incorporation period.

Find out the sales ratio for pre and post incorporation periods for the year ended 31st March 2008.

(ii) DP Ltd. Took over the business of a firm from 1st March 2007. It closed its books of account for the first time on 31st March 2007. It closed its books of account for the first time on 31st March 2008/ the time ration for pre and post incorporation period was 5:8.

Find out the date of incorporation of DP Ltd.

(e) X Ltd. Furnishes the following information:

	Rs.
80,000 Equity shares of Rs. 10 each, Rs. 7 per share paid up	5,60,000
General Reserve	80,000
Profit & Loss A/c	6,00,000
Securities Premium	1,20,000
Bank Loan (secured)	3,00,000
Unsecured Loan	1,00,000

Keeping in view the legal requirements, ascertain the maximum number of Equity Shares that can be bought back by the company at a price of Rs. 40 per share.