

March 2008

Financial Accounting

Time: 3 Hours Marks: 100

NB:

1. Question No.1 is compulsory.
2. Attempt any five questions from question 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.

Q.1 BK Ltd. is formed to takeover 'Bunty Ltd and Kuber Ltd'. Their Balance Sheets on the date of amalgamation are as below: 16

Liabilities	Bunty Ltd.Rs.	Kuber Ltd.Rs.	Assets	Bunty Ltd.Rs.	Kuber Ltd.Rs.
Share Capital of	--	--	Goodwill	--	25,000
Rs.10 each	--	--	Buildings	1,50,000	1,40,000
Equity shares	2,40,000	1,60,000	Machinery	80,000	60,000
11% Preference Shares	1,50,000	1,00,000	Furniture	10,000	5,000
General Reserve	45,000	40,000	Investments	1,40,000	80,000
Profit & loss A/C	30,000	21,000	Debtors	1,65,000	60,000
9% Debentures	1,00,000	1,00,000	Stock	75,000	90,000
Sundry Creditors	60,000	40,000	Cash & Bank	13,000	8,000
Other Liabilities	40,000	24,000	Other Current Assets	20,000	10,000
--	--	--	Preliminary Expenses	12,000	7,000
--	6,65,000	4,85,000	--	6,65,000	4,85,000

BK Ltd. issued 10,000 equity shares of Rs.10 each to the public at a premium of 10%. Bunty Ltd. and Kuber Ltd. were taken over by BK Ltd. on the following terms.

Re: Bunty Ltd.

1. Equity Shareholders are to be issued 7 Equity Shares of Rs. 10 at par in BK Ltd. and are to be paid Rs.5 in cash for surrender of each 6 Shares.
2. Preference shareholders are to be paid at 10% premium by 12.5% preference shares in BK Ltd. issued at par.
3. All Assets and liabilities are valued at book value except Machinery which is valued at 10% below book value and Debtors are Debtors are worth Rs. 1,60,000.
4. Liquidation expenses of Rs.12,500 are to be borne by BK Ltd.
5. Discharge the debentures of Bunty Ltd. at a discount of 10% by the issue of 13% Debentures of Rs.100 each in BK

- Ltd.
Re: Kuber Ltd.
1. Cash Rs.3,000 is to be retained for liquidation expenses.
 2. Debtors and investments are valued at 90% of cost.
 3. Machinery and stock are valued at 10% above cost and other assets and liabilities are valued at book value except Fictitious assets.
 4. Preference shareholders are to be paid at 10% premium by 12.5% preference shares in BK Ltd. issued at par.
 5. Balance of Purchase consideration is payable, in equity share at par.
 6. Discharge the debentures of Kuber Ltd. at par by the issue of 13% Debentures of Rs.100 each in 'BK' Ltd.
 7. The Face value of Equity shares and preference shares in BK Ltd. is of Rs.10 each.
- Show the necessary Ledger Accounts in the books of 'Bunty Ltd' and Kuber Ltd'.also calculate purchase considerations.

Q.2 The following trial balance was extracted from the books of M/s. Jhakharia Pvt. Ltd., which had taken over business of Mr. Vardhan on 1st April, 2005. The company was incorporated on 1st July, 2005. However no effect of conversion was given in the books which continued thereafter. 16

Trial Balance as on 31st March, 2006

Trial Balance as on 31st March, 2006		
Particular	Debit Rs.	Credit Rs.
Capital Account of Mr. Vardhan on 1/4/05	----	9,00,000
Debtors	80,000	----
Creditors	----	1,00,000
Rent	33,000	----
Office Salary	1,10,000	----
Carriage outward	54,000	----
Directors Remuneration	16,000	----
Travelling Expenses	28,500	----
Preliminary Expenses	15,000	----
Administrative Expenses	1,60,000	----
Bills Receivable	30,000	----
Bills payable	----	21,500
Cash at Bank	60,000	----
Plant & Machinery	2,00,000	----

Land & Buildings	5,00,000	----
Furniture	40,000	----
Stock	1,90,000	----
Gross Profit	----	4,95,000
Total :	15,16,500	15,16,500

Further Information:

- Gross Profit percentage is fixed. Turnover is doubled in April, November and December as compared to other months.
 - 1/5 of preliminary expenses are to be written off.
 - Purchase consideration Rs. 10, 00,000 to be paid by the issue of 80,000 equity shares of Rs. 10/-each and 2,000 9% preference shares of Rs. 100/- each.
 - Travelling expenses are incurred by, salesmen only.
 - Audit Fee is Rs. 18,000/- for 1st April, 2005 to 31st March, 2006 and is outstanding.
 - Rent of office was paid @ Rs. 2,500/-, per month up to September, 2005 and thereafter, it was increased by Rs. 500/- per month.
 - Provide depreciation @ 10% p.a. on Plant & Machinery, Land & Building and on Furniture.
- Prepare profit and loss account for the year ended 31st March, 2006 appropriating between the pre and post incorporation period and Balance Sheet as on 31st March, 2006.

Q.3 The following is the Balance-sheet of Sandeep Limited as on 31st March, 2006: 16

Liabilities	Rs.	Assets	Rs.
Issued and Subscribed Capital	--	Goodwill	25,000
10% Preference Shares of	--	Patents	15,000
Rs. 100/- each	4,00,000	Furniture	35,000
Equity Shares of Rs. 10/- each	10,00,000	Plant & Machinery	6,00,000
12% Debentures	7,50,000	Land & Building	6,50,000
Bank Overdraft	50,000	Stock-In-Trade	80,000
Sundry Creditors	1,40,000	Sundry Debtors	90,000
Bills Payable	35,000	Bills Receivable	15,000
--	--	Profit and Loss A/c	8,20,000
--	--	Preliminary Expenses	45,000

--	23,75,000	--	23,75,000
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The preference dividend is in arrear for four years. The following scheme of capital reduction was sanctioned by the court and agreed by shareholders:

1. The preference shares are to be reduced to Rs. 50/- each and equity shares to Rs. 2/- each, both being fully paid.
2. Of the preference dividend in arrear three-fourth to be waived and remaining to be paid in cash.
3. The Debenture holders to take over plant and machinery at Rs. 6, 50,000/- in part satisfaction of their claim. The remaining claim should be converted into 14% debentures.
4. Creditors agreed to reduce their claim by Rs. 20,000/-. Bills payable to be paid immediately.
5. Goodwill, Patents, Profit and Loss A/c and Preliminary Expenses are to be written off entirely.
6. The following assets are to be revalued as under Furniture Rs. 25,000/-, Stock-In-Trade Rs. 68,000/- Land and Building Rs. 5, 80,000/- Sundry Debtors Rs. 80,000/-.
7. A Secured Loan of Rs. 1,50,000/- at 12% per annum is to be obtained by mortgaging Land and Building for repayment of bank overdraft, bills payable and reconstruction expenses Rs. 15,000/-.

Pass journal entries to record above scheme and draft the balance sheet of Sandeep Limited after reconstruction.

Q.4 'Piyusha' Limited furnishes the following information and requests you to find out the value of on the basis of capitalisation of Future Maintainable Profits method 16

(a) Balance Sheet as on 31st March, 2006:

Liabilities	Rs.	Assets	Rs.
Share Capital	--	Goodwill	60,000
7,500 equity shares	--	Land & Machinery	7,00,000
of Rs. 100/- each	7,50,000	Plant & Machinery	2,50,000
Reserves	--	10% Investments	4,50,000
Profit & Loss A/c	3,50,000	Debtors	2,60,000
Capital Reserve	1,50,000	Stock-In-Trade	2,40,000
Workmen Compensation Fund	3,00,000	Cash and Bank	1,30,000
10% Debentures	3,00,000	Other Current Assets	1,10,000
Creditors	2,30,000	Preliminary Expenses	20,000
Other Current Liabilities	1,40,000	--	--
--	22,20,000	--	22,20,000

(b) In similar business normal returns on capital employed is 15% (After Tax)

(c) All Investments are Non-Trade Investments.

(d) Profits for last four years before tax are follows.

Year ending 31st March, 2003 Rs. 4, 32,000

Year ending 31st March, 2004 Rs. 4, 46,000

Year ending 31st March, 2005 Rs. 4, 36,000

Year ending 31st March, 2006 Rs. 4, 53,000

(e) An average rate of 40% is payable as Income Tax.

(f) In the year 2003-04, there was a fire which resulted in a loss of Rs. 25,000/- and during theYear 2004-05 the company had sold its furniture resulting into a profit of Rs. 40,000/-

(g) The changes expected from ensuing year are:

Increase in Directors' fees @ Rs. 12,000/- per annum.

Reduction inAdvertisement Expenses @ Rs. 42,000/- p.a.

Increase in Distribution Expenses @ Rs. 48,000/- p.a.

(h) All current Assets (excluding cash & Bank) are to be valued at 125% of book value for valuation of Goodwill).

(i) The market value of Land and Buildings is Rs. 9, 50,000/- and Plant and Machinery is Rs. 2, 00,000/

(j) Liability under workmen compensation fund is expected at Rs. 1, 50,000/-.

(k) Use Simple Average.

Q.5 Following is the Balance sheet of RT Ltd. as on 31st March, 2006: 16

Liabilities	Rs.	Assets	Rs.
Share Capital	--	Plant and Machinery	4,00,000
10,000 equity shares	--	Land and Buildings	4,00,000
of Rs. 10/- each	1,00,000	Investments	2,00,000
5,000 9% preference	--	Stock	60,000
Shares of Rs. 100/- each	--	Debtors	1,40,000
fully paid 5,00,000	--	Bank	1,90,000
(-)call in Arrears 10,000	4,90,000	--	--
General Reserve	3,00,000	--	--
Securities Premium	20,000	--	--
Profit & Loss A/c	50,000	--	--
10% Debentures	2,50,000	--	--
Creditors	1,40,000	--	--
Bills Payable	40,000	--	--
--	13,90,000	--	13,90,000

On the date of Balance Sheet preference shares are redeemable at premium of 10%.

The calls in arrears on preference shares are @ Rs. 20/- per share.

1. To enable redemption, company took the following measures:-

2. To send reminders for calls to all preference share holders. Holders of 400 preference shares paid of their dues and remaining shares are forfeited and cancelled.

3. Sold off investments @ 110% of cost.

4. 20,000 Equity shares, of Rs. 10/- each were issued for cash consideration at 20% premium. The issue was fully subscribed and paid for.

5. The company then issued bonus shares at par to the then shareholders after issue of new shares, at the rate of three shares for every four shares held.

Pass necessary journal entries in the books of RT Ltd. for the above transactions and also prepare the Balance Sheet of the company after redemption.

Q.6 Following is the Trial Balance from the books of Diksha Ltd. as c- 31st March, 2006 :- 16

Debit	Rs.	Credit	Rs.
Land & Buildings (at cost)	4,00,000	Share Capital	--
Plant & Machinery (at cost)	5,20,000	50,000 Equity Shares of	--
Motor Car (at cost)	1,00,000	Rs. 10 each	5,00,000
Goodwill (at cost)	2,60,000	8% Debentures (01-04-2005)	4,00,000
Salaries and Wages	72,000	Provision for Tax	70,000
Rent and Taxes	18,000	(Accounting year 2004-05)	--
Travelling Expenses	16,000	Sundry Creditors	90,000
Printing & Stationery	17,000	Bills Payable	40,000
Motor Car Expenses	8,000	General Reserve	1,80,000
Repairs (Machinery)	16,500	Securities Premium	20,000
Stock 9	4,000	Capital Reserve 1	5,000
Debtors	1,45,000	Profit & Loss A/c (on 01-04-2005)	55,000
Cash	8,000	Provision for Depreciation (on 01-04-2005)	--
Bills Receivables	30,000	(i) Land & Buildings	40,000

10% Investments	1,50,000	(ii) Plant & Machinery	1,30,000
Interest on Debentures 1	6,000	(iii) Motor Car	10,000
Advance Tax	--	Gross Profit	4,10,000
For-2004-05(F.Y)	72,000	Interest on Investments	7,500
For-2005-06(F.Y)	60,000	Sale of Motor Car	35,000
--	20,02,500	--	20,02,500

Adjustments:-

- Motor Car was sold on 1st April, 2005. The cost of sold Motor Car was Rs. 30,000/- and Accumulated depreciation on 1st April, 2005 was Rs. 6,000/- on the same.
 - Depreciation is to be provided on written down value at (i) Land and Building 21/2% p.a., (ii) Plant and Machinery 10% p.a. and (iii) Motor Car 20% p.a.
 - Debtors include debts due for more than 6 months Rs. 20,000/-.
 - Plant & Machinery includes machinery worth Rs. 20,000/- Purchased on 1st April, 2005.
 - Dividend is proposed for the year @ 10%, Ignore tax on proposed dividend.
 - Provision for Taxation is to be made @ 40% on the current year's profit
 - Debentures are secured by a charge on the Land and Buildings
 - The market value of Investments on 31-03-2006 was Rs. 1, 80,000/-.
 - Interest on Investment is due for 6 month but not received.
 - Interest on debentures for 6 months is Accrued & due.
 - Authorised share capital of the company is Rs. 10, 00,000/- divided into 1, 00,000/- Equity shares of Rs. 10 each.
- You are required to prepare Profit & Loss Account for the year ended 31st March, 2006 and Balance Sheet as on that date in a vertical form as per provision of the schedule VI. Ignore previous year's figures.

Q.7 Following is the Trial Balance from the books of Diksha Ltd. as c- 31st March, 2006 :- 16

Date	No. of Debentures	Terms
01-04-2005	800	Opening Balance at a cost of Rs. 76,000/-
01-06-2005	300	Sold at Rs. 105/- each cum-interest
01-09-2005	700	Purchased at Rs. 98/- each Ex-Interest
01-12-2005	400	Purchased at Rs. 108/- each Cum-Interest
01-02-2006	900	Sold at Rs. 97/- each Ex-Interest.

Adjustments:-

Prepare Investment Account of 12% Debentures in the books off Bhagwati for the year ended 31st March,2006. The market value on 31st March, 2006 was Rs. 67,500 of the said Investment. Apply AS-13

Q.8 a) Pass journal entries for the following Foreign Exchange transactions the books 'Deepali Ltd. On 1st January, 2006 Deepali Ltd., an importer, purchased \$ 42,500/- worth goods from Tom Trading Company of USA. The payment was made as under. 16

On 15th January, 2006-	\$ 8,000
On 15th February, 2006-	\$9,000
On 15th March, 2006-	\$14,500
On 15th April, 2006-	\$11,000

Deepali Ltd. closes its books on 31st March every year the exchange rate for \$ 1 was as follows.

1st January, 2006	Rs. 48.50	15th January, 2006	Rs. 49.25
15th February, 2006	Rs. 48.25	15th March, 2006	Rs. 48.40
31 st March, 2006	Rs. 48.75	15th April, 2006	Rs. 48.60

(b) Pass journal entries for the following transactions in foreign currency in the books of 'Priyanka Ltd.

Priyanka Ltd. exported goods to 'Jerry Trading Company' Germany worth US \$ 90,000/- on 10th January, 2006 on which date exchange rate of US \$ 1 was Rs. 49.50. The payment for the same was received as under :-

Date of Payment	US \$ Received	Exchange Rate for 1 US \$
25th January, 2006	25,000/-	Rs. 49.75
23rd February, 2006	24,000/-	Rs. 48.90
24th March, 2006	24,000/-	Rs, 48.60
28th April, 2006	17,000/-	Rs. 48.90

'Priyanka Ltd' closes its books on 31st March every year. The exchange rate on 31 st March, 2006 was 1 US \$ Rs. 48.75.

Q.9 Answer the following:- 16

Adjustments:-

1. 'S' Ltd is to be taken over by 'R' Ltd. 'S' Ltd. has 9% Debentures of Rs. 100/- each of the face value of Rs. 22,50,000/-. 9% debenture holders of 'S' Ltd. are discharged by 'R' Ltd. issuing such number of its 15% Debentures of Rs. 100/- each so as to maintain the same amount of interest. Calculate the No. of debentures to be issued by 'R' Ltd. (4)

2. What amount should be set aside to get Rs. 15, 00,000 at the end of 10 years? The amount is expected to earn 4% interest. Sinking Fund Table shows that Re. 0.083290 @ 4% interest will accumulated Re. 1 at the end of 10th year. (2)

3. Prepare a -Schedule of Current Liabilities and provision" giving all the details required under Schedule VI to the Companies Act .(4)

4. 'P' Ltd. Purchased premises worth Rs. 22, 56,000. It issues its debentures at 4% discount insatisfaction of the purchase price. Calculate how many debentures will be issued in case debenture is of Rs. 100/- each. (2)
5. 'A' Ltd. buys its own 6% Debentures of nominal value Rs. 60,000/- at Rs. 97 cuminterest on 1st March, 2006. Company cancels these debentures on 31st March, 2006. Pass journal entries in the books of 'A' Ltd. It pays debentures interest half yearly on 30th June and 31st Decembe