October 2006

Financial Accounting
Time: 3 Hours Marks: 100
NB:

Question No. 1 is compulsory.

Attempt any five questions from question Nos. 2 to 9.

All working notes should form part of answer.

Figures to the right indicate full marks assigned to each question.

Specify assumptions, if any, while solving the questions.

Q.1 Shubha Ltd. absorbed Sushma Ltd. with
effect from 1st April, 2005 when their Balance sheets as on 20 31-03-2005 were as under: 20

Liabilities	Shubha Ltd.Rs.	Sushma Ltd.Rs.	Assets	Shubha Ltd.Rs.	SushmaLtd.Rs.
Share Capital:	--	Fixed Assets	--	--	--
10% Preference Share of	--	--	--	--	--
Rs. 100 each	2,00,000	2,00,000	Land & Building	2,20,000	1,40,000
Equity Share of Rs. 100 each	5,00,000	2,00,000	Plant & Machinery	4,20,000	2,60,000
Reserves & Surplus:	--	--	--	--	--
Revaluation Reserves	20,000	--	Current Assets, Loans	--	--
Export Profit Reserves	40,000	20,000	& Advances	2,90,000	1,60,000
General Reserve	2,00,000	60,000	Stock	1,20,000	1,40,000
Secured Loans	--	--	Sundry Debtors	1,30,000	90,000
10% Debentures of Rs. 100	--	1,20,000	Bills Receivable	20,000	10,000

15% Debentures of Rs. 100	80,000	--	Bank	--	--
Current Liabilities & Provisions	--	--	--	--	--
Sundry Creditors	1,60,000	2,00,000	--	--	--
--	**12,00,000**	**8,00,000**	--	**12,00,000**	**8,00,000**

Terms Of Amalgamation:
Shubha Ltd. will issue Eight equity shares for Five equity shares in Sushma Ltd.

11 % Preference shareholders of Sushma Ltd. will be
issued equal number of Equity shares inShubha Ltd. 10% Debentureholders of Sushma Ltd. aredischarged by Shubha Ltd
by issuing equal numberof its 15% Debentures of Rs. 100 each.
All the Assets and liabilities of Sushma Ltdare
taken over at book values except the following.
(i) Fixed Assets at 10% more than book values.
(ii) Stock
at Rs. 1,44,000
(iii) Debtors at Rs. 1,25,000
(iv) Bills Receivables at Rs. 81,000

You are
required to-
a. Compute Purchase consideration.
b. Prepare Ledger Accounts to close the books of Accounts
of Sushma Ltd.
c. Pass journal entries and prepare Balance-sheet after Amalgamation in the books of Shubha Ltd.
applying Purchase Method.

Q.2 Following is the Balance sheet of PARAMOUNT LTD. as on 31-03-2005 :16

Liabilities	Rs.	Assets	Rs.
Share Capital	--	Fixed Assets	--
6,000-8% Preference shares ofRs. 100 each	6,00,000	Goodwill	60,000
50,000 Equity Shares of Rs, 10 each.	5,00,000	Building	3,00,000
Capital Reserves	50,000	Furniture	1,00,000
Secured Loans :	--	Current Assets, Loans & Advances	--

5% Debentures of Rs. 100 each	3,00,000	Stock	1,50,000
Debenture Interest Due	50,000	Sundry Debtors	75,000
Current Liabilities	--	Bank	1,00,000
& Provisions :	--	Cash	25,000
Sundry Creditors	1,80,000	Miscellaneous Expenditure	--
--	--	Discount on Debentures	30,000
--	--	Profit & Loss Account	5,00,000
--	--	Patents & Trade Marks	40,000
--	**16,80,000**	--	**16,80,000**

Note: Preference dividend is in arrears for three years.
The following
scheme of reconstruction was prepared and duly approved by the court.
1. The Preference Shares shall be
converted into equal Number of 9% Preference Shares of Rs. 50 each.
2. The equity shares shall be reduced
to Rs. 3 each. However the face value will remain the same.
3. 5% Debentures shall be converted into equal
number of 6% Debenture, of Rs. 75 each. The debenture holders also agreed to waive 50% of the accrued interest.

4. Arrears of preference dividend are to be reduced to one year's dividend which is paid in cash.
5. The
Sundry creditors agreed to waive 30% of their claims and to accept Equity shares for Rs. 30.000 in part settlement of their renewed claims.
6. The assets are to be revalued as under :

Building	Rs. 3.50,000
Plant & Machinery	Rs. 2, 50,000
Furniture	Rs. 80,000
Stock	Rs. 1, 00,000
Sundry Debtors	Rs.70,000

7. Intangible assets and fictitious assets to be written off.
Pass journal entries, prepare Capital Reduction Account and Balance Sheets after reconstruction in the books for Paramount Ltd.

Q.3 Following Trial Balance is extracted from the books of Shrikrishna (Pvt.)
Ltd. as on 31-03-2005. The 16 company was Incorporated on 1-08-2004 to take over the business of a proprietary

concern from 1-4-2004. The authorised share capital was 50,000 Equity shares of Rs. 10 each. The Purchase consideration was settled on 1-10-2004, being Rs. 1, 25,000. It was in the form of 10,000 shares of Rs. 10 each and the balance in the form of debentures of Rs. 100 each :16

Trial Balance as on 31st March, 2006			
Particular	Debit Rs.	Particular	Credit Rs.
Opening Stock	23,600	Sales	2,14,000
Purchases	75,800	Sundry Creditors	40,200
Carriage Inwards	5,200	Bills Payable	29,000
Salaries	24,000	Capital	1,15,000
Office Expenses	8,100	Interest on Investments	1,800
Postage & Telephones	9,000	--	--
Printing & Stationery	9,900	--	--
Office Rent	36,600	--	--
Carriage Outwards	7,200	--	--
Selling Expenses	6,900	--	--
Directors' Fees	3,200	--	--
Interest on Purchase consideration	5,625	--	--
Preliminary expenses	7,500	--	--
Sundry Debtors	54,000	--	--
Bills Receivable	5,375	--	--
Fixed Assets	1,00,000	--	--
Investments	18,000	--	--
--	**4,00,000**	--	**4,00,000**

If is further informed that:

1. Closing stock is valued at Rs. 11,200.
2. Fixed Assets include furniture of Rs. 10,000 purchased on 01-10-2004;
Depreciation is to be charged on Fixed Assets @ 10% p.a.

3. Total sales for the post-incorporation period are three times the total sales for the pre-incorporation period.
4. Rate of Interest on debentures is 10% p.a. while on purchase consideration is 9% p.a.
5. Preliminary expenses should be written off.
6. Investments are purchased by the proprietor during 2003-04.

Prepare Trading and Profit & Loss Account for the Year ending 31-03-2005 showing the treatment of Pre-incorporation and post-incorporation profits separately. Prepare Balance Sheet as on the same date.

Q.4(a) Nandlal imported goods from US company worth US $ 5 lac on 10-08-2004 when exchange rate 16 was US $ 1 = R42.90. He agreed to pay 5 installments as below:
16

Date	Installment (Us S)	Rate of Exchange (Rs.)
10-10-2004	75,000	42.75
10-12-2004	1, 50,000	43.50
10-02-2005	60,000	44.80
10-04-2005	75,000	42.90
10-06-2005	Balance	43.00

The rate of exchange was Rs. 43.00 ason 31-03-2005. Pass journal entries [including those for cash] in the books of Nandlal in accordance with AS-11.

b) Madhav exported goods to US Company worth US $1 lac on 01-03-2004 when exchange rate was US $ 1 = Rs. 43.00. The payment was received as below:

Date	Installment (Us S)	Rate of Exchange (Rs.)
01-02-2004	20,000 (Advance)	43.25
15-03-2004	25,000	43.50
01-05-2004	Balance	42.75

The rate of exchange was US $ 1 = Rs. 43.75 as on 31-03-2004.
Pass journal entries in the books of Mr. Madhav [including those for cash] in accordance with AS

Q.5 'Following is the Balance sheet of NINAD LTD. as on 31-03-2005:16

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 10 each	5, 00,000	Fixed Assets	7, 00,000

8% Preference Shares of Rs. 100 each	1, 00,000	Current Assets	4, 80,000
7.5% Debentures of Rs. 100 each	2, 00,000	Preliminary Expenses	20,000
Unsecured Loans	1, 00,000	--	--
Reserve and Surplus	2, 00,000	--	--
Current Liabilities	1, 00,000	--	--
--	**12, 00,000**	--	**1,20,000**

Additional Information
1. Details of Sales Expenses and Interests for the last Five years for the year ended are as under:

Particulars	31.03-2001	31.03-2002	31.03-2003	31-03-2004	31-03-2005
--	Rs.	Rs.	Rs.	Rs.	Rs.
Sales	4,50,000	5,50,000	7,00,000	4,00,000	8,00,000
Expenses	1,75,000	2,90,000	3,00,000	1,55,000	4,00,000
Interest on Loan	10,000	20,000	25,000	30,000	10,000
Interest on Debentures	15,000	15,000	15,000	15,000	15,000

2. Rate of Income tax is 40%

3. Normal rate of return is 12.5%
4. Fixed assets are valued at Rs. 10, 00,000 and current assets are valued at Rs. 6,00,000.

Find cut value of Equity
share under:-

(i)Net Assets Method

(ii)Earning Capacity Method

(iii)Fair Value Method.

Q.6 Mr. Confused is the Accountant of M/s Ultimate Confusion Ltd. He presents to you the following Trial Balance as on 31-03-2005. The cash in hand on 31-03-2005 is Rs. 750. 16

Particular	Rs.	Particular	Rs.
Bank Balance	72,900	Subscribed capital	4,00,000

Calls in Arrears	7,500	6% Debentures	3,00,000
Land & Building	3,00,000	Profit and Loss A/c [Cr.]	13,625
Machinery	2,97,000	Sundry Debtors	87,000
Interim Dividend Paid	37,500	Sales	4,15,000
Stock [1-4-2004]	75,000	Preliminary Expenses	5,000
Sundry Creditors	40,000	Sinking Fund	75,000
Bills Payable	38,000	--	--
Furniture	7,200	--	--
Purchases	1,85,000	--	--
Provision for Bad Debts	4,375	--	--
Investments	75,000	--	--
Salaries & Wages	1,03,600	--	--
Fuel	13,200	--	--
Rent, rates & Taxes	3,800	--	--
Discounts Allowed	6,400	--	--
Directors Fees	5,700	--	--
Bad Debts	2,100	--	--
Debenture Interest	9,000	--	--
Sundry Expenses	2,350	--	--
Deposits from Public	10,000	--	--
--	**12,95,625**	--	**12,95,625**

After locating the mistakes and making the following adjustments, prepae Trading and Profit and Loss Account for the year ended 31-03-2005 and Balance sheet as on that date in a vertical form. Ignore previous year's figures.

1.Authorised capital of the company is 60,000 Equity shares of Rs. 10 each. The calls in arrears are @ Rs. 5 per share.

2.Stock on 31-03-2005 was Rs. 1, 37,120.
3.Write off 1/5 th of the preliminary expenses.

4.The Details of fixed Assets are as under.

Particular	Original Cost Rs.	Depreciation till 31-03-2004 Rs.	Rate of Depreciation
Land & Building	3,50,000	50,000	5%
Machinery	4,00,000	1,03,000	20%
Furniture	10,000	2,800	10%

The depreciation during the year is to be charged on W.D.V. as at the beginning of the year. Therewere no additions or deductions during the year.

Note: Rectified Trial Balance is not required.

Q.7 Following is the Balance-sheet of INDICA LTD. as on 31-12-2004: 16

Liabilities	Rs.	Assets	Rs.
Share Capital	--	Fixed Assets	--
Authorised:	--	Land & Building	40, 00,000
10, 00,000 Equity shares of Rs. 10 each	1,00, 00,000	Plant & Machinery	22, 00,000
Issued, Subscribed & Called Up	--	Furniture	20, 00,000
8, 00,000 Equity shares of	--	Investments	20, 00,000
Rs. 10 each,Rs. 8 per share paid up	64, 00,000	Current Assets, Loans & Advances	--
Reserves & Surplus:	--	Debtors	42, 00,000
Profit & Loss Account	50, 00,000	Bills Receivables	10, 00,000
Security Premium Account,	30, 00,000	Bank Balance	45,00,000
Secured Loans:	--	Stock	20, 00,000

10% Debentures	30, 00,000	--	--
Unsecured Loans	10, 00,000	--	--
Current Liabilities & Provisions	--	--	--
Sundry Creditors	20, 00,000	--	--
Bills payable	10, 00,000	--	--
Provision for Tax	5, 00,000	--	--
--	**2, 19, 00,000**	--	**2,19,00,000**

Keeping in view the legal requirements ascertain the maximum number of Equity shares that Indica Ltd. Can buyback
@ Rs. 20 per share.

•Pass journal entries to record buyback and prepare a Balance-sheet thereafter.

Q.8 A company issued 10,000-8% Debentures of Rs. 100 each at par on 01-01-2001redeemable on 31-12-2004 at par.
The company decided to invest money outside business to provide funds for redeemption.
The outside investments were made @ 5% p.a. on the last day of each year.
On 31st December, 2004, the company sold all investments for Rs. 7, 25,000 and
redeemed the 8% Debentures. The Sinking Fund value of Re 1 @ 5% interest for
4 years is 0.23012. :16

•Prepare for all the four years:

1.8% Debentures Accounts

2.Sinking Fund Account

3.Sinking Fund Investment Account

•Note: Calculations to be rounded off to the nearest rupee.

Q 9. Answer the following:-
(a)
(i)List out the items under the head "Reserves & Surplus" of a company as per Schedule VI requirements.(4)
(ii)State the Steps to calculate value of Goodwill as per capitalization of future Maintainable Profits Method.(4)
(b)

1.A company has balance as under(2)
Security Premium Rs. 1, 00,000 General Reserves Rs. 1, 50,000 Redeemable Preference Share Capital Rs. 5, 00,000 . Preference shares are to be redeemed at a premium of 10%. Find out the amount of fresh issue of shares as per company law requirement.
2.A company earned a net profit of Rs. 45,000 after debiting all expenses of Rs. 75,000. The sales ratio of Pre-incorporation and Post-incorporation periods is 2: 3. Find out the allocation of Gross Profit amount in pre & post incorporation periods.(2)

3.The profits and the weightage assigned to the profits are as follows (2)

Year 2002 2003 2004

Profits (Rs.) 15,000 20,000 25,000

Weightage 1 2 3
Goodwill should be valued at 21/2, times of purchase of Weighted Average Profit. Find out amount of goodwill.
4.A company has Opening balance of Rs. 10, 00,000 in its Fixed Assets Account [W.D.V.]. Accumulated Depreciation was Rs. 6, 00,000. There was an addition of fixed Assets of Rs. 5, 00,000 at the beginning of the year while there was no sale of fixed asset.(2)

Prepare fixed Assets Schedule if the Depreciation is charged for the year @ 15% on original cost.