October 2007

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 the -answer.
4. Figures to the right indicate full marks assigned to each question.

Q.1 Following are the Balance Sheets of X Ltd. and Y Ltd. (20)

Balance Sheets As on 31st March, 2006

Liabilities	X Ltd.Rs.	Y Ltd.Rs.	Assets	X Ltd.Rs.	Y Ltd.Rs.
Equity Share Capital of Rs. 10 each	75,00,000	45,00,000	Building	25,00,000	15,50,000
Export Profit Reserves	3,00,000	3,00,000	Machinery	32,50,000	17,00,000
Profit and Loss Account	7,00,000	6,00,000	Stock	25,50,000	18,00,000
General Reserve	2,00,000	4,50,000	Debtors	9,00,000	10,00,000
12% Debenture of Rs. 100 each	5,00,000	3,00,000	Bank	7,00,000	5,50,000
Sundry Creditors	7,00,000	5,50,000	Preliminary Expenses -	--	1,00,000
--	**99,00,000**	**67,00,000**	--	**99,00,000**	**67,00,000**

Z Ltd was formed to acquire all assets and liabilities of X Ltd. and Y Ltd. on the following terms:
1. Z Ltd. to have an authorised share capital of Rs. 5 crores dividend into 5,00,000 equity shares of Rs. 100 each.
2. The business of both companies were taken over for a total price of Rs. 1.2 crores to be discharged by Z Ltd. by issue of equity shares of Rs. 100 each at a premium of 20%.
3. The shareholders of X Ltd. and Y Ltd. to get shares in Z Ltd. in the ratio of net assets values of their respective shares.
4. The Debentures of both the companies to be converted into equivalent number of 14% Debentures of Rs. 100 each in Z Ltd. at a discount of 10%.

5. All the tangible assets of both the companies are taken over by Z Ltd. at book values except the following:

Assets	X Ltd.Rs.	Y Ltd.Rs.
Building	28,00,000 1	8,20,000
Machinery	31,50,000	16,00,000

6. Sundry creditors of X Ltd. and Y Ltd. are taken over at Rs. 6,50,000 and Rs. 5,00,000 respectively.

7. Statutory Reserves are to be maintained for 3 years more.You are required to:
(i) Compute Purchase consideration of X Ltd. and Y Ltd.
(ii) Pass Journal Entries in the Books of Z Ltd.

(iii) Prepare Balance Sheet after amalgamation. Apply Purchase Method.

Q.2 A Company was incorporated on 31st August, 2006 to take over the business as going concern from 1st March, 2006. Trial Balance drawn on 31st December, 2006. (16)

Trial Balance as on 31st December, 2006 .			
Debit Balances	Rs.	Credit Balances	Rs.
Land and Building	1,50,000	Vendor's Capital	2,40,000
Plant and Machinery	50,000	Debentures	10,000
Computer	20,000	Sundry Creditors	2,400
Sundry Debtors	30,000	Bills Payable	2,000
Bank	30,000	Interest Received	5,000
Stock	25,000	Gross Profit	96,000
Management Expenses	12,000	--	--
Rent	4,200	--	--
Office Expenses	5,500	--	--
Directors' Fees	17,000	--	--
Postage and Telegrams	500	--	--
Bad Debts	2000	--	--
Free Samples	800	--	--
Formation Expenses	2,000	--	--
Debenture Interest	1,000	--	--
Commission on Sales	800	--	-
Depreciation	3,000	--	--

Careiage Outwards	1,600	--	--
--	**3,55,400**	--	**3,55,400**

Additional Information:

1. The Purchase consideration was settled at Rs. 2,50,000 by issuing 2,500 equity shares of Rs. 100 each.
2. Total sales for the period from 1st March, 2006 to 31st December, 2006 was Rs. 2,56,000 and out of which Rs. 1,12,000 was for the period from 1st September, 2006 to 31st December, 2006.
3. In lieu of interest on purchase consideration, the vendors would get 50% of the net profit prior to incorporation.
4. Bad Debts of Rs. 800 are related to sales made in pre-incorporation period.
5. Rent is paid on the basis of floor space occupied which was doubled in post incorporation period.
6. 40% of Goodwill and 20% of formation expenses are to be written off.

Prepare Profit and Loss Account for the period ended 31st December, 2006 showing Pre and Post incorporation Profit and Balance Sheet as on that date.

Q.3 Following is the Balance Sheet of Delta Ltd. as on 31st March, 2006. 16

Trial Balance as on 31-03-2006 .			
Liabilities	Rs.	Assets	Rs.
15,000 11.5% Preference Shares of	--	Goodwill	80,000
Rs. 10 each fully paid up	1,50,000	Patents	54,000
13,000 10% Preference Shares of	--	Land and Buildings	1,75,000
Rs 10 each, Rs. 5 per share paid up	65,000	Plant and Machinery	3,25,000
20,000 Equity Shares of Rs. 10 each full paid up	2,00,000	Furniture	15,000
12% Debenture of Rs. 100 each	1,50,000	Investments	75,000
11% Debentures of Rs. 100 each.	3,00,000	Sundry Debtors	3,15,000
Interest due on debentures	19,500	Bills Receivable	1,00,000
Sundry Creditors	4,50,000	Bank	20,000
--	--	Profit and Loss A/c	1,75,500
--	**13,34,500**	--	**13,34,500**

The following scheme of reconstruction was submitted and approved by the court:

1. 11.5% Preference Shares of Rs. 10 each fully paid were reduced to 14% Preference Shares of Rs. 10 each, Rs. 6 per share paid up.
2. 10% Preference Shares of Rs. 10 catch, Rs. 5 per share paid up, were reduced to 13% Preference Shares of Rs. 10 each, Rs. 3 per share paid up. 3. Equity Shares of Rs. 10 each fully paid were reduced to the denomination of Rs. 5 each fully paid.
4. 11% Debenture holders agreed to accept 50,000 equity shares of Rs. 5 each in full settlement of their claims. 5. Debenture holders agreed to forego the interest due on debentures. 6. Sundry Creditors agreed to forego 10% of their claims.
7. The Company recovered as damages a sum of Rs. 50,000 which was not recorded in the books. 8. Cost of Reconstruction was paid Rs. 2,250. 9. Assets are to be revalued as under:

--	Rs.
Land and Buildings	2,50,000
Plant and Machinery	2,75,000
Furniture	10,000
Investments	90,000
Sundry Debtors	3,00,000

All intangible assets and accumulated losses are to be written off.You are required to:
(i) Pass Journal Entries in the Books of Delta Ltd.
(ii)Prepare Capital Reduction A/c and Balance Sheet after reconstruction.

Q.4 Following is the Balance Sheet of Ajantha Ltd. as on 31st March, 2006 (16)

Liabilities	Rs.	Assets	Rs.
8% Preference Shares of Rs. 10 each	4,00,000	Goodwill	80,000
Less :Calls in arrears (Rs. 2 each) 4,000	3,96,000	Property	4,80,000
Equity Shares of Rs. 10 each	8,00,000	Plant	4,40,000
Less: Calls in arrears (Rs. 2 each) 20,000	7,80,000	Equipments	2,40,000
General Reserve	3,20,000	Vehicles	3,20,000
Profit and Loss Account	64,000	Investments	3,20,000
Bank Loan	2,40,000	Stock	2,20,000
Sundry Creditors	6,20,000	Debtors	3,60,000

Bills Payable	1,20,000	Bank	40,000
--	--	Preliminary Expenses	40,000
--	**25,40,000**	--	**25,40,000**

A Company decided to value its Equity Shares on the basis of its business assets and Liabilities. To enable the valuation of shares following information is furnished.
1. All, fixed assets (except goodwill) are worth 30% above book value.
2. Stock is overvalued by Rs. 20,000 on 31st March, 2006.

3. Rs. 4,000 due from customers are bad and are to be written off.
4. All investments earn income @ 10%, however only 10% of investment are trade investments.
5. On verification it was noticed that Rs. 40,000 paid on 1-4-2003 for purchasing a plant was debited to repairs as on that date. The depreciation @ 10% p.a. on cost is provided by the company.
6. Goodwill is to be valued at 2 years purchase of past four years average profit.
7. The Profit and Loss Account revealed the following profits before the above adjustments.

Year	Profits (Rs.)
2002-2003	3,20,000
2003-2004	3,60,000
2004-2005	4,20,000
2005-2006	4,00,000

As certain the value of fully paid partly paid equity shares.

Q.5 The Balance Sheet of Monica Ltd. as on 31st March,2006 was as follows: (16)

Liabilities	Rs.	Assets	Rs.
4,000 12% Redeemable Preference shares of	--	Goodwill	7,000
Rs. 10 each fully paid up	40,000	Sundry Assets	1,21,500
6,000 Equity Shares of Rs. 10 each fully paid up	60,000	Bank	65,000
Security Premium	20,000	Preliminary Expenses	2,000
Profit-and Loss Account	23,400	--	--
Sundry Creditors	52,100	--	--

--	**1,95,500**	--	**1,95,500**

The Company decided to redeem the preference shares at a premium of 5% together with One month's dividend thereon.
Other information is as under:
1. The company issued for cash Rs. 12,000 14% Debentures at a discount of 2 1/2%.

2. Before redemption, the company decided to write off Goodwill from Profit and Loss Account and Preliminary Expenses and discount on issue of debentures out of security Premium Account.
3. The Company issued at par for cash a minimum number of new 15% Preference Shares of Rs. 10 each necessary to provide for redemption of 12% preference shares after utilising available divisible profits.

4. The Company made a bonus issue to equity shareholders of one fully paid share of Rs. 10 each of every five shares held.
Pass necessary journal entries and draft a Balance Sheet after redemption and bonus issue.

Q.6 Following is the Trail Balance of Premier Ltd. as on 31st March, 2006 (16)

Debit Balances	Rs.	Credit Balances	Rs.	--
Freehold Land	2,50,000	6% Cummulative Preference	--	--
Building	1,00,000	Share Capital	--	80,000
Furniture	30,000	Equity Share Capital	--	3,67,500
Debtors	50,000	Security Premium	--	20,000
Bills Receivables	20,000	Profit and Loss Account (1 -4-2005)	--	6,500
Stock (31-3-2006)	20,000	Bank Overdraft	--	1,00,000
Cash at Bank	15,000	(Against Mortgage of Land and Building)	--	--
Cash in hand	1,000	Suspense Account	--	2,500
Cost of goods sold	3,00,000	Sales	--	4,00,000
Salaries	15,000	Income from Investments	--	12,000
Sundry Expenses	8,000	Reserve for Doubtful Debts (1 -4-2005)	--	2,000
Investment in shares (Market				

Value Rs. 1, 85,000)	2,00,000	Creditors	--	20,000
Interest	3,000	Bills Payable	--	10,000
Bad Debts	1,000	Depreciation written off upto 31-3-2005:	--	--
Repairs and Maintenance	1,500	Building	5,000	--
Advance Income Tax	16,000	Furniture	5,000	10,000
--	**10,30,500**	--	--	**10,30,500**

Additional Information:-
1. The land was revalued on 1st January, 2006 at Rs. 3,50,000 by an expert valuer, but no effect was given although the directors have decided to adjust the revalued amount.

2. Provision for bad debts is to be made at 5% on Debtors.

3. Equity share capital consists of 36,900 equity shares of Rs. 10 each, out of which 36,400 shares are fully paid up and 500 shares on which final call of Rs. 3 per share remains unpaid.
4. Suspense Account represents money received from new allottees for reissue of 500 shares forfeited during the year for non payment of final call but no entry thereof has been passed.
5. Provision for tax to be made at 33 1/3%.
6. The company is managed by directors who are entitled to remuneration calculated at 3% of annual profits before provision for doubtful debts.
7. Depreciation is to be charged on Building @ 2% and on furniture @ 10% under W.D.V. Method.
8. Dividend on cumulative preference shares was in arrears for 5 years unto 31st March, 2005. The directors recommended payment of preference dividend for 4 Years. Ignore dividend tax.
Prepare Profit and Loss Account for the year ended 31st March, 2006 and Balance Sheet as on that date in a vertical form. Ignore Previous Year's figures.

Q.7 Following is the-Balance Sheet of Suyog Ltd. as on 31st March 2006: (16)

Liabilities	Rs.	Assets	Rs.
Share Capital:	--	Fixed Assets:	--
Authorised:	--	Land and Building	30,00,000
10,00,000 Equity shares of Rs. 10 each	1,00,00,000	Plant and Machinery	30,00,000
Issued:	--	Furniture	22,00,000
8,00,000 Equity shares of Rs. 10 each,	--	Investment:	15,00,000
Rs 8 paid up	64,00,000	Current Assets	--

Reserve:	--	Debtors	47,00,000
General Reserve	10,00,000	Bills Receivables	10,00,000
Profit and Loss Account	50,00,000	Bank Balance	40,00,000
Securities Premium	20,00,000	Stock	20,00,000
Secured Loans:	--	--	--
11% Debentures	20,00,000	--	--
Unsecured Loans:	20,00,000	--	--
Current Liabilities:	--	--	--
Creditors	15,00,000	--	--
Bills payable	15,00,000	--	--
--	**2,14,00,000**	--	**2,14,00,000**

The company decides to buy back the maximum number of equity shares as may be permitted at a price of Rs. 20 per share. Find out maximum number of shares to be bought back and pass Journal Entries and Prepare Balance Sheet after buy back.

Q.8

Mr. Mandar holds as on 1st, April 2005 Rs. 75,000 (Cost price Rs. 78,000) 6% Government Securities as investment on which interest is payable half yearly on 30th June and 31st December every year. The following transactions took place during the accounting year ended 31st March, 2006 (16)
Purchases:
On 1-5-2005 Face Value Rs. 30,000 @ 98 Cum-Interest.
On 1-11-2005 Face Value Rs. 45,000 @ 101 Ex-Interest.
Sales:
On 1-8-2005 Face Value Rs. 36,000 @ 97 Cum-Interest.
On 1-2-2006 Face Value Rs. 24,000 @ 102 Ex-Interest.
Market price of investment at 1% discount on 31st March, 2006.
Write up Investment Account closing it on 31st March, 2006 in the books of Mr. Mandar Investments are to be valued at cost or at Market Value whichever is less. (Apply AS 13)

Q.9

a) A company had 12% Debentures of Rs. 100 each as on 1-1-2006. It purchased its own debentures as below: (4)
(i) On 1-2-2006, 1,000 debentures @ Rs. 97 Cum-Interest.
(ii) On 1-3-2006 1,500 debentures @ Rs. 96 Ex-Interest.
Interest was payable on 30th June and December every year.
Pass journal enteries for purchases of own debentures and immediate cancellation thereof.
b) Prepare a schedule of "Current Assets, Loans and Advances" giving all the details required under schedule VI to the Companies Act 1956.(4)
c) Swapnil Ltd dealer in cosmetics exports goods on 1st January, 2006 worth $ 50,000 to WK Ltd. in New York. The payment was received on 31st March, 2006. On the date of invoice the exchange rate was $ 1 = Rs. 47 and when the payment was received it was $ 1 = Rs. 48

Journalise the above transactions in the books of Swapnil Ltd.(2)

d) X Ltd. an Indian Company advanced $ 16,000 for import of goods from US Company of USA on 1st February, 2006. The goods were received alongwith purchase bill for $ 25,000 on 1st March, 2006. The balance amount was paid on 15th March, 2006.(6)

The rate of exchange on the various dates was as follows.

1-2-2006	$ 1 = Rs. 47.50
1-3-2006	$ 1 = Rs. 48.00
15-3-2006	$ 1 = Rs. 49.00

Pass journal entries for the above transactions in the books of X Ltd