October 2008

Financial Accounting
October 2008

Time: 3 Hours **Marks:100**

N.B:
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.
Trial Balance of K. Swapnii Ltd. as on 31st March, 2007 is as below:- (20)

Particulars	Dr. (Rs.)	Cr. (Rs.)
16, 000 equity shares of Rs. 100 each fully paid up -	--	16,00,000
Securities Premium -	--	15,000
General Reserve	--	50,000
Gross Profit -	--	8,00,000
Discount Received	--	8,700
Creditors	--	25,800
Profit and Loss A/c.	--	20,000
Provision for Taxation (Accounting year 2005-06)	--	70,000
Interest Received (net after TDS)	--	9,500
Land (Cost)	1,55,000	--
Building	3,00,000	--
Plant and Machinery	2,50,000	--
Furniture	1,00,000	--
Vehicles	1,50,000	--
Office Salaries	1,55,000	--

Office Rent	120,000	--
Establishment Expenses	58,000	--
Finance Expenses	49,000	--
Debtors	90,000	--
Interim Dividend	80,000	--
Cash on Hand	8,000	--
Bank Balance	2,00,000	--
Security Deposit	7,800	--
Advance Tax (Accounting Year 2006-07)	1,00,000	--
Investments (5% Government Securities)	2,10,000	--
Stock-Raw Materials	1,50,000	--
Stock - Work -in-progress	1,75,000	--
Stock- Finished Goods	1,25,000	--
Advance Tax (Accounting Year 2005 - 06)	80,000	--
Selling and Distribution Expenses	36,200	--
Total	**25,99,000**	**25,99,000**

After taking into account following adjustments, prepare Profit & Loss account for the year ended 31st March,2007 and Balance Sheet as on the same date, as per Schedule VI requirements, in Vertical form:

Name	Cost (Rs.)	Rate %
Building	4,00,000	2.5%
Plant and Machinery	5,00,000	10%
Furniture	2,00,000	15%
Vehicles	3,00,000	20%

1. Write off depriciation on fixed Assets on the original cost of fixed assets as hereunder.
2. Market value of Investments is Rs. 2,15,000 while face value is Rs. 2,00,000.
3. Auditor's Remuneration is to be provided for the year Rs. 16,000. It includes their fees as auditor Rs. 10,000, as consultant on Tax matters Rs. 4,000 while the remaining amount is as consultant on

Company law matters.

4. Managing Directors remuneration paid Rs. 5,000 per month is included in office salaries. However, he is entitled to remuneration of Rs. 70,000 p.a..
5. Provide for salaries Rs. 8,000. Rent Rs. 10,000. Establishment Expenses Rs. 7,000 as outstanding expenses for the year.
6. General Reserve includes profit on re-issue of forfeited shares earned Rs. 5,000

7. Provision for taxation to be made Rs. 1,00,000 for current year.
8. Debtors include debts due for more than 6 months Rs. 15,000. All debts are considered to be good and unsecured.

9. The Income Tax Assessment for accounting year 2005-06 was completed resulting into gross demand of Rs. 78,000.

10. Interest received on Government Securities is after deduction of income tax of Rs. 500, for current year.
11. Ignore previous year's figures and Corporate Dividend Tax.

Q.2.
ICL Ltd. was incorporated to take over the running business of BC and CI Brothers with effect from 1st April 2006, The Company was incorporated on list August 2006. The following information was available from the books of accounts, which were closed on 31st March 2007: (16)

Particular	Rs.	Rs.
Gross Profit	7,00,000	--
Share Transfer Fees Received	10,0000	--
--	--	7,10,000
Expenses:	--	--
Office Salaries	--	2,10,000
Partners' Salaries	--	60,000
Advertising	--	63,000
Printing Stationery	--	15,000
Travelling Expenses	--	40,000
Office Rent	--	96,000
Auditors' Remuneration	--	6,000
Directors' Fees	--	10,000
Bad Debts	--	12,000

Sales Commission	--	49,000
Preliminary Expenses	--	7,000
Debenture Interest	--	16,000
Interest on Capital	--	18,000
Depriciation	--	21,000

Additional Information:
1. Monthly sales were Rs. 5,00,000 for pre- incorporation period, while total sales for the year were Rs. 70,00,000. The sales arose evenly throughout the concerned periods.
2. Office rent was Rs. 84,000 p.a.upto 30th Sept. 2006. It became Rs. 1,08,000 p.a. thereafter.
3. Travelling Expenses included Rs.7,000 towards sales promotion.

4. Auditors' Remuneration was payable for whole year.

5. Bad Debts written off included a debt of Rs. 4,000 taken over from the vendor, while the remaining were in respect of goods sold in September 2006.
6. Depreciation includes Rs. 6,000 for asset acquired in the post incorporation period.

Prepare Profit & Loss accounts for the year ended 31st March 2007 in the columnar form showing profit/loss for the pre and post incorporation period

Q.3.
Smart Company issue on 1st April, 2001, 2600, 7% Preference shares of Rs. 100 each at par redeemable on or after 31-3-2006 in whole or in past. The Company later, issued 8% debentures of the face value of Rs. 1,00,000 on 1-4-2002 redeemable on or after 3-3-2007 also in whole or in part. (16)

On 31-3-2006, the Preference shares of the face value of Rs. 1,80,000 were redeemed out ofprofits.

On 1-3-2007, the Company, for the purpose of redemption of preference shares, issued 5,000 equity shares of Rs. 10 each at a premium of 2%. All the shares were fully subscribed for.

On 31-3-2007, it redeemed the remaining preference shares at par. The company redeemed all the debentures (out of profits) also on the same date at a premium of 5%.

There was sufficient balance in General Reserve Account and Bank Account as on 31-3- 2006 and 31-3-2007.

Ignore preference dividend and debenture interest.

Pass journal entries in the books of the company for the year ended 31st March 2006 and 31 st March, 2007 for redemption of preference shares and debentures in view of provisions of Companies Act, 1956.

Q.4.
Following is the Balance Sheet of Unmesh Ltd. as on 31-3-2007: (16)

Balance Sheet as on 31-03-2007			

Liabilities	Rs.	Assets	Rs.
6,000 10% Cumulative preference	--	Goodwill	2,00,000
Shares of Rs. 100 each fully paid up	6,00,000	Land Building	19,50,000
15,000 Equity Shares of Rs. 100 each, fully paid up	15,00,000	Plant and Machinery	70,000
Loans	2,22,000	Stock	4,00,000
Creditors	7,50,000	Trade Debtors	2,88,000
--	--	Bank Balance	1,26,000
--	--	Profit and Loss A/c.	38,000
--	**30,72,000**	--	**30,72,000**

Note:
Preference Dividend was in arrears Rs. 1,20,000
The Board of Directors of the Co. decided upon the following scheme of reconstruction, which was approved by all concerned.
1. Paid up value of equity shares shall be reduced to Rs. 50 per share, face value being Rs. 100.

2. Preference shares are to be converted into 13% debentures of Rs. 100 each with regard to their 80% of dues (including arrears of preference dividend) and for the balance (including dividend arrears) equity shares of Rs. 100 each (Rs. 50 paid up) shall be issued.
3. All equity shareholders agreed to pay the balance amount, making shares fully paid up.
4. The Plant-Machinery was revalued at Rs. 90,000.
5. The value of stock was reduced by Rs. 1,00,000
6. Land and Building shall be written down to Rs. 15,50,000.
7. Creditors agreed to forego their claims by 10%.
Loan was fully settled for Rs. 2,00,000.

8. Goodwill, Debit balance of Profit and Loss account shall be written off.
9. Cost of reconstruction Rs. 5,000 was paid. Above resolution was carried out.
You are required to :

1. Pass journal entries in the books of the company

2. Prepare Capital Reduction account.

3. Prepare Balance Sheet after reconstruction.

Q.5.
Following is the Balance Sheet of Golu Ltd, as on 31-3-2007: (16)

Balance Sheet as on 31-03-2007			

Liabilities	Rs.	Assets	Rs.
10,000 Equity Shares of Rs. 10 each fully paid up	1,00,000	Fixed Assets	4,50,000
5,000 Equity Shares of Rs. 10 each Rs. 8 paid up	40,000	Current assets	2,20,000
5,000 Equity Shares of Rs. 10 each Rs. 5 paid up	25,000	Preliminary Expense	10,000
General Reserve	2,00,000	--	--
Profit & Loss a/c.	1,80,000	--	--
Creditors	1,35,00	--	--
--	**6,80,000**	--	**6,80,000**

Additional Information:

1. Fixed Assets are undervalued 10%
2. Current Assets are overvalued by 10%.
3. The normal average profit of the Co. after tax will be maintained at Rs. 99,000.
4. Normal Rate of Return is 10%.

Calculate the value of each type of equity share by,
(i) Asset Backing Method (excluding Goodwill).
(ii)Yield Value Method

Q.6.
Journalise the following transactions in the books of EXIM Ltd. for the year ended 31-3-2007 and also prepare "Foreign Exchange Fluctuation Account" applying AS-11.- (16)
(a) On 1st July, 2006, goods worth US $ 1,05,000 were exported to M/s. Pasco Ltd. The amount was realised as below:

Date	Amount Paid in US $
5-11-2006	70,000
11-5-2007	35,000

(b) Goods worth US $ 5,000 were exported on 15-7-2006 to Joe Co. Ltd, USA. The amount was received after 30 days.
(c) On 15-9-2006, Raw Materials worth US $ 20,000 were imported from Robert Ltd. Payable 50% immediate and the balance on 15-4-2007.
(d) Raw Materials were imported on 31-10-2006 worth US $ 10,000 from Blue Cross Ltd. U.K. The payment wasmade after 45 days.
(e) On 15-12-2006 Goods worth US $ 75,000 were exported to Thomas Ltd., UK. The amount was received as below:.

Date	Amount Paid in US $
15-2-2007	30,000

15-3-2007	45,000

(f) Plant & Machinery was imported from California Equipments Ltd. on 1-1- 2007 for US $ 14,000. The Payment for the same was made on 30-4-2007.
The Exchange Rates for 1 US $ were as below:
Balance Sheet as on 31-03-2007
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Date	Exchange Rate Rs.	Date	Exchange Rate Rs
01-07-2006	41.00	01-01-2007	42.25
15-07-2006	41.25	15-02-2007	42.50
14-08-2006	41.50	15-03-2007	42.75
15-09-2006	41.00	31-03-2007	42.00
31-10-2006	41.75	15-04-2007	42.50
05-11-2006	40.00	30-04-2007	42.75
15-12-2006	42.00	11-05-2007	42.00

Q.7.
Balance Sheet of North Sick Ltd. as on 31-03-2007 is as below:- (16)

Liabilities	Rs.	Assets	Rs.
5,000 8% Preference Shares of Rs. 10 each	50,000	Office Premises	--
fully paid up	--	At Goregaon	1,00,000
25,000 Equity Shares of Rs. 10 each fully paid up	2,50,000	At Borivli	60,000
10% Debentures	50,000	Furniture	40,000
Creditors	40,000	Current Assets	1,90,000
--	**3,90,000**	--	**3,90,000**

A new Company namely West Healthy Ltd. was formed with Authorised Capital of 50,000 equity shares of Rs. 10 each. The directors of the Company.
(a)Issued 10,000 equity shares at premium of 10% to the public for cash. The issue was fully subscribed and paid for.
(b)Paid underwriting commission of Rs. 5,000 to the underwriters ICICI Bank Ltd.

(c)Paid Rs. 10,000 to M/s. ANIC & Co. Chartered Accountants, as professional fees for Co. formation.
(d)Decided to take over the business of North Sick Ltd. on the following terms:

(i) To issue 6 equity shares of Rs. 10 each at 10% premium for every 5 equity shares in North Sick Ltd.

(ii) To issue 5,000 equity shares of Rs. 10 each at 10% premiumto the preference shareholders of North Sick Ltd.
(iii) To revalue Goregaon Office at Rs. 1,50,000 and BorivliOffice at Rs. 90,000

(iv) To take over 10% debentures of North Sick Ltd. at facevalue. Then, debentureholders of North Sick Ltd. shall be issued 12% debentures of the face value Rs. 55,000 in West Healthy Ltd.

You are required to :
Write necessary journal entries in the books of West Healthy Ltd. to record the above transactions.

Prepare Balance Sheet of West Healthy Ltd. as on 1-4-2007, after take-over.

Q.8.
On 1-4-2006 Mr. Abhishek had 10,000 equity shares (of Rs 10 each) in Rai Entertainment Ltd-at the cost of Rs. 1,60,000:- (16)

On 1-7-2006 he acquired 4,000 more shares in the same Company for Rs.80,000
On 31-7-2006 he further acquired 6,000 more shares at Rs. 22 per Share
On 10-8-2006 Rai Entertainment Ltd.announced bonus share to the then equity shareholders In the ratio of 1 bonus Share for every 4 shares held as on 5-8-200 6. Abhishek received the bonus shares on 22-8-2006.
The directors of Rai Entertainment Ltd. issued right shares to the equity shareholders on the following terms:
(a) Right shares to be issued to-the existing shareholders as on 31-8-2006.
(b) Right offered was at the rate Of Rs. 15'per share in the ratio 1 share for every 5 shares held. Full amount was payable on or before 15-10-2006.

(c) Shareholders would be entitled to renounce their entitlement either wholly or in part to the outsiders.
(d) Abhishek exercised his right of option under the issue for 3,000 shares and sold the balance to Mr. Raj @ Rs. 4 per share. On, 20-10-2006 Rai-Entertainment Ltd. declared the dividend @ Rs. 4 per share for the year ending 31-3-2006.Abhishek received the dividend on 31-10-2006. On 10-1-2007 Abhishek sold 7,000 shares @ Rs. 40 per share. Prepare investments a/c. in the books of Abhishek for the year ended 31-3-2007.

Q.9.
Attempt any four of the following :- (16)

a. Following information is available from the books of a Company:

--	Rs.
1,20,000 equity shares of Rs. 10 each	12,00,000
Security premium	70,000
General Reserves	3,50,000

The Company decided to buyback 25% of the equity share capital at Rs. 12 per share. Pass journal entries without narration.
b. Bharat Ltd. issued 50,000 15% Debentures of Rs. 1000 each at Rs. 952 per debenture. The debentures are redeemable in five annual instalments of Rs. 200 each. It is decided to write off discount on debentures in proportion to the amount of debenture finance usage over a period of five years.
Prepare a statement for write off at discount on debentures over a period of five years.
c. Profit before making the following adjustment were as under:

	Pre-incorporation period	

--	Rs.	Post-Incorporation period Rs.
Profit	37,000	18,600

Adjustments to bemade:
The Purchase consideration was agreed at Rs. 2,50,000 for assets valued at Rs. 2,40,000. 20% of the Goodwill is to be written off.
In lieu of interest on purchase consideration the vendor would get 40% of the profit earned prior to incorporation.

Find out profit prior to incorporation and after incorporation.
Determine the no. of fresh issue of shares for the purpose of redemption of preference share, from the following information.

--	Rs.
Nominal value of redeemable preference share capital	1,50,000
Premium on redemption of preference shares	10%
Profit & Loss account (Cr. balance)	34,000
Securities Premium	5,000

Fresh issue is to be made at 5% premium. Face value of each share is Rs. 100.
(e) The net profits of a company after Tax for the past five years are Rs. 40,000, Rs. 42,000, Rs. 45,000, Rs. 46,000 and Rs. 47,000 average capital employed is Rs. 4,00,000 on which a reasonable rate of return is 10%. It is expected that the company will be able to maintain its super profits for the next five years. Calculate the value of Goodwill on the basis of annuity of super Profits, taking the present value of annuity of one rupee for five years @ 10% interest is Rs. 3.78.
(f) 9% debentures (of Rs. 100 each) account in the books of a company shows the balance of Rs. 5,000 of Rs. 5,00,000 as on 1-1-2006.
It purchased its own debentures as under:
On 1-2-2006 - 500 debentures @ Rs. 98 - Cum interest.
On 1-3-2006 - 700 debentures @ Rs. 96 Ex-interest.
Pass journal entries for the purchase of own debentures and immediate cancellation thereof.
Interest was payable on 30th June and 31st December every year.