

B. Com Examination October 2008
Financial Accounting October 2008

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.

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%

Write off depreciation on fixed Assets on the original cost of fixed assets as hereunder.

Market value of Investments is Rs. 2,15,000 while face value is Rs. 2,00,000.

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.

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..

Provide for salaries Rs. 8,000. Rent Rs. 10,000. Establishment Expenses Rs. 7,000 as outstanding expenses for the year.

General Reserve includes profit on re-issue of forfeited shares earned Rs. 5,000

Provision for taxation to be made Rs. 1,00,000 for current year.

Debtors include debts due for more than 6 months Rs. 15,000. All debts are considered to be good and unsecured.

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

Interest received on Government Securities is after deduction of income tax of Rs. 500, for current year.

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 1st 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

Depreciation 21,000

Additional Information:

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.

Office rent was Rs. 84,000 p.a. upto 30th Sept. 2006. It became Rs. 1,08,000 p.a. thereafter.

Travelling Expenses included Rs.7,000 towards sales promotion.

Auditors' Remuneration was payable for whole year.

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.

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 part. The Company later, issued 8% debentures of the face value of Rs. 1,00,000 on 1-4-2002 redeemable on or after 31-3-2007 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 of profits.

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.

Paid up value of equity shares shall be reduced to Rs. 50 per share, face value being Rs. 100.

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.

All equity shareholders agreed to pay the balance amount, making shares fully paid up.
 The Plant-Machinery was revalued at Rs. 90,000.
 The value of stock was reduced by Rs. 1,00,000
 Land and Building shall be written down to Rs. 15,50,000.
 Creditors agreed to forego their claims by 10%.
 Loan was fully settled for Rs. 2,00,000.
 Goodwill, Debit balance of Profit and Loss account shall be written off.
 Cost of reconstruction Rs. 5,000 was paid. Above resolution was carried out.
 You are required to :

Pass journal entries in the books of the company

Prepare Capital Reduction account.

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:

Fixed Assets are undervalued 10%

Current Assets are overvalued by 10%.

The normal average profit of the Co. after tax will be maintained at Rs. 99,000.

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 was made 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: 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% premium to the preference shareholders of North Sick Ltd.

(iii) To revalue Goregaon Office at Rs. 1,50,000 and Borivli Office at Rs. 90,000

(iv) To take over 10% debentures of North Sick Ltd. at face value. 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 5-8-2006. 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 be made:

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.