Financial Accounting

April 2006

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.
5. Specify assumptions, if any, while solving the questions.

Q.1 Following are the Balance Sheets of ROHAN Ltd. and SOHAN Ltd. as on 31-3-2005. 20

Liabilities	ROHAN Ltd. Rs.	SOHAN Ltd. Rs.	Assets	ROHAN Ltd. Rs.	SOHAN Ltd. Rs.
Share Capital			**Fixed Assets:**		
9% Preference Shares			Goodwill	1, 50,000	1, 50,000
Of Rs. 100 each	6, 00,000	9, 00,000	Land & Building	6, 00,000	7, 50,000
Equity shares			Plant & Machinery	4, 50,000	6, 00,000
Of Rs. 100 each	9, 00,000	15, 00,000	Computer	3, 00,000	4, 50,000
Reserves & Surplus:			**Investments:**	1, 50,000	1, 50,000
General Reserves	75,000	90,000	**Current Assets**,		
Revaluation Reserves	45,000	60,000	**Loans & Advances**		
Export Profit Reserves	30,000	45,000	Stock	3, 00,000	4, 50,000
Profit & Loss Account	15,000	30,000	Sundry Debtors	1,50,000	3,00,000
Secured Loans:			Bills receivables	75,000	1,50,000
12% Debentures			Bank	1, 95,000	3,75,000
Of Rs. 100 each	3,00,000	4, 50,000			

Unsecured Loans					
Current Liabilities & Provisions:	1, 50,000	75,000			
Sundry Creditors	2, 25,000	1, 80,000			
Bills payable	30,000	45,000			
	23,70,000	**33,75,000**		**23,70,000**	**33,75,000**

Mohan Ltd. was formed to take over the business of Rohan Ltd. and Sohan Ltd. with an authorized share capital of Rs. 30,00,000 consisting of 20,000 13% Preference Shares of Rs. 100 each and 100,000 Equity Shares of Rs. 10 each.

Terms of Amalgamation :-

1. 9% Preference shareholders of both the companies are issued equal number of 13% Preference shares of Mohan Ltd. at a price of 125 each.
2. Mohan Ltd. will issue four Equity shares for three Equity shares of Rohan Ltd. and four Equity shares for five Equity shares of Sohan Ltd. The shares are to be issued at Rs. 35 each.
3. 12% Debenture holders of both the companies are discharged by Mohan Ltd. by issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.
4. Mohan Ltd. agree to take over all assets and all liabilities at book values except the following

   (i) Tangible fixed assets at 10% more than book-values

   (ii) Investments and Sundry Debtors at 90% of their book values.

5. Export Profit Reserves are to be maintained for three more years.

You are required to -

(i) Compute purchase consideration of Rohan Ltd. and Sohan Ltd.

(ii)Pass Journal entries and Prepare Balance Sheet after amalgamation in the books of Mohan Ltd. applying Purchase Method.

Q.2 M/s. NIMISH Pvt. Ltd. was incorporated on 1st August, 2004 to take over the business of Mr. Chinmay with effect from 1st April, 2004 16

The following profit and loss Account was prepared for the year ended 31st March 2005:-

	Rs.		Rs.
To Office Salaries	24,000	By Gross Profit	1,00,000
To Chinmay's Salary	2,000	Share transfer fees	2,000
To Advertisement	18,000		
To Printing and Stationery	1,500		
To Travelling Expenses	4,000		
To Office Rent	9,600		
To Electricity charges	5,100		
To Director's fees	1,200		
To Auditor's fees	600		
To Bad debts	1,200		
To Commission on sales	7,000		
To Preliminary expenses	2,000		
To Debenture interest	2,300		
To Interest on capital	800		
To Depreciation	2,100		
To Net Profit	20,600		
To Commission on sales	**1,02,000**		**1, 02,000**

Q.3 Following is the Balance Sheet of PARADISE Ltd. as on 31-3-2005:- 16

Liabilities	Rs.	Assets	Rs.
Share Capital:		**Fixed Assets**	
10% Preference Shares		Premises	3,20,000
of Rs. 10 each	2,40,000	Plant and Equipments	5,20,000
Equity Shares of Rs. 10 each	4,00,000	**Investments**	1,20,000
Secured Loans :		**Current Assets, Loans & Advances :**	
15% Debentures of Rs. 100 each	4,80,000	Stock	1,44,000
Current Liabilities & Provisions		Debtors	96,000

Sundry Creditors	2,00,000	Deposits and Advances	40,000
Bank Overdrafts	1,20,000	**Miscellaneous Exp :**	
Other Liabilities	1,60,000	Publicity campaign exp.	1,60,000
		Profit & Loss Account	2,00,000
	16,00,000		**16,00,000**

It is observed that the new product launched by the company has not succeeded even after three years of marketing. The management is of the opinion that the assets and liabilities are not valued correctly and also finds it difficult to raise finance.

To overcome the situation a scheme of reconstruction is prepared by the Directors and approved by all authorities :

The salient features of the scheme are:

1. Plant and Equipments having book value of Rs. 80,000 is obsolete. This is sold as scrap for Rs. 16,000.
2. The auditors have pointed out that depreciation on plant is not provided to the extent of Rs. 40,000.
3. Stock includes items valued at Rs. 48,000 which is sold at a loss of 50%.
4. The present relisable value of investments is Rs. 56,000.
5. Dividend on Preference shares is in arrears for three years. This amount is not payable.
6. All losses and fictitious assets are to be written off.
7. The expense paid for forming and implementing scheme is Rs. 8,000.
8. The paid up value of Equity share is to be reduced to Rs. 2 per share and Preference shares to Rs. 5 per share. However, the face value remains unchanged.

The creditors due are settled as

(i) 20% immediate payment in cash.

(ii) 40% amount is cancelled.

(iii)40% paid by issue of 16% Debentures.

(10)Other current liabilities include Rs. 40,000 payable to Directors towards remuneration. This liability is to be cancelled.
(11)A call of Rs. 3 per share on Equity Share is made and received.
(12)Bank overdraft is paid off to the extent possible.

You are required to show :

(i) Journal Entries for above scheme of reconstruction and
(ii)Balance Sheet after reconstruction.

Q.4 The Summarized Balance Sheet of COMFORTABLE Ltd. as on 31-3-2005 was as under:- 16

Liabilities	Rs.	Assets	Rs.
Share Capital:		**Fixed Assets**	
7% Redeemable Preference		Goodwill	2, 00,000
Shares of Rs. 10 each	3, 00,000	other fixed assets	8, 00,000
Equity shares of Rs. 10 each	5, 00,000	**Current Assets. Loans & Advances:**	
Reserves & Surplus:		Stock	4, 50,000
Security Premium	50,000	Sundry Debtors	1, 00,000
General Reserves	1, 00,000	Bank	88,000
Profit & Loss Account	1, 50,000	**Miscellaneous Expenditure**	
Secured Loan:		Discount on Issue of Debentures	12,000
8% Debentures of Rs. 100 each	4, 00,000		
Unsecured Loan	50,000		
Current Liabilities & Provisions:			
Sundry Creditors	1, 00,000		
	16, 50,000		**16, 50,000**

The company decided to redeem both the Preference shares and Debentures at a premium of 10%. For the purpose of redemption, company offered to the Preference Shareholders and the Debenture holders the option to convert their holdings into Equity shares which are to be treated as worth Rs. 11 each. Holders of 1/3rd Preference shares and holders of 50% of Debentures, agreed to this proposal.

The company issued 50,000 Equity shares at Rs. 11 each to the public for cash and with the funds available paid off the unsecured loan and redeemed the remaining Preference shares and Debentures. It was also decided to write off Discount on issue of Debentures against Security Premium Account. Pass journal entries and recast the Balance Sheet after redemption.

Q.5 Pass Journal entries for the following transactions in foreign currency and also prepare Foreign Exchange 16 Fluctuation Account in the books of NSD Ltd. and DBK Industries Ltd. 16

(a) NSD Ltd. imported raw materials worth US $ 40,000 on 12th December, 2004. The exchange rate for US $ 1 as on 12-12-2004 was Rs. 46.50.

The payment for the above transaction was made as under :

Date of Payment	Payment made	Exchange rate for US $ 1
23-02-2005	US $ 18,000	Rs. 47.75
21-03-2005	US $ 12,000	Rs. 48.25
10-04-2005	US $ 10,000	Rs. 48.50

The accounting year of the company ends on 31st March. The exchange rate as on 31st March, 2005 for US $ 1 was Rs. 45.00.

(b) DBK Industries Ltd. invoiced goods to West Germany worth US $ 100,000 on 10th March, 2005 on which date exchange rate for US $ 1 was Rs. 41.00.

The payment for the same was received as under:

Date of Receipt	Received	Exchange rate for 1 US $
20-03-2005	US $ 40,00	Rs. 42.00
29-03-2005	US $ 35,000	Rs. 41.00
15-04-2005	US $ 25,000	Rs. 44.00

The company closes its accounting year on 31st March. The exchange rate as on 31-03-2005 was 1 US $ Rs. 45.00.

Q.6 M/s. SANJAY Co. Ltd. is a registered company with an authorized share capital Rs. 70,000 divided Into 7,000 equity shares of Rs.10 each. Companyâ€™s trial balance as on 31-03-2005 was as under: 16

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Debit Balance.	Rs.	Credit Balance.	Rs.

Building (Cost Rs. 50,000)	40,000	Share Capitals:	
Furniture (Cost Rs. 5,000)	4,000	5,000 Equity Shares of Rs. 10 each	50,000
Vehicles (Cost Rs. 10,000)	6,500	6% Debentures of Rs. 100 each	10,000
Equity shares of companies		Provision for tax	
(Market Value Rs. 22,000)	20,000	(Accounting Year 2003-04)	10,000
500 â€“ 8% Preference shares of		Sundry Creditors	7,500
paid up	3,000	General Reserves	10,000
Stock in trade at cost	20,000	Profit and Loss Account (1-4-2004)	2,000
Sundry Debtors	14,000	Gross Profit	55, 000
Cash at Bank	8,750	Dividend on Shares (Gross Rs. 1,000)	700
Discount on Debenture	400	Bills Payable	4,000
Salaries	10,000		
Directors fees	400		
Audit fees	650		
Debentures interes			
Advance payment of Income tax:	500		
Accounting Year â€" 2003-04	9,000		
Accounting Year â€" 2004-05	9,000		
Advance against construction of building	3,000		
	1, 49,200		**1, 49,200**

Adjustments :

1. Provide 10% Depreciation p.a. on cost of fixed assets.
2. The company had given a contract for the construction of a building at Rs. 1,00,000 which is still incomplete.
3. Provide Rs. 10,000 in respect of taxation liability for the year 2004-05.
4. Write back Rs. 200 liability included in Sundry creditors.
5. Due to change in the basis of valuation of stock, its value has come down to Rs. 18,000. This has not been considered as yet.
6. Dividend is proposed for the year @ 10%.
7. Sundry Debtors include Debts due for more than 6 months Rs. 4,000.
8. Income tax assessment for the accounting year 2003-04 has been completed with a gross demand of Rs. 11,000.
9. Ignore previous year's figures and tax on proposed dividend.

Prepare Profit and Loss Account for the year ended 31-03-2005 and Balance Sheet as on that date in a vertical form as per the provisions of the Schedule VI of the Companies Act, 1956 taking into considerÂ¬ation the above mentioned adjustments.

Q.7 The Balance Sheet of MANISH Ltd. as on 31-03-2005 is as follows: â€” 16

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital :		Fixed Assets	
Authorised, Issued, Subscribed		Net Block	40,00,000
and called-up :		Investments	15,00,000
Equity shares of Rs. 10 each	25,00,000	Current Assets. Loans & Advances	
Reserves & Surplus		Current Assets (including Bank)	
Security Premium	5,00,000	Balance of Rs. 15,00,000)	35,00,000
General Reserves	10,00,000	Loans and Advances	5,00,000
Profit and Loss Account	10,00,000		
Secured Loans :			
10% Debentures	25,00,000		
Current Liabilities & Provisions			
Sundry Creditors	15,00,000		
Bills Payable	5,00,000		
	95,00,000		**95,00,000**

Keeping in view all the legal requirements ascertain:
(i) Maximum number of Equity shares that Manish Ltd. can buy-back.
(ii) The maximum price it can offer.

Assume that the buy-back is carried out actually at the legally permissible terms, record the entries in the journal of Manish Ltd. and prepare its Balance Sheet thereafter.

Q.8 Banglore Investments hold 1200-6% Debentures of Rs. 100 each in MINERVA Ltd. as on 1st April 2004 16 at a cost of Rs. 140,000. Interest is payable on 30th June and 31st December each year. Other details are as under : 16

Date	**Details**	
1-6-2004	400 Debentures are purchased cum interest at	Rs. 40,800
1-11-2004	400 Debentures are purchased ex-interest at	Rs. 38,400
30-11-2004	600 Debentures are sold cum-interest for	Rs. 64,500
31-12-2004	800 Debentures are sold ex-interest for	Rs. 77,300.

Prepare Investment Account valuing closing balance on 31-3-2005 at cost or market price whichever is lower. The debentures are quoted at par on 31-3-2005.

Q.9 Answer the following :- 16

(a)(i) A company was incorporated on 1-4-2004 to take over a business from 1-1-2004. Rent was paid @ Rs. 9,000 p.a. till 30-6-2004 and at the rate of Rs. 12,000 p.a. till 31-12-2004. Books of accounts are closed on 31-12-2004. Find out amount of Rent and its allocation between Pre and Post incorporation periods. (2)

(ii)List of out the items under the head 'Investments' of a company as per Schedule VI requirement.(2)

(iii)List out the types of Amalgamation and methods of preparation of purchase consideration. (2)

(iv)Give any two items each of 'Divisible Profits' and 'Non-divisible Profits' for the purpose of redemption of preference share.(2)

(b)(i)A company has following position for the year ended 31-03-2005 (4)

Provision for tax (Cr.)	Rs. 5, 00,000
Advance payment of tax (Dr.)	Rs. 4,75,000
Tax deducted at source (Dr.)	Rs. 20,000

The assessment of a company is completed and tax liability is settled at Rs. 510,000. Pass journal entries.

(ii)A company forfeits 1000 Equity Shares of Rs. 10 each, Rs. 6 per share paid up. It reissues 4 all these shares at Rs. 8 per share fully paid up. Pass journal entries for forfeiture and reissue and determine Capital Reserve which can be utilised for any purpose at the time of redemption of preference shares. (4)