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**Financial Accounting**

March – 2003

Time: 3 Hours

Marks: 100

**N.B.:**(1) Question No. **one** is **compulsory**.

(2) Solve any **five** questions out of Q.Nos. 2 to 9.

(3) **All** working Notes should form part of answer.

(4) Figures to the **right** indicate **full** marks assigned to question.

(5) Specify assumptions, if any, while solving the question.

(6) This paper contains **NINE** questions.

**Q.1.** The following is the Trial Balance of Raul Ltd. as on 31-3-2002. (Figures in 000)

**20**

<b>Particulars</b>	<b>Dr. (Rs.)</b>	<b>Particulars</b>	<b>Cr. (Rs.)</b>
Land at cost	110	Equity Capital	150
Plant & Machinery at cost	385	(Shares of Rs 10 each)	
Debtors	46	10% Debentures opening balance	100
		(Secured against Plant & machinery)	
Stock at cost (31-3-2002)	45	General Reserve	66
Bank	15	Profit & Loss A/c	35
Material consumed	150	Securities Premium	20
Factory Expenses	40	Sales	350
Administration Expenses	15	Creditors	25

Selling Expenses	20	Provision for Depreciation	
Debenture Interest	5	(on Machinery)	86
Interim dividend paid	9	Suspense Account	2
		TDS Payable	6
	840		840

## Additional Information:

- (a) The Authorised share capital of the company is 30,000 shares of Rs. 10 each.
- (b) On 31-3-2002 the company issued one bonus share for every three shares held by utilising Securities Premium fully & balance from General Reserve A/c. No entry relating to this has yet been made.
- (c) The company on the advice of an independent valuer, wishes to revalue the land at Rs. 1,80,000.
- (d) Proposed final dividend @ 10% (including on bonus issue). The provision for tax is to be made for Rs. 30,000. Transfer to reserve Rs. 15,000 (including statutory reserve).
- (e) Suspense account of Rs. 2,000 represents cash received for the Sale of some of the machinery on 1-4-2001. The cost of the machinery was Rs. 5,000 and the accumulated depreciation thereon being Rs. 4,000.
- (f) Depreciation is to be provided on plant and machinery at 10% on cost.
- (g) Debtors include Rs. 6,000 outstanding for more than 6 months.

Prepare: Profit and loss account for the year ended 31-3-2002 and the Balance Sheet in vertical form of Raul Limited as on that date as per the provision of the schedule VI of the Companies Act 1956 taking into consideration the above mentioned adjustments. Ignore previous year's figures.

- Q.2.** M/s. Everfresh Ltd. was formed to take over a running business with effect from 1st April, 2001. The company was incorporated on 1st October, 2001. The following Profit & Loss Account has been prepared for the year ended 31st March, 2002.

Particulars	Rs.	Particulars	Rs.
To Salaries	2,40,000	By Gross Profit b/d...	16,00,000
To Printing & Stationery	24,000		
To Travelling expenses	84,000		

To Advertisement	80,000	
To Miscellaneous Trade expenses	1,89,000	
To Rent (office building)	1,32,000	
To Electricity charges	21,000	
To Preliminary expenses	56,000	
To Bad debts	16,000	
To Commission to selling agents	80,000	
To Audit fees	30,000	
To Debenture interest	15,000	
To Interest paid to vendors	21,000	
To Selling expenses	1,26,000	
To Depreciation	48,000	
To Net Profit c/d	4,38,000	
	<b>16,00,000</b>	<b>16,00,000</b>

Relevant Information: -

- (a) Total sales during the year, which amounted to Rs. 96,00,000 arose evenly upto the date of the Certificate of Incorporation, whereafter they spurted to record increase of two-thirds during the rest of the year.
- (b) Rent of the office building was paid @ Rs. 1,20,000 per annum upto September, 2001 and thereafter it was increased by Rs. 24,000 per annum.
- (c) Travelling expenses include Rs. 24,000 towards sales promotion.
- (d) Depreciation includes Rs. 3,000 for assets acquired in the post incorporation period.
- (e) Purchase consideration was discharged by the company on 31st October, 2001 by issuing Equity shares of Rs. 10 each.

(f) Salaries include Rs. 40,000 paid to the Director. There were 3 employees upto 30-9-2001 after which the number was increased by six employees. The rate of salary was the same in all cases.

Prepare the Profit & Loss Account in columnar form, showing distinctly the allocation of profits between pre incorporation & post incorporation periods, indicating the basis of allocation.

**Q.3.** The Balance Sheet of CARELESS Ltd. as at 31-10-01 appeared as follows:

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<b>Liabilities</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>	<b>Rs.</b>
Share Capital			Fixed Assets:		
30,000 Equity Shares			Fixed Assets at cost	4,00,000	
of Rs. 10 each fully paid		3,00,000	Less-Depreciation provision	3,00,000	1,00,000
1,000 11 % Preference					
Shares of Rs. 100 each fully paid		1,00,000	Current Assets:		
Secured Loans:			Stock & stores		1,20,000
11 % Debentures	1,00,000		Receivables		2,90,000
Interest accrued & due			Other current assets		40,000
on debentures	22,000				
Bank Overdraft	1,26,000	2,48,000	Misc. Expenditure:		
Unsecured loans	1,00,000		P & L Account		3,28,000
Interest accrued & due	30,000	1,30,000			
Current Liabilities & Provisions:					
Current Liabilities		1,00,000			
		8,78,000			8,78,000

A scheme of reconstruction has been agreed amongst the shareholders and the creditors with the following salient features.

(a) Interest due on unsecured loans is waived.

(b) 50% of the interest due on debentures is waived.

(c) The 11 % Preference shareholders' rights are reduced to 50 % and, the remaining were converted into 15% Debentures of Rs. 100 each.

(d) Current Liabilities would be reduced by Rs. 10,000 on account of the provision no longer required.

(e) The equity shareholders agree to convert the existing equity shares into new ten rupee shares of total value Rs. 1,00,000.

(f) The debit balance in the Profit & Loss account is to be written off totally, Rs. 52,000 should be provided for doubtful debts and the value of fixed assets should be increased by Rs. 80,000.

Prepare the Capital Reduction Account and Redraft the Balance Sheet of the company based on the above scheme of reconstruction.

**Q.4.** Pass necessary Journal entries for the following : **16**

(a) Sun Ltd. redeemed 1,00,000 Preference shares of Rs. 100 each by converting them into Equity Shares issued at par at Rs. 10 each.

(b) Moon Ltd. redeemed 55,000 Preference shares of Rs. 100 each by converting them into Equity Shares of Rs. 10 each issued at 10 % premium.

(c) Mars Ltd. redeemed 1,80,000 Preference shares of Rs. 10 each by converting them into Equity Shares of Rs. 10 each issued at 10 % discount.

(d) Earth Ltd. redeemed 2,00,000 Preference shares of Rs. 10 each at a premium of Rs. 3.50 per share by converting them into Equity Shares of Rs. 10 each issued at 10 % discount.

(e) Saturn Limited redeemed 1,00,000 Preference shares of Rs. 10 each at a premium of Rs. 2.50 converted into 12 % Debentures at par.

**Q.5.** The following is the summarised Balance Sheet of Hrishi Ltd. as on 31st December, 2002. **16**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
50,000 Equity of Rs. 10 each	5,00,000	Plant & Machinery	2,40,000
Securities Premium	1,00,000	Furniture	1,00,000
General Reserve	2,39,400	Stock	6,20,000
Profit & Loss Account	1,57,600	Debtors	2,06,000
Sundry Creditors	4,09,400	Cash in hand	3,400

Provision for Tax	1,97,000	Cash at Bank	4,34,000
	<b>16,03,400</b>		<b>16,03,400</b>

The company transfers 20% of its profits (after tax) to General Reserve. The Net Profits before tax for the last 3 years have been as follows:

**Year ended      Rs.**

31-12-2000 2,75,000

31-12-2001 3,94,000

31-12-2002 3,66,000

Machinery is valued at Rs. 3,20,000. Average Yield in this type of business is 20%. The rate of tax is 50%. Calculate the value of one equity share on the basis of :

(a) Intrinsic value.

(b) Yield basis.

(c) Fair value.

**Q.6.** The following were the Balance Sheets of Amar Ltd. & Akbar Ltd. as at 31st March, 2002.

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<b>Liabilities</b>	<b>Amar Ltd. (Rs.)</b>	<b>Akbar Ltd. (Rs.)</b>
Equity Share Capital (fully paid shares of Rs. 10 each)	15,00,000	6,00,000
Securities Premium	3,00,000	-----
Foreign Projects Reserve	-----	31,000
General Reserve	9,50,000	3,20,000
Profit & Loss A/c	2,87,000	82,500
12% Debentures	-----	1,00,000
Bills Payable	12,000	-----
Sundry Creditors	1,30,000	45,000

Sundry Provisions	1,61,000	71,500
	33,40,000	12,50,000
<b>Assets</b>	<b>Amar Ltd. (Rs.)</b>	<b>Akbar Ltd. (Rs.)</b>
Land & Building	8,00,000	-----
Plant & Machinery	12,00,000	5,00,000
Furniture, Fixtures & Fittings	2,50,000	1,60,000
Stock in Trade	7,70,000	4,10,000
Sundry Debtors	2,20,000	1,10,000
Cash at Bank	1,00,000	62,000
Bills Receivable	-----	8,000
	33,40,000	12,50,000

All the bills receivable held by Akbar Ltd. were Amar Ltd's acceptances. On 1st April, 2002, Amar Ltd. took over Akbar Ltd. in an amalgamation in the nature of merger.

It was agreed that in discharge of consideration for the business, Amar Ltd. would allot three fully paid-equity shares of Rs. 10 each at par for every two shares held in Akbar Ltd.

It was also agreed that 12% Debentures in Akbar Ltd. Would be converted into 13% Debentures in Amar Ltd. of the same amount and denomination. Expenses of amalgamation amounting to Rs. 1,000 were borne by Amar Ltd.

You are required to :

- 1) Pass journal entries in the books of Amar Ltd. and
- 2) Prepare Balance Sheet of Amar Ltd. immediately after the merger.

**Q.7.** Sugandha Ltd. issued 10,000, 12% Debentures of Rs. 100 each on 1st April, 2000. Intrest is payable on 30th<sup>16</sup> September, and 31st March, every year. On 1st July, 2001 the company purchased 1000 of its own Debentures at Rs.96 ex-intrest as investments. On 1st January, 2002 the company purchased another 2000 of its own debentures at Rs. 96 cum-intrest as investment. On 31st March, 2002 the company cancelled all its own debentures. The company follows financial year (that is 1st April to 31st March) as an accounting year. Journalise the above transactions in the books of Sugandha Ltd. for the year 2000-2001 and 2001-2002.

**Q.8. a)** Pass Journal Entries for the following Foreign Exchange transactions in the books of Sonu Ltd. Sonu Ltd. of Pune<sup>16</sup> exported goods worth \$1,00,000 On 12-1-02 to Universal Traders of USA. The payment for the same was received as follows:

2002\$50,000  
15th February,

2nd March, 2002\$40,000

12th April, 2002\$10,000

The company follows financial year as accounting year.

**The Exchange Rate for \$1 was as follows:**

12th January, 2002Rs. 46

15th February,2002Rs. 48

2nd March, 2002Rs. 45

31st March, 2002Rs. 49

12th April, 2002Rs. 50

**b) Pass necessary Journal Entries in the books of N Ltd. of Nasik.**

A machine was imported on 20th January, 2003 from Jackie Chan of China for US \$ 2,00,000. The payment for the same was made as follows :-

US \$ 1,50,000 on 27th February 2003.

US \$ 50,000 on 15th March 2003.

**The Exchange Rate for \$1 was as follows:**

On 20th January, 2003Rs.47.00

On 27th February,2003Rs.46.50

On 15th March, 2003Rs.48.00

The company follows financial year as the accounting year.

**Q.9. Write Short notes on any three:-**

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- 1) Buy Back of shares
- 2) Fair value of shares
- 3) A.S. 11 Accounting for Effects of change in Foreign Exchange Rates.
- 4) Amalgamation - Nature of purchase
- 5) Internal Reconstruction Vs. External Reconstruction.

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