

VED 4/10/2019

## Financial Accounting

SYBCOM Sem IV (ATKT) choice Based.

100 marks

Q1.A. State True or False. (Any 10)

10 marks

1. Convertible debentures are those that can be converted to cash at any time.
2. Interest on Debenture Redemption Sinking Fund Investments is transferred to profit and loss account.
3. Preliminary expenses must be apportioned on time basis of Pre incorporation and post incorporation periods.
4. Profit after incorporation is capital profits.
5. Capital redemption reserve account can be utilised for writing of miscellaneous expenditure and losses.
6. Debenture holders are not the members of the company.
7. Dividend equalisation reserve can be used as divisible profits while redeeming Preference shares.
8. Debenture Redemption reserve is to be created even if debentures are redeemed through conversion.
9. Depreciation is allocated on the basis of time ratio.
10. Debentures can be redeemed by payments in annual instalments.
11. On redemption of preference shares out of profits, a sum equal to the nominal value of shares so redeemed should be transferred from Profit and Loss account to the General Reserve.
12. Debenture can be issued at a discount and redeemed at a premium.

Q1.B. Match the following. (Any 10)

10 marks

1	Unsecured Debentures	A	show under Current Liabilities in Balance Sheet
2	Loss on sale of Cumulative Sinking Fund Investments	B	Debenture Suspense Account
3	Debentures issued as Collateral Security	C	credited to Profit and Loss Account
4	Capital Redemption Reserve	D	can be used for issue of fully paid bonus shares
5	Bonds	E	divided in respect of respective profits
6	Rent for computing pre-incorporation profit	F	Naked Debentures
7	Balance of Debenture Redemption Reserve Account after redemption	G	Section 71(4) of the Companies Act, 2013
8	Unpaid balance in Preference Shareholders Account	H	cannot be used for meeting premium payable on redemption of Preference Shares
9	Debenture Redemption Reserve Account	I	Post-incorporation income
10	Share transfer fees	J	may not be fully paid
11	Income tax for computing pre-incorporation profit	K	debited to Sinking Fund Account
12	Premium received on new shares issued before redemption of Preference Shares	L	divided in the ratio of time

Q2. The following is the balance sheet of a company on 31st March 2019.

Liabilities	Amt	Assets	Amt
Share Capital		Fixed assets	300000
100000 Equity shares of rupees 10 each fully paid	1000000	Cash at Bank	50000
20,000 10% Redeemable Preference shares of rupees 10 each fully paid	200000		
10,000 12% Debentures of rupees 100 each	1000000		
Revenue Reserve	50000		
Profit and Loss Account	25000		
Securities Premium	10000		
Sundry Creditors	765000		
	3050000		3050000

The company decides to redeem the Preference shares for this purpose and made a fresh issue of Equity shares of rupees 10 each to the extent of rupees 125000. All the shares were duly taken up and paid for by the existing shareholders. Give the journal entries and prepare the balance sheet after Redemption of Preference shares. Company can arrange for bank loan to the extent required.

15 marks

OR

Q2. The summary Balance Sheet of ABC Limited as on 31st March 2018 is given below.

Liabilities	Amt	Assets	Amt
Authorised Share capital		Fixed assets	150000
5000 Equity shares of rupees 100 each	500000	Investments	100000
10,000 9% Redeemable Preference shares of rupees 10 each	100000	Cash at Bank	5000
Issued and paid up capital		Other current assets	200000
2500 Equity share of rupees 100 each fully paid	2,50,000		
9% Redeemable Preference shares of Rs 10 each fully paid	25000		
Profit and Loss A/C	100000		
Current liabilities	100000		
	5000		
	455000		455000

On 1st April 2018 the company

1. Redeemed the Preference shares at a premium of Rs 2 per share.
2. Realised investments at 80% of the cost.
3. Issued at a premium of Rs 40 per share, such number of Equity shares for the purpose of aforesaid redemption as to ensure that after the compliance with the requirements of the Companies Act, 2013 with regard to Redemption of preference shares, the credit balance in Profit and Loss A/c would be Rs 12500.
4. Issued as Bonus, Equity share at par at the rate of one share for every 20 shares held on 31st March 2018 out of the said balance in Capital Redemption Reserve account.

Show necessary journal entries to record the above transactions. Working note should form part of the solution.

15 marks

On 31st March 2018 JTD Limited had to redeem 250000 15% Redeemable Preference shares of Rs 10 each at a premium of Rs 10 per share and 20000, 16% non convertible debentures of Rs 100 each at a premium of 5%.

On 31st March 2018, the companies reserves and surplus position was as under

	Rs
Security premium	1250000
Capital Reserve	10000000
Debenture Redemption Reserve	20000000
Revenue Reserves	15000000
Balance in Profit and loss account	3750000

During the year ended 31st March 2018 the company earned Profit after tax of Rs45 lacs of which Rs5 lacs are capital profits and the rest were revenue profits. Directors of JRD Limited decided to 1) pay preference dividend out of revenue profits 2) redeem the debentures as per the terms 3) redeem the preference shares as per the terms 4) use security premium money for providing for premium on Redemption 5) transfer the necessary amount to Capital redemption reserve. Pass journal entries giving effect the five decisions of the directors. Give working notes. **15 marks**

OR

Q3. Following is the Balance Sheet of Lupin Limited as on 31st March 2018

Liabilities	Amt	Assets	Amt
15000 equity shares of rupees 10 each	150000	Land and Building	600000
7500 9% preference shares of rupees 100 each	750000	Plant and Machinery	600000
Profit and Loss account	600000	Investments	300000
Debenture Redemption Reserve	100000	Stock	90000
10% Debentures	100000	Debtors	110000
Sundry Creditors	355000	Bank Balance	385000
Bills Payable	30000		
	2085000		2085000

On the above date, Preference shares are redeemable at premium of 10%. For this purpose, company sold off investment for Rs 325000. Subsequently, it issued 20000 Equity shares of Rs 10 each at a premium of 10%. At the end, the company redeemed all the preference shares as decided. The company also redeemed their 10% debentures at par. Pass necessary journal entries in the books of the company to record the above transactions.

Q4. Yankee Limited was incorporated to take over the running business of Frankee Limited with effect from 1st April 2018. The company was incorporated on 1st August 2018 and it commenced its business on 1st October 2018. The following information was available from the books of accounts which were closed on 31st March 2019.

Gross Profit		700000
Less : Salaries	270000	
Office expenses	90000	
Travelling expenses	49200	
Office rent	96000	
Salesman Commission	49000	
Depreciation	21000	575200
Net profit		124800

#### Additional Information

1. Sales were Rs500000 p.m. during pre-incorporation period while the total sales for the year were lacs. The sales arose evenly throughout the concerned period.
  2. Office rent was Rs84000 per annum. It became Rs108000 per annum from the date of commencement of business.
  3. Travelling expenses included Rs7200 incurred by the office staff and balance by the sales staff.
  4. Depreciation included Rs6000 for the asset acquired in post incorporated period.
  5. Salaries included partner's salaries Rs 60,000 while the remaining salary was for the office staff.
- Prepare Statement of profit and loss for the year ended 31st March 2019 in the columnar form showing profit and loss during the pre-incorporation and post incorporation period separately. **15 marks**

OR

Q4. Amar Limited was incorporated on 1st August 2018. This company agreed to take over business of M/s Akbar & Anthony Ltd. as Going Concern effective from 1st April 2018. The agreement also provided that vendors are entitled to 60% of profit or loss if any for period upto 1st August 2018. The profit and loss account for the year ended 31st March 2019 is:

Particulars	Amt	Particulars	Amt
To stock	15000	By Sales	150000
To materials consumed	60000	By Stocks	21000
To wages	15000		
To factory expenses	21000		
To gross profit	69000		
	<u>1,71,000</u>		<u>1,71,000</u>
To salaries	15000	By Gross Profit	60000
To rent	4500	By Profit on sale of Investment	10000
To office expenses	3000		
To sales commission	7500		
To bad debts	2500		
To director fees	4000		
To depreciation	9000		
To debentures interest	4000		
To interest to vendor	3000		
To net profit	17500		
	<u>70000</u>		<u>70000</u>

#### Additional information

- 1) Monthly sales for October 2018 to March 2019 is 150% of monthly sales for April 2018 to September 2018.
  - 2) Bad debt is in respect of sales effected two years ago.
  - 3) Investment was sold on 1st November 2018.
  - 4) Consideration to vendors was paid on 1st October 2018.
  - 5) Rent was increased from Rs250 per month to 500 per month effective from 1st October 2018.
- Prepare Statement of Profit and Loss. **15 marks**

Q5. Following is a summary balance sheet of Atma Limited as on 31st March 2018.

Liabilities	Amt	Assets	Amt
8000, 8% Redeemable Preference shares of Rs 100 each fully paid up	800000	Sundry Assets	3200000
6000, 7% Redeemable Preference shares of Rs 10 each, Rs80 paid up	480000	Investments	400000
200000 Equity shares of Rs10 each	2000000	Bank	1320000
Revenue Reserve	1140000		
Trade Payables	5000000		
	<u>4920000</u>		<u>4920000</u>

Company decided to redeem both classes of preference shares at a premium of 10%. For this purpose the company-

1. Made the final call of Rs20 per share on 7% Redeemable Preference Shares, which was paid by all the shareholders.
2. Issued 36000 equity shares of Rs10 each at a premium of Rs2 per share. This issue was fully subscribed and the entire amount duly received.
3. Sold investments at a profit of 10%.
4. Issued bonus shares to the equity shareholders in the ratio of one bonus share for every 2 shares held (excluding fresh issue).

All the payments made except to the shareholders holding 100, 8% preference shares could not be traced. You are required to give journal entries to record the above transactions in the books of the company.

**15 marks**

OR

Q5. Madhur Limited issued on 1st April 2012, 2600, 7% preference shares of Rs100 each at par redeemable on or after 31st March 2018 in whole or in part. The company later issued 8% debentures of the face value of Rs100000 on 1st April 2012 redeemable on after 31-3-2019 also in whole or in part.

On 31st March 2018 the Preferences of the face value of Rs180000 were redeemed out of profits.

On 1st March 2019 the company for the purpose of redemption of preference shares issued 5000 equity shares of rupees 10 each at a premium of 2%. All the shares were fully subscribed for.

On 31st March 2019 it redeemed the remaining preference shares at par. The company redeemed all the debentures (out of profits) also the same date at a premium of 5%.

There was sufficient balance in general reserve account and bank account as on 31st March 2018 and 31st March 2019. Ignore preference dividend and debenture interest.

Pass journal entries in the books of the company for the year ended 31st March 2018 and 31st March 2019 for redemption of preference shares and debentures in the view of provisions of Companies Act, 2013.

**15 marks**

Q6.A. Distinguish between Calls in arrears and Calls in advance.

**10 marks**

Q6.B. Distinguish between Preference Share Capital and Equity Share Capital.

**10 marks**

OR

Q6. Short Notes (Any 4)

**20 marks**

- a. Debentures
- b. Subsidiary Company
- c. Initial Public Offering (IPO)
- d. Discount on issue of debentures
- e. Irredeemable Preference Shares
- f. Securities Premium Account