7/11/2014.

Financial A/c and Auditing

Paper V

Financial A/C.

QP Code : 04266

(2½ Hours) [Total Marks : 75

N. B. : (1) All questions are compulsory.
(2) Figures to the right indicate full marks.
(3) Use of simple calculator is allowed.
(4) Working notes should form part of your answer.

1. (a) State whether the following statements are True or False after rewriting the sentence (Any eight) :– 8

(1) On amalgamation, vendor companies are not liquidated.
(2) In Internal Reconstruction, consolidation of shares results in profit for a company.
(3) Debenture is a fixed income bearing security.
(4) Interest on debentures is calculated on the face value of debentures.
(5) Arrears of preference dividend is shown under 'other Current Liabilities' in the Balance Sheet of a company.
(6) No journal entry is required for cancellation of unissued share capital at the time of Internal Reconstruction.
(7) 'Live Stock' is shown under 'Tangible fixed Asset' in the Balance Sheet of company.
(8) IFRS - 1 deals with first-time adoption of International Financial Standards.
(9) Balance in Capital Reduction Account is transferred to Capital Reserve Account
(10) On amalgamation, payment made to debenture holders in considered as a part of purchase consideration.

(B) Fill inthe blanks and rewirte the sentence (Any seven) :– 7

(1) IFRS stands for ____________.
(International Financial Reporting Standards/International Financial Restructuring Standards)

(2) 'Interest accrued and due on debentures' will appear under the head __________ in the Balance Sheet of a company.
(Long term borrowings/other current Liabilities)

(3) On amalgamation, Preliminary Expenses in the Balance Sheet of vendor company are transferred to ____________ Account.
(Realisation/Equity Share holders')

(4) Amalgamation of companies is governed by __________.
(AS 13/AS 14)

(5) The scheme of Internal Reconstruction involves ________.
(one company/two companies)

(6) Computer software is shown under the head ________ in the Balance Sheet of a company.
(Tangible Assets/Intangible Assets)

(7) When Short Term Investments are sold, profit on such sale is transferred to ________.
(Profit and Loss Account/Capital Reserve Account)

(8) In Internal Reconstruction, the balance in Capital Reduction Account is utilised for ________.
(Issue of Bonus Shares/writing off fictitious assets)

(9) Profit on sale of short term investments is calculated using the formula, selling price less ________.
(Cost/weighted Average Cost)

(10) 'Convergence' with IFRS means ________.
(to rename local Accounting Standard / to achieve harmony in relation to IFRS).

2. M/s. Unwell Ltd. has incurred heavy losses since past few years. The company adopted a scheme of reconstruction on the basis of following summarised Balance Sheet. 15

Summarised Balance Sheet of Unwell Ltd. as on 31st March 2014.

Liabilities	₹
Equity share capital :–	
1,60,000 Shares of ₹ 10 each fully paid.	16,00,000
Preference Share Capital :	
4,000, 10% Shares of ₹ 100 each fully paid	4,00,000
10% Debentures	20,00,000
Interest accrued and due on debentures	2,00,000
Creditors	8,00,000
Bills payable	1,00,000
Outstanding Audit fees	1,00,000
Total	52,00,000

Assets	₹
Land and Building	12,20,000
Furniture	4,00,000
Computer	6,00,000
Debtors	6,00,000
Stock	80,000
Bills Receivable	5,00,000
Cash at Bank	3,60,000
Share issue expenses	40,000
Profit and Loss Account (Dr. balance)	14,00,000
Total	52,00,000

The following scheme of reconstruction was approved by the court :–

(1) 10% Preference Shares to be reduced by ₹ 20 per share.

(2) Equity shares to be reduced by ₹ 5 per share.

(3) Debenture holders agreed to settle their claim fully by issue of New 11% Debentures of ₹ 14,00,000. They also agree to forgo 50% of their interest. The payment of remaining 50% of interest to be made immediately.

(4) Computer was to be written down by ₹ 40,000.

(5) Land and Building and Furniture to be appreciated by 10%.

(6) Stock to be appreciated by ₹ 60,000/-.

(7) Fictitious Assets and debit balance of Profit and Loss Account to be written off.

(8) Cost of Reconstruction was ₹ 50,000.

(9) 75% of the creditors agreed to forgo their claims by 10%.

(10) Reduce debtors by ₹ 70,000.

You are required to pass journal entries to record the above transactions in the books of M/s Unwell Ltd.

OR

2. Following is the Balance Sheet of M/s. High Hopes Ltd. as on 31st March 2014. 15

Liabilities	₹
12% Cumulative preference shares of ₹ 10 each	12,00,000
Equity Shares of ₹ 10 each	20,00,000
11% Debentures	10,00,000
Sundary Creditors	30,00,000
Provision for tax	8,00,000
Total	80,00,000

Assets	₹
Land & Building	18,00,000
Plant & Machinery	3,00,000
Stock	15,00,000
Sundry Debtors	20,00,000
Bank Balance	2,00,000
Share issue expenses	4,00,000
Profit and Loss Account (Dr. balance)	18,00,000
Total	80,00,000

Note : Preference Dividend was in arrears for 3 years.

Following scheme of Reconstruction was approved :–

(1) Equity shares to be reduced to ₹ 2 each fully paid.

(2) 12% cumulative Preference Shares to be reduced to ₹ 2 each fully paid.

(3) Directors to give short term loan of ₹ 10,00,000 to the company.

(4) Depreciate Land and Building and Plant & Machinery by 10%.

(5) Reduce debtors by 15%.

(6) Reduce stock to 60% of its value.

(7) The tax liability was settled for ₹ 8,50,000 and the reconstruction expenses amounted to ₹ 20,000.

(8) Sundry creditors waived 20% of their claims.

(9) 11% Debentures to be converted into 13% Debentures of ₹ 6,00,000 in full settlement of their claim.

(10) Write off fictitious assets and debit balance in profit and loss account.

Your are required to prepare :–

(1) Capital Reduction Account.

(2) Notes to Accounts forming part of the Balance Sheet, after reconstruction, as required under Revised Schedule VI in respect of :–

(i) Share Capital

(ii) Reserve and Surplus

(iii) Cash and Cash equivalent

(Do not prepare the Balance Sheet)

3. The following transactions of Mr. Narayan took place during the year ended 31.03.2014.

1st April 2013	Purchased Rs. 12,00,000, 8% Bonds at Rs. 80.50 cum-interest. Interest is payable on 1st November and 1st May every year. Face Value of each Bond is Rs. 100/-
12th April 2013	Purchased 1,00,000 Equity Shares of Rs. 10 each in X Ltd. for Rs. 40,00,000.
1st May 2013	Received half-year's interest on 8% Bonds.
15th May 2013	X Ltd. made Bonus issue of three Equity shares for every two shares held.
15th June 2013	Mr. Narayan sold 1,25,000 Bonus shares for Rs. 20 each.
1st Oct. 2013	Sold Rs. 3,00,000, 8% Bonds at Rs. 81 ex-interest.
1st Nov. 2013	Received half-year's bond interest.

Prepare 8% Bond account and Equity shares in 'X' Ltd. account in the books of Mr. Narayan for the year ended 31.03.2014.

OR

). (a) 'X' Ltd. and 'Y' Ltd. agreed to amalgamate and form a new company 'Z' Ltd. Summarised Balance Sheets of 'X' Ltd. & 'Y' Ltd. on the date of amalgamation are as follows :– 8

Summarised Balance Sheets as on 31/03/2014

Liabilities	X' Ltd (Rs)	Y' Ltd (Rs)	Assets	X' Ltd (Rs)	Y' Ltd (Rs)
Equity shares of Rs. 100 each	2,00,000	2,40,000	Plant & Machinery	60,000	80,000
General Reserve	30,000	37,000	Stock	40,000	40,000
Creditors	28,000	34,000	Debtors	60,000	60,000
Profit & Loss A/c.	16,000	20,000	Building	1,00,000	1,20,000
			Cash and Bank Balance	14,000	31,000
	2,74,000	3,31,000		2,74,000	3,31,000

Z Ltd. takes over the assets and liabilities of both the companies at book value except building which is taken over from 'X' Ltd. at Rs. 2,00,000/- and from 'Y' Ltd. at Rs. 1,80,000/-

Z Ltd. paid purchase consideration by alloting fully paid shares of Rs. 100/- each at par.

Prepare statement of Purchase Consideration. Give Opening Journal entries in the books of 'Z' Ltd. (Narration not required).

(b) The following transactions of Miss Naina took place during the year ended 31/03/2014. 7

Date	Transactions
12/04/2013	Purchased 1,00,000 Equity Shares of Rs. 10/- each in "ABC" Ltd. for Rs. 50,00,000/-
15/05/2013	"ABC" Ltd. made a Bonus issue of 3 Equity Shares for every 2 shares held.
30/06/2013	Naina sold 1,25,000 Bonus shares for Rs. 20/- each.

Prepare 'Equity Shares in ABC Ltd'. Account in the Books of Miss Naina for the year ended 31/3/2014.

4. The following is the summarised Balance Sheet of Vishal Ltd. as on 31st March, 2014. 15

Liabilities	(Rs)	Assets	(Rs)
Issued and Paid-up Capital :		Intangible Assets	1,00,000
Equity Share Capital (₹10/- each)	10,00,000	Fixed Assets	8,40,000
Statutory Reserve (to be maintained for 3 more years)	20,000	Current Assets	2,20,000
		Profit & Loss A/c (Dr.)	1,60,000
10% Debentures	2,00,000		
Creditors	1,00,000		
	13,20,000		13,20,000

Vaman Ltd. Agreed to take over Vishal Ltd. on the following terms :–

(1) Vaman Ltd. Agreed to take over all the assets and Liabilities. (Intangible assets are not taken over.)

(2) The fixed and current assets of Vishal Ltd. are to be considered to be worth Rs. 8,00,000 & Rs. 2,00,000 respectively.

(3) The Purchase consideration is to be paid one-quarter in cash and the balance in equity shares which are issued at the market price.

(4) Liquidation expenses amounted to Rs. 600 agreed to be paid by Vishal Ltd.

(5) Market value per share of Vaman Ltd. is Rs. 12.

(6) Debentures of Vishal Ltd. were taken over and paid by Vaman Ltd.

(7) The amalgamation is in nature of purchase.

You are required to prepare :–

(a) Statement of Purchase Consideration.

(b) Necessary Ledger accounts in the books of Vishal Ltd.

OR

4. The following is the Trial Balance of Radhika Ltd. as on 31st March, 2014. 15

Debit Balances	₹	Credit Balances	₹
Stock (31.03.2014) INV	10,00,000	Share Capital (Equity Shares of Rs. 100 each) – SC	40,00,000
Fixed Assets (Net Block) FA	24,70,000		
Sundry Debtors (Unsecured & good) – TR	8,00,000	General Reserve – R&S	1,40,000
Staff Advance – S/L A	1,94,800	Loan from Bank of Baroda – LTB	6,00,000
Cash on Hand – CE	1,20,000	Provision for Taxation – STP	22,000
Bank Balance C&C	9,88,000	Net Profit for the year – NP	5,40,000
Share Issue Expenses – OCA (amortizable after 12 months)	53,200	Profit and Loss A/c – OP (01.04.2013)	2,00,000
Bills Receivable - Trade – TR	1,16,000	Short Term Loans – STB	1,00,000
Investments (at cost) – NonCA	1,50,000	Sundry Creditors – TP Unclaimed Dividend – CL	2,80,000 10,000
	58,92,000		58,92,000

Additional Information :

1. Transfer to General Reserve Rs. 1,00,000.
2. Directors recommended 6% dividend.
3. Out of debtors, debts due for more than six months were Rs. 1,04,000.
4. Sundry Creditors included creditors for goods Rs. 2,10,000 while the remaining are for expenses.
5. Loan from Bank of Baroda is secured against stock.
6. Market value of investments is Rs. 1,78,000 while its face value is Rs. 1,60,000.
7. Ignore previous year figures and corporate dividend tax.

Prepare Balance Sheet as on 31st March, 2014 as per Revised Schedule VI requirements, after considering the above information.

5. (a) Explain the need for convergence with IFRS in India. 8
   (b) Explain the difference between Internal and External Reconstruction of the companies. 7

OR

5. Write short notes on any three of the following :– 15
   (a) Methods of Calculating Purchase Consideration at the time of Amalgamation of Companies.
   (b) Internal Reconstruction of Companies
   (c) Bonus Shares and Right Shares
   (d) Ex-interest and Cum-interest transactions in Investment Accounting.
   (e) Contingent liability.