

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 is considered as a part of purchase consideration.

(B) Fill in the blanks and rewrite 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)

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- (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.

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Summarised Balance Sheet of Unwell Ltd. as on 31<sup>st</sup> 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
<b>Total</b>	<b>52,00,000</b>

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.

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1. Following is the Balance Sheet of M/s. High Hopes Ltd. as on 31<sup>st</sup> March 2014.

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

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
<b>Total</b>	<b>80,00,000</b>

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%.

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- (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:—

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 allotting 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;

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 31<sup>st</sup> 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
10% Debentures	2,00,000	Profit & Loss A/c (Dr.)	1,60,000
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 31<sup>st</sup> March, 2014.

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Debit Balances	₹	Credit Balances	₹
Stock (31.03.2014) <sup>IAU</sup>	10,00,000	Share Capital (Equity	40,00,000
Fixed Assets (Net Block) <sup>FA</sup>	24,70,000	Shares of Rs. 100 each) <sup>SC</sup>	
Sundry Debtors (Unsecured & good)	8,00,000	General Reserve - <sup>GRS</sup>	1,40,000
Staff Advance <sup>- SIA</sup>	1,94,800	Loan from Bank of Baroda	6,00,000
Cash on Hand <sup>- CR</sup>	1,20,000	Provision for Taxation <sup>- LTB</sup> <sup>- STP</sup>	22,000
Bank Balance <sup>(BC)</sup>	9,88,000	Net Profit for the year <sup>- NP</sup>	5,40,000
Share Issue Expenses' - <sup>OCA</sup> (amortizable after 12 months)	53,200	Profit and Loss A/c <sup>- OP</sup> (01.04.2013)	2,00,000
Bills Receivable - Trade <sup>- TR</sup>	1,16,000	Short Term Loans <sup>- STB</sup>	1,00,000
Investments (at cost) <sup>- Nones</sup>	1,50,000	Sundry Creditors <sup>- TP</sup>	2,80,000
		Unclaimed Dividend <sup>- CL</sup>	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. <sup>X</sup>
  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. <sup>X</sup>
  6. Market value of investments is Rs. 1,78,000 while its face value is Rs. 1,60,000. <sup>X</sup>
  7. Ignore previous year figures and corporate dividend tax.
- Prepare Balance Sheet as on 31<sup>st</sup> 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.