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**SUBJECT- ACCOUNTS**

**Test Code – 8665**

**BRANCH - () (Date :)**

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**Topic : Investment Account & Redemption of Debentures**

- Note: 1) Working Notes should form part of your answer.  
2) Start New Question on new page.

**ANSWER NO. 1**

**Books of A Pvt. Ltd.**

**Investment in 13.5% Convertible Debentures in P Ltd. Account  
(Interest payable 31<sup>st</sup> March & 30<sup>th</sup> September)**

Date	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.	Date	Particulars	Nominal Rs.	Interest Rs.	Amount Rs.
2018 May 1	To Bank	5,00,000	5,625	5,19,375	2018 Sept. 30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167	Dec. 31	By Equity share	1,10,000		1,12,108
Dec. 31	To P&L A/c		52,313		Dec. 31	By Bank (See note1)		3,713	
					Dec. 31	By Balance c/d	4,40,000	14,850	4,48,434
		<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>			<u>7,50,000</u>	<u>69,188</u>	<u>7,66,542</u>

Note 1: Rs. 3,713 received on 31.12.2018 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

**(4 Marks)**

**Investment in Equity shares in P Ltd. Account**

Date	Particulars	Nominal Rs.	Amount Rs.	Date	Particulars	Nominal Rs.	Amount Rs.
2018 Dec 31	To 13.5% Deb.	1,00,000	1,12,108	2018 Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		<u>1,00,000</u>	<u>1,12,108</u>			<u>1,00,000</u>	<u>1,12,108</u>

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

**(2 Marks)**

**Working Notes:**

1. Interest paid on Rs. 5,00,000 purchased on May 1<sup>st</sup>, 2018 for the month of April 2018, as part of purchase price:  $5,00,000 \times 13.5\% \times 1/12 = \text{Rs. } 5,625$

2. Interest received on 30<sup>th</sup> Sept. 2018

$$\text{On Rs. } 5,00,000 = 5,00,000 \times 13.5\% \times \frac{1}{2} = 33,750$$

$$\text{On Rs. } 2,50,000 = 2,50,000 \times 13.5\% \times \frac{1}{2} = \underline{16,875}$$

$$\text{Total} \qquad \qquad \qquad \text{Rs. } \underline{50,625}$$

3. Interest paid on Rs. 2,50,000 purchased on Aug. 1<sup>st</sup> 2018 for

$$\text{April 2018 to July 2018 as part of purchase price: } 2,50,000 \times 13.5\% \times 4/12 = \text{Rs. } 11,250$$

4. Loss on Sale of Debentures Cost of acquisition

$$(\text{Rs. } 5,19,375 + \text{Rs. } 2,45,000) \times \text{Rs. } 2,00,000 / \text{Rs. } 7,50,000 = 2,03,833$$

$$\text{Less: Sale Price (2,000 x 103)} \qquad \qquad \qquad = \underline{2,06,000}$$

$$\text{Profit on sale} \qquad \qquad \qquad = \underline{\text{Rs. } 2,167}$$

5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2018  
 $1,10,000 \times 13.5\% \times 3/12 = \text{Rs. } 3,713$

6. Cost of Debentures converted to Equity Shares

$$(\text{Rs. } 5,19,375 + \text{Rs. } 2,45,000) \times 1,10,000 / 7,50,000 = \text{Rs. } 1,12,108$$

7. Cost of Balance Debentures

$$(\text{Rs. } 5,19,375 + \text{Rs. } 2,45,000) \times \text{Rs. } 4,40,000 / \text{Rs. } 7,50,000 = \text{Rs. } 4,48,434$$

8. Interest on Closing Debentures for period Oct.- Dec. 2018 carried forward (accrued interest)

$$\text{Rs. } 4,40,000 \times 13.5\% \times 3/12 = \text{Rs. } 14,850$$

**(4 Marks)**

**ANSWER NO. 2****Investment Account (Shares in Kumar Limited) in the books of Meera**

Date	Particulars	No. of Shares	Income	Amt	Date	Particulars	No. of Shares	Income	Amt.
2019			Rs.	Rs.	2019			Rs.	Rs.
April 1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May 15	To Profit & Loss A/c (W.N.1)	-	-	3,200					
June 15	To Bonus Issue	8,000	-	Nil	2020				
July 15	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on Rs. 32,000)		4,800	-
Sept.	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2020 Mar. 31	To Profit & Loss A/c (W.N.2)			3,455	Mar. 31	By Balance c/d*	24,000	-	29,455
	To Profit & Loss A/c	-	4,800						
		<u>52,000</u>	<u>4,800</u>	<u>72,655</u>			<u>52,000</u>	<u>4,800</u>	<u>72,655</u>

$$*\left(\frac{24,000}{44,000} \times 54,000\right)$$

**(8 Marks)****Working Notes :**

1.	Profit on sales on 15.5.2019 : Cost of 8,000 shares @ Rs. 1.50 Less : Sales Price Profit	Rs. 12,000 Rs. 15,200	Rs. 3,200
2.	Cost of 20,000 shares sold : Cost of 44,000 shares (48,000 + 6,000) ∴ Cost of 20,000 shares $\left(\frac{Rs.54,000}{44,000 \text{ shares}} \times 20,000 \text{ shares}\right)$ Profit on sale of 20,000 shares (Rs. 28,000 – Rs. 24,545)		Rs. 54,000 Rs. 24,545 Rs. 3,455

**(2 Marks)**

**ANSWER NO.3****Debenture Redemption Reserve Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 20X2	To General reserve A/c note 1 (Refer Note 1)	3,75,000	1st April, 20X1	By Balance b/d	1,25,000
		—	1st April, 20X1	By Profit and loss A/c (Refer Note 1)	<u>2,50,000</u>
		<u>3,75,000</u>			<u>3,75,000</u>

**(3 Marks)****10% Secured Bonds of Govt. (DRR Investment) A/c**

		Rs.			Rs.
1st April, 20X1	To Balance b/d	<u>5,62,500</u>	31st March, 20X2	By Bank A/c	<u>5,62,500</u>
		<u>5,62,500</u>			<u>5,62,500</u>

**(3 Marks)****Bank Account**

		Rs.			Rs.
31st March, 20X2	To Balance b/d	37,50,000	31 <sup>st</sup> March, 20X2	By Debenture holders A/c (110% of 37,50,000)	41,25,000
	To Interest on DRR Investment (5,62,500X 10%)	56,250		By Balance c/d	<u>2,43,750</u>
	To DRR Investment A/c	<u>5,62,500</u>			43,68,750
		43,68,750			

**(3 Marks)****Working note –**

Calculation of DRR before redemption = 10% of Rs. 37,50,000 = 3,75,000 Available balance = Rs. 1,25,000

DRR required = 3,75,000 – 1,25,000 = Rs. 2,50,000.

**(1 Marks)**

**ANSWER NO.4****Journal Entries in the books of Omega Ltd.****Journal Entries**

<b>Date</b>	<b>Particulars</b>	<b>Amount Dr.</b>	<b>Amount Cr.</b>
		Rs.	Rs.
1.5.20X1	Bank A/c Dr. To Debenture Application A/c (Application money received on 1,50,000 debentures @ Rs. 100 each)	1,50,00,000	1,50,00,000
1.6.20X1	Debenture Application A/c Dr. Underwriters A/c Dr. To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)	1,50,00,000 50,00,000	2,00,00,000
	Underwriting Commission Dr. To Underwriters A/c (Commission payable to underwriters @ 2% on Rs. 2,00,00,000)	4,00,000	4,00,000
	Bank A/c Dr. To Underwriters A/c (Amount received from underwriters in settlement of account)	46,00,000	46,00,000
01.06.20X1	Profit & Loss A/c To Debenture Redemption Reserve A/c (200,000 X 100 X 25% X 40%) Dr. (Being Debenture Redemption Reserve created on non-convertible debentures)	20,00,000	20,00,000
	Debenture Redemption Reserve Investment A/c To Bank A/c (200,000 X 100 x 15% X 40%) Dr. (Being Investments made for redemption purpose)	12,00,000	12,00,000

30.9.20X1	Debiture Dr. Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on Rs. 2,00,00,000)	10,00,000	10,00,000
31.10.20X1	15% Debentures A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)	1,20,00,000	20,00,000 1,00,00,000
31.3.20X2	Debiture Interest A/c Dr. To Bank A/c (Interest paid on debentures for the half year) (refer working note below)	7,50,000	7,50,000

(9 Marks)

**Working Note :**

Calculation of Debiture Interest for the half year ended 31st March, 20X2

On Rs. 80,00,000 for 6 months @ 15% = Rs. 6,00,000

On Rs. 1,20,00,000 for 1 months @ 15% = Rs. 1,50,000

Rs. 7,50,000

(1 Mark)

**ANSWER NO.5****Convertible Limited Balance Sheet as on July 1, 20X1**

Particulars	Note No	Figures as at the end of current reporting period
		Rs.
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	60,00,000
(b) Reserves and Surplus	2	1,10,75,000
<b>(2) Non-Current Liabilities</b>		
(a) Long-term borrowings - Unsecured Loans		65,00,000
<b>(3) Current Liabilities</b>		
(a) Short-term provisions		<u>1,25,00,000</u>
<b>Total</b>		<b><u>3,60,75,000</u></b>
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
(a) Property, Plant & Equipment		
(i) Tangible assets		1,60,00,000
<b>(2) Current assets</b>		
(a) Cash and bank balances ( <b>Refer WN (iii)</b> )		75,000
(b) Other current assets		2,00,00,000
<b>Total</b>		<b><u>3,60,75,000</u></b>

**(5 Marks)****Notes to Accounts**

		Rs.
<b>1. Share Capital</b>		
6,00,000 Equity Shares (5,00,000 + 1,00,000) of Rs. 10 each ( <b>Refer WN (i)</b> )		<u>60,00,000</u>

**(0.5 Mark)**



<b>2. Reserves and Surplus</b>		
General Reserve	90,00,000	
Profit & Loss	10,00,000	
Add: Debenture Redemption Reserve transfer	10,00,000	
	110,00,000	
Less: Premium on redemption of debentures (1,00,000 debentures x Rs. 5 per debenture)	(5,00,000)	1,05,00,000
Securities Premium (1,00,000 shares x 5.75) <b>(Refer WN (i))</b>		5,75,000
		1,10,75,000

(1 Marks)

**Working Notes :**

**(i) Calculation of number of shares to be allotted:**

Total number of debentures	1,00,000
Less: Number of debentures for which debentureholders did not opt for conversion	( <u>25,000</u> )
	<u>75,000</u>
20% of 75,000	15,000
Redemption value of 15,000 debentures (15,000 x 105)	Rs. 15,75,000
Number of Equity Shares to be allotted:	
= <u>15,75,000</u> ÷ 1,00,000 shares of Rs. 10 each.	
15.75	

(1.5 Marks)

**(ii) Calculation of cash to be paid:**

	Rs.
Total number of debentures	1,00,000
Less : number of debentures to be converted into equity shares	( <u>15,000</u> )
Balance	<u>85,000</u>
Redemption value of 85,000 debentures (85,000 × Rs. 105)	Rs. 89,25,000

(1 Marks)

**(iii) Cash and Bank Balance:**

Balance before redemption	75,00,000
Add : Proceeds of investments sold	<u>15,00,000</u>
	90,00,000
Less : Cash paid to debenture holders	<u>(89,25,000)</u>
	<u>75,000</u>

**(1 Marks)**