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**SUGGESTED SOLUTION**

**CA INTERMEDIATE**

**SUBJECT- ACCOUNTS**

**Test Code – CIM 8643**

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

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**ANSWER -1****ANSWER -A****Computation of effective capital :**

	Where Gaurav Ltd. is a non - investment company	Where Gaurav Ltd. is an investment company
Paid – up share capital -		
67,500, 14% Preference shares	67,50,000	67,50,000
5,40,000 Equity shares	4,32,00,000	4,32,00,000
Capital reserves	2,02,500	2,02,500
Securities premium	2,25,000	2,25,000
15% Debentures	2,92,50,000	2,92,50,500
Public Deposits	16,65,000	16,65,000
(A)	8,12,92,500	8,12,92,500
Investments	3,37,50,000	-
Profit and Loss account (Dr. balance)	68,62,500	68,62,500
(B)	4,06,12,50	68,62,500
Effective capital (A – B)	4,06,80,000	7,44,30,000

**(5 MARKS)****ANSWER –B****In the books of C Limited****Journal Entries**

Date	Particulars	Dr. ( Rs.)	Cr. ( Rs.)
	Bank A/c	Dr. 2,50,000	
	To Equity Share Capital A/c		2,50,000
	(Being the issue of 25,000 equity shares of Rs. 10 each at par as per Board's resolution No.....dated.....)		
	Bank A/c	Dr. 1,00,000	
	To 14% Debenture A/c		1,00,000
	(Being the issue of 1,000 Debentures of Rs. 100 each as per Board's Resolution No.....dated.....)		
	12% Redeemable Preference Share Capital A/c	Dr. 3,00,000	
	Premium on Redemption of Preference Shares A/c	Dr. 30,000	
	To Preference Shareholders A/c		3,30,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)		
	Preference Shareholders A/c	Dr. 3,30,000	
	To Bank A/c		3,30,000
	(Being the amount paid on redemption of preference		

shares) Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)	Dr.	30,000	30,000
Profit & Loss To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr.	50,000	50,000

**Working Note:**

**Amount to be transferred to Capital Redemption Reserve Account**

Face value of shares to be redeemed	Rs. 3,00,000
Less: Proceeds from new issue	<u>( Rs. 2,50,000)</u>
Total Balance	<u>Rs.50,000</u>

(5 MARKS)

**ANSWER -2**

**ANSWER -A**

**Calculation of net profit u/s 198 of the Companies Act, 2013**

	Rs.	Rs.
Balance from Trading A/c		201,26,825
Add: Subsidies received from Government		<u>13,69,625</u>
		214,96,450
Less: Administrative, selling and distribution expenses	41,12,710	
Director's fees	6,73,900	
Interest on debentures	1,56,200	
Depreciation on fixed assets as per Schedule II	<u>28,76,725</u>	<u>(78,19,535)</u>
Profit u/s 198		136,76,915

Maximum Managerial remuneration under Companies Act, 2013 = 11% of Rs. 136,76,915=  
Rs. 15,04,461.

(5 MARKS)

**ANSWER –B**

Nominal value of preference shares	Rs. 5,00,000
Maximum possible redemption out of profits	Rs. 3,00,000
Minimum proceeds of fresh issue	Rs. 5,00,000 – 3,00,000 = Rs. 2,00,000
Proceed of one share	= Rs. 9

Minimum number of shares =  $2,00,000/9 = 22,222.22$  shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

(5 MARKS)

**ANSWER -3**

**In the books of AP Ltd.**

**Journal Entries**

Date	Particulars	Dr. (Rs.)	Cr.(Rs.)
	Bank A/c. <span style="float: right;">Dr.</span> To Equity Share Capital A/c. (Being the issue of 2,500 Equity shares of Rs. 10 each at par, as per Board's Resolution No.... dated.....)	25,000	25,000
	8% Redeemable Preference Share Capital A/c. <span style="float: right;">Dr.</span> Premium on Redemption of Pref. Shares A/c. <span style="float: right;">Dr.</span> To Preference Shareholders A/c. (Being the amount paid on redemption transferred to Preference Shareholders Account)	1,00,000 10,000	1,10,000
	Preference Shareholders A/c. <span style="float: right;">Dr.</span> To Bank A/c. (Being the amount paid on redemption of preference shares)	1,10,000	1,10,000
	Profit & Loss A/c. <span style="float: right;">Dr.</span> To Premium on Redemption of Preference Shares A/c. (Being the premium payable on redemption is adjusted against Profit & Loss Account)	10,000	10,000
	General Reserve A/c. <span style="float: right;">Dr.</span>	60,000	
	Profit & Loss A/c. <span style="float: right;">Dr.</span> Investment Allowance Reserve A/c. <span style="float: right;">Dr.</span> To Capital Redemption Reserve A/c. (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	10,000 5,000	75,000

(5\*1 = 5 MARKS)

**Balance Sheet as on ..... [Extracts]**

Particulars		Notes No.	Rs.
<b>EQUITY AND LIABILITIES</b>			
<b>1.</b>	<b>Shareholders' funds</b>		
	a Share Capital	1	2,25,000
	b Reserves and Surplus	2	1,00,000
	<b>Total</b>		?
	<b>ASSETS</b>		
<b>2.</b>	<b>Current Assets</b>		
	Cash and Cash equivalents (98,000 + 25,000 – 1,10,000)		13,000
	<b>Total</b>		?

**Notes to accounts**

<b>1. Share Capital</b>	
22,500 Equity shares (20,000 + 2,500) of Rs.10 each fully paid up	2,25,000
<b>2. Reserves and Surplus</b>	
General Reserve	20,000
Capital Redemption Reserve	75,000
Investment Allowance Reserve	5,000
	1,00,000

**Working Notes :**

No. of Shares to be issued for redemption of Preference shares :

Face value of shares redeemed Rs. 1,00,000

Less : profit available for distribution as dividend :

General Reserve : (Rs. 80,000 – 20,000) Rs. 60,000

Profit and Loss (20,000 – 10,000 set aside for adjusting  
premium payable on redemption of preference shares) Rs. 10,000

Investment Allowance Reserve : (Rs. 10,000 – 5,000) Rs. 5,000 (Rs. 75,000)

Rs. 25,000

Therefore, No. of shares to be issued = 25,000/ Rs. 10 = 2,500 shares.

**(5 MARKS)**

**Alternative Solution**

**Working Note can be made in the following manner :**

(a) Calculation of No. of equity share to be issued :

	F.V.	Premium
Redemption of 8% Pref. Shares	1,00,000	10,000
(-) F.V. of Fresh Issue (Balance figure)	25,000	
CRR of only F.V.	75,000	10,000
Utilisation of Reserves		
General Reserve	60,000	
Investment allowance Reserve	5,000	

P & L A/c.	10,000	10,000
CRR	75,000	10,000

$$\therefore \text{No. of equity shares to be issued} = \frac{25,000}{10}$$

$$= 2,500 \text{ shares}$$

**OR**

(b) F.V. of Pref. Share Redemption = Fresh Issue + CRR

$$\therefore 1,00,000 = \text{Fresh Issue} + [60,000 + 10,000 + 5,000]$$

Therefore, 100000-75000 = Fresh Issue

$\therefore$  Share capital = 25,000

$$\text{No. of share} = \frac{25,000}{10} = 2,500 \text{ shares.}$$

Premium on Redemption = Rs. 10,000 to be w/off against profit and loss.

Note: Student can even write off Premium against General Reserve.

**ANSWER -4**

**ANSWER –A**

**Oliva Company Ltd.**

**Statement of Profit and loss for the year ended 31.03.2019**

(Rs.)

	Particulars	Note	Amount
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		<u>4,200</u>
III	<b>Total Revenue (I +II)</b>		<u><b>17,14,200</b></u>
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	<u>3,51,510</u>
	<b>Total Expenses</b>		<u><b>16,65,150</b></u>
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050

VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

(5 MARKS)

**Oliva Company Ltd.**

**Balance Sheet for the year ended 31.03.2019**

	Particulars	Note	Amount
<b>1.</b>	<b>Equity and Liabilities</b>		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	<b>1</b>	50,430
<b>2.</b>	<b>Non – current liabilities</b>		
	(a) Long – term borrowings	<b>2</b>	23,300
<b>3.</b>	<b>Current Liabilities</b>		
	(a) Short – term borrowings	<b>3</b>	6,000
	(b) Trade payables		3,27,000
	(c) Other current liability	<b>4</b>	73,000
	(d) Short term provision	<b>5</b>	19,620
			8,14,350
<b>II</b>	<b>ASSETS</b>		
<b>(1)</b>	<b>Non Current assets</b>		
	(a) Property, Plant & equipment		
	(i) Tangible assets	<b>6</b>	2,04,160
	(b) Non – current investments		7,500
<b>(2)</b>	<b>Current Assets</b>		
	(a) Current investments		4,500
	(b) Inventories	<b>7</b>	85,800
	(c) Trade receivables		2,38,500
	(d) Cash and cash equivalents		2,71,100
	(e) Short – term loans and advances	<b>8</b>	2,490
	(f) Other current assets	<b>9</b>	300
			8,14,350

(5 MARKS)

**Notes to accounts**

No	Particulars	Amount	Amount
<b>1.</b>	<b>Reserve &amp; Surplus</b>		
	Profit & Loss Account: Balance b/f	48,000	
	Net Profit for the year	29,430	
	Less: Interim Dividend including DDT	<u>(27,000)</u>	50,430
<b>2.</b>	<b>Long term borrowings</b>		
	Secured loans (21,000 less current maturities 1,000)	20,000	
	Fixed Deposits: Unsecured	<u>3,300</u>	23,300
<b>3.</b>	<b>Short term borrowings</b>		
	Secured loans	4,500	
	Fixed Deposits -Unsecured	<u>1,500</u>	6,000

4.	<b>Other current liabilities</b>			
	Expenses Payable (67,500 + 4,500)		72,000	
	Current maturities of long term borrowings		<u>1,000</u>	73,000
5.	<b>Short term provisions</b>			
	Provision for Income tax			19,620
6.	<b>Tangible Assets</b>			
	Building	1,01,000		
	Less: Depreciation @ 2%	<u>( 2,020)</u>	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @10%	<u>(7,040)</u>	63,360	
	Furniture	10,200		
	Less: Depreciation @10%	<u>(1,020)</u>	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @20%	<u>( 8,160)</u>	32,640	2,04,160
7	<b>Inventory:</b>			
	Raw Material		25,800	
	Finished goods		<u>60,000</u>	85,800
8.	<b>Short term Loans &amp; Advances</b>			
	General Charges prepaid			<u>2,490</u>
9.	<b>Other Current Assets:</b>			
	Interest accrued			300
10.	<b>Cost of material consumed</b>			
	Opening inventory of raw Material & Stores	30,000		
	Add: Purchases	12,15,000		
	Stores & Spare parts consumed	<u>(45,000)</u>	12,90,000	
	Less: Closing inventory		<u>(25,800)</u>	12,64,200
11.	<b>Changes in inventory of Finished Goods &amp; WIP</b>			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		<u>46,500</u>	13,500
12.	<b>Employee Benefit expenses</b>			
	Salary & Wages (40,200 + 4,500)			44,700
13.	<b>Other Expenses:</b>			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		14,010	3,51,510

(5 MARKS)



**ANSWER –B****In the books of Meera Limited****Journal Entries**

<b>Date</b>	<b>Particulars</b>		<b>Dr. (Rs.)</b>	<b>Cr. (Rs.)</b>
<b>2018</b>				
Jan 1	10% Redeemable Preference Share Capital A/c. Premium on Redemption of Pref. share To Pref. Shareholders A/c. (Being the amount payable on redemption transferred to pref. share holders account)	Dr. Dr.	1,50,000 15,000	1,65,000
	Preference shareholders A/c. To Bank A/c. (Being the amount paid on redemption of Preference shares)	Dr.	1,65,000	1,65,000
	Profit & Loss A/c. To Premium on Redemption of Pref. Shares (Being adjustment of premium on redemption)	Dr.	15,000	15,000
	General Reserve A/c. Profit & Loss A/c. To Capital Redemption Reserve A/c. (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr.	1,12,500 37,500	1,50,000

**Note :** Securities premium and capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

**Note:** Alternatively to write off Premium on Redemption, General Reserve can also be used.

**(5 MARKS)**