

Note: All questions are compulsory.

Question 1 (i – 2.5 marks, ii – 2.5 marks, iii – 3 marks)

(i) Calculation of Rebate on bills discounted

S.No.	Amount (₹)	Due date (year 2011)	Unexpired portion from 31 <sup>st</sup> March, 2011	Rate of discount	Rebate on bills discounted (₹)
(i)	3,75,000	April 8	8 days	12%	986
(ii)	1,50,000	May 5	35 days	14%	2,014
(iii)	2,20,000	June 12	73 days	14%	6,160
(iv)	4,80,000	July 15	106 days	15%	20,910
	12,25,000				30,070

(ii) Amount of discount to be credited to the Profit and Loss Account

	₹
Transfer from Rebate on bills discounted A/c as on 31 <sup>st</sup> March, 2010	45,800
Add: Discount received during the year ended 31 <sup>st</sup> March, 2011	2,02,500
	2,48,300
Less: Rebate on bills discounted as on 31 <sup>st</sup> March, 2011	(30,070)
Discount credited to Profit and Loss Account	2,18,230

(iii) In the books of Dee Bank Ltd.  
Journal Entries

	Particulars	Dr. (₹)	Cr. (₹)
(1)	Rebate on bills discounted A/c To Discount on bills A/c (Being the transfer of opening balance of rebate on bills discounted account to discount on bills account)	Dr. 45,800	45,800
(2)	Discount on bills A/c To Rebate on bills discounted A/c (Being the unexpired portion of discount in respect of the discounted bills of exchange carried forward)	Dr. 30,070	30,070
(3)	Discount on bills A/c To Profit and Loss A/c (Being the amount of income for the year transferred from Discount on bills A/c to Profit and Loss A/c)	Dr. 2,18,230	2,18,230

Question.2 (1 mark for each year, 3 marks for last year, 2 marks for working note)

**In the books of P Ltd.**

**Journal Entries**

Date	Particulars	(₹)	(₹)
31.3.20X1	Employees compensation expense account Dr. 80,000 To Employee stock option outstanding account 80,000 (Being compensation expenses for 6 months recognized in respect of the employee stock options i.e. 8,000 options granted to employees at a discount of ₹ 90 (170-80) each, amortized on straight line basis over 4 $\frac{1}{2}$ years [(8,000 stock options x ₹ 90) / 4.5 years] x 0.5) (W.N.1)	80,000	80,000
	Profit and loss account Dr. 80,000 To Employees compensation expenses account 80,000 (Being expenses transferred to profit and loss account at the year end)	80,000	80,000
31.3.20X2	Employees compensation expense account Dr. 1,60,000 To Employee stock option outstanding account 1,60,000 (Being compensation expense recognized in respect of the employee stock option i.e. 8,000 options granted to employees at a	1,60,000	1,60,000

	discount of ₹ 90 each, amortized on straight line basis over $4\frac{1}{2}$ years (8,000 stock options x ₹ 90) / 4.5 years) x 1 year)			
	Profit and loss account Dr.	1,60,000		
	To Employees compensation expense account		1,60,000	
	(Being expenses transferred to profit and loss account at year end)			
31.3.20X3	Employees compensation expense account Dr.	80,000		
	To Employee stock option outstanding account		80,000	
	(Being compensation expense recognized in respect of the employee stock option i.e. 4,000 options at a discount of ₹ 90 each, amortized on straight line basis over $4\frac{1}{2}$ years (4,000 stock options x ₹ 90) / 4.5 years)			
	Employee stock option outstanding account Dr. (W.N.2)	1,20,000		
	To General Reserve account (W.N.2)		1,20,000	
	(Being excess of employees compensation expenses transferred to general reserve account)			

	To Employee stock option outstanding account		80,000	
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of ₹ 90 each, amortized on straight line basis over $4\frac{1}{2}$ years (4,000 stock options x ₹ 90) / 4.5 years)			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account		80,000	
	(Being expenses transferred to profit and loss account at year end)			
31.3.20X5	Employees compensation expense account	Dr.	80,000	
	To Employee stock option outstanding account		80,000	
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of ₹90 each, amortised on straight line basis over $4\frac{1}{2}$ years [(4,000 stock options x ₹ 90) / 4.5 years])			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expense account		80,000	
	(Being expenses transferred to profit and loss account at year end)			
30.9.20X5	Bank A/c (3,000 × ₹ 80)	Dr.	2,40,000	
	Employee stock option outstanding	Dr.	2,70,000	
	To Equity share capital account (3,000 x ₹ 10)		30,000	

	To Securities premium (₹ 170 – ₹ 10) x 3,000		4,80,000	
	(Being 3,000 employee stock option exercised at an exercise price of ₹ 80 each)			
	Employee stock option outstanding account	Dr.	90,000	
	(W.N.3)			
	To General reserve account (W.N.3)		90,000	
	(Being ESOS outstanding A/c transferred to General Reserve A/c on lapse of 1000 vested options at the end of the exercise period)			

**Working Notes:**

- Fair value = ₹ 170 – ₹ 80 = ₹ 90
- At 1.12.X2, 4,000 unvested option lapsed on which till date expenses recognized to be transferred to general reserve = ₹ (80,000 + 1,60,000) x 4,000 / 8,000  
= ₹ 1,20,000
- Expenses charged on lapsed vested options transferred to general reserve  
= 1,000 x ₹ 90 = ₹ 90,000

Question 3 (1/2 mark for each journal entry, 2.5 marks for balance sheet, 3 marks for notes to accounts, 2 marks for working notes)

(₹ in lakhs)			
Date	Particulars	Debit	Credit
01.04.20X7	9% Redeemable preference share capital A/c	Dr. 20.00	
	Premium on redemption of preference shares A/c	Dr. 2.00	
	To Preference shareholders A/c		22.00
	(Being preference share capital transferred to shareholders account)		
01.04.20X7	Preference shareholders A/c	Dr. 22.00	
	To Bank A/c		22.00
	(Being payment made to shareholders)		
01.04.20X7	Equity shares buy back A/c	Dr. 90.00	
	To Bank A/c		90.00
	(Being 3 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)		
01.04.20X7	Equity share capital A/c	Dr. 30.00	
	Securities premium A/c	Dr. 60.00	
	To Equity Shares buy back A/c		90.00
	(Being cancellation of shares bought back)		
01.04.20X7	Revenue reserve A/c	Dr. 50.00	
	To Capital redemption reserve A/c		50.00
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)		
01.04.20X7	10% Debentures A/c	Dr. 2.20	
	To Investment (own debentures) A/c		2.00
	To Profit on cancellation of own debentures A/c		0.20
	(Being cancellation of own debentures costing ₹ 2 lakhs, face value being ₹ 2.20 lakhs and the balance being profit on cancellation of debentures)		
1.04.20X7	Profit on cancellation of debentures A/c	Dr. 0.20	
	To Capital reserve A/c		0.20
	(Being profit on cancellation of debentures transferred to capital reserve account)		
01.04.20X7	Bank A/c	Dr. 10.00	
	Employees stock option outstanding (Current liabilities) A/c	Dr. 5.00	
	To Equity share capital A/c		5.00
	To Securities premium A/c		10.00
	(Being the allotment to employees, of 50,000 shares of ₹ 10 each at a premium of 20 per share in exercise of stock options by employees)		
01.04.20X7	Securities premium A/c	Dr. 2.00	
	To Premium on redemption of preference shares A/c		2.00
	(Being premium on redemption of preference shares adjusted through securities premium)		

**Balance Sheet of Extra Ltd. as on 01.04.20X7**

Particulars	Note No	(₹ in lakhs)
<b>I. Equity and Liabilities</b>		
(1) Shareholder's Funds		
(a) Share Capital	1	75.00
(b) Reserves and Surplus	2	66.20
(2) Non-current Liabilities		
(a) Long term borrowings	3	1.80
(3) Current Liabilities		65.00
<b>Total</b>		<b>208.00</b>
<b>II. Assets</b>		
(1) Non-current assets		
(a) Fixed assets		50.00
(b) Non-current investments at cost		118.00
(2) Current assets	4	40.00
<b>Total</b>		<b>208.00</b>

**Notes to Accounts**

		<i>₹ in lakhs</i>	
<b>1</b>	<b>Share Capital</b>		
	Equity share capital		
	Opening balance	100.00	
	Less : Cancellation of bought back shares	(30.00)	
	Add : Shares issued against ESOP	<u>5.00</u>	<u>75.00</u>
<b>2</b>	<b>Reserves and Surplus</b>		
	Capital Reserve		
	Opening balance	8.00	
	Add: Profit on cancellation of debentures	<u>0.20</u>	8.20
	Revenue reserves		
	Opening balance	50.00	
	Less: Creation of Capital Redemption Reserve	(50.00)	-
	Securities Premium		
	Opening balance	60.00	
	Less : Adjustment for cancellation of equity shares	(60.00)	
	Less: Adjustment for premium on redemption of preference shares	(2.00)	
	Add: Shares issued against ESOP at premium	<u>10.00</u>	8.00
	Capital Redemption Reserve		<u>50.00</u>
			<u>66.20</u>
<b>3</b>	<b>Long term borrowings</b>		
	Secured		
	10% Debentures (4-2.20)		1.80

**Working Notes:**

		<i>(₹ in lakhs)</i>	
<b>1.</b>	<b>10% Debentures</b>		
	Opening balance		4.00
	Less: Cancellation of own debentures	(2.20)	
			<u>1.80</u>
<b>2.</b>	<b>Current liabilities</b>		
	Opening balance		70.00
	Less: Adjustment for ESOP outstanding	(5.00)	
			<u>65.00</u>
<b>3.</b>	<b>Investments at cost</b>		
	Opening balance		120.00
	Less: Investment in own debentures	(2.00)	
			<u>118.00</u>
<b>4.</b>	<b>Current assets</b>		
	Opening balance		142.00
	Less : Payment to preference shareholders	(22.00)	
	Less : Payment to equity shareholders	(90.00)	
	Add : Share price received against ESOP	<u>10.00</u>	
			<u>40.00</u>

Q4. (3 marks for revenue accounts, 1 mark for each schedule, 1 mark for working note)

**FORM B- RA**

Name of the Insurer: Bachao Insurance Company Limited

Registration No. and Date of registration with IRDA: .....

Revenue Account for the year ended 31<sup>st</sup> March, 2013

Particulars	Schedule	Amount (₹)
Premium earned (net)	1	14,90,500
Profit on sale of investment		15,000
Others		-
Interest and dividend (gross)		75,000
Total (A)		15,80,500
Claims incurred (Net)	2	10,12,500
Commission	3	1,75,000
Operating expenses related to insurance	4	3,75,000
Total (B)		15,62,500
Operating profit from insurance business (A) – (B)		18,000

**Schedule –1 Premium earned (net)**

	₹
Premium received	16,80,000
Less: Premium on reinsurance ceded	(1,12,500)
Net Premium	15,67,500
Less: Adjustment for change in Reserve for Unexpired risk (as per W.N.)	(77,000)
Total premium earned	14,90,500

**Schedule -2 Claims incurred (net)**

	₹
Claims paid	9,60,000
Add: Expenses regarding claims	45,000
	10,05,000
Less: Re-insurance recoveries	(30,000)
	9,75,000
Add: Claims outstanding as on 31 <sup>st</sup> March, 2013	1,35,000
	11,10,000
Less: Claims outstanding as on 31 <sup>st</sup> March, 2012	(97,500)
	10,12,500

**Schedule -3 Commission**

	₹
Commission paid	1,75,000

**Schedule-4 Operating expenses related to Insurance Business**

	₹
Expenses of management (₹4,20,000 – ₹45,000)	3,75,000

**Working Note:**

**Calculation for change in Reserve for Unexpired risk:**

		₹
Reserve for Unexpired Risk as on 31 <sup>st</sup> March, 2013	6,27,000	
Additional Reserve as on 31 <sup>st</sup> March, 2013	3,50,000	9,77,000
Less: Reserve for Unexpired Risk as on 31 <sup>st</sup> March, 2012	7,50,000	
Additional Reserve as on 31 <sup>st</sup> March, 2012	1,50,000	(9,00,000)
		77,000

**Note:** Interest and dividends are shown at gross value in Revenue account. It is assumed that amount of interest and dividend given in the question is before TDS.

Question 5 (1 mark for each journal entry, 3 marks for balance sheet, 2 marks for notes)

In the books of X Ltd.  
Journal Entries

31 <sup>st</sup> March, 20X1		₹	₹
(i)	Equity Share Capital A/c (₹ 100) Dr.	24,00,000	
	To Equity Share Capital A/c (₹ 40)		9,60,000
	To Capital Reduction A/c		14,40,000
	(Being 24,000 equity shares of ₹ 100 each reduced to ₹ 40 each fully paid up)		
(ii)	10% Preference Share Capital A/c (₹ 100) Dr.	12,00,000	
	To 10% Preference Share Capital A/c (₹ 75)		9,00,000
	To Capital Reduction A/c		3,00,000
	(Being 12,000 Preference shares of ₹ 100 each reduced to ₹ 75 each fully paid up)		
(iii)	10% Debentures A/c Dr.	6,00,000	
	To Inventories A/c		2,60,000
	To Trade receivables A/c		2,80,000
	To Capital Reduction A/c		60,000
	(Being debenture holders given Inventories and Trade receivables in full settlement of their claims)		
(iv)	Land & Building A/c Dr.	3,60,000	
	To Capital Reduction A/c		3,60,000
	(Being Land & Building appreciated by 30%)		
(v)	Capital reduction A/c Dr.	5,000	
	To Cash A/c		5,000
	(Being expenses of reconstruction paid)		
(vi)	Capital Reduction A/c Dr.	20,70,000	
	To Goodwill A/c		90,000
	To Profit and Loss A/c		14,40,000
	To Plant & Machinery A/c		5,40,000
	(Being various losses written off, assets written down through Capital Reserve A/c )		
(vii)	Capital Reduction Dr.	85,000	
	To Capital Reserve A/c (Bal. Fig.)		85,000
	(Being balance in Capital Reduction A/c transferred to Capital Reserve A/c)		

Q5.



**Balance Sheet (And Reduced) of X Ltd.  
as at 31<sup>st</sup> March, 20X1**

Particulars	Notes No.	₹
<b>Equity and Liabilities</b>		
<b>1 Shareholders' funds</b>		
a Share capital	1	18,60,000
b Reserves and Surplus	2	85,000
<b>2 Current liabilities</b>		
a Trade Payables		3,00,000
b Short term borrowings		6,00,000
<b>Total</b>		<b>28,45,000</b>
<b>Assets</b>		
<b>1 Non-current assets</b>		
a Fixed assets		
Tangible assets	3	28,20,000
<b>2 Current assets</b>		
Cash and cash equivalents (30,000 -5,000)		25,000
<b>Total</b>		<b>28,45,000</b>

**Notes to accounts**

		₹
<b>1. Share Capital</b>		
Equity share capital		
24,000 equity shares of ₹ 40 each fully paid up		9,60,000
Preference share capital		
12,000, 10% Preference shares of ₹ 75 each fully paid up		9,00,000
<b>Total</b>		<b>18,60,000</b>
<b>2. Reserves and Surplus</b>		
Capital Reserve		85,000
<b>3. Tangible assets</b>		
Land and Building	15,60,000	
Plant and Machinery	12,60,000	
<b>Total</b>		<b>28,20,000</b>

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