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SUGGESTED SOLUTION

INTERMEDIATE MAY 2019 EXAM

SUBJECT- ACCOUNTS AND LAW

Test Code - CIM 8131

BRANCH - () (Date :)

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Answer 1:

1. Investments in 8% Convertible Debentures of C Ltd A/c

Date	Particulars	Cost	Int.	Date	Particulars	Cost	Int.
1st Apr	To Bank (WN la)	2,16,000	-	30th Sep	By Bank (3,00,000 x 8% x $\frac{1}{2}$)	-	12,000
1st July	To Bank (WN lb)	1,10,000	2,000	1st Oct	By Bank (WN 2a)	84,000	-
31st Dec	To P&L A/c - Int tfr		10,000	1st Oct	By Loss on Sale (WN lc)	2,933	-
				1st Dec	By Equity Shares A/c (WN 3)	59,767	-
				1st Dec	By Accrued Interest (WN 4)		733
				31st Dec	By bal. c/d (WN 3)	1,79,300	3,300
	Total	**3,26,000**	**16,033**		**Total**	**3,26,000**	**16,033**

2. Investments in Equity Share of C Ltd A/c

Date	**Particulars**	**FV**	**Cost**	**Date**	**Particulars**	**FV**	**Cost**
1st Dec	To Debentures A/c (5,000 ES x Rs. 10)	50,000	59,767	31st Dec	By balance c/d	50,000	59,767
	Total	**50,000**	**59,767**		**Total**	**50,000**	**59,767**

Working Notes:

1. Cost of Debentures:

(a) Purchased on 1st April = Rs. 2,00,000 x $\frac{108}{100}$ = Rs. 2,16,000

(b) Purchased on 1st July:

Total Amount = Rs. 1,00,000 x $\frac{112}{100}$ = Rs. 1,12,000

Interest = Rs. 1,00,000 x 8% x $\frac{3}{12}$ = Rs. 2,000 (for 1st April to 30th June)

So, Cost = 1,12,000 - 2,000 = Rs. 1,10,000

2. Sale of Debenture on 1st October

(a) Sale Proceeds = Rs. 80,000 x $\frac{105}{100}$ = Rs. 84,000

(b) Average Cost of Rs. 80,000 Debentures = $\frac{2,16,000+1,10,000}{3,00,000}$ x 80,000 = Rs. 86,933

(c) Loss on Sale = Rs. 86,933 - Rs. 84,000 = Rs. 2,933

3. **Conversion into Equity & Balance Sheet Valuation**

Note: Cost of Debentures held before conversion = Rs. 3,26,000 - 86,933 = Rs. 2,39,067

Particulars	Cost	Market Value at Year End	B/S Value
25% Converted into Shares	2,39,067 x25% = 59,767	5,000 Shares x Rs. 15 = 75,000	Rs. 59,767
75% held as Debentures	2,39,067x 75% = Rs. 1,79,300	Rs. 2,20,000 Deb x75%x $\frac{110}{100}$ =Rs.1,81,500	Rs.1,79,300

4. **Accrued Interest on the date 25% Conversion** for Oct & Nov = Rs. 2,20,000 Deb x 25% x 8% x $\frac{2}{12}$ = Rs. 733.

5. **Accrued Interest on the B/s date** for Oct, Nov & Dec = Rs. 2,20,000 Deb x 75% x 8% x $\frac{3}{12}$ = Rs. 3,300.

Answer 2:

(A)

As per Sections 178 and 178A of the Indian Contract Act, 1872 the deposit of title deeds with the bank as security against an advance constitutes a pledge. As a pledgee, a banker's rights are not limited to his interest in the goods pledged. In case of injury to the goods or their deprivation by a third party, the pledgee would have all such remedies that the owner of the goods would have against them.

The bank (pledgee) was entitled to recover not only the amount of the advance due to it, but the full value of the consignment. However, the amount over and above his interest is to be held by him in trust for the pledgor. Thus, the bank will succeed in this claim of Rs. 60,000.

(B)

The problem as asked in the question is based on the provisions of the Indian Contract Act 1872, as contained in Section 130 relating to the revocation of a continuing guarantee as to future transactions which can be done mainly in the following two ways:

1. A continuing guarantee may at any time be revoked by the surety as to future transactions, by notice to the creditor
2. The death of the surety operates, in the absence of any contract to the contrary, as a revocation of a continuing guarantee, so far as regards future transactions.

So far as the transactions before revocation are concerned, the liability of the surety for previous transactions (i.e. before revocation) remains.

a. Thus applying the above provisions in the given case, Amit is discharged from all the liabilities to Chander for any subsequent loan.
b. Answer in the second case would differ i.e. Amit is liable to Chander for Rs. 10,000 on default of Bikram since the loan was taken before the notice of revocation was given to Chander.

Answer 3:

1. 12% Debentures Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 20X2	To Debenture holders A/c	7,50,000	1st April, 20X1	By Balance b/d	7,50,000
		7,50,000			7,50,000

2. DRR Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31st March, 20X2	To 10% Secured Bond A/c (loss) (6,00,000 – 5,85,000)	15,000	1st April, 20X1	By Balance b/d	6,00,000
31st March, 20X2	To General reserve A/c (Bal.fig.)	7,70,000	31st March, 20X2	By Profit and loss A/c	1,20,000
				By Interest on DRR A/c [(Interest on 10% stock (Rs. 6,50,000 x 10%)]	65,000
		7,85,000			7,85,000

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

		Rs.			*Rs.*
1st April, 20X1	To Balance b/d	6,00,000	31st March, 20X2	By Bank A/c (6,50,000 x 90%) = 5,85,000)	5,85,000
				By DDR A/c	15,000
		6,00,000			6,00,000

4. Bank A/c

		Rs.			*Rs.*
31st March, 20X2	To Balance b/d	3,00,000	31st March, 20X2	By 12% Debenture	8,25,000
	To Interest (6,50,000 x 10%)	65,000		By Balance c/d	1,25,000
	To DRR Investment A/c	5,85,000			
		9,50,000			9,50,000

5. Debenture holders A/c

		Rs.			*Rs.*
31st March, 20X2	To Bank A/c	8,25,000	31st March, 20X2	By 12% Debentures	7,50,000
				By Premium on redemption of debentures @ 10%	75,000
		8,25,000			8,25,000

Answer 4:

Points for Consideration

- Sale Proceeds of Rights is to be credited to P&L A/c and not Investment A/c.
- Reduce the Dividend on Shares acquired on 1st September 2017 from the cost of acquisition, to arrive at the Net Cost of Shares as on 31st March 2018, since it is Pre-Acquisition Dividend.

Working Notes

Particulars	Computation	Result
1. No. of Bonus Shares	(4,000 + 1,000) ÷ 5x2	2,000 Shares
2. No. of Rights Shares eligible	(4,000 + 1,000 + 2,000) x $\frac{2}{7}$	2,000 Shares
3. No. of Rights Shares Renounced	2,000 x 1/2 = 1,000 Shares at Rs. 8 will be taken to P&L	Rs. 8,000
4. No. of Rights Shares subscribed	2,000 - 1,000 = 1,000 Shares at Rs. 10 + 25% Premium	Rs. 12,500
5. Total Dividend Received	On OB + Fresh Pure. = 5,000 Shares x Rs. 10 x 20%	Rs. 10,000
(a) Dividend on OB Shares taken to P&L	4,000 x Rs. 10 x 20%	Rs. 8,000
(b) Dividend on Shares pure, on 01.09.2017	1,000 x Rs. 10 x 20% is adjusted in Investment A/c.	Rs. 2,000
6. Cost of Shares sold on 01.02.2018	(60,000+ 14,000 + 12,500 - 2,000) x $\frac{4,000}{8,000}$	Rs. 42,250
7. Net Sale Proceeds for sale on 01.02.2018	8,000 Shares x $\frac{1}{2}$ x (Rs. 10 + Rs. 4)	Rs. 56,000
8. Profit on Sale of Shares on 01.02.2018	Net Sale Proceeds Rs. 56,000 less Cost Rs. 42,250	Rs. 13,750

Investment (Equity Shares in Akash Ltd) Account

Date	Particulars	Shares Nos.	Rs.	Date	Particulars	SharesNos.	Rs.
01.04.17	To balance b/d at Rs. 15	4,000	60,000	20.01.18	By Bank (Dvd) (WN 5b)	-	2,000
01.09.17	To Bank at RS. 14 (10+4)	1,000	14,000	01.02.18	By Bank (Sale of Shares)(WN 7)	4,000	56,000
30.09.17	To Bonus (WN 1)	2,000	-	31.03.18	By balance c/d (Note)	4,000	42,250
31.12.17	To Bank(Rights) (WN4)	1,000	12,500				
31.03.18	To P&L- Pft tfr (WN 8)	-	13,750				
	Total	**8,000**	**1,00,250**		**Total**	**8,000**	**1,07,250**

Note: 50% of the Shareholdings are sold, for which cost is Rs. 42,250 as per WN 6. Hence, Cost of Balance 50% Shareholdings at period-end is also Rs. 42,250. Market Price = 4,500 x Rs. 13 = Rs. 58,500. Hence, Carrying Amount of current investment = Cost of Market Price, whichever is lower = Rs. 42,250.

Answer 5:

According to section 194 of the Indian Contract Act, 1872, where an agent, holding an express or implied authority to name another person to act for the principal in the business of the agency, has named another person accordingly, such person is not a sub-agent, but an agent of the principal for such part of the business of the agency as is entrusted to him.

Further, as per section 195, in selecting such agent for his principal, an agent is bound to exercise the same amount of discretion as a man of ordinary prudence would exercise in his own case; and, if he does this, he is not responsible to the principal for the acts or negligence of the agent so selected.

Thus, in the present case, Aman is not, but the surveyor is, responsible to Mr. Bhalla.

Answer 6:

A company issuing debentures is required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they should fall due for payment.