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SUGGESTED SOLUTION

Intermediate May19 EXAM

SUBJECT- Accounts and Advance Accounts

Test Code – CIM 8024

BRANCH - () (Date: 19/08/2018)

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Answer 1:
(A)

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

Reserve Account as per the requirement of the Act)

(4.5 marks)

Working Note:

(0.5 mark)

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>

(B)

Statement showing the calculation of Profits for the pre-incorporation and post incorporation

Periods For the year ended 31st March, 20X2

(3 marks)

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
Gross Profit	3,90,800	Sales	39,080	3,51,720
Less: Directors' fee	30,000	Post	-	30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Time	6,000	18,000
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Donation to Political Party	10,000	Post		10,000
Net Profit	1,81,600			1,81,240
Pre-incorporation profit transfer to Capital Reserve			360	

Working Notes:

(2 marks)

1. Sales ratio

Particulars

	Rs.
Sales for period up to 30.06.20X1 (4,80,000 X 3/6)	2,40,000
Sales for period from 01.07.20X1 to 31.03.20X2 (24,00,000 – 2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 20X1 to 30 June, 20X1: 1st July, 20X1 to 31st March, 20X2

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

Answer 2:

Fellow Travellers Ltd.

Statement showing calculation of profit /losses for pre and post incorporation periods

		Ratio	Pre-incorporation	Post-incorporation
Gross profit allocated on the basis of sale		1:2	20,000	40,000
Less: Administrative Expenses allocated				
On time basis:				
(i) Salaries and wages	10,000			
(ii) Depreciation	1,000			
	11,000	5:7	4,583	6,417
Selling Commission on the basis of sales		1:2	3,000	6,000
Interest on Purchase Consideration (Time basis)		5:1	7,500	1,500
Expenses applicable wholly to the Post-incorporation period:				
Debenture Interest (1,50,000 x 7% x 6/12)	5,250			
Director's Fee	600			5,850
Preliminary expenses				900
Provision for taxes				6,000
Balance c/d to Balance Sheet			4,917	13,333

(4 marks)

Time Ratio

Pre incorporation period = 1 January 20X1 to 31 May 20X1 = 5 months

Post incorporation period = 1 June 20X1 to 31 December 20X1 = 7 months

Time ratio = 5: 7

(1 mark)

Sales Ratio

Sales in pre incorporation period (1 January 20X1 to 31 May 20X1) = Rs. 60,000

Sales in post incorporation period (1 June 20X1 to 31 December 20X1) = Rs. 1,20,000

Sales ratio = 1:2

(1 mark)

Fellow Travelers Ltd.

Extract from the Balance Sheet as on 31st Dec., 20X1

	Particulars	Notes	Rs.
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	2,00,000
b	Reserves and Surplus	2	33,250

2	Non-current liabilities		
a	Long-term borrowings	3	1,50,000
3	Current liabilities		
a	Short term provisions	4	6,000
	Total		3,89,250

(2 mark)

Notes to accounts

		Rs.
1.	Share Capital 20,000 equity shares of Rs. 10 each fully paid	2,00,000
2.	Reserves and Surplus	
	Profit Prior to Incorporation	4,917
	Securities Premium Account	20,000
	Profit and loss Account	13,333
	Less: Dividend on equity share	<u>(5,000)</u>
	Total	33,250
3.	Long term borrowings	
	Secured	
	7% Debentures	1,50,000
4.	Other Current liabilities	
	Provision for Taxes	6,000

(2 marks)

Answer 3:

(A) Accounting Entries in the books of fund

		Rs.	Rs.
31.12.2015	Investment in X Ltd.'s shares A/c (5,000 x Rs. 40)	Dr. 2,00,000	
	Investment in Y Ltd.'s shares A/c (4,000 x Rs. 60)	Dr. 2,40,000	
	To Bank A/c		4,40,000
	(Being investment made in X Ltd. and Y Ltd.)		
31.3.2016	Revenue A/c [5,000 x Rs. (40-38)]	Dr. 10,000	
	To Provision for Depreciation A/c		10,000
	(Being provision created for the reduction in the value of X Ltd.'s shares)		
31.3.2016	Investment in Y Ltd.'s shares A/c [4,000 x Rs. (64-60)]	Dr. 16,000	
	To Unrealised Appreciation Reserve A/c		16,000

	(Being appreciation in the market value of Y Ltd.'s shares transferred to Unrealized Appreciation Reserve A/c)			
01.04.2016	Unrealised Appreciation Reserve A/c	Dr.	16,000	
	To Investment in Y Ltd.'s shares A/c			16,000
	(Being last year's unrealized appreciation reserve balance reversed at the beginning of the current year)			
30.6.2016	Bank A/c (5,000 x Rs. 37)	Dr.	1,85,000	
	Loss on disposal of Investment A/c	Dr.	15,000	
	To Investment in X Ltd.'s shares A/c			
	(5,000 x Rs. 40)			2,00,000
	(Being shares of X Ltd. disposed off at a loss of Rs. 15,000)			
30.6.2016	Provision for Depreciation A/c	Dr.	10,000	
	Revenue A/c	Dr.	5,000	
	To Loss on disposal of Investment A/c			15,000
	(Being net loss on disposal of X Ltd.'s shares charged to revenue account)			
30.6.2016	Bank A/c (4,000 x Rs. 67)	Dr.	2,68,000	
	To Investment in Y Ltd.'s shares A/c			
	(4,000 x Rs. 60)			2,40,000
	To Revenue A/c			28,000
	(Being shares of Y Ltd. disposed off at a Profit of Rs. 28,000)			

(8 marks)

(B) Market Value (1 mark)

(C) Opened Ended Mutual Fund is a fund which permits entry by subscription or exit by sale of units on a continuous basis. (1mark)

Answer 4:**K V Trading Private Limited****Statement showing calculation of profit/loss for pre and post incorporation periods****Rs. in lakhs**

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:6	240.00	34.29	205.71
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.50	0.50	-
	(i)	246.50	40.79	205.71
Cost of goods sold	1:6	102.00	14.57	87.43
Advertisement	1:6	3.00	0.43	2.57
Sales commission	1:6	6.00	0.86	5.14
Salary (W.N.3)	1:5	18.00	3.00	15.00
Managing directors remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (W.N.4)		5.50	0.93	4.57
Bad debts (1 + 0.5)	1:6	1.50	0.21	1.29
Underwriting commission	Post	2.00	-	2.00
Audit fees	Post	2.00	-	2.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
	(ii)	153.00	22.00	131.00
Net Profit [(i) – (ii)]		93.50	18.79	74.71

(6 marks)

Working Notes:

(1 * 4 = 4 marks)

1. Calculation of Sales Ratio

Let the average sales per month be x

Total sales from 01.04.20X2 to 30.06.20X2 will be 3x

Average sales per month from 01.07.20X2 to 31.03.20X3 will be 2x

Total sales from 01.07.20X2 to 31.03.20X3 will be 2x X 9 = 18x

Ratio of Sales will be 3x: 18x i.e. 3:18 or 1:6

2. Calculation of time Ratio

3 Months: 9 Months i.e. 1:3

3. Apportionment of Salary

Let the salary per month from 01.04.20X2 to 30.09.20X2 is x

Salary per month from 01.10.20X2 to 31.03.20X3 will be 2x

Hence, pre incorporation salary (01.04.20X2 to 30.06.20X2) = 3x

Post incorporation salary from 01.07.20X2 to 31.03.20X3 = (3x + 12x)

i.e.15x

Ratio for division 3x: 15x or 1: 5

4. Apportionment of Rent	Rs. Lakhs	
Total Rent	5.5	
Less: additional rent from 1.7.20X2 to 31.3.20X3	<u>1.8</u>	
Rent of old premises for 12 months	<u>3.7</u>	
Apportionment in time ratio	0.925	2.775
Add: Rent for new space	-	<u>1.80</u>
Total	<u>0.925</u>	<u>4.575</u>

Answer 5:

(A)

1. Computation of NAV per unit

$$\text{NAV} = \frac{\text{Net Assets}}{\text{No. of share (in Rs.)}}$$

=

$$\frac{[(10,000 \times 18.50) + (35,000 \times 38.40) + (10,000 \times 263.60) + (75,000 \times 575.60) + (20,000 \times 27.65)]}{5,00,000 \text{ units}} = \text{Rs.120}$$

(1 mark)

2. Reviser Position of Fund (after Suresh Cheque)

Shares	No. of Shares	1st April (MPS)	Amount Rs.= No. of Shares x MPS	2nd April (MPS)	Amount T = No. of Shares x MPS
A Ltd	10,000	18.50	1,85,000	21.30	2,13,000
B Ltd	35,000	384.40	1,34,54,000	417.00	1,45,95,000
C Ltd	25,000	263.60	65,90,000	289.80	72,45,000
D Ltd	75,000	575.60	4,31,70,000	512.20	3,84,15,000
E Ltd	20,000	27.65	5,53,000	35.00	7,00,000
Cash		[75,00,000 - (15,000 x 263.60)] = 35,46,000			35,46,000
Net Assets Value		6,74,98,000			6,47,14,000
Net Assets Value p. u. = $\frac{6,74,98,000}{56,250} = \text{Rs.120 p.u.}$				$\frac{6,47,14,000}{5,62,500} = \text{Rs.115.05 p.u.}$	

(3 marks)

(B)

Given the Total Initial Investments is Rs. 185 Lakhs, out of Issue Proceeds of Rs. 200 Lakhs. So, the balance of Rs. 15 Lakhs is attributed towards to Initial Issue Expenses (Rs. 12 Lakhs) and Opening Cash Balance (Rs. 3 Lakhs bal. figure).

1. Computation of Closing Cash Balance

Receipts	Rs.Lakhs	Payments	Rs. Lakhs
To Opening Balance	3.00	By Purchase of Securities	56.00
To Dividends Received	2.00	By Management Expenses (8.00 less 10% payable)	7.20
To Sale Proceeds of Investments	63.00	By Earnings Distributed (Note) (Rs. 5 Lakhs x 80%)	4.00
		By Closing Balance (balancing figure)	0.80
Total	68.00	Total	68.00

Note: Realised Earnings = Gain on Sale of Securities + Dividends Received = (63 - 60) + 2 = Rs. 5 Lakhs. (3 marks)

2. Computation of Closing NAV

Particulars	Rs. Lakhs
1. Market Value of Capital Market Instruments (Given)	198.00
2. Cash in Hand (WN 1)	0.80
Total of Assets	198.80
Liabilities: Outstanding Expenses (Rs. 8 Lakhs x 10%)	0.80
Net Asset Value (Rs. Lakhs)	198.00
No. of Units Outstanding (In Lakhs)	20.00
NAV Per Unit = $\frac{\text{Net Assets of the Scheme}}{\text{Number of Units outstanding}} = \frac{198.00}{20.00} = \text{Rs.9.90}$	

(3 marks)

Answer 6:

In the books of B Limited

Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
20X1			
	12% Redeemable Preference Share Capital A/c	Dr. 1,80,000	
Jan 1	Premium on Redemption of Preference Shares A/c	Dr. 36,000	
	To Preference Shareholders A/c		2,16,000

(Being the amount payable on redemption of 18,000 12% Redeemable Preference Shares transferred to Shareholders Account)

Preference Shareholders A/c	Dr.	2,14,800	
To Bank A/c			2,14,800

(Being the amount paid on redemption of 17,900 preference shares)

Bank A/c	Dr.	33,000	
To Equity Share Capital A/c			30,000
To Securities Premium A/c			3,000

(Being the issue of 3,000 Equity Shares of Rs. 10 each at a premium of 10% as per Board's Resolution No..... Dated.....)

General Reserve A/c	Dr.	1,20,000	
Profit & Loss A/c	Dr.	30,000	
To Capital Redemption Reserve A/c			1,50,000

(Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)

Capital Redemption Reserve A/c	Dr.	1,20,000	
To Bonus to Shareholders A/c			1,20,000

(Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No..... dated...)

Bonus to Shareholders A/c	Dr.	1,20,000	
To Equity Share Capital A/c			1,20,000

(Being the utilization of bonus dividend for issue of 12,000 equity shares of Rs. 10 each fully paid)

Profit & Loss A/c	Dr.	36,000	
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To Premium on Redemption of Preference Shares A/c

36,000

(Being premium on redemption of preference shares

Adjusted against to Profit & Loss Account)

(7 marks)

Working Note:

(3 marks)

(1) Partly paid-up preference shares cannot be redeemed.

(2) Amount to be transferred to Capital Redemption Reserve Account

Face value of share to be redeemed Rs.1, 80,000

Less: Proceeds from fresh issue (excluding premium) (Rs. 30,000)

Rs.1, 50,000

(3) No bonus shares on 3,000 equity shares issued for redemption.