SUGGESTED SOLUTION

Intermediate May19 EXAM

SUBJECT- Accounts and Advance Accounts

Test Code – CIM 8025

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

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.
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Answer 1:

Computation of effective capital :

	Where X Ltd. is a non-investment company	Where X Ltd. is an investment company
	Rs.	Rs.
Paid-up share capital —		
15,000, 14% Preference shares	15,00,000	15,00,000
1,20,000 Equity shares	96,00,000	96,00,000
Capital reserves (1,95,000 – 1,50,000)	45,000	45,000
Securities premium	50,000	50,000
15% Debentures	65,00,000	65,00,000
Public Deposits	3,70,000	3,70,000
(A)	1,80,65,000	1,80,65,000
Investments	75,00,000	—
Profit and Loss account (Dr. balance)	15,25,000	15,25,000
(B)	90,25,000	15,25,000
Effective capital (A–B)	90,40,000	1,65,40,000

(5 marks)

(B)

Amount that can be drawn from reserves for 10% dividend

10% dividend on Rs. 80, 00,000		Rs. 8, 00,000
Profits available		
Current year profit	3,00,000	
Less: Preference dividend	(1,57,500)	(1,42,500)
Amount which can be utilized from reserves		6,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 20X1:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. Rs. 12,25,000 [10% of (80,00,000 +17,50,000+25,00,000)]

Condition III

The balance of reserves after drawl Rs.18,42,500 (Rs. 25,00,000 - Rs. 6,57,500) should not fall below 15 % of its paid up capital ie. Rs. 14,62,500 (15% of Rs. 97,50,000]

Since all the three conditions are satisfied, the company can withdraw Rs. 6,57,500 from accumulated reserves.(as per Declaration and Payment of Dividend Rules, 2014.)

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	(5,000)	8,333
	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 YLtd.)			
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 01.04.20X2to 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	1.8	
Rent of old premises for 12 months	3.7	
Apportionment in time ratio	0.925	2.775
Add: Rent for new space	-	1.80
Total	0.925	4.575

Answer 5:

(A)

1. Computation of NAV per unit

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

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

(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. = $\frac{6,74,98,000}{56,250} = Rs.120$ p.u.				$\frac{6,47,14,000}{5,62,500} = Rs.115.05 p.u.$	

(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:

Pioneer Ltd.

Balance Sheet as on 31st March, 20X1

	Particulars	Notes	Rs.
	Equity and Liabilities		
1	Shareholders' funds		
		1	9,99,000

		Share capital	2	2,96,700
	a	Reserves and Surplus		
2	b	**Non-current liabilities**	3	2,63,500
		Long-term borrowings		
3	a	**Current liabilities**		2,00,000
		Trade Payables	4	67,500
	a	Other current liabilities	5	68,000
	b	Short-term provisions		
	c	**Total**		**18,94,700**
		Assets		
1		**Non-current assets**		
		Fixed assets	6	11,25,000
	a	Tangible assets		
2		**Current assets**	7	2,50,000
		Inventories	8	2,00,000
	a	Trade receivables	9	2,77,000
	b	Cash and bank balances		42,700
	c	Short-term loans and advances		
	d	**Total**		**18,94,700**

(4 marks)

Notes to accounts

1 Share Capital		
Equity share capital		
Issued & subscribed & called up		
10,000 Equity Shares of **Rs.**100 each (Of the above 2,000 shares have been issued for consideration other than cash)	10,00,000	
Less: Calls in arrears	(1,000)	9,99,000
Total		**9,99,000**
2 Reserves and Surplus		
General Reserve		2,10,000
Surplus (Profit & Loss A/c)		86,700
Total		**2,96,700**
3 Long-term borrowings		
Secured		
Term Loans		
Loan from State Financial Corporation (1,50,000 – 7,500)		1,42,500
(Secured by hypothecation of Plant and Machinery)		
Unsecured loan		1,21,000
Total		**2,63,500**
4 Other current liabilities		
Interest accrued but not due on loans (SFC)		7,500
Dividend Payable		60,000
Total		**67,500**

5	**Short-term provisions**		
	Provision for taxation		68,000
	Total		**68,000**
6	**Tangible assets**		
	Land		2,00,000
	Buildings	4,00,000	
	Less: Depreciation	(50,000) (b.f.)	3,50,000
	Plant & Machinery	7,00,000	
	Less: Depreciation	(1,75,000) (b.f.)	5,25,000
	Furniture & Fittings	62,500	
	Less: Depreciation	(12,500) (b.f.)	50,000
	Total		**11,25,000**
7	**Inventories**		
	Raw Material		50,000
	Finished goods		2,00,000
	Total		**2,50,000**
8	**Trade receivables**		
	Debts outstanding for a period exceeding six months		52,000
	Other Debts		1,48,000
	Total		**2,00,000**
9	**Cash and bank balances**		
	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	2,45,000	
	with others (Perfect Bank Ltd.)	2,000	2,47,000
	Cash in hand		30,000
	Other bank balances		Nil
	Total		**2,77,000**

Note : Estimated amount of contract remaining to be executed on capital account and not provided for Rs.1,50,000. It has been assumed that the company had given this contract for purchase of machinery. (6 marks)