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INTERMEDIATE M' 19 EXAM

SUBJECT- ACCOUNTS AND ADVANCED ACCOUNTS

Test Code – CIM 8094

(Date :)

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

Tel : (022) 26836666

ANSWER-1

Alpha Ltd.
Balance Sheet as on 31st March, 20X1

	Particulars	Notes	Rs.
	Equity and Liabilities		
1	Shareholders' funds		
	a Share capital	1	49,95,000
	b Reserves and Surplus	2	11,82,907
2	Non-current liabilities		
	Long-term borrowings	3	13,17,500
3	Current liabilities		
	a Trade Payables		8,00,000
	b Other current liabilities	4	3,38,093
	c Short-term provisions	5	6,40,000
	d Short-term borrowings		2,00,000
	Total		94,73,500
	Assets		
1	Non-current assets		
	Fixed assets		
	Tangible assets	6	56,25,000
2	Current assets		
	a Inventories	7	12,50,000
	b Trade receivables	8	10,00,000
	c Cash and bank balances	9	13,85,000
	d Short-term loans and advances		2,13,500
	Total		94,73,500

Notes to accounts

			Rs.
1	Share Capital		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of Rs. 100 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	<u>(5,000)</u>	49,95,000
	Total		49,95,000
2	Reserves and Surplus		
	General Reserve	10,50,000	
	Add: current year transfer	<u>20,000</u>	10,70,000

	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
	Dividend Payable (Refer W N)	(2,49,750)	
	DDT on dividend (Refer W N)	<u>(50,843)</u>	1,12,907
	Total		11,82,9073
3.	Long-term borrowings		
	Secured Term Loan		
	State Financial Corporation Loan (7,50,000-37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		13,17,500
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		37,500
	Dividend (Refer W N)	2,49,750	
	DDT on dividend (Refer W N)	<u>50,843</u>	<u>3,00,593</u>
			3,38,093
5	Short-term provisions		
	Provision for taxation		6,40,000
6	Tangible assets		
	Land and Building	30,00,000	
	Less: Depreciation	<u>(2,50,000) (b.f.)</u>	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	<u>(8,75,000) (b.f.)</u>	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	<u>(62,500) (b.f.)</u>	<u>2,50,000</u>
	Total		56,25,000
7	Inventories		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		12,50,000
8	Trade receivables		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		10,00,000
9	Cash and bank balances		
	Cash and cash equivalents		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	<u>10,000</u>	12,35,000

Cash in hand	1,50,000
Other bank balances	Nil
Total	13,85,000

(12 MARKS)

Working Note :

Calculation of grossing-up of dividend

Particulars	Rs.
Dividend distributed by Alpha Ltd. (5% of 49,95,000)	2,49,750
Add: Increase for the purpose of grossing up of dividend	44,074
$\left[\frac{15}{100-15} \times 2,49,750 \right]$	
Gross dividend	2,93,824
Dividend distribution tax @ 17.034%	50,843

(3 MARKS)

ANSWER-2

1. Computation of Purchase Consideration (Rs. in Lakhs)

(2 MARK)

Particulars	Mahima	Nithya	Total
Preference Share Holders	120 Lakhs Shares x Rs. 10 = 1,200	-	1,200
Equity Share Holders	720 Lakhs x Rs. 10 = 7,200	90 Lakhs x Rs. 10 = 900	8,100
Total	8,400	900	9,300

2. Analysis of Reserves to be incorporated in the books of Sona Ltd (Rs. in Lakhs) (2 MARK)

	Particulars	Mahima	Nithya
(a)	Purchase Consideration	8,400	900
(b)	Paid Up Capital (Equity + Preference)	4,800	900
(c)	Difference	3,600	-
(d)	Difference adjusted against the Reserves		
	- General Reserve of Mahima Ltd	2,100	-
	- Profit & Loss A/c of Mahima Ltd	780	-
	- Profit & Loss A/c of Sona Ltd (Balance)	720	-

3. Journal Entries in the Books of Sona Ltd (Rs. in Lakhs)

Nature of Amalgamation: Merger Method of Accounting: Pooling of Interest

S.No.	Particulars	Dr.	Cr.
1.	Business Purchase A/c	Dr.	9,300
	To Liquidator of Mahima Ltd A/c		8,400
	To Liquidator of Nithya Ltd A/c		900
	(Being purchase of business of Mahima Ltd & Nithya Ltd, and consideration due thereon)		
2.	Plant and Machinery A/c	Dr.	4,215
	Furniture and Fixtures A/c	Dr.	2,400
	Stock A/c	Dr.	2,370
	Sundry Debtors A/c	Dr.	1,044
	Cash at Bank A/c	Dr.	1,542
	Profit & Loss A/c (WN 2)	Dr.	720
	To Business Purchase A/c		8,400
	To Capital Reserve A/c		600
	To Trade Creditors A/c		2,421
	To Provisions A/c		870
	(Being recording of Assets and Liabilities taken over from of Mahima Ltd)		
3.	Plant and Machinery A/c	Dr.	468
	Furniture and Fixtures A/c	Dr.	183
	Motor Vehicles A/c	Dr.	51
	Stock A/c	Dr.	444
	Sundry Debtors A/c	Dr.	237
	Cash at Bank A/c	Dr.	240
	Preliminary Expenses A/c	Dr.	33
	Debentures Discount A/c	Dr.	6
	To Business Purchase A/c		900
	To Debenture Holders A/c		300
	To Trade Creditors A/c		369
	To Provisions A/c		93
	(Being recording of Assets and Liabilities taken over from Nithya Ltd)		
4.	Liquidator of Mahima Ltd A/c	Dr.	8,400
	Liquidator of Nithya Ltd A/c	Dr.	900
	To Equity Share Capital A/c		8,100
	To 11% Preference Share Capital A/c		1,200

	(Being discharge of Purchase Consideration by allotment of Equity & Preference Shares)			
5.	Profit & Loss A/c To Bank A/c (Being payment of Liquidation Expenses of Mahima and Nithya Ltd)	Dr.	6	6
6.	Debenture Holders A/c To 8.5% Redeemable Debentures A/c (Being Allotment of 8.5% Debentures of Sona Ltd to Debenture Holders of Nithya Ltd)	Dr.	300	300
7.	Preliminary Expenses A/c To Bank A/c (Being expenses incurred for formation of New Company)	Dr.	15	15
8.	Profit & Loss A/c To Preliminary Expenses (33+15) To Debentures Discount (Being Preliminary Expenses and Debentures Discount written off)	Dr.	54	48 6

(8*0.5=4 MARKS)

4. Balance Sheet of Sona Ltd as on 31st March (Pooling of Interest / Merger Method)
(Rs. in Lakhs)

Particulars as at 31st March		Note	This Year	Prev. Yr
I	EQUITY AND LIABILITIES:			
(1)	Shareholders' Funds:			
	(a) Share Capital	1	9,300	
	(b) Reserves and Surplus	2	(180)	
(2)	Non-Current Liabilities:			
	Long Term Borrowings 8.5% Redeemable Debentures (Secured)		300	
(3)	Current Liabilities:			
	(a) Trade Payables Creditors (2,421 + 369)		2,790	
	(b) Short Term Provisions (870 + 93)		963	
	Total		13,173	
II	ASSETS			
(1)	Non-Current Assets			
	Fixed Assets: Tangible Assets	3	7,317	
(2)	Current Assets:			
	(a) Inventories Stock-in-Trade (2,370 + 444)		2,814	
	(b) Trade Receivables Debtors (1,044 + 237)		1,281	
	(c) Cash and Cash Equivalent Cash & Bank (1,542 + 240 - 15 -6)		1,761	

Total**13,173****Note 1: Share Capital**

	Particulars	This Year	Prev. Yr
	Authorised:...Equity Shares of Rs. 10 each & 11% Preference Shares of Rs. 10 each	15,000	
	Issued, Subscribed & Paid up:		
(a)	810 Lakh Equity Shares of Rs. 10 each (All the above Shares were issued for non-cash consideration)	8,100	
(b)	120 Lakh 11% Preference Shares of Rs. 10 each (All the above Shares were issued for non-cash consideration)	1,200	
	Total	9,300	

Note 2: Reserves and Surplus

	Particulars	This Year	Prev. Yr
(a)	Capital Reserve	600	
(b)	Surplus Profit and Loss A/c (54 + 6 + 720)	(780)	
	Total	(180)	

Note 3: Tangible Fixed Assets

Particulars	This Year	Prev. Yr
(a) Plant & Machinery (4,215 + 468)	4,683	
(b) Furniture & Fittings (2,400 + 183)	2,583	
(c) Motor Vehicles 4,6832,58351	51	
Total	7,317	

(7 MARKS)**ANSWER-3****ANSWER-A**

It is assumed the Nominal Value and Paid Up Value of Equity Shares and Preference Shares are reduced to Rs. 2 and Rs. 75 respectively, with appropriate adjustment in the number of shares, to keep Authorised Capital intact.

(1 MARK)

1. Journal Entries in the books of Enkan Ltd

S.No	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 10) A/c	Dr.	8,00,000
	To Equity Share Capital (Rs. 2) A/c		1,60,000
	To Reconstruction A/c		6,40,000
	(Being reduction in value of Equity Shares of Rs. 10 each to Rs. 2 each as per approved scheme of reconstruction dated....)		
2.	6% Preference Share Capital (Rs. 100) A/c	Dr.	5,00,000
	To Preference Share Capital (Rs. 75) A/c		3,75,000
	To Reconstruction A/c		1,25,000
	(Being reduction in value of Preference Shares of Rs. 100 each to Rs. 75 each as per approved scheme of reconstruction dated....)		
3.	Reconstruction A/c	Dr.	30,000
	To Equity Share Capital (Rs. 2) A/c		30,000
	(Being waiver of Arrears of Preference Dividend, Rs. 90,000 (5,00,000 x 6% x 4 Years x75% waived) and for the balance Rs. 30,000 (5,00,000 x 6% x 4 Years x 25%) 15,000 Equity Shares of Rs. 2 allotted, as per approved scheme of reconstruction dated....)		
4.	Arrears of Debentures Interest A/c	Dr.	22,500
	To Cash / Bank A/c		22,500
	(Being payment of Debenture Interest Arrears in cash, as per approved scheme of reconstruction dated...)		
5.	6% Debentures A/c	Dr.	3,00,000
	To Freehold Property A/c		3,00,000
	(Being transfer of title deed on Freehold Property to Debenture holders of the Company, in part settlement, as per approved scheme of reconstruction dated...)		
6.	Freehold Property A/c [3,50,000 - (5,00,000 - 3,00,000)]	Dr.	1,50,000
	To Reconstruction A/c		1,50,000
	(Being Revaluation of Freehold Property, as per scheme of reconstrn dated....)		
7.	Bank A/c	Dr.	2,00,000
	To Investments A/c		1,70,000
	To Reconstruction A/c		30,000

(Being Sale of Investments as per approved reconstruction scheme of dated....)			
8.	Directors' Loan A/c	Dr.	3,00,000
	To Equity Share Capital A/c (Rs. 2 each)		60,000
	To Reconstruction A/c (3,00,000 x 80%)		2,40,000
(Being Directors' Loan claim settled at 20% by issuing 30,000 Equity Shares of Rs. 2 each and the balance 80% being waived as per approved scheme of reconstruction dated....)			
9.	Reconstruction A/c	Dr.	15,000
	To Bank A/c		15,000
(Being payment of Capital Commitment Penalty of Rs. 15,000 (3% of Rs. 5,00,000) as per approved scheme of reconstruction dated....)			
10.	Reconstruction A/c	Dr.	20,000
	To Bank A/c		20,000
(Being payment of Reconstruction Expenses Rs. 20,000)			
11.	Reconstruction A/c	Dr.	9,40,000
	To Stock in Trade A/c		2,00,000
	To Deferred Advertisement Expenditure A/c		1,50,000
	To Debtors A/c (4,50,000 x 50%)		2,25,000
	To Profit and Loss A/c		3,65,000
(Being writing off of losses and reduction in the value of assets as per approved scheme of reconstruction dated....)			
12.	Reconstruction A/c	Dr.	1,80,000
	To Capital Reserve A/c		1,80,000
(Being balance in Reconstruction A/c transferred to Capital Reserve - WN - 1)			

(12*0.5=6 MARKS)

2. Reconstruction A/c

Particulars	Rs.	Particulars	Rs.
To Bank A/c (Expenses of Reconstruction)	20,000	By Equity Share Capital A/c	6,40,000
To Bank A/c (Penalty paid)	15,000	By 9% Preference Share Capital a/c	1,25,000
To Equity Share Capital A/c (for Pref Dvnd)	30,000	By Freehold Property A/c	1,50,000
To Stock in Trade A/c	2,00,000	By Bank A/c (Profit on Sale of Investments)	30,000

To Deferred Advt Expenditure A/c	1,50,000	By Directors' Loan Outstanding	2,40,000
To Debtors A/c	2,25,000		
To Profit and Loss A/c	3,65,000		
To Capital Reserve a/c (balancing figure)	1,80,000		
Total	11,85,000	Total	11,85,000

(2 MARKS)

3. Bank Account

Particulars	Rs.	Particulars	Rs.
To Investment A/c	1,70,000	By Debenture Interest	22,500
To Reconstruction A/c - Profit on Sale	30,000	By Reconstruction (Expenses)	20,000
		By Reconstruction (Penalty)	15,000
		By balance c/d (balancing figure)	1,42,500
Total	2,00,000	Total	2,00,000

(2 MARKS)

4. Balance Sheet of Enkan Ltd (after reconstruction) as at 1st April

Particulars as at 31st March	Note	This Year	Prev. Yr
I EQUITY AND LIABILITIES:			
(1) Shareholders' Funds:			
(a) Share Capital	1	6,25,000	
(b) Reserves and Surplus - Capital Reserve (WN 2)		1,80,000	
(2) Non-Current Liabilities:			
Long Term Borrowings - 6% Debentures (Secured against Freehold Property)		75,000	
(3) Current Liabilities:			
Trade Payables - Sundry Creditors		17,500	
Total		8,97,500	
II ASSETS			
(1) Non-Current Assets			
Fixed Assets: Tangible Assets	2	5,30,000	
(2) Current Assets:			
(a) Trade Receivables - Sundry Debtors (Balance 50%)		2,25,000	
(b) Cash and Cash Equivalents (WN 3)		1,42,500	
Total		8,97,500	

(4 MARKS)

Note 1: Share Capital

	Particulars	This Year	Prev. Yr
Authorised:	Equity Shares of Rs. 2 each &6% Preference Shares of Rs. 75 each		
Issued, Subscribed & Paid up:	1,25,000 Equity Shares of Rs. 2 each 5,000 6% Preference Shares of Rs. 75 each	2,50,000 3,75,000	
	Total	6,25,000	

Note 2: Tangible Assets

	Particulars	This Year	Prev. Yr
(a)	Freehold Property (Cost Rs. 2,00,000 revalued under Scheme of Reconstruction)	3,50,000	
(b)	Plant & Machinery	1,80,000	
	Total	5,30,000	

ANSWER-B**Journal Entries in the books of Bheema Limited**

S.No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Old) A/c	Dr. 10,00,000	
	To Equity Share Capital (New) A/c		6,00,000
	(Rs. 10,00,000 x 3/5)		
	To 10% Preference Shares A/c		1,20,000
	(Rs. 6,00,000 x 1/5)		
	To 8% Debentures A/c		40,000
	To Capital Reduction A/c		2,40,000
	(Being 1,00,000 existing Equity Shares of Rs. 10 each reduced to 60,000 fully paid Equity Shares of Rs. 10 each, 10% Preference Shares to the extent of 1/5th of New Equity Shares and 8% Debentures for Rs. 40,000 vide approved scheme of Reconstruction dated and balance credited to Reconstruction A/c)		

2.	Cash A/c To 10% First Debentures A/c (Being issue of 10% First Debentures worth Rs. 1,00,000 against Cash vide approved scheme of Reconstruction dated....)	Dr.	1,00,000	1,00,000
3.	Capital Reduction A/c To Goodwill A/c (Being Goodwill written off vide approved Scheme of Reconstruction dated)	Dr.	1,40,000	1,40,000
4.	Capital Reduction A/c To Plant and Machinery A/c (Being value of Plant and Machinery written down from Rs. 2,00,000 to Rs. 1,50,000 vide approved scheme of Reconstruction dated...)	Dr.	50,000	50,000
5.	Capital Reduction A/c To Freehold Property A/c (Being value of Freehold Property written down by Rs. 50,000 vide approved scheme of Reconstruction dated....)	Dr.	50,000	50,000

(5*1=5 MARKS)