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SUGGESTED SOLUTION

INTERMEDIATE MAY 2019 EXAM

SUBJECT- ACC., LAW AND ADV. ACC.

Test Code - CIM 8103

BRANCH - () (Date :)

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Answer 1:

1. Statement of Underwriters' Liability (No. of Shares)

Particulars	Alok	Bhujbal	Total
Gross Liability	5,00,000	5,00,000	10,00,000
Less: Marked Applications (See Note)	(5,00,000)	(3,40,000)	(8,40,000)
Less: Unmarked Applications in ratio of Gross Liability (1 : 1)	(40,000)	(40,000)	(80,000)
Less: Firm Underwriting	(20,000)	(20,000)	(40,000)
Balance to be taken under Contract	(60,000)	1,00,000	40,000
Adjust: Alok's Surplus transferred to Bhujbal	60,000	(60,000)	-
Net Liability	-	40,000	40,000
Add: Firm Underwriting	20,000	20,000	40,000
Total Liability = Shares to be taken up by Underwriters	**20,000**	**60,000**	**80,000**

Note: It is assumed that the Total Marked Forms include Firm Underwriting. Hence, the balance Marked Forms are subtracted at this stage, Firm Underwriting is subtracted separately. If it is assumed that the Marked Forms exclude Firm Underwriting, the issue would become Fully Subscribed.

2. Journal Entries in the books of the Company

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31st Jan	Bank A/c	Dr.	24,00,000	
	To Equity Share Application A/c			24,00,000
	(Being receipt of Application Money Rs. 2.50 per Share on 9,60,000 Shares)			
31st Mar	Equity Share Application A/c	Dr.	24,00,000	
	To Equity Share Capital A/c			24,00,000
	(Being the transfer of Application Money to Share Capital on 9,60,000 Shares vide Board's Resolution No... dated....)			
31st Mar	Equity Share Allotment A/c (9,60,000 x Rs. 3)	Dr.	28,80,000	
	Bhujbal A/c (40,000 x Rs. 5.50 Application & Allotment)	Dr.	2,20,000	
	To Equity Share Capital A/c [(9,60,000 x 2.50) + (40,000 x 5)]			26,00,000
	To Securities Premium A/c (10,00,000 x 0.50)		5,00,000	
	(Being amounts due on Allotment on 9,60,0000 Shares allotted generally and 40,000 Shares devolved			

	upon Bhujbal, vide Board's Resolution No... dated....)			
31st Mar	Bank A/c	Dr.	30,94,000	
	To Equity Share Allotment A/c			28,74,000
	[(9,60,000 - 2,000) x Rs. 3]			
	To Bhujbal A/c [40,000 x Rs. 5.50]		2,20,000	
	(Being the receipt of Money due on Allotment including Premium on 9,98,000 Shares, except from the allottee for 2,000 Shares)			
31st Mar	Underwriting Commission A/c	Dr.	5,25,000	
	To Bank A/c			5,25,000
	(Being payment of Underwriting Commission at 5% on Issue Price of Rs. 10.50 for 10,00,000 Shares)			
30th Jun	Equity Share Capital A/c (2,000 x Rs. 5 called up)	Dr.	10,000	
	Securities Premium A/c (2,000 x Rs. 0.50)			
	(See Note)	Dr.	1,000	
	To Equity Share Allotment A/c (2,000 x Rs. 3)		6,000	
	To Share Forfeited A/c (2,000 x Rs. 2.50 received already)			5,000
	(Being 2,000 Shares for non-payment of Allotment money including Premium, Forfeited vide Board's Resolution No... dated....)			
30th Jun	Bank A/c [2,000 x Rs. 4]	Dr.	8,000	
	Share Forfeited A/c [2,000 x Rs. 2.50]	Dr.	5,000	
	To Equity Share Capital A/c [2,000 x Rs. 5]			10,000
	To Securities Premium A/c [2,000 x Rs. 0.50]		1,000	
	To Capital Reserve A/c			2,000
	[2,000 x (Rs. 5 - Rs. 4)] (bal. fig.)			
	(Being the re-issue of the 2,000 Forfeited Shares and Profits adjusted on re-issue transferred to Capital Reserve Account)			

Note: If Securities Premium is not received fully, the account shall be reversed upon Forfeiture, Surplus Amount received upon re-issue will be used for reinstating the Securities Premium. However, if Securities Premium is received fully before Forfeiture, e.g. at the Application Stage itself, it should NOT be reversed upon Forfeiture.

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			
	To DRR Investment A/c	5,85,000		By Balance c/d	1,25,000
		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:

Underwriter's Liability under Assumption (No. of Shares) If Benefit of Firm Underwriting is NOT GIVEN to Underwriters

(Under this assumption, "Firm Underwriting" is also treated as "Unmarked Applications". Hence, "Unmarked Applications + Firm Underwriting Applications" are apportioned in Gross Liability ratio)

Particulars	**Guha**	**Vibishana**	**Hanuman**	**Total**
Gross Liability	50,000	50,000	50,000	1,50,000
Less: Marked Applications	(40,000)	(46,000)	(34,000)	(1,20,000)
Less: Unmarked Applications and Firm Underwriting (7,000 +13,000) equally to Guha and Hanuman	(10,000)	-	(10,000)	(20,000)
Net Liability	-	4,000	6,000	10,000
Add: Firm Underwriting	5,000	5,000	3,000	13,000
Total Liability = Shares to be taken up by Underwriters	5,000	9,000	9,000	23,000
Amount Due at Rs. 60 for Net Liability	-	2,40,000	3,60,000	6,00,000
Less: Underwriting Commission at 5% on Nominal Value	(2,50,000)	(2,50,000)	(2,50,000)	(7,50,000)
Amount Due from / (Payable to) Underwriters	**(2,50,000)**	**(10,000)**	**1,10,000**	**(1,50,000)**

Note: Since Underwriters have already applied for Firm Shares as Unmarked Applications along with the application money due thereon, only balance Net Liability of Shares is considered for Due / Payable purposes.

Journal Entries in the books of Ramayan Ltd under Assumption

	Particulars		Dr. (Rs.)	Cr. (Rs.)
1	Bank A/c	Dr.	84,00,000	
	To Equity Share Application A/c			84,00,000
	(Being amount received at Rs. 60 per Share from Public and Firm Underwriting (45,000 + 51,000 + 37,000 + 7,000) = 1,40,000 Shares)			
2	Vibhishana A/c	Dr.	2,40,000	
	Hanuman A/c	Dr.	3,60,000	
	To Equity Share Application A/c			6,00,000
	(Being amount due from Underwriters towards their Net Liability)			
3	Equity Share Application A/c	Dr.	90,00,000	
	To Equity Share Capital A/c			90,00,000
	(Being transfer of Share Application money on 1,50,000 Shares at Rs. 60)			
4	Underwriting Commission A/c	Dr.	7,50,000	
	To Guha A/c			2,50,000
	To Vibhishana A/c			2,50,000
	To Hanuman A/c			2,50,000
	(Being Underwriting Commission due at 5%)			
5	Guha A/c	Dr.	2,50,000	
	Vibhishana A/c	Dr.	10,000	
	To Bank A/c			2,60,000
	(Being final settlement to Underwriters)			
6	Bank A/c	Dr.	1,10,000	
	To Hanuman A/c			1,10,000
	(Being amount received from Hanuman for Shares, net of Commission)			
7	Equity Share Allotment A/c	Dr.	60,00,000	
	To Equity Share Capital A/c			60,00,000
	(Being Allotment Money due on 1,50,000 Shares at Rs. 40 per share)			

8	Bank A/c	Dr.	60,00,000	
	To Equity Share Allotment A/c			60,00,000
	(Being Allotment Money received from allottees, Including Underwriters)			

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.