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TEST SERIES
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SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

**SUBJECT- ACCOUNTS AND
ADVANCED ACCOUNTS**

Test Code - CIM 8191

BRANCH - () (Date -)

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ANSWER-1

(i) Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
[1]	[2]	[3]	[4]= 2 +3	[5]= 4 x 10/110	[6]= 4-5
3rd	-	2,75,000	2,75,000	25,000	2,50,000
2nd	2,50,000	2,45,000	4,95,000	45,000	4,50,000
1st	4,50,000	2,65,000	7,15,000	65,000	6,50,000

Total cash price = Rs. 6,50,000+ 5,00,000 (down payment) =Rs. 11,50,000.

(2 MARKS)

(ii) In the books of Lucky

Tractors Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.10.20X1	To Happy a/c	11,50,000	30.9.20X2	By Depreciation A/c	2,30,000
				Balance c/d	9,20,000
		11,50,000			11,50,000
1.10.20X2	To Balance b/d	9,20,000	30.9.20X3	By Depreciation A/c	1,84,000
				Balance c/d	7,36,000
		9,20,000			9,20,000
1.10.20X3	To Balance b/d	7,36,000	30.9.20X4	By Depreciation A/c	1,47,200
				By Happy a/c (Value of 1 Tractor taken over after depreciation for 3 years @30% p.a.) {5,75,000 - (1,72,500 + 1,20,750 + 84,525)}	1,97,225
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,94,400 - 1,97,225)	97,175
				By Balance c/d $\frac{1}{2}$ (7,36,000 - 1,47,200 = 5,88,800)	2,94,400
		7,36,000			7,36,000

(4 MARKS)

Happy Account

Date	Particulars	Rs.	Date	Particulars	Rs.
1.10.X1	To Bank (downpayment)	5,00,000	1.10.X1	By Tractors a/c	11,50,000
30.9.X2	To Bank (1 st Installment)	2,65,000	30.9.X2	By Interest a/c	65,000
	To Balance c/d	4,50,000			
		12,15,000			12,15,000
30.9.X3	To Bank (2 nd Installment)	2,45,000	1.10.X2	By Balance b/d	4,50,000
	To Balance c/d	2,50,000	30.9.X3	By Interest a/c	45,000
		4,95,000			4,95,000
30.9.X4	To Tractor a/c	1,97,225	1.10.X3	By Balance b/d	2,50,000
	To Balance c/d (b.f.)	77,775	30.9.X4	By Interest a/c	25,000
		2,75,000			2,75,000
31.12.X4	To Bank (Amount settled after 3 months)	81,275	1.10.X4	By Balance b/d	77,775
			31.12.X4	By Interest a/c (@ 18% on bal.)(77,775x3/12x18/100)	3,500
		81,275			81,275

(4 MARKS)

ANSWER-2

Journal Entries in the books of Branch

S.No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Head Office A/c To Income A/c (Being the Income allocated by the Head Office recorded in Branch books)	Dr. 2,800	2,800
2.	Branch P & L A/c To Head Office A/c (Being the Provision on Doubtful Debts on Branch Debtors provided)	Dr. 1,000	1,000
3.	Head Office A/c To Salaries A/c (Being the Salary paid on behalf of HO to the HO Manager)	Dr. 3,000	3,000
4.	Head Office A/c To Cash A/c (Being the expenditure on account of other Branch, recorded in books) [Note: In turn, the HO will debit the other Branch for such expenses]	Dr. 30,000	30,000
5.	No Journal Entry is required in Branch Books, for the		

	remittance of Branch not recorded in the books of HO. It should be recorded as Remittances in Transit in HO Books.	—	—
6.	Expenses A/c To Head Office A/c (Being the Expenses allocated by the Head Office, recorded in Branch books)	Dr.	75,000 75,000
7.	Head Office A/c To Debtors A/c (Being the adjustment of collection from Branch debtors)	Dr.	30,000 30,000
8.	Goods-in-Transit A/c To Head Office A/c (Being goods sent by Head Office, in transit on the closing date) [Note: No entry is required to be passed in the books of the Head Office]	Dr.	10,000 10,000

Note: For S.No.2 - The entry in the Books of HO will be: Branch A/c Dr.
To Provision for Bad Debts A/c

(10 MARKS)

ANSWER-3

Journal Entries in the books of Pee Limited

	Particulars		Dr.	Cr.
a)	Bank Account Profit and Loss Account To Investment Account (Being the investments sold at loss for the purpose of buy back)	Dr.	25,00,000 5,00,000	30,00,000
b)	Equity Share Capital account Premium payable on buy back Account To Equity shares buy back Account (Being the amount due on buy back)	Dr. Dr.	4,80,000 24,00,000	28,80,000
c)	Securities Premium Account To premium Payable on buy back Account (Being the premium payable on buy back adjusted against securities premium account)	Dr.	24,00,000	24,00,000
d)	Revenue Reserve Account To Capital Redemption Reserve Account (Being the amount equal to nominal value of equity shares bought back out of free reserves transferred to capital redemption reserve account (4,80,000 – 3,00,000))	Dr.	1,80,000	1,80,000
e)	Equity shares buy – back Account To Bank Account	Dr.	28,80,000	28,80,000

(Being the payment made on buy back)

(5*1 = 5 MARKS)

Balance Sheet of Pee Limited as on 1st April, 2017
(After buy back of shares)

Particulars	Note No	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	22,20,000
(b) Reserves and Surplus	2	68,00,000
(2) Current Liabilities		16,00,000
Total		1,06,20,000
II. Assets		
(1) Non – current assets		
(a) Fixed assets		79,00,000
(2) Current Assets		30,20,000
Total		1,06,20,000

Notes to Accounts

		Rs.
1. Share Capital		
Authorised capital :		30,00,000
Issued and subscribed capital:		
1,92,000 Equity shares of Rs. 10 each fully paid up	19,20,000	
3,000 10% Preference shares of Rs.100 each fully paid up	3,00,000	22,20,000
Reconciliation of share capital		
Opening no. of shares	2,40,000	
Buy back of shares during the year	48,000	1,92,000
During the year the company has buy back of 48,000 shares		
2. Reserve and Surplus		
Capital reserve	10,00,000	
Capital redemption reserve	1,80,000	
Securities Premium	27,00,000	
Less : Premium payable on buy back of shares	<u>24,00,000</u>	3,00,000
Revenue Reserve	25,00,000	

Less : Transfer to Capital redemption reserve	<u>1,80,000</u>	23,20,000	
Profit and Loss A/c.	35,00,000		
Less : Loss on investment	<u>5,00,000</u>	30,00,000	68,00,000

(5 MARKS)

ANSWER-4

In the books of P Ltd.

Journal Entries

Date	Particulars	(Rs.)	(Rs.)
31.3.20X1	Employees compensation expense account	Dr.	80,000
	To Employee stock option outstanding account		80,000
	(Being compensation expenses for 6 months recognized in respect of the employee stock options i.e. 8,000 options granted to employees at a discount of Rs. 90 (170-80) each, amortized on straight line basis over 4 ½ years [(8,000 stock options x Rs. 90) / 4.5 years] x 0.5) (W.N.1)		
	Profit and loss account	Dr.	80,000
	To Employees compensation expenses account		80,000
	(Being expenses transferred to profit and loss account at the year end)		
31.3.20X2	Employees compensation expense account	Dr.	1,60,000
	To Employee stock option outstanding account		1,60,000
	(Being compensation expense recognized in respect of the employee stock option i.e. 8,000 options granted to employees at a discount of Rs. 90 each, amortized on straight line basis over 4 ½ years		

	(8,000 stock options x Rs. 90) / 4.5 years) x 1 year)		
	Profit and loss account	Dr.	1,60,000
	To Employees compensation expense account		1,60,000
	(Being expenses transferred to profit and loss account at year end)		
31.3.20X3	Employees compensation expense account	Dr.	80,000
	To Employee stock option outstanding account		80,000
	(Being compensation expense recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs. 90 each, amortized on straight line basis over 4 ½ years (4,000 stock options x Rs. 90) / 4.5 years)		
	Employee stock option outstanding account (W.N.2)	Dr.	1,20,000
	To General Reserve account (W.N.2)		1,20,000
	(Being excess of employees compensation expenses transferred to general reserve account)		
	Profit and loss account	Dr.	80,000
	To Employees compensation expenses account		80,000
	(Being expenses transferred to profit and loss account at year end)		
31.3.20X4	Employees compensation expense account	Dr.	80,000
	To Employee stock option outstanding account		80,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs. 90 each, amortized on straight line basis over 4 ½ years (4,000 stock options x Rs. 90) / 4.5 years)		
	Profit and loss account	Dr.	80,000
	To Employees compensation expenses account		80,000
	(Being expenses transferred to profit and		

	loss account at year end)		
31.3.20X5	Employees compensation expense account	Dr.	80,000
	To Employee stock option outstanding account		80,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs.90 each, amortised on straight line basis over 4 ½ years [(4,000 stock options x Rs. 90) / 4.5 years])		
	Profit and loss account	Dr.	80,000
	To Employees compensation expense account		80,000
	(Being expenses transferred to profit and loss account at year end)		
30.9.20X5	Bank A/c (3,000 × Rs. 80)	Dr.	2,40,000
	Employee stock option outstanding	Dr.	2,70,000
	To Equity share capital account		30,000
	(3,000 × 30,000 Rs. 10)		
	To Securities premium		
	(Rs. 170 – Rs. 10) x 3,000		4,80,000
	(Being 3,000 employee stock option exercised at an exercise price of Rs. 80 each)		
	Employee stock option outstanding account	Dr.	90,000
	(W.N.3)		
	To General reserve account (W.N.3)		90,000
	(Being ESOS outstanding A/c transferred to General Reserve A/c on lapse of 1000 vested options at the end of the exercise period)		

Working Notes:

1. Fair value = Rs. 170 – Rs. 80 = Rs. 90
2. At 1.12.X2, 4,000 unvested option lapsed on which till date expenses recognized to be transferred to general reserve = Rs. (80,000 + 1,60,000) x 4,000 / 8,000
= Rs. 1,20,000

3. Expenses charged on lapsed vested options transferred to general reserve
 = 1,000 x Rs. 90 = Rs. 90,000

(10 MARKS)

ANSWER-5

Journal Entries

			(Rs.) Dr.	(Rs.) Cr.
2006 Jan	1	Bank Dr. To 9% Debenture Applications & Allotment Account (Being application money on 20,000 debentures @ Rs. 100 per debenture received)	20,00,000	20,00,000
		9% Debentures Applications & Allotment Account Dr. To 9% Debentures Account (Being allotment of 20,000 9% Debentures of Rs.100 each at par)	20,00,000	20,00,000
(i) 2008 Jan.	1	9% Debenture Account Dr. Loss on Redemption of Debentures Account Dr. To Bank (Being redemption of 2,000 9% Debentures of Rs.100 each by purchase in the open market @ Rs.101 each)	2,00,000 2,000	2,02,000
"	"	Profit & Loss Account Dr. To Loss on Redemption of Debentures Account (Being loss on redemption of debentures being written off by transfer to Profit and Loss Account)	2,000	2,000
(ii) 2011Jan	1	9% Debentures Account Dr. To Sundry Debenture holders (Being Amount payable to debenture holders on redemption debentures for Rs.6,00,000 at par by draw of a lot)	6,00,000	6,00,000

	”	”	Sundry Debenture holders To Bank (Being Payment made to sundry debenture holders for redeeming debentures of Rs.6,00,000 at par)	Dr.	6,00,000	6,00,000
(iii)	2012	1	Own Debentures To Bank (Being purchase of own debentures of the face value of Rs.4,00,000 for Rs.3,95,600)	Dr.	3,95,600	3,95,600
	2013	”	9% Debentures To Own Debentures To Profit on Cancellation of Own Debentures Account (Being Cancellation of own debentures of the face value of Rs.4,00,000 purchased last year for Rs.3,95,600)	Dr.	4,00,000	3,95,600 4,400
	”	”	Profit on Cancellation of Own Debentures Account To Capital Reserve Account (Being transfer of profit on cancellation of own debentures to capital reserve)	Dr.	4,400	4,400
(iv)	2016	Jan 1	9% Debentures Account Premium on Redemption of Debentures Account To Sundry Debenture holders (Being amount payable to holders of debentures of the face value of Rs. 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)	Dr. Dr.	8,00,000 16,000	8,16,000
	”	”	Sundry Debenture holders To Bank Account (Being payment to sundry debenture holders)	Dr.	8,16,000	8,16,000

”	”	Profit & Loss Account	Dr.	16,000	
		To Premium on Redemption of Debentures Account (Being utilization of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)			16,000

(10 MARKS)