

Note : All questions are compulsory.

Question 1 (8 marks)

In the books of Sumedha

Debenture Investment Account for the year ending on 31-12-2017

(Scrip: 13.5% Convertible Debentures in X Limited)

(Interest payable on 31st March and 30th September)

| Date | Particulars | Nominal Value | Interest | Cost | Date | Particulars | Nominal Value | Interest | Cost |
|--------------|-----------------------|-----------------|---------------|-----------------|--------------|--|-----------------|---------------|-----------------|
| 2017 | | | | | 201 | | | | |
| 1.05.2017 | To Bank A/c | 5,00,000 | 5,625 | 5,25,000 | 30.09.17 | By Bank A/c (` 7,50,000 x 13.5% x 6/12) | - | 50,625 | - |
| 1.08.2017 | To Bank A/c | 2,50,000 | 11,250 | 2,56,250 | | | | | |
| 31.12.17 | To P&L A/c (Interest) | - | 52,313 | - | 1.10.17 | By Bank A/c | 2,00,000 | - | 2,06,000 |
| | | | | | 1.10.17 | By P & L A/c (loss sale of | - | - | 2,333 |
| | | | | | 31.12.17 | By Equity shares Ltd. | 1,10,000 | - | 1,14,583 |
| | | | | | 31.12.17 | By Bank A/c (Interest on convertible debentures) | - | 3,713 | - |
| | | | | | 31.12.17 | By Balance c/d | 4,40,000 | 14,850 | 4,58,334 |
| Total | | 7,50,000 | 69,188 | 7,81,250 | Total | | 7,50,000 | 69,188 | 7,81,250 |

(1/2 mark for each entry)

Working Notes(1/2 mark for each working)

- Cost of Debentures purchased on 1st August, 2017

$$= 107\% \text{ of } ` 2,50,000 - ` 11,250 \text{ (Interest)} = ` 2,56,250$$
- Cost of Debentures sold on 1st October, 2017

$$= (` 5,25,000 + ` 2,56,250) \times 2,00,000 / 7,50,000 = ` 2,08,333$$
- Loss on sale of Debentures = ` 2,08,333 – ` 2,06,000 = ` 2,333
- Cost of Debentures converted

$$= (` 5,25,000 + ` 2,56,250) \times 1,10,000 / 7,50,000 = ` 1,14,583$$
- Cost of Debentures in hand on 31st December, 2017

$$= (` 5,25,000 + ` 2,56,250) \times 4,40,000 / 7,50,000 = ` 4,58,334 \text{ (approx.)}$$

6. Interest on Debentures converted = ` 1,10,000 x 13.5% x 3/12 = ` 3,713
7. Closing balance of Debentures has been valued at cost (` 4,58,334) being lower than the market value ` 4,66,400 (` 4,400 x 106)

Question 2 (10 marks)

Tejasvi (P) Limited

Profit and Loss Account for 15 months ended 31st March, 2016

| | Pre. inc. (5 months) (`) | Post inc. (10 months) (`) |
|------------------------------------|------------------------------------|-------------------------------------|
| Sales (W.N.1) (1/2 mark) | 3,00,000 | 16,80,000 |
| Less: Cost of sales(1/2 mark) | 1,80,000 | 10,08,000 |
| Discount to dealers (1/2 mark) | 7,000 | 39,200 |
| Directors' remuneration (1/2 mark) | - | 60,000 |
| Salaries (W.N.2) (1/2 mark) | 18,750 | 71,250 |
| Rent (W.N.3) (1/2 mark) | 15,000 | 1,20,000 |
| Interest (W.N.4) (1/2 mark) | 30,000 | 75,000 |
| Depreciation(1/2 mark) | 10,000 | 20,000 |
| Office expenses(1/2 mark) | 35,000 | 70,000 |
| Preliminary expenses(1/2 mark) | | 15,000 |
| Net profit(1/2 mark) | <u>4,250</u> | <u>2,01,550</u> |

Purposes for which pre-incorporation profits and losses can be used are as follows: (2 ½ Marks)

| | |
|---|--|
| Pre-incorporation Profits can be used for: <ul style="list-style-type: none"> • writing off Goodwill on acquisition • writing off Preliminary Expenses • writing down over-valued assets • issuing of bonus shares • paying up partly paid shares. | Pre-incorporation Losses can be used for: <ul style="list-style-type: none"> • setting off against Post-Incorporation Profit • addition to Goodwill on acquisition • writing off Capital Profit |
|---|--|

Working Notes:

1. Calculation of sales ratio(1/2 mark)

Let the average sales per month in pre-incorporation period be x

| | | |
|--|-----------|----------------|
| Average Sales (Pre-incorporation) | = x X 5 | = 5x |
| Sales (Post incorporation) from June to December, 2015 | = 2½x X 7 | = 17.5x |
| From January to March, 2016 | = 3½x X 3 | = <u>10.5x</u> |
| Total Sales | | <u>28.0x</u> |

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. Calculation of ratio for salaries(1/2 mark)

Let the average salary be x

| | | |
|---------------------------|--------------------|--------------|
| Pre-incorporation salary | = x X 5 | = 5x |
| Post incorporation salary | | |
| June, 2015 | = | x |
| July to March, 2016 | = <u>x X 9 X 2</u> | = <u>18x</u> |
| | | <u>19x</u> |

Ratio is 5 : 19

3. Calculation of Rent(1/2 mark)

| | | |
|--|---------------|------------------|
| Total rent | | 1,35,000 |
| Less: Additional rent for 9 months @ ` 10,000 p.m. | | <u>90,000</u> |
| Rent of old premises apportioned in time ratio | | 45,000 |
| Apportionment | Pre Inc. | <u>Post Inc.</u> |
| Old premises rent | 15,000 | 30,000 |
| Additional Rent | | 90,000 |
| | <u>15,000</u> | <u>1,20,000</u> |

4. Calculation of interest(1/2 mark)

Pre-incorporation period from January, 2015 to May, 2015

$$\frac{6,00,000 \times 12 \times 5}{100 \times 12} = \text{` } 30,000$$

Post incorporation period from June, 2015 to March, 2016

$$\frac{9,00,000 \times 10 \times 10}{100 \times 12} = \text{` } 75,000$$

$$\text{` } 1,05,000$$

Question 3 (6 marks)

Machinery Account (2 marks)

| | | Rs. | | | Rs. |
|---------|--------------------|---------------|---------|----------------------|---------------|
| I Yr. | To Hire Vendor A/c | 15,533 | I Yr. | By Depreciation A/c | 1,553 |
| | | <u>15,533</u> | | By Balance c/d | <u>13,980</u> |
| II Yr. | To Balance b/d | 13,980 | II Yr. | By Depreciation A/c* | 1,398 |
| | | <u>13,980</u> | | By Balance c/d | <u>12,582</u> |
| III Yr. | To Balance b/d | 12,582 | III Yr. | By Depreciation A/c* | 1,258 |
| | | <u>12,582</u> | | By Hire Vendor | 11,000 |
| | | | | By Profit & Loss A/c | 324 |
| | | | | (Loss on Surrender) | <u>12,582</u> |

Hire Vendor Account (2 marks)

| | | Rs. | | | Rs. |
|---------|-----------------------------|---------------|---------|------------------|---------------|
| I Yr. | To Bank A/c | 6,000 | I Yr. | By Machinery A/c | 15,533 |
| | To Balance c/d | <u>12,639</u> | | By Interest A/c | <u>3,106</u> |
| | | <u>18,639</u> | | | <u>18,639</u> |
| II Yr. | To Bank A/c | 6,000 | II Yr. | By Balance b/d | 12,639 |
| | To Balance c/d | <u>9,167</u> | | By Interest A/c | <u>2,528</u> |
| | | <u>15,167</u> | | | <u>15,167</u> |
| III Yr. | To Machinery A/c (transfer) | 11,000 | III Yr. | By Balance b/d | 9,167 |
| | | <u>11,000</u> | | By Interest A/c | <u>1,833</u> |
| | | | | | <u>11,000</u> |

Note : Alternatively, total interest could have been debited to Interest Suspense A/c and credited to Hire Vendor A/c with consequential changes.

*It has been assumed that depreciation has been written off on written down value method. Alternatively straight line method may be assumed.

Depreciation has been directly credited to the Machinery Account; it could have been accumulated in provision for depreciation account.

Working Notes: (2 marks)

| | Instalment Amount | Interest | Principal |
|--|-------------------|----------|-----------|
|--|-------------------|----------|-----------|

| | | | | | |
|----------------------|----------------|-----------|--------------|--------------|--------------|
| 4th Instalment | | | 6,000 | Rs. | Rs. |
| Interest | 6,000 x | 20 120 | <u>1,000</u> | 1,000 | 5,000 |
| | | | 5,000 | | |
| | | | <u>6,000</u> | | |
| Add : 3rd Instalment | | | 11,000 | | |
| Interest | 11,000 x | 20 120 | <u>1,833</u> | 1,833 | 4,167 |
| | | | 9,167 | | |
| | | | <u>6,000</u> | | |
| Add : 2nd Instalment | | | 15,167 | | |
| Interest | 15,167 x | 20 120 | <u>2,528</u> | 2,528 | 3,472 |
| | | | 12,639 | | |
| | | | <u>6,000</u> | | |
| Add : 1st Instalment | 18369 x 20/120 | | 18,639 | | |
| | | | <u>3,106</u> | <u>3,106</u> | <u>2,894</u> |
| | | | 15.533 | 8.467 | 15.533 |

Question 4 (12 Marks)

Journal Entries in the books of Kishor Limited

| | | | Dr.(') | Cr.(') |
|----|---|-----|-----------|-----------|
| 1. | Equity share capital A/c ('10) | Dr. | 60,00,000 | |
| | To Equity share capital A/c ('3) | | | 18,00,000 |
| | To Capital reduction A/c | | | 42,00,000 |
| | (Reduction of equity share of '10 each to shares of 3 each as per the reconstruction scheme) (1 ½ mark) | | | |
| 2. | 6% Preference share capital A/c ('10) | Dr. | 32,00,000 | |
| | To 6%Preference share capital A/c('7) | | | 22,40,000 |
| | To Capital reduction A/c | | | 9,60,000 |
| | (Reduction of preference share of '10 each to shares of '7 each as per the reconstruction scheme) (1 ½ mark) | | | |
| 3. | 6% Debentures A/c | Dr. | 30,00,000 | |
| | To Land & building A/c | | | 14,00,000 |
| | To 9% Debentures A/c | | | 15,00,000 |
| | To Capital reduction A/c | | | 1,00,000 |
| | (50% claim of debenture discharged by transfer of a part of land & building having book value 14,00,000 and rate of | | | |

| | | | | |
|----|--|------------|--------------------|--|
| | interest of balance 50% debentures increased to 9% as per the reconstruction scheme). (2 marks) | | | |
| 4. | Bank A/c To Land & building A/c To Capital reduction A/c (50% of balance land & building having book value 10,00,000 sold as per the reconstruction scheme) (1 mark) | Dr. | 12,00,000 | 10,00,000 2,00,000 |
| 5. | Land & building A/c To Capital reduction A/c (50% of balance land & building having book value 10,00,000 valued at 12,00,000 as per the reconstruction scheme) (1 mark) | Dr. | 2,00,000 | 2,00,000 |
| 6. | Bank A/c Capital reduction a/c (All the investment sold as per the reconstruction scheme) (1 mark) | Dr. Dr. | 4,00,000 40,000 | 4,40,000 |
| 7. | Trade payables A/c To Capital reduction A/c (1/3 of Trade payables decided to forgo their claim as per the reconstruction scheme) (1 mark) | Dr. | 8,00,000 | 8,00,000 |
| 8. | Capital reduction A/c To Goodwill A/c To Patents A/c To Provision of doubtful debts A/c To Inventory A/c To Provision for income tax A/c To Profit & loss A/c To PLANT & MACHINERY A/c(Bal.fig) (written off goodwill patent profit & loss , part value of stock , plant & machinery , penalty paid for cancellation of contracts and provision made for doubtful debts , income tax, as per the reconstruction scheme) (3 marks) | Dr. | 61,58,000 | 10,40,000 3,00,000 3,48,000 5,20,000 50,000 37,00,000 2,00,000 |

Question 5 (8 Marks)

**Trading and Profit and Loss Account of Rajni for the year
ended 31st March, 2016 (4 marks)**

| To Opening Stock | 33,000 | By Sales | 9,60,000 |
|------------------------|-----------------|---------------------|-----------------|
| To Purchases | 7,20,000 | By Closing Stock | 33,000 |
| To Gross Profit c/d | <u>2,40,000</u> | | |
| | <u>9,93,000</u> | | <u>9,93,000</u> |
| To Business Expenses | 1,57,500 | By Gross Profit b/d | 2,40,000 |
| To Repairs | 3,500 | | |
| To Depreciation | 27,000 | | |
| To Travelling Expenses | 18,000 | | |
| To Loss by theft | 1,500 | | |
| To Net Profit | <u>32,500</u> | | |
| | <u>2,40,000</u> | | <u>2,40,000</u> |

Balance Sheet of Rajni as at 31st March, 2016(4 marks)

| Liabilities | | | Assets | | |
|----------------------------|-----------------|-----------------|----------------|-----------------|-----------------|
| Capital | 2,52,500 | | Machinery | 1,20,000 | |
| | | | Add: additions | 60,000 | |
| | | | | <u>1,80,000</u> | |
| Add: Additional Net Profit | 5,000 | | Less: | <u>(27,000)</u> | 1,53,000 |
| | <u>32,500</u> | | | | |
| | 2,90,000 | | Stock in Trade | | 33,000 |
| Less: Loss of Drawings | (20,000) | 2,40,000 | Sundry Debtors | | 1,20,000 |
| | <u>(30,000)</u> | | | | |
| Bank Overdraft | | 2,667 | | | |
| Sundry Creditors | | 55,833 | | | |
| Outstanding Expenses | | <u>7,500</u> | | | |
| | | <u>3,06,000</u> | | | <u>3,06,000</u> |

Working Notes:

| | | |
|-----------|--|-----------------|
| 1. | Sales during 2015-2016 | |
| | Debtors as on 31st March, 2015 (Being equal to 2 months sales) | <u>1,00,000</u> |
| | Total credit sales in 2014- 2015, 1,00,000 × 6 | 6,00,00 |
| | Cash Sales, being equal to 1/3rd of credit sales or 1/4th of Sales in 2014- 2015 | <u>2,00,00</u> |
| | | 8,00,00 |
| | Increase, 20% as stated in the problem | <u>1,60,00</u> |
| | Total sales during 2015-2016 | <u>9,60,00</u> |

| | | |
|----|--|-------------------|
| | Cash sales : 1/4 th | 2,40,00 |
| | Credit sales : 3/4 th | 7,20,00 |
| 2. | Debtors equal to two months credit sales | 1,20,00 |
| 3. | Purchases | |
| | Sales in 2015-2016 | 9,60,00 |
| | Gross Profit @ 25% | <u>2,40,00</u> |
| | Cost of goods sold being purchases | <u>7,20,00</u> |
| | (Since there is no change in stock level) | |
| 4. | Sundry Creditors for goods (7,20,000 – 50,000)/12 = 6,70,000/12 | 55,833 |
| 5. | Collections from Debtors | |
| | Opening Balance | 1,00,00 |
| | Add: Credit Sales | <u>7,20,00</u> |
| | | 8,20,00 |
| | Less: Closing Balance | <u>(1,20,000)</u> |
| | | <u>7,00,00</u> |
| 6. | Payment to Creditors | |
| | Opening Balance | 45,000 |
| | Add: Credit Purchases (7,20,000 – 50,000) | <u>6,70,00</u> |
| | | 7,15,00 |
| | Less: Closing Balance | <u>(55,833)</u> |
| | Payment by cheque | <u>6,59,16</u> |

Cash and Bank Account

| Particulars | Cash | Bank | Particulars | Cash | Bank |
|----------------------------|-----------------|-----------------|--|-----------------|-----------------|
| To Balance b/d | 8,000 | 16,500 | By Payment to Creditors | 50,000 | 6,59,167 |
| To Collection from Debtors | – | 7,00,000 | By Misc. Expenses | 1,45,000 | 5,000 |
| To Sales | 2,40,000 | – | By Repairs | 3,500 | – |
| To Additional Capital | – | 5,000 | By Addition to Machinery | – | 60,000 |
| To Balance c/d | – | 2,667 | By Travelling Expenses | 18,000 | – |
| (Bank overdraft) | | | By Private Drawings By Balance c/d (lost by theft) | 30,000 | – |
| | <u>2,48,000</u> | <u>7,24,167</u> | | <u>1,500</u> | |
| | | | | <u>2,48,000</u> | <u>7,24,167</u> |

Question 6 (6 Marks)

Calculation of Average Due Date

Taking Base Date 21.07.2016

| <i>Date of bill</i> | <i>Period</i> | <i>Due Date</i> | <i>Amount</i> | <i>Number of Days from Base Date</i> | <i>Product</i> |
|---------------------|---------------|-----------------|---------------|--------------------------------------|-----------------|
| 9.4.2016 | 4 months | 12.08.2016 | 3,000 | 22 | 66,000 |
| 18.4.2016 | 3 months | 21.07.2016 | 5,500 | 0 | 0 |
| 25.5.2016 | 6 months | 28.11.2016 | 3,000 | 130 | 3,90,000 |
| 5.6.2016 | 3 months | 8.09.2016 | <u>6,000</u> | 49 | <u>2,94,000</u> |
| | | | <u>17,500</u> | | <u>7,50,000</u> |

$$\text{Average Due Date} = 21\text{st July} + \frac{7,50,000}{17,500} = 21.7.2016 + 43 \text{ days} = 2.09.2016$$

Since two new bills will be drawn, their due dates will be as follows:

First Bill- 1.7.2016 + 4 months = 4.11.2016;

Second Bill- 1.7.2016+ 6 months = 4.1.2017. **(3 marks)**

Interest to be charged in respect of the above bills:

1st bill = Interest will be charged on ` 10,000 @ 10% p.a. for 63 days
(2.09.2016 to 4.11.2016)

$$= ` 10,000 \times 10\% \times 63/365 = ` 172.60$$

2nd bill = Interest will be charged on ` 7,500 (` 17,500 - 10,000) @
10% p.a. for 124 days (2.09.2016 to 4.1.2017)

$$= ` 7,500 \times 10\% \times 124/365 = ` 254.80.$$

Therefore, the value of the two bills:

First bill = ` 10,000

Second bill = ` (7,500+ 172.60+ 254.80) = ` 7,927.4

(3 marks)
