INTER CA – MAY 2018

Sub – Accountancy & Advanced Accountancy

Topic –Redemption of Debentures, Investments Accounts, Departmental Accounts, Amalgamation & absorption & Internal reconstruction.

Test Code – M22

Branch: Multiple Date:14.1.2018

(50 Marks)

Note: All questions are compulsory.

Question 1 (10 Marks)

(i) Department Trading Account

For the year ending on 31.03.2013

In the books of Head Office (2 marks)

Particulars	`	*Particulars*	`
To Opening Stock	65,000	By Sales	3,00,000
To Purchases	2,00,000	By Shortage	1,000
To Gross Profit c/d	58,880	By Closing Stock	22,880
	3,23,880		3,23,880

(ii) Memorandum stock account (for Department A) (at selling price) (4 marks)

Particulars	`	*Particulars*	`
To Balance b/d (` 65,000+25% of ` 65,000)	81,250	By Profit & Loss A/c (Cost of Shortage)	1,000
To Purchases (` 2,00,000 + 25% of ` 2,00,000)	2,50,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (` 1,000 x 25%)	250
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	1,200
		By Debtors A/c (Sales)	3,00,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	600
		By Balance c/d	28,200
	3,31,250		3,31,250

(iii) Memorandum Departmental Mark-up Account (4 marks)

Particulars	`	*Particulars*	`
To Memorandum Departmental Stock A/c (` 1,000 × 25/100)	250	By Balance b/d (` 81,250 x 25/125)	16,250
To Memorandum Departmental Stock A/c	1200	By Memorandum Departmental Stock A/c(2,50,000 x 25/125)	50,000
To Memorandum Departmental	600		

Stock A/c To Gross Profit transferred to Profit & Loss A/c To Balance c/d [(` 28,200 + 400*) x 25/125 - 400]	58,880 5,320		
	66,250		66,250

*[` 1,200 ×5,000/15,000] = 400

Working Notes:

(i) Calculation of Cost of Sales (1 mark)

		`
A	Sales as per Books	3,00,000
B	*Add*: Mark-down in opening stock (given)	600
C	*Add*: mark-down in sales out of current Purchases (` 1,200 x 10,000 /15,000)	800
D	Value of sales if there was no mark-down (A+B+C)	3,01,400
E	*Less*: Gross Profit (25/125 of ` 3,01,400) subject to Mark Down (` 600 + ` 800)	(60,280)
F	Cost of sales (D-E)	2,41,120

(ii) Calculation of Closing Stock (1 mark)

		`
A	Opening Stock	65,000
B	*Add*: Purchases	2,00,000
C	*Less*: Cost of Sales	(2,41,120)
D	*Less*: Shortage	(1,000)
E	Closing Stock (A+B-C-D)	22,880

Question 2 (16 Marks)

In the books of R Ltd.

Ledger Accounts

Capital Reduction Account (3 marks)

		`			`
To	Intangibles (68,000 – 48,000)	20,000	By	8% Cumulative preference shares capital account	1,60,000
To	Plant and equipment account (2,40,000 – 1,40,000)	1,00,000	By	Equity share capital account	4,80,000
To	Deferred revenue expenditure account	48,000	By	Freehold premises account (3,80,000 – 1,40,000)	2,40,000
To	Profit and loss account	4,40,000	By	Stock account (2,50,000 –2,48,000)	2,000
To	Investment account (W.N. 2)	11,500			

To	Provision for doubtful debts	6,400		
To	Capital reserve account (Bal Fig)	2,56,100		
		8,82,000		8,82,000

Equity Share Capital Account (2 marks)

		`			`
To	Capital reduction account	4,80,000	By	Balance b/d	4,80,000
To	Balance c/d	6,60,000	By	Equity share final call account (64,000 × ` 2.5)	1,60,000
			By	Loan from Directors account (60,000 / 2.5 = 24,000 Equity Shares	60,000
			By	Bank account (Further issue of 64,000 +24,000 Equity Shares: 2 for every 1 share held = 1,76,000 shares @ ` 2.5 each)	4,40,000
		11,40,000			11,40,000

8% Cumulative Preference Share Capital Account(1 marks)

		`			`
To	10% Cumulative preference share capital account	4,80,000	By	Balance b/d	6,40,000
To	Capital reduction account	1,60,000			
		6,40,000			6,40,000

Bank Account (1 marks)

		`			`
To	Equity share final call account	1,60,000	By	Balance b/d (overdraft)	2,08,000
To	Equity share capital account	4,40,000	By	Balance c/d	5,12,000
To	10% Cumulative preference share capital account	1,20,000			
		7,20,000			7,20,000
To	Balance b/d	5,12,000			

10% Cumulative Preferences Share Capital Account (1 marks)

		`			`
To	Balance c/d	6,00,000	By	8% Cumulative preference	4,80,00

		share capital account	0
		By Bank (1 for every 4 pref shares held = 64,000 /4 = 16.000 shares @ ` 7.5 each)	1,20,000
	6,00,000		6,00,000
		By Balance b/d	6,00,000

R. Ltd., (and Reduced)
Balance Sheet as at 1 April, 2008
(2 marks)

Particulars	Note No	`
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	12,60,000
(b) Reserves and Surplus	2	2,56,100
(2) Current Liabilities	3	4,40,000
Total		19,56,100
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	4	5,20,000
Intangible assets		48,000
(b) Non-current investments	5	3,12,500
(2) Current assets		
(a) Inventories		2,50,000
(b) Trade receivables	6	3,13,600
(c) Cash and cash equivalents		5,12,000
Total		19,56,100

Notes to Accounts (3 marks)

		`
1.	Share Capital	
	Authorised	14,00,000
	Issued: 80,000 10% Cumulative preference shares of ` 7.5 each	6,00,000
	2,64,000 equity shares of ` 2.5 each	6,60,000
		12,60,000
2.	Reserve and Surplus	
	Capital Reserve	2,56,100
3.	Current liability	
	creditors	4,40,000
4.	Fixed Assets	
	Freehold premises	3,80,00

		0
		1,40,00
	Plant and equipment	0
		5,20,00
		0
5.	Non Current Investments	
	Investment in Q Ltd., (W.N.1)	3,12,500
6.	Trade receivables	
	Debtors less provision for doubtful debts (`3,20,000 – `6,400)	3,13,600

Working Notes: (1 MARK)

1. Valuation of investments in shares of Q Ltd., = $\frac{\text{` } 2,50,000}{12\%} \times \frac{15}{100}$ = ` 3,12,500

2. Reduction in the value of investment in shares of Q Ltd.

   ` 3,24,000 – `3,12,500 = `11,500.

Question 3 (8 Marks)

Points for Considerations

- Sale Proceeds of Rights is to be credited to P&L A/c and not investment A/c.
- Reduce the Dividend on Shares acquired on 1st September 2017 from the cost of acquisition, to arrive at the Net Cost of Shares as on 31st March 2018, since it is Pre-Acquisition Dividend.

Particulars	Computation (4 marks)	Result
1. No. of Bonus Shares	(40,000 + 1,000) + 5 x 2	2,000 shares
2. no. of Rights Shares eligible	(4,000 + 1,000 + 2,000) x $\frac{2}{7}$	2,000 shares
3. No. of Rights Shares Renounced	2,000 x $^{1}/_{2}$ = 1,000 Shares at ` 8 will be taken to P&L	` 8,000
4. No. of Rights Shares subscribed	2,000 – 1,000 = 1,000 Shares at ` 10 + 25% Premium	` 12,500
5. Total Dividend Received	On OB + Fresh Purc. = 5,000 Shares x ` 10 x 20%	` 10,000
(a) Dividend on OB Shares taken to P&L	4,000 x ` 10 x 20%	` 8,000
(b) Dividend on Shares pure. On 01.09.2017	1,000 x ` 10 x 20% is adjusted in Investment A/c.	` 2,000
6. Cost of Shares sold on 01.02.2018	(60,000 + 14,000 + 12,500 – 2,000) x $\frac{4,000}{8,000}$	` 42,250
7. Net Sale Proceeds for sale on 01.02.2018	8,000 shares x $\frac{1}{2}$ x (` 10 + ` 4)	` 56,000
8. Profit on Sale of Shares on 01.02.2018	Net Sale Proceeds ` 56,000 less Cost ` 42,250	` 13,750

Investment (Equity Shares in Akash Ltd) Account (4 marks)

Date	Particulars	Shares Nos.	`	Date	Particulars	Shares Nos.	`
01.04.17	To balance b/d at ` 15	4,000	60,000	20.01.18	By Bank (Dvd) (WN 5b)	-	2,000
01.09.17	To Bank at ` 14 (10+4)	1,000	14,000				
30.09.17	To Bonus (WN 1)	2,000	-	01.02.18	By Bank (Sale of Shares) (WN 7)	4,000	56,000
31.12.17	To Bank (Rights) (WN4)	1,000	12,500				
31.03.18	To P&L – Pft Lfr (WN 8)	-	13,750	31.03.18	By balance c/d (Note)	4,000	42,250

	Total	8,000	1,00,250		Total	8,000	1,07,250

Note: 50% of the Shareholdings are sold, for which cost is ` 42,250 as per WN 6. Hence, Cost of Balance 50% Shareholdings at period – end is also ` 42,250. Market Price = 4,500 x ` 13 = ` 58,500. Hence, Carrying Amount of current investment = Cost of Market Price, whichever is lower = ` 42,250.

Question 4 (16 Marks)

In the Books of Kanak Ltd.

	Particulars		Dr.	Cr.
01.04.2016			Amount	Amount
			₹	₹
	Equity share capital A/c	Dr.	45,00,000	
	To Equity share capital A/c			45,00,000
	(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)			
	Equity share capital A/c	Dr.	22,50,000	
	To Capital reduction A/c			22,50,000
	(Being reduction of Equity capital by 50%)			
	Capital reduction A/c	Dr.	40,500	
	To Bank A/c			40,500
	(Being payment in cash of 10% of arrear of preference dividend)			
	Bank A/c (2,400 x 98)	Dr.	2,35,200	
	To Own debentures A/c (2,400 x 96)			2,30,400
	To Capital reduction A/c			4,800
	(Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c)			
	12% Debentures A/c	Dr.	3,60,000	
	To Own debentures A/c			3,45,600
	To Capital reduction A/c			14,400
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
	12% Debentures A/c	Dr.	8,40,000	
	Capital reduction A/c	Dr.	60,000	
	To Machinery A/c			9,00,000
	(Being machinery taken up by debenture holders for ₹ 8,40,000)			
	Trade payables A/c	Dr.	1,95,000	
	Capital reduction A/c (balancing figure)	Dr.	87,000	
	To Trade receivables A/c			1,83,000
	To Inventory A/c			99,000
	(Being assets and liabilities revalued)			

	Capital reduction A/c	Dr.	12,99,000	
	To Goodwill A/c			60,000
	To Discount on debentures A/c			6,000
	To Profit and Loss A/c			12,33,000
	(Being the above assets written off)			
	Capital reduction A/c	Dr.	45,000	
	To Bank A/c			45,000
	(Being penalty paid for avoidance of capital commitments)			
	Capital reduction A/c	Dr.	7,37,700	
	To Capital reserve A/c			7,37,700
	(Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)			
02.04.2016	Business Purchase A/c	Dr.	39,60,000	
	To Liquidators of Ronak Ltd.			39,60,000
	(Being the purchase consideration payable to Ronak Ltd.)			
	Fixed Assets A/c	Dr.	22,80,000	
	Inventory A/c	Dr.	20,40,000	
	Trade receivables A/c	Dr.	13,20,000	
	Cash at Bank A/c	Dr.	3,90,000	
	To Trade payables A/c			6,75,000
	To 12% Debentures A/c of Ronak Ltd.			6,00,000
	To Profit and Loss A/c			45,000
	To General reserve A/c ₹ (5,10,000+2,40,000*)			7,50,000
	To Business purchase A/c			39,60,000
	(Being the take over of all assets and liabilities of Ronak Ltd. by Kanak Ltd.)			
	Liquidators of Ronak Ltd. A/c	Dr.	39,60,000	
	To Equity Share Capital			30,00,000
	To 9% Preference share capital			9,60,000
	(Being the purchase consideration discharged)			
	12% Debentures of Ronak Ltd. A/c	Dr.	6,00,000	
	To 12% Debentures A/c			6,00,000
	(Being Kanak Ltd. issued their 12% Debentures in against of every Debentures of Ronak Ltd.)			

2 marks

(all other entries will carry ½ mark)

Balance Sheet of Kanak Ltd. as at 2.4.2016 (3 mark)

Particulars	*Note No*	*Amount(`)*
I. Equity and Liabilities		

(1) Shareholder's Funds		
(a) Share Capital	1	77,10,000
(b) Reserves and Surplus	2	20,72,700
(2) Non-current Liabilities		
(a) Long-term borrowings - 12% Debentures		12,00,000
(3) Current Liabilities		
(a) Trade payables		17,25,000
Total		1,27,07,700
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		58,80,000
(2) Current assets		
(a) Inventories		31,20,000
(b) Trade receivables		30,90,000
(c) Cash and cash equivalents		6,17,700
Total		1,27,07,700

* ` 2,40,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

Notes to Accounts

			`
1	Share Capital (1/2 mark)		
	Equity Share Capital		52,50,000
	9% Preference share capital		24,60,000
			77,10,000
2	Reserves and Surplus (1 mark)		
	Profit and Loss A/c		45,000
	General Reserve		
	Share Capital of Ronak Ltd. (Equity + Preference)	42,00,000	
	Less: Share Capital issued by Kanak Ltd.	39,60,000	
	General reserve (resulted due to absorption)	2,40,000	
	Add: General reserve of Ronak Ltd.	5,10,000	
	General reserve of Kanak Ltd.	5,40,000	12,90,000
	Capital Reserve		7,37,700
			20,72,700

Working Notes: (3 marks)

1. Arrear dividend to Preference Shareholders

   Preference Share Capital ` 15,00,000 @ 9% will yield dividend of ` 1,35,000 per year and for 3 years = ` 4,05,000. Out of this only 10% is paid and the balance is waived off. Hence, amount paid = ` 40,500.

2. Profit on redemption of own debentures

Own Debentures with Nominal Value of ` 2,40,000 sold for ` 98 per deb = 2,40,000 x 98/100 = ` 2,35,200.

Book Value = ` 5,76,000/ 6,00,000 X 2,40,000 = ` 2,30,400. Profit on own debentures sold = ` 2,35,200 – ` 2,30,400 = ` 4,800

Balance of Own Debentures = ` 5,76,000 – 2,30,400 = ` 3,45,600 which are cancelled

3. Purchase Consideration

Equity share capital 30,000 x 50/5 x 10	= 30,00,000
9% Preference share capital 12,000 x 4/5 x 100	= 9,60,000
	` 39,60,000

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