



# INTER CA – MAY 2018

Sub – Accountancy & Law

Topic – Company Final Accounts, Profit Prior to incorporation, Redemption of debentures, Dissolution, The Negotiable Instruments Act.

Test Code – M3

Branch: Multiple Date: 03.12.2017

(50 Marks)

Note: All questions are compulsory.

## Question 1 (8 Marks)

Tejasvi (P) Limited  
Profit and Loss Account for 15 months ended 31<sup>st</sup> 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(1/4 mark)	1,80,000	10,08,000
Discount to dealers (1/4 mark)	7,000	39,200
Directors' remuneration (1/4 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(1/4 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: (1 ½ Marks)

Pre-incorporation Profits can be used for: <ul style="list-style-type: none"> <li>• writing off Goodwill on acquisition</li> <li>• writing off Preliminary Expenses</li> <li>• writing down over-valued assets</li> <li>• issuing of bonus shares</li> <li>• paying up partly paid shares.</li> </ul>	Pre-incorporation Losses can be used for: <ul style="list-style-type: none"> <li>• setting off against Post-Incorporation Profit</li> <li>• addition to Goodwill on acquisition</li> <li>• writing off Capital Profit</li> </ul>
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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		= 10.5x
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
		0
Less: Additional rent for 9 months @ ` 10,000 p.m.		<u>90,000</u>
Rent of old premises apportioned in time ratio		<u>45,000</u>
		Post
Apportionment	Pre Inc.	Inc.
Old premises rent	15,000	30,000
Additional Rent	<u>          </u>	<u>90,000</u>
		<u>1,20,000</u>
	<u>15,000</u>	<u>0</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

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

1,05,000

Question 2 (12 Marks)

ABC Limited  
Balance Sheet as on June 30,2014 (7 marks)

Particulars	Note No	Figures as at the end of current reporting period
		Rs.
I. Equity and Liability		
1. Shareholder's Funds		
a. Share Capital	1	90,00,000
b. Reserves and Surplus	2	1,92,50,000
2. Non Current Liabilities		
a. Long –term borrowings		70,00,000
3. Current Liabilities		
a. Short –term provisions		<u>1,80,00,000</u>

	Total	<u>5,32,50,000</u>
II.	Assets	
1.	Non- current assets	
a.	Fixed assets	2,50,00,000
2.	Current assets	
a.	Cash and cash equivalents	<u>12,50,000</u>
b.	Other current assets	<u>2,70,00,000</u>
	Total	<u>5,32,50,000</u>

Notes to Accounts (2 marks)

		Rs.
1.	Share Capital 9,00,000 Equity Shares of Rs.10each	<u>90,00,000</u>
2.	Reserves and Surplus	
	General Reserve	1,10,00,000
	Add: Debenture Redemption Reserve transfer	<u>70,00,000</u>
		1,80,00,000
	Add: Profit on sale of investments	<u>10,00,000</u>
		1,90,00,000
	Less :Premium on redemption of debentures	<u>(15,00,000)</u>
	Securities Premium Account	17,50,000
		<u>1,92,50,000</u>

Working Notes : (3 marks)

- (i) Calculation of number of shares to be allotted :
- |  |                 |
|--|-----------------|
| Total number of debentures                           | 1,50,000        |
| Less :Number of debentures not opting for conversion | <u>(50,000)</u> |
|  | 1,00,000        |
| 25% of 1,00,000                                      | 25,000          |
| Redemption value of 25,000 debentures@110            | Rs.27,50,000    |
| Number of Equity Shares to be allotted               |                 |
| =27,50,000/27.50=1,00,000 shares of Rs.10 each.      |                 |

- (ii) Calculation of Cash to be paid:
- |   |                 |
|---|-----------------|
|   | Rs.             |
| Total number of debentures                                    | 1,50,000        |
| Less :Number of debentures to be converted into equity shares | <u>(25,000)</u> |
|   | 1,25,000        |
| Redemption value of 1,25,000 debentures @110                  | Rs.1,37,50,000  |

- (iii) Cash and Bank Balance:
- |                                       |                      |
|---------------------------------------|----------------------|
| Balance before redemption             | 80,00,000            |
| Add: Proceeds of investments sold     | <u>70,00,000</u>     |
|                                       | 1,50,00,000          |
| Less : Cash paid to debenture holders | <u>(1,37,50,000)</u> |
|                                       | <u>12,50,000</u>     |

Note :The premium on redemption of debentures can also be adjusted against Securities Premium Account .

Question 3 (12 Marks)

1. Realisation A/c (7 marks)

Particulars	Rs.	Particulars	Rs.
To Goodwill A/c (transfer)	4,56,300	By Sundry Creditors A/c (transfer)	5,67,000
To Plant & Machinery A/c(transfer)	6,07,500	By Joint Life Policy Reserve A/c(transfer)	2,65,500
To Furniture A/c (transfer)	64,650	By Cash –Joint Life Policy (surrender amt recd)	2,32,500
To Stock A/c (transfer)	2,36,700	By Ram Capital A/c (Goodwill, P&M)	9,00,000
To Sundry Debtors A/s (transfer)	5,34,000	By Ram Capital A/c(Furniture & Stock)	1,80,000
To Joint Life Policy A/c(transfer)	2,65,500	By Sugriv Capital A/c Furniture & Stock)	1,80,000
To Ram Capital A/c(Dissolution Exps)	18,000		
To Cash (Bill Discounted settled)	30,750		
To Capital A/c(Profit on Rsn) (3:2:1)			
- Ram	55,800		
- Sugriv	37,200		
- Hanuman	18,600		
	1,11,600		
<b>Total</b>	<b>23,25,000</b>	<b>Total</b>	<b>23,25,000</b>

Note :- No entry required for –(a) assignment of Debtors to Creditors ,and (b) Nothing Charges.

2. Partners' Capital A/c (3 marks)

Particulars	Ram	Sugriv	Hanuman	Particulars	Ram	Sugriv	Hanuman
To Realisation A/c -G/W, P& M				By balance b/d	4,20,000	2,25,000	1,20,000
-Furniture ,Stocks	9,00,000	-	-	By Bank Overdraft	6,06,450	-	-
To Hanuman Capital (Note)	1,80,000	1,80,000	-	By Mrs. Ram Loan	1,50,000	-	-
To Cash	6,840	4,560	-	By Realisation (Exp. On Dissolution )	18,000	-	-
To Cash (bal.fig.)	-	-	1,50,000	By Realisation Profit	55,800	37,200	18,600
	1,63,410	77,640	-	By Partner's Capital			6,840
				- Ram			4,560
				- Sugriv			
<b>Total</b>	<b>12,50,250</b>	<b>2,62,200</b>	<b>1,50,000</b>	<b>Total</b>	<b>12,50,250</b>	<b>2,62,200</b>	<b>1,50,000</b>

Note: Excess amount paid to Hanuman Rs. 11,400, i.e. Actual Payment Rs. 1,50,000 Less Net Credit Balance in Capital Account Rs. 1,38,600 , has been debited to Ram and Sugriv in the ratio of 3:2.

3. Cash A/c (2 marks)

Receipts	Rs.	Payments	Rs.
To Balance b/d	48,750	By Realisation (Bill Dishonored settled)	30,750
To Realisation (Joint Life Policy realised)	2,32,500	By Partners Capital A/c(Final Settlement)	
To Commission Receivable	1,40,550	- Ram	1,63,410
		- Sugriv	77,640
		- Hanuman	1,50,000
<b>Total</b>	<b>4,21,800</b>	<b>Total</b>	<b>4,21,800</b>

Question 4 (8 Marks)

1. Computation of Net Profits (4 marks)

Particulars		
Add: Balance from Trading Account		38,35,414
Interest on Investments		10,964
Transfer Fees Received		537
Profit on Sale of Plant		8,000
<b>Total</b>		<b>38,54,915</b>
Less: Administrative, selling and Finance Expenses	5,75,804	
Contribution to National Defence Fund	20,000	
<b>Particulars</b>		
Directors Fees	54,780	
Interest on Debentures	21,380	
Depreciation of Fixed Assets	4,69,713	11,41,677
<b>Net Profits for Managerial Remuneration</b>		<b>27,13,238</b>

1. Profit on sale of Plant: (1 mark)

it is assumed that the cost of plant and Machinery is over and above ₹ 40,000 (given a WDV of ₹ 32,000 and the value realized being ₹ 40,000) Profits to extent of the difference between the Original Cost and WDV can be considered for the purpose of determining the Net Profit. Hence in this case, the entire ₹ 8,000 has been considered for determining the Net Profit.

2. Maximum Remuneration Payable to the Managing Director: (1 mark)

= 5% of Net Profit (Computed) = 5% x ₹ 27, 13, 238 = ₹ 1, 35,662. However, Managing Director's Remuneration as per the above P & L Account is ₹ 3, 70,500.

3. Maximum Remuneration Payable under schedule V (Inadequate Profits): (1 mark)

Or its profits are Inadequate; it may pay Remuneration to any Managerial Person, within the limits specified in Schedule Y. The ceiling limits are based on the Effective Capital of the Company. In the above case, the Effective Capital of the Company is not known. However, presuming the basic limit of Effective Capital of "Negative or Less than ₹ 5 Crores", the Maximum Permissible Remuneration is ₹ 60, 00,000 p.a.

4. Audit Observation: (1 mark)

Remuneration of ` 3,70,500 paid to Managing Director exceeds the limits <sup>u/s</sup> 197, but is within the limits specified by Schedule V.

Question 5 (5 marks)

- a. Problem related to Dishonour of cheque: Liability of Promoter: According to Section 138 of the Negotiable Instruments Act, 1881 where any cheque drawn by a person on an account maintained by him with a banker for payment of any amount of money to another person from/out of that account for discharging any debt or liability, and if it is dishonoured by banker on sufficient grounds, such person shall be deemed to have committed an offence and shall be liable. (2 marks)

In the instant case, Mr. Bean, a promoter has taken a loan on behalf of company. He is neither a director nor a person in-charge of the Company. He sent a cheque from the company's account which was subsequently dishonoured. In this case, Mr. Bean, the promoter is neither a director nor a person-in-charge of the company and is not connected with the day-to-day affairs of the company and had neither opened nor is operating the bank account of the company. Further, the cheque, which was dishonoured, was also not drawn on an account maintained by him but was drawn on an account maintained by the company. Therefore, Mr. Bean, has not committed an offence under section 138 of the Negotiable Instruments Act, 1881 and he cannot be held liable for dishonor of the said cheque. (3 marks)

Question 6 (5 marks)

- a. (i) Person to be called as a holder: As per section 8 of the Negotiable Instruments Act, 1881, 'holder' of a Negotiable Instrument means any person entitled in his own name to the possession of it and to receive or recover the amount due thereon from the parties thereto. (2 ½ marks)

On applying the above provision in the given cases-

1. 'M' is not a 'holder' because to be called as a 'holder' he must be entitled not only to the possession of the instrument but also to receive the amount mentioned therein.
2. No, 'M' is not a holder. While the agent may receive payment of the amount mentioned in the cheque, yet he cannot be called the holder thereof because he has no right to sue on the instrument in his own name. (2 ½ marks)

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