



INTER CA – MAY 2018

Sub – Accountancy & Financial Management
 Topic – internal reconstruction, amalgamation & absorption, accounts of not for profit organization, cash budget, cash flow statement.

Test Code – M34

Branch: Multiple Date: 21.01.2018

(50 Marks)

Note: All questions are compulsory.

Question 1 (8 Marks)

Projected Statement of Cash Flow for the year ended 31st March 20X8

	(Rs.)
Cash flow from Operating Activities	
Profit before taxation	1,04,500
Adjustments:	
Less: Profit on sale of machine (Rs. 38,000 – (Rs. 95,000 – Rs. 66,500))	(9,500)
Add: Depreciation	1,14,000
Operating profit before working capital changes	2,09,000
Increase in Inventories & Trade receivable (Rs. 5,60,500 – Rs. 4,75,000)	(85,500)
Increase in Trade payables (Rs. 1,48,200 – Rs. 1,14,000)	34,200
Increase in Bills payable (Rs. 98,800 – Rs. 76,000)	22,800
Cash generated from operations	1,80,500
Less: Income tax paid*	Nil
Net Cash from Operating activities (A)	1,80,500
Cash flow from Investing Activities	
Purchase of plant	(1,90,000)
Sale of machine	38,000
Net cash from Investing activities (B)	(1,52,000)
Cash Flow from Financing Activities	
Dividend paid	(57,000)

(2 marks)

(2 marks)

Dividend distribution tax (Working note)	(19,000)
Net cash from Financing activities (C)	(76,000)
Net Increase/(Decrease) in cash and cash equivalents (A+B+C)	(47,500)
Cash and cash equivalent at the beginning of the year	66,500
Cash and cash equivalent at the end of the year	19,000

(2 marks)

* No information is given on corporate tax.

Working note:

Dividend distribution tax is paid on the gross amount of dividend paid. The gross dividend is calculated as: $\frac{\text{Dividend Payable}}{(1 - \text{tax rate})}$

$$\text{Gross Amount of Dividend} = \frac{\text{Rs. } 57,000}{(1 - 0.25)} = \text{Rs. } 76,000$$

$$\text{Dividend Distribution Tax} = \text{Rs. } 76,000 \times 25\% = \text{Rs. } 19,000$$

(2 marks)

Question 2 (16 Marks)

Corrected Receipts and Payments Account of Highend Club for the year ended

31st March, 2013 (4 marks)

<i>Receipts</i>		<i>Amount</i>	<i>Payments</i>	<i>Amount</i>
To bal. b/d		9,000	By Printing & Stationery	21,000
To annual subscription	9,18,000		By Telephone expenses	45,000
Less: Receivable on 31.3.2013 (1 Mark)	(54,000)		By Garden upkeep	55,000
Add: Advance received for year 2013-14	18,000		By Electricity charges	36,000
Add: Receivable as on 31.3.2012	36,000		By Repairs and maintenance	72,000
Less: Advance received on 31.3.2012	(18,000)	9,00,000	(1,26,000 - 54,000)	
To sale of furniture (90,000 - 36,000) (1 Mark)		54,000	By Sports material	54,000
To Sale of old newspaper		36,000	By bal. c/d	26,11,000
To Entrance fee		68,000		
To Donation for building		18,00,000		
To Interest on investments		27,000		
		28,94,000		28,94,000

(2 marks for other transactions)

Income & Expenditure Account of Highend Club for the year ended 31st March, 2013 (2 marks)

<i>Expenditure</i>	<i>Amount</i>	<i>Income</i>	<i>Amount</i>
To Printing and Stationery expenses (W.N.1)	22,000	By subscription	9,18,000
To Repairs and Maintenance (1,26,000 - 54,000)	72,000	By Entrance fee (50% of 68,000)	34,000
To Telephone expenses	45,000	By Sale of old newspapers	36,000

To Sports material (W.N. 2)	1,51,200	By Interest on investments	27,000
To Garden upkeep	55,000		
To Electricity charges (W.N. 3)	39,200		
To Loss on sale of furniture	36,000		
To Excess of surplus over expenditure	5,94,600		
	<u>10,15,000</u>		<u>10,15,000</u>

Balance sheet of Highend Club as on 31st March, 2013 (5 marks)

<i>Liabilities</i>		<i>Amount</i>	<i>Assets</i>		<i>Amount</i>
Capital Fund (W.N. 4)	10,58,700		Furniture	3,60,000	
<i>Add:</i> Entrance fee capitalized*	34,000		<i>Less:</i> sale	90,000	2,70,000
<i>Add:</i> Surplus	<u>5,94,600</u>	16,87,300	Sports material		36,000
Building fund		18,00,000	5% investments		5,40,000
Outstanding Electricity charges		3,200	Cash in hand		26,11,000
Outstanding printing and stationary exp.		2,500	Subscription receivable		54,000
Subscription received in advance		18,000			
		<u>35,11,000</u>			<u>35,11,000</u>

Working Notes: (5 Marks)

1. Printing and Stationary expenses for the year

Amount paid	21,000
<i>Add:</i> Outstanding as on 31.3.2013	<u>2,500</u>
	23,500
<i>Less:</i> Outstanding as on 31.3.2012	<u>(1,500)</u>
	<u>22,000</u>

(i) Depreciation on Sports material

Stock as on 1.4.2012	1,33,200
<i>Add:</i> Purchases	<u>54,000</u>
	1,87,200
<i>Less:</i> Stock as on 31.3.2013	<u>36,000</u>
	<u>1,51,200</u>

3. Electricity charges for the year

Amount paid	36,000
<i>Add:</i> Outstanding as on 31.3.2013	<u>3,200</u>

4. Calculation of value of investments

Interest on 5% investments = ` 27,000

Value of Investment = ` 27,000 x 100 / 5 = ` 5,40,000

5. Balance Sheet as on 1st April, 2012

Liabilities		Assets	
Capital fund (balancing fig.)	10,58,700	Furniture	3,60,000
Subscription received in advance	18,000	Sports material	1,33,200
Outstanding printing and stationary charges	1,500	Subscription receivables	36,000
		Investments	5,40,000
		Cash in hand	9,000
	10,78,200		10,78,200

Note:

The above solution is prepared on the basis of the assumption that club is not registered under the Companies Act, 1956.

Question 3 (10 Marks)

Cash Budget for the month of October 2016 to December 2016 (Amount in lakhs)

Particulars	October(Rs.)	November (Rs.)	December(Rs.)
(i) Opening cash balance (1 mark)	10.00	14.25	21.25
(ii) Cash Sale (1 mark)	4.00 (10% of 40)	4.50 (10% of 45)	4.60 (10% of 46)
(iii) Cash collection for credit sale: (2 marks)			
-For August sale	15.75 (35x90% x50%)	-	-
-For September sale	18.00 (40x90% x 50%)	18.00 (40x 90% x 50%)	-
-For October sale	-	18.00 (40x90% x 50%)	18.00 (40x90% x 50%)
-For November sale	-	-	20.25 (40x90% x 50%)
Total cash collection from credit sales (iii)	33.75	36.00	38.25
Total Cash inflow	47.75	54.75	64.10
(iv) Payment to creditors: (3 marks)			
-For September purchase	29.00 {{(80% OF Rs.40)-3}}	-	-
-For October purchase	-	29.00 {{(80% OF Rs.40)-3}}	-
-For November purchase	-	-	33.00 {{(80% OF Rs.45)-3}}
Total of payment made to creditors (iv)	29	29	33
(v) Payment of wages & salaries (1/2 mark)	3.00	3.00	3.00
(vi) Interim dividend (1/2 mark)	-	-	2.00
(vii) Installment for machinery (1/2 mark)	0.50	0.50	0.50
(viii) Administrative expenses (1/2 mark)	1.00	1.00	1.00
Total Cash outflow(B)	33.50	33.50	39.50
Closing cash balance (A-B) (1 mark)	14.25	21.25	24.60

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	2 marks
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.)			

(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		<u>1,27,07,700</u>
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		<u>1,27,07,700</u>

* ` 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		<u>24,60,000</u>
			<u>77,10,000</u>
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.	<u>39,60,000</u>	
	General reserve (resulted due to absorption)	2,40,000	
	Add: General reserve of Ronak Ltd.	5,10,000	
	General reserve of Kanak Ltd.	<u>5,40,000</u>	12,90,000
	Capital Reserve		<u>7,37,700</u>
			<u>20,72,700</u>

Working Notes: (1 ½ 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 = $2,40,000 \times \frac{98}{100}$ = ` 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 $30,000 \times \frac{50}{5} \times 10$ = 30,00,000

9% Preference share capital $12,000 \times \frac{4}{5} \times 100$ = 9,60,000

` 39,60,000
