



The summarized Profit and Loss Account for the year ended 31-3-2015 is below:

	(Rs.) in lakhs	(Rs.) in lakhs
Turnover		240.00
Interest on investments		6.00
		246.00
Less: Cost of goods sold	102.00	
Advertisement	3.00	
Sales Commission	6.00	
Salary	18.00	
Managing directors remuneration	6.00	
Interest on Debentures	2.00	
Rent	5.50	
Bad Debts	1.00	
Underwriting Commission	2.00	
Audit fees	2.00	
Loss on sale of investment	1.00	
Depreciation	4.00	152.50
		93.50

The following additional information was provided

- The average monthly sales doubled from 1-7-2014. GP ratio was constant.
- All investments were sold on 31-5-2014.
- Average monthly salary double from 1-10-2014.
- The company occupied additional space from 1-7-2014 for which rent of Rs. 20000 per month was incurred.
- Bad debts recovered amounting to Rs. 50000 for a sale made in 2012, has been deducted from bad debts mentioned above.
- Audit fees pertains to the company.

Prepare a statement apportioning the expenses between per and post incorporation periods and calculate the Profit/Loss for such periods. Also suggest how the pre-incorporation profits are to be dealt with.

**(10 Marks)**

**(b)** The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 20X1:

Notes		Rs. in Lakhs
(1)	Share Capital	
	Authorised :	
	20 crore shares of Rs.10 each	20,000
	Issued and Subscribed:	
	10 crore Equity Shares of Rs. 10 each	10,000
	2 crore 11% Cumulative Preference Shares of Rs. 10 each	2,000
	Total	12,000
	Called and paid up:	
	10 crore Equity Shares of Rs. 10 each, Rs. 8 per share called and paid up	8,000
	2 crore 11% Cumulative Preference Shares of Rs. 10 each,	
	fully called and paid up	2,000
	Total	10,000
(2)	Reserves and Surplus :	
	Capital Redemption Reserve	1,485
	Securities Premium(collected in cash)	2,000

	General Reserve	1,040
	Surplus i.e. credit balance of Profit & Loss Account	273
	Total	4,798

On 2nd April 20X1, the company made the final call on equity shares @ Rs. 2 per share.

The entire money was received in the month of April, 20X1.

On 1st June 20X1, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held. Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

**(10 Marks)**

**Question 3:**

- (a) Red and White of Mumbai started a branch at Bangalore on 1.4.2012 to which goods were sent at 20% above cost. The branch makes both cash sales and credit sales. Branch expenses are met from branch cash and balance money remitted to H.O. The branch does not maintain double entry books of account and necessary accounts relating to branch are maintained in H.O. Following further details are given for the year ending on 31.3.2013:

	<b>Rs.</b>
Cost of goods sent to branch	1,00,000
Goods received by branch till 31.3.2013 at Invoice price	1,08,000
Credit sales for the year	1,16,000
Closing debtors on 31.3.2013	41,600
Bad debts written off during the year	400
Cash remitted to H.O.	86,000
Closing cash on hand at branch on 31.3.2013	4,000
Cash remitted by H.O. to branch during the year	6,000
Closing stock in hand at branch at invoice price	12,000
Expenses incurred at branch	24,000

Draw up the necessary Ledger Accounts like Branch Debtors Account, Branch Stock Account, Goods sent to Branch Account, Branch Cash Account, Branch Expenses Account and Branch Adjustment A/c for ascertaining gross profit and Branch Profit and Loss A/c for ascertaining Branch profit.

**(8 Marks)**

- (b) Mr. Brown has made following transactions during the financial year 20X1-X2:

<b>Date</b>	<b>Particulars</b>
01.05.20X1	Purchased 24,000 12% Bonds of Rs. 100 each at Rs. 84 cum-interest. Interest is payable on 30th September and 31st March every year.
15.06.20X1	Purchased 1,50,000 equity shares of Rs. 10 each in Alpha Limited for Rs. 25 each through a broker, who charged brokerage @ 2%.
10.07.20X1	Purchased 60,000 equity shares of Rs.10 each in Beeta Limited for Rs. 44 each through a broker, who charged brokerage @2%.
14.10.20X1	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.20X1	Sold 80,000 shares in Alpha Limited for Rs. 22 each.
01.01.20X2	Received 15% interim dividend on equity shares of Alpha Limited.
15.01.20X2	Beeta Limited made a right issue of one equity share for every four

	shares held at Rs. 5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at Rs. 2.25 per share.
01.03.20X2	Sold 15,000 12% Bonds at Rs. 90 ex-interest.
15.03.20X2	Received 18% interim dividend on equity shares of Beeta Limited.

Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 20X2.

**(12 Marks)**

**Question 4:**

(a) Ms. Rashmi furnishes you with the following information relating to her business:

(a) Assets and Liabilities as on

	01.01.2012	31.12.2012
	Rs.	Rs.
Furniture (w.d.v)	12,000	12,700
Inventory at Cost	16,000	14,000
Sundry Debtors	32,000	?
Sundry Creditors	22,000	30,000
Prepaid expenses	1,200	1,400
Unpaid expenses	4,000	3,600
Cash in hand and at bank	2,400	1,250

(b) Receipts and payment during 2012:

Collections from debtors, after allowing discount of Rs. 3,000 amounted to Rs. 1,17,000.

Collections on discounting of bills of exchange, after deduction of discount of Rs. 250 by the bank, totalled to Rs. 12,250.

Creditors of Rs. 80,000 were paid Rs. 78,400 in full settlement of their dues.

Payment for freight inwards Rs. 6,000.

Amount withdrawn for personal use Rs. 14,000

Payment for office furniture Rs. 2,000.

Investment carrying annual interest of 4% were purchased at Rs. 192 (face value Rs. 200) on 1<sup>st</sup> July, 2012 and payment made there for.

Expenses including salaries paid Rs. 29,000.

Miscellaneous receipts Rs. 1,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 20,000. Of these, bills of exchange of Rs. 4,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 800 was dishonored.

(d) Goods costing Rs. 1,800 were used as advertising materials.

(e) Goods are invariably sold to show a gross profit of 33-1/3% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by Ms. Rashmi.

(g) Provide at 2.5% of doubtful debts on closing debtors.

Rashmi asks you to prepare trading and profit and loss account for the year ended 31<sup>st</sup> December, 2012 and the balance sheet as on that date.

**(10 Marks)**

(b) Messrs D, B and R carried on a business of Drapers and Tailors in Delhi; D was incharge of Department "A" dealing in cloth, B of department "B" for selling garments and R of Department "C" the tailoring section. It had been agreed that

each of the three partners would receive 75% of the profits disclosed by the accounts of the department of which he was in charge and the balance of the profits would be shared in the proportion: D 1/2, B 1/4, and R 1/4. The following is the Trading and Profit and Loss Account of the firm for the six months ended March 31, 2006.

**Trading and Profit and Loss Account**

Dr.	Rs.	Rs.	Cr.	Rs.	Rs.
To Opening Stock:			By Sales:		
Cloth (A)	37,890		Cloth (A)	1,80,000	
Ready-made Garments (B)	24,000		Ready-made Garments (B)	1,30,000	
Tailoring Jobs (C)	<u>20,000</u>	81,890	Tailoring Jobs (C)	<u>90,000</u>	4,00,000
To Purchase :			By Discount received		800
Cloth (A)	1,40,700		By Closing Stock:		
Ready-made Garments (B)	80,600		By Cloth (A)	45,100	
Tailoring Goods (C)	<u>44,400</u>	2,65,700	Ready-made Garments (B)	22,300	
To Salaries and Wages		48,000	Tailoring Jobs (C)	<u>21,600</u>	89,000
To Advertising		2,400	[Including Rs. 5,700		
To Rent		10,800	for goods transferred		
To Discount allowed		1,200	from department(A)]		
To Sundry Exp.		12,000			
To Depreciation on Furniture and Fittings		750			
Net Profit		67,060			
		<u>4,89,800</u>			<u>4,89,800</u>

After consideration of the following, prepare Departmental Accounts and Profit and Loss Appropriation Account:

- (i) Cloth of the value of Rs. 10,700 and other goods of the value of Rs. 600 were transferred at selling price by Departments A and B respectively to Department C.
- (ii) Cloth and garments are sold in the show-room. Tailoring work is carried out in the workshop.
- (iii) The details of salaries and wages were as follows:
  - (a) General Office 50%, show-room 25% and 25% for workshop, which is for tailoring.
  - (b) Allocate General Office Expenses, in the proportion of 3:2:1 among the Departments A, B, C.
  - (c) Distribute show-room expenses in the proportion of 1:2 between Departments A and B.
- (iv) The workshop rent is Rs. 1,000 per month. The rent of the General Office and Show room is to be divided equally between Departments A and B.
- (v) Depreciation charges are to be allocated equally amongst the three Departments.
- (vi) All other expenses are to be allocated on the basis of turnover.
- (vii) Discounts received are to be credited to the three Departments as follows: A: Rs. 400; B: Rs. 250; C: Rs. 150.
- (viii) The opening stock of Department C does not include any goods transferred from Department A.

**(10 Marks)**

**Question 5:**

- (a) ABC Ltd. took over a running business with effect from 1<sup>st</sup> April, 20X1. The company was incorporated on 1<sup>st</sup> August, 20X1. The following summarised Profit and Loss Account has been prepared for the year ended 31.3.20X2:

	<b>Rs.</b>		<b>Rs.</b>
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Miscellaneous trade expenses	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fee	11,200		
To Bad debts	3,200		
To Commission to selling agents	16,000		
To Tax Audit fee	6,000		
To Debenture interest	3,000		
To Interest paid to vendor	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	87,600		
	3,20,000		3,20,000

**Additional information:**

- (a) Total sales for the year, which amounted to Rs. 19,20,000 arose evenly up to the date of 30.9.20X1. Thereafter they recorded an increase of two-third during the rest of the year.
- (b) Rent of office building was paid @ Rs. 2,000 per month up to September, 20X1 and thereafter it was increased by Rs. 400 per month.
- (c) Travelling expenses include Rs. 4,800 towards sales promotion.
- (d) Depreciation include Rs. 600 for assets acquired in the post incorporation period.
- (e) Purchase consideration was discharged by the company on 30<sup>th</sup> September, 20X1 by issuing equity shares of Rs. 10 each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

**(15 Marks)**

- (b) C Limited had 3,000, 12% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

- (i) 25,000 Equity Shares of Rs. 10 each at par,  
(ii) 1,000 14% Debentures of Rs. 100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

**(5 Marks)**

**Question 6: (Answer any four questions)**

- (a) List out the criteria laid down for classification of non-corporate entities to bring them under Level 1 category as per ICAI.

**(5 Marks)**

- (b) Due to inadequacy of profits during the year ended 31<sup>st</sup> March, 20X2, XYZ Ltd. proposes to declare 10% dividend out of general reserves. From the following particulars, ascertain the amount that can be utilised from general reserves, according to the Companies (Declaration of dividend out of Reserves) Rules, 2014:

	Rs.
17,500 9% Preference shares of Rs. 100 each, fully paid up	17,50,000
8,00,000 Equity shares of Rs. 10 each, fully paid up	80,00,000
General Reserves as on 1.4.20X1	25,00,000
Capital Reserves as on 1.4.20X1	3,00,000
Revaluation Reserves as on 1.4.20X1	3,50,000
Net profit for the year ended 31 <sup>st</sup> March, 20X2	3,00,000
Average rate of dividend during the last five year has been 12%.	

**(5 Marks)**

- (c) A company had issued 20,000, 13% debentures of Rs. 100 each on 1<sup>st</sup> April, 20X1. The debentures are due for redemption on 1<sup>st</sup> July, 20X2. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value Rs. 10) at a price of Rs. 15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

**(5 Marks)**

- (d) "One of the characteristic of the financial statement is neutrality. "Do you agree with this statement? Explain in brief.

**(5 Marks)**

- (e) Om Ltd. purchased a machine on hire purchase basis from Kumar Machinery Co. Ltd. on the following terms:

- (a) Cash price Rs. 80,000  
 (b) Down payment at the time of signing the agreement on 1.1.20X1 Rs. 21,622.  
 (c) 5 annual installments of Rs. 15,400, the first to commence at the end of twelve months from the date of down payment.  
 (d) Rate of interest is 10% p.a.

You are required to calculate the total interest and interest included in cash installment.

**(5 Marks)**

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