



C.S. Executive – Answers for CC

Test Paper - I

Answer to Question No. 1(iii)

Liability of Underwriters

Particulars	X	Y
Gross Liability in the agreed ratio 6:10	60,000	1,00,000
Less: Application received in the ratio of 6/20:10/20	<u>42,000</u>	<u>70,000</u>
Net Liability	18,000	30,000

Alternatively, the liability of the respective underwriters can also be determined in the following manner:

Shares issued	2,00,000
Less: Applications received	<u>1,40,000</u>
Unsubscribed shares	<u>60,000</u>

X's Liability = 6/20 of 60,000 = 18,000 shares

Y's Liability = 10/20 of 60,000 = 30,000 shares

Total Liability of X and Y = 18,000 + 30,000 shares = 48,000 shares

Answer to Question No. 2(i)

Mark Ltd. Journal Entries

(Rs. In 000s)

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
2007 Aug. 1	Own Debentures A/c Debenture Interest A/c To Bank A/c (Purchase of 20,000 own debentures at Rs.1 00 ex-interest as investments)	Dr. Dr.	2,000 80	2,080
Sep.30	Debenture Interest A/c To Bank A/c To Interest on own Debentures A/c (Payment of half yearly interest, on 80,000 debentures and recording of interest on 20,000 own debentures for 2 months)	Dr.	520	480 40
2008	Debenture Interest A/c	Dr.	600	

March 31	To Bank A/c To Interest on own Debentures A/c (Payment of half yearly interest, on 80,000 debentures and recording of interest on 20,000 own debentures for 6 months)			480 120
	12% Debenture A/c To Own Debentures A/c (Cancellation of 20,000 own debentures of Rs.100 each purchased earlier at Rs.100 ex-interest)	Dr.	2,000	2,000
	Debenture Redemption reserve A/c To General Reserve A/c (Transfer from debenture redemption Reserve to general reserve on cancellation of own debentures)	Dr.	2,000	2,000
	Profit and Loss A/c To Debenture Interest Account (Transfer of debenture interest to profit and loss account)	Dr.	1,200	1,200
	Interest on own Debentures A/c To Profit and Loss A/c (Transfer of interest on own debenture to profit and loss account)	Dr.	160	160

Working notes:

Cum-interest price of debentures

(Rs. 000s)

Ex-interest price of 20,000 own debentures @ Rs.100

Rs.2000

Add: Interest for four months @ 12% on 20,000 Debentures

80

Cum-interest Payment

Rs.2,080**Note: Income tax on interest on debentures is ignored.****Answer to Question No. 2(ii)**Zodiac Ltd.
Journal Entries

Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
Bank A/c To Equity share Capital A/c To Securities Premium A/c (16,381 equity shares of Rs.10 each at a Premium of 5%)	Dr.	1,72,000	1,63,810 8,190
Securities Premium A/c	Dr.	16,190	
Profit and Loss A/c To Premium on Red. of Pref. Shares A/c	Dr.	3,810	20,000
Profit and Loss A/c To Capital Redemption Reserve A/c	Dr.	36,190	36,190

(Amount transferred to Capital Redemption Reserve not covered by fresh issue)			
12% Redeemable Preference Share Capital A/c	Dr.	2,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	20,000	
To. Preference Shareholders A/c (Payment due to preference shareholders)			2,20,000
Preference Shareholders A/c	Dr.	2,20,000	
To Bank A/c (Payment made)			2,20,000

Working Note:

Calculation Of amount of fresh issue :

$$\begin{aligned}
 \text{Total liability for redemption} &= \text{Preference Share Capital} + \text{Premium on Redemption of Preference Shares} \\
 &= \text{Rs. 2,00,000} + \text{Rs. 20,000} \\
 &= \text{Rs. 2,20,000}
 \end{aligned}$$

Let fresh issue (equity capital) be 'x'

$$\begin{aligned}
 \text{Total liability} &= \text{Securities premium as given} + \text{Profit and Loss Account balance} + \text{Proceeds of fresh issue} \\
 \text{Rs. 2,20,000} &= \text{Rs. 8,000} + \text{Rs. 40,000} + x \frac{x}{20}
 \end{aligned}$$

$$\begin{aligned}
 &= 48,000 + \frac{21x}{20} \text{ Or } 1,72,000 = \frac{21x}{20} \\
 &= 21x = 34,40,000 \text{ Or } x = 1,63,810
 \end{aligned}$$

Amount of fresh issue:

$$\begin{aligned}
 \text{No. of shares} &= 16,381 \\
 \text{Equity share capital} &= \text{Rs. 1,63,810} \\
 \text{Securities premium} &= \text{Rs. 8,190} \\
 \text{Total} &= \text{Rs. 1,72,000}
 \end{aligned}$$

Answer to Question No. 4(ii)

Average annual profit before tax	25,00,000
Less: Income tax @40%	<u>10,00,000</u>
	15,00,000
Less: Transfer to General Reserve	<u>1,25,000</u>
Amount available for dividend	13,75,000
Less: Preference dividend @ 14% on Rs.1 0,00,000	<u>1,40,000</u>
Amount available for equity dividend	<u>12,35,000</u>

$$\text{Rate of dividend} = \frac{\text{Rs.12,35,000} \times 100}{\text{Rs. 20,00,000}} = 61.75\%$$

Normal rate of return expected = 20%

$$\text{Value of an equity share} = \frac{\text{Rs.61.75} \times 10}{20} = \text{Rs. 30.875}$$

Answer to Question No. 5(ii)

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd.
as at 31st March, 2008

Liabilities		Rs.	Assets		Rs.
Share Capital:			Fixed Assets		
Issued and Subscribed 10,000 equity shares of Rs.100 each fully paid up		10,00,000	H Ltd.	5,00,000	
Minority Interest		5,20,000	S Ltd.	<u>4,00,000</u>	9,00,000
Reserves & Surplus:			Current Assets,		
Capital Reserve		2,20,000	Loans & Advances:		
General Reserve		2,00,000	<i>Current Assets.</i>		
Profit & Loss Account		4,40,000	H Ltd.	8,00,000	
Current Liabilities and provisions:			S Ltd.	<u>11,00,000</u>	
<i>A. Current Liabilities:</i>				19,00,000	
H Ltd.	2,00,000		Less: Mutual debts for purchase of goods	<u>1,00,000</u>	
S Ltd.	<u>2,00,000</u>			18,00,00	
	4,00,000		Less: Stock Reserve	<u>20,000</u>	17,80,000
Less: Inter company Owings	<u>1,00,000</u>	3,00,000			
Total		26,80,000	Total		26,80,000

working Notes:

Equity Capital of S Ltd. after bonus issue Rs.8,00,000

Basis of bonus issue: 3 bonus shares for every 5 shares held

Equity Capital of S Ltd. before bonus issue = Rs. 8,00,000 x 5/8 = Rs. 5,00,000

Dividend declared @20% on Rs. 5,00,000 = Rs. 1,00,000

Total No. of Equity shares of S Ltd. after bonus issue = Rs. 8,00,000 ÷ 100 = 8,000

No. of equity shares of S Ltd. acquired before. bonus issue 3,000

Add: No. of bonus shares received @ 3 shares for every 5 shares Held $3,000 \times \frac{3}{5}$ 1,800

Total NO. of shares of S Ltd. with H Ltd. 4,800

% of shares of S Ltd. with H Ltd. $\frac{4,800}{8,000} \times 100$ 60%

Minority Interest (100% — 60%) 40%

Analysis of Profit of S Ltd.

Particulars		Capital Profits Rs.	Revenue Profits Rs.
General Reserve as on 1-4-2007.	Rs. 5,00,000		
Less: Utilized in Bonus Issue (5,00,000 x 3/5)	<u>Rs.3,00,000</u>	2,00,000	
Profit & Loss A/c as on 1-4-2007	Rs. 2,00,000		
Less: Dividend @ 20% on Rs.5,00,000	<u>Rs. 1,00,000</u>	1,00,000	

<i>Profit earned during the year 2007-08 i.e., after 1-4-2007</i>			
Balance in P&L A/c as, on 31-3-2008	Rs. 3,00,000		
Less: Pre acquisition profit after dividend	<u>Rs. 1,00,000</u>	--	2,00,000
Share of H Ltd. - 60%		3,00,000	2,00,000
Minority Interest - 40%		<u>1,80,000</u>	<u>1,20,000</u>
		<u>1,20,000</u>	<u>80,000</u>
Calculation of Revenue Profits of H Ltd.			
Balance as per Profit and Loss A/c		4,00,000	
Less: Dividend received from S Ltd. out of capital profit wrongly credited to Profit and Loss A/c (Dividend on 3,000 shares of Rs.1 00 each @20%)		<u>60,000</u>	
		3,40,000	
Less: Unrealised profit on stock 25/125 x Rs.1,00,000		<u>20,000</u>	
		3,20,000	
Add: Share of revenue profit in S Ltd.		<u>1,20,000</u>	
		<u>4,40,000</u>	
Calculation of Capital Reserve.			
Paid up value of 4,800 shares of S Ltd. held by H L,t.d. after bonus issue (4,800 x Rs.100)		4,80,000	
Add: Share of H Ltd. in capital profit of S Ltd.		<u>1,80,000</u>	
		6,60,000	
Less: Cost of investment in S Ltd.	Rs. 5,00,000		
Less: Dividend out of capital profits credited to Profit and Loss A/c	<u>Rs.60,000</u>	<u>4,40,000</u>	
Capital Reserve		<u>2,20,000</u>	
Calculation of Minority Interest:			
Share Capital (40% of Rs.8,00,000)			3,20,000
Share in Capital Profits			1,20,000
Share in Revenue Profits			<u>80,000</u>
Minority Interest			<u>5,20,000</u>

Answer to Question No. 6

Rama Ltd.
Journal Entries

Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
Share Forfeiture Account	Dr.	6,000	
To Share Reissue Account			2,000
To Capital Reserve			4,000
(Closure of Share Reissue Account by transfer to Share Forfeiture Account; the balance in Share Forfeiture Account being capital profit on reissue, of forfeited shares being transferred to Capital Reserve)			

Preference Share Capital Account	Dr.		2,00,000	
Securities Premium Account	Dr.		20,000	
To Capital Redemption Account (Closure of Capital Redemption Account by transfer to Preference Share Capital Account to the extent of face value of preference shares redeemed and to Securities Premium Account for the premium paid on redemption)				2,20,000
General Reserve A/c	Dr.		2,00,000	
To Capital Redemption Reserve Account (Creation of capital redemption reserve account for preference shares redeemed)				2,00,000
Capital Redemption Reserve Account	Dr.		2,00,000	
To Equity Share Capital Account (Issue of bonus shares out of capital redemption reserve account)				2,00,000
Profit and Loss Account	Dr.		2,000	
To Discount on Issue of Debentures Account (Rs. 2,000 of discount on issue of debenture written off)				2,000
Fixed Assets	Dr.		2,50,000	
To Revaluation Reserve (Upward revaluation of fixed assets by 25%)				2,50,000
Profit and Loss Account	Dr.		2,10,000	
To Provision for Income tax (Provision for income tax made @35%)				2,10,000
Profit and Loss (Appropriation) Account	Dr.		1,18,000	
To General Reserve				29,250
To proposed Dividend				70,000
To Provision for Dividend Distribution Tax (Transfer of 7.5% of profits for the year to General reserve as the total dividend including interim dividend exceeds 15% but less than 20% and appropriation of proposed Dividend and tax on distributed profit @ 15%)				18,750

Profit and Loss Account for the year ended 31st March, 2008

Particulars	Rs.	Particulars	Rs.
To Discount on Issue of Deb. A/c	2,000	By Profit b/d	6,02,000
To Provision for Income Tax @ 35%	2,10,000		
To Net Profit c/d	90,000		
	6,02,000		6,02,000

Profit and Loss (Appropriation) Account for the year ended 31st March, 2008

Particulars	Rs.	Particulars	Rs.
To Interim Dividend paid	55,000	By Balance b/d.	1,50,000
To General Reserve 7.5% of Rs.3,90,000	29,250	By Net Profit for the year b/d	3,90,000

To Proposed Dividend @ 10% on Rs.7,00,000	70,000		
TO Provision for Dividend Distribution Tax @ 15% on Rs.1,25,000	18,750		
To Balance carried to Balance Sheet	3,67,000		
	5,40,000		5,40,000

Note: It is presumed that corporate dividend tax is also to be provided on interim dividend.

Rama Ltd.
Balance Sheet as on 31 March, 2008

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets	12,50,000
Authorised:	?	Investments	3,00,000
<i>Issued and Subscribed:</i>		Current Assts, Loans and Advances	
70,000 Equity Shares of Rs.10 each, fully paid-up	7,00,000	(A) Current Assets	1,90,000
(Of the above shares, 20,000 equity shares are allotted as fully paid-up by way of bonus shares out of Capital Redemption Reserve)		(B) Loans and Advances	
Reserves and Surplus:		Advance Tax for 2007-2008	2,15,000
Revaluation Reserve	2,50,000	Miscellaneous Expenditure:	
Capital Reserve	4,000	Discount on Issue of Debentures	4,000
General Reserve	29,250		
Profit & Loss Account	3,67,000		
Secured Loans:			
13% Debentures	1,00,000		
Current Liabilities and Provisions:			
(A) Current Liabilities	2,10,000		
(B) Provisions			
Provisions for Income Tax	2,10,000		
Proposed Dividend	70,000		
Dividend Distribution Tax	18,750		
	1 9,59,000		1 9,59,000