

C.S.EXECUTIVE

TEST PAPER 3/2010

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Answer to Question No. 1(iii)

Mohini Ltd.
Journal Entries

Date	Particulars		Dr.(Rs.)	Cr.(Rs.)
2007				
Mar 31	Bank	Dr.	19,00,000	
	Discount on Issue of Debentures Account	Dr.	1,00,000	
	To 7% Debentures Account			20,00,000
	(Being the allotment of 4,000 – 7% debentures at Rs. 475 each, face value being Rs. 500 each)			
2008				
Mar 31	Debenture Interest Account	Dr.	1,40,000	
	To Interest Accrued on Debentures Account			1,40,000

(Being the outstanding interest on debentures)

7% Debentures Account	Dr.	50,000	
To 8% Preference Share Capital Account			38,000
To Securities Premium Account			9,500
To Discount on Issue of Debentures Account			2,500

(Being the allotment of 380—8% preference shares of Rs. 100 each exchanged for 100 – 8% debentures of Rs.500 each issued at Rs.475)

Profit and Loss Account	Dr.	1,40,000	
To Debenture Interest Account			1,40,000

(Transfer of debenture interest to profit and loss account)

Balance Sheet as on 31st March 2008

Liabilities	Rs.	Assets	Rs.
<i>Share Capital</i>		<i>Current Assets</i>	
8% Preference share capital (380 preference shares @ Rs. 100 each)	38,000	Bank	19,00,000
<i>Reserves and Surplus</i>		<i>Miscellaneous Expenditure</i>	
Securities Premium	9,500	Discount on Issue of Debentures Account	97,500
<i>Secured Loans</i>		Profit and Loss Account	1,40,000
7% Debentures	19,50,000		
Accrued Interest	<u>1,40,000</u>		
	<u>21,37,500</u>		<u>21,37,500</u>

Working Note:

<i>Number of 8% Preference Shares to be issued by Mohini Ltd.</i>	Rs.
Rs. 500 x 100 nominal value of 100, 7% Debentures	50,000
Less : Discount allowed on 100, 7% Debentures (100 x Rs. 25)	<u>2,500</u>
Proceeds of 100 Debentures	<u>47,500</u>
 <i>Issue Price of 8% Preference Shares:</i>	
Face or Nominal Value	100
Add : Premium	<u>25</u>
Issue price	<u>125</u>
Number of 8% Preference Shares to be issued in exchange of Rs. 50,000 debentures (without violating Section 79 of the Companies Act)	
47,500 ÷ 125 = 380, amounting to 380 x Rs. 100	38,000
Securities Premium = 380 x Rs. 25	<u>9,500</u>
	<u>47,500</u>

**In the Books of New Era Ltd.
Journal Entries**

(Rs. in lakhs)

<i>Particulars</i>	<i>Dr.</i>	<i>Cr.</i>
Bank	Dr.	
To Investments	150	
(Sale proceeds of investments)		150
Investments	Dr.	
To Profit and Loss Account	2	
(Profit on sale of investments transferred to profit and loss account)		2
Bank	Dr.	
To 14% Preference Share Applications and Allotment Account	200	
(Receipt of application money on 2 lakh 14% preference shares @ Rs.100 per share)		200

14% Preference Share Applications and Allotment Account	Dr.	200	
14% Preference Share Capital A/c (Allotment of 2 lakh 14% preference shares of Rs.100 each at par)			
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General Reserve	Dr.	400	
To Capital Redemption Reserve A/c (Creation of capital redemption reserve with amount not covered by fresh issue of shares)			
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Equity Share Capital A/c	Dr.	600	
Securities Premium A/c	Dr.	300	
To Sundry Equity Shareholders (Amount payable to sundry equity shareholders on buy-back of equity shares for Rs.600 lakh at a premium of Rs.300 lakh; 60 lakh shares of Rs.10 each bought back @Rs.15 per share)			
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Sundry Equity Shareholders	Dr.	900	
To Bank (Payment made to sundry equity shareholders to buy-back shares)			
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Capital Redemption Reserve A/c	Dr.	400	
Securities Premium A/c	Dr.	50	
To Bonus to Equity Shareholders (Use of capital redemption reserve and securities premium to issue one bonus share for every four shares held)			
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Bonus to Equity Shareholders	Dr.	450	
To Equity Share Capital A/c (Issue of one bonus share for every four equity shares held)			

Working Notes :

Calculation of bonus shares issued :

Equity share capital	(Rs. In lakhs)
Less : Buy-back of 25% of shares	2,400
Equity share capital after buy-back	<u>600</u>
	<u>1,800</u>

As one bonus share is allotted for every four equity shares held, bonus share issued = 25% of Rs. 1,800 lakh = Rs. 450 lakh.

14% Preference Share Applications and Allotment Account	Dr.	200	
14% Preference Share Capital A/c			200
(Allotment of 2 lakh 14% preference shares of Rs.100 each at par)			
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General Reserve	Dr.	400	
To Capital Redemption Reserve A/c			400
(Creation of capital redemption reserve with amount not covered by fresh issue of shares)			
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Equity Share Capital A/c	Dr.	600	
Securities Premium A/c	Dr.	300	
To Sundry Equity Shareholders			900
(Amount payable to sundry equity shareholders on buy-back of equity shares for Rs.600 lakh at a premium of Rs.300 lakh; 60 lakh shares of Rs.10 each bought back @Rs.15 per share)			
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Sundry Equity Shareholders	Dr.	900	
To Bank			900
(Payment made to sundry equity shareholders to buy-back shares)			
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Capital Redemption Reserve A/c	Dr.	400	
Securities Premium A/c	Dr.	50	
To Bonus to Equity Shareholders			450
(Use of capital redemption reserve and securities premium to issue one bonus share for every four shares held)			
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Bonus to Equity Shareholders	Dr.	450	
To Equity Share Capital A/c			450
(Issue of one bonus share for every four equity shares held)			

Working Notes :

Calculation of bonus shares issued :

	(Rs. In lakhs)
Equity share capital	2,400
Less : Buy-back of 25% of shares	<u>600</u>
Equity share capital after buy-back	<u>1,800</u>

As one bonus share is allotted for every four equity shares held, bonus shares issued = 25% of Rs. 1,800 lakh = Rs. 450 lakh.

Answer to Question No. 3(i)

Statement showing the Liability of Underwriters (shares)

<i>Particulars</i>	<i>Total</i>	<i>Alok</i>	<i>Benny</i>	<i>Chopra</i>
Gross Liability	2,00,000	80,000	60,000	60,000
Less: Marked applications	<u>1,32,000</u>	<u>32,000</u>	<u>58,000</u>	<u>42,000</u>
	68,000	48,000	2,000	18,000
Less: Unmarked applications in the ratio of 4:3:3	<u>30,000</u>	<u>12,000</u>	<u>9,000</u>	<u>9,000</u>
	38,000	36,000	-7,000	9,000
Benny's surplus distributed between Alok and Chopra in the ratio of 4:3	—	(4,000)	+7,000	(3,000)
Net liability	<u>38,000</u>	<u>32,000</u>	<u>—</u>	<u>6,000</u>

Answer to Question No. 3(ii)

Value of Shares

(i) Intrinsic Value Method :

Assets	Rs.
Land and building	24,00,000
Goodwill	16,00,000
Plant and machinery	12,00,000
Patents and trade marks	2,00,000
Stock	4,80,000
Debtors less bad debts	8,00,000
Bank	<u>5,20,000</u>
Total Assets	72,00,000
Less: Liabilities	
Creditors	<u>12,80,000</u>
Net Assets	<u>59,20,000</u>

$$\text{Value Per Share} = \frac{\text{Rs. } 59,20,000}{\text{Rs. } 20,000} = \text{Rs. } 296$$

(ii) Yield Method :

Total profits for the last three years	27,60,000
Less: Bad debts	<u>80,000</u>
	<u>26,80,000</u>
Average profit = Rs. 26,80,000 ÷ 3	8,93,333
Add: Decrease in depreciation on plant and machinery @ 15% on Rs. 1,00,000	<u>15,000</u>
	9,08,333
Less: Increase in depreciation on land and building @ 10% on Rs. 13,00,000	<u>1,30,000</u>
	7,78,333
Less: Transfer to reserve @ 25% of Rs. 7,78,333	<u>1,94,583</u>
Profit available for dividend	<u>5,83,750</u>

$$\text{Rate of Dividend} = \frac{\text{Rs. } 5,83,750}{\text{Rs. } 20,00,000} \times 100 = 29.19$$

$$\text{Value per share} = \frac{\text{Rate of dividend}}{\text{Normal rate of dividend}} \times \text{Paid-up value per share}$$

$$\text{Value per share} = \frac{29.19}{10} \times 100 = \text{Rs. } 291.90$$

(iii) Fair Value Method :

$$\begin{aligned} \text{Value per share} &= \frac{\text{Intrinsic Value} + \text{Yield Value}}{2} \\ &= \frac{\text{Rs. } 296 + \text{Rs. } 291.90}{2} = \text{Rs. } 293.95 \end{aligned}$$

Answer to Question No. 4(ii)

**Varun Ltd.
Journal Entries**

Particulars	Dr. (Rs.)	Cr. (Rs.)
Share Application Account	Dr. 2,40,000	

To Equity Share Capital Account			2,00,000
To Share Allotment Account			40,000
<u>(Transfer of application money to share capital, and allotment accounts)</u>			
Share Allotment Account	Dr.	4,50,000	
To Equity Share Capital Account			2,50,000
To Securities Premium Account			2,00,000
<u>(Money due on allotment of 10,000 shares @ Rs. 45 per share including premium of Rs. 20)</u>			
Share First Call Account	Dr.	2,50,000	
To Equity Share Capital Account			2,50,000
<u>(Amount due on first call)</u>			
Calls-in-Advance Account	Dr.	5,000	
Calls-in-Arrears Account	Dr.	7,500	
To Share First Call Account			12,500
<u>(Calls in advance received and calls on arrears transferred to share first call account)</u>			
Share Second and Final Call Account	Dr.	3,00,000	
To Equity Share Capital Account			3,00,000
<u>(Amount due on second and final call)</u>			
Call-in-Arrears Account	Dr.	27,000	
To Equity Share Final Call Account			27,000
<u>(Call in arrears on 900 shares @ Rs. 30 each)</u>			
Equity Share Capital Account	Dr.	90,000	
To Forfeited Shares Account			55,500
To Calls-in-Arrears Account			34,500
<u>(Being the forfeiture of 900 shares on account of call-in-arrears)</u>			
Forfeited Shares Account	Dr.	4,000	
To Equity Share Capital Account			4,000
<u>(Discount allowed on re-issue of 400 shares @ Rs. 10)</u>			
Forfeited Shares Account	Dr.	19,000	
To Capital Reserve Account			19,000
<u>(Gain on reissue of forfeited shares transferred to capital reserve)</u>			

Cash Book

<i>Dr.</i>		<i>Cr.</i>	
Particulars	Rs.	Particulars	Rs.
To Equity Share Application Account	2,60,000	By Share Application Account	20,000
To Equity Share Allotment Account	4,10,000	By Balance c/d	12,01,500
To Calls in Advance Account	5,000		
To Equity Share First Call Account	2,37,500		
To Equity Share Second and Final Call Account	2,73,000		
To Equity Capital Account	<u>36,000</u>		
	<u>12,21,500</u>		<u>12,21,500</u>

Working Notes

	Rs.
<i>(i) Calculation of amount to be forfeited:</i>	
Sudhir : On 200 shares @ Rs. 70 (20 + 25 + 25)	14,000
Pradeep: On 300 shares @ Rs. 45 (20 + 25)	13,500
Joshi : On 400 shares @ Rs. 70 (20 + 25 + 25)	<u>28,000</u>
Total	<u>55,000</u>
<i>(ii) Balance retained in Forfeited Shares Account:</i>	
Sudhir : On 200 shares @ Rs. 70	14,000
Pradeep: On 100 shares @ Rs. 45	4,500
Joshi : On 200 shares @ Rs. 70	<u>14,000</u>
Total	<u>32,500</u>
<i>(iii) Amount transferred to capital reserve:</i>	
Total amount forfeited	55,500
Less : Allowed as discount on reissue	4,000
Less : Retained in Forfeited Shares Account	<u>32,500</u>
	<u>19,000</u>