Prime Academy, Chennai
Model Exam May 2007, PE_II Accountancy.

(1)Ram Ltd was wound up on 31-12-2007 and its Balance sheet as on that date was as given below:

Balance sheet of Ram Limited as on 31-3-2007

Liabilties		Assets		
Share Capital		Fixed assets		9,64,000
1,20,000 equity shares of Rs.10 each	12,00,000	Current assets		
Resrves abd surplus		Stock		7,75,000
Profit prior to incorporation	42,000	Sundry debtors	1,60,000	
Contingency reserve	2,70,000	Less: provision	8,000	1,52,000
Profit and loss account	2,52,000	Bills receivable		30,000
Current l;iabilties		Cash at bank		3,29,000
Bills Payable	40,000			
Sundry creditors	2,26,000			
Provisions				
Provisions for income tax.	2,20,000			
	22,50,000			22,50,000

Laxman Ltd took over the following assets at values shown as under:
Fixed assets Rs, 12, 80,000.Stock Rs.7, 70,000 and bills receivable Rs.30, 000.
Purchase consideration was settled by Laxman Ltd. as under:
Rs.5, 10,000 of the consideration was satisfied by the allotment of fully paid 10% preference shares of Rs.100 each .The balance was settled by issuing equity shares of Rs.10 each at Rs.8 per share paid up.
Sundry debtors realized Rs.1, 50,000 .Bills payable was settled for Rs.38,000.Income Tax authorities fixed taxation liability at Rs.2, 20,000.
Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to Rs.8, 000.

You are required to:
i. Calculate the number of equity shares and preference shares to be allotted by Laxman Limited in discharge of purchase consideration.
ii. Prepare Realization Account, Cash/Bank account, equity share holders account and laxman Ltd.account in the books of Ram limited.
iii. Pass journal entries in the books of Laxman Ltd. (16 marks)

(II) The Balance Sheet of Shiva Company Limited as on March 31, 2007 and Profit and Loss account for the year ended 31-3-2007 are given below:

Balance Sheet of Shiva Company Limited as on 31-3-2007

	Amount 2006	Amount 2007
Capital and liabilties		
Equity Share capital	108,000	3,96,000
Retained earnings	2,44,800	3,70,800
9% Debentures	2,70,000	1,98,000
Accounts Payable	72,000	41,400
Expenses Payable		18,000
	6,94,800	**10,24,200**
Assets		
Land	1,26,000	81,000
Buildings	3,60,000	3,60,000
Accumulated Depreciation on Buildings	-19,800	-37,800
Equipments	1,22,400	3,47,400
Accumulated Depreciation on Equipments	-18,000	-50,400
Stock on hand	10,800	97,200
Accounts Receivable	36,000	1,22,400
Cash on hand	66,600	97,200
Preliminary expenses	10,800	7,200
	6,94,800	**10,24,200**
Profit and loss account of Shiva Ltd.		
Sales		16,02,000
Less: Cost of goods sold	8,37,000	
Operating expenses	3,97,800	
Interest expenses	21,600	
Loss on sale of equipment	3,600	12,60,000
Net income before tax		3,42,000
Provision for Tax		1,17,000
Net income after tax		2,25,000

Additional information:

1. Operating expenses include depreciation of Rs.59, 400 and charges from preliminary expenses of Rs.3, 600.
2. Land was sold at its book value.
3. Cash dividend paid for the year 31-3-2007 amounted to Rs.27, 000 and fully paid bonus shares were given in the ratio of 2 shares for every 3 shares held.
4. Interest expense was paid in cash.
5. Equipment with a cost of Rs.2, 98,800 was purchases for cash. Equipment with a cost of Rs.73, 800 (book Value Rs.64, 800) was sold for Rs.61, 200.
6. Debenture for Rs.18, 000 were redeemed for cash and for Rs.54, 000 were redeemed by converting them into equity shares at par value.
7. Equity shares of Rs.1, 62,000 were issued for cash at par.
8. Income Tax paid during the year amounted to Rs.1, 17,000.

Prepare a cash flow statement (indirect method as per AS-3). (16marks)

(III) M/s G,B,T carried on business as Drapers and Tailors in Tiruchy.The partners G,B and T were in Charge of the Departments X,Y,and Z respectively. The partners are entitled to a remuneration equal to 50% of the profits (without taking the partners remuneration into consideration) of the respective departments of which they are in charge and the balance of the profits are divide among G, B, T in the ratio of 5: 3:2.The following are the balances of the revenue items in the books for the year ending March 31, 2007.

	X	Y	Z
Opening Stock	75,780	48,000	40,000
Purchases	2,81,400	1,61,200	88,800
Sales	3,60,000	2,70,000	1,80,000
Closing stock	90,160	34,960	43,180

Salary	96,000	Advertising	4,500	Rent	21,600	Discount allowed	2,700
Discount received	1,600	Sundry Exenses	24,300	Deprecaition	1,500		

(i) Prepare departmental Accounts for each of the three departments in a columnar form

(ii) Show the distribution of Profits amongst the partners after taking into account the following:

(a) Goods having a transfer price of Rs.21,400 and Rs.1,200 were transferred from Department X and Department Y respectively to department Z .The inter departmental transfers are made at 125% of the cost.

(b) The various items shall be apportioned amongst the three departments in the following proportions:

		X	Y	Z		
1	Rent	2	2	5		
2	Salaries	1	1	1		
3	Depreciation	1	1	1		
4	Discount Received	8	5	3		
5	All other expenses	On the basis of the sales(excluding Inter department Transfers of each depar				

(c) The opening stock of Department Z does not include any goods transferred from other departments, but the closing stock includes Rs.17, 100 valued at the inter – departmental transfer price. (16marks)

(IV)(1)A company wants to switch over from WDV method of providing depreciation to SLM Method. What are the conditions to be followed? Explain the accounting treatment.

(2)As per AS-7 what is contract revenue?

(3)Discuss the treatment relating to revaluation of fixed assets as per AS-10.

(4)Discuss the events that occur after Balance sheet Date.

(4*5=20 marks)

(V)On 1st Jan 2006, Sidhuja had 20,000 equity shares in XXXLtd.Face Value of the shares was Rs.10 each but their book value was Rs.16 pershare.On 1st June 2006,Sindhuja purchased 5,000 more equity shares in the company at a premium of rs.4 per share.
On 30th June, the directors of XXX Ltd.announced a bonus and rights issue. Bonus was declared at the rate of one equity share for every five shares held and these shares were received on 2 nd august, 2006.
The terms of the rights issue were:

(a) Rights shares are to be issued to the existing shareholders on 10th August, 2006.
(b) Rights Issue would entitle the holders to subscribe to additional equity shares in the company at the rate of one share for every 3 shares held at Rs.15 per share-the whole sum being payable by 30th September, 2006.
(c) Existing share holders may, to the extent of their entitlement, either wholly or in part, transfer their rights to outsiders.
(d) Sindhuja exercised her option under the issue for 50% of her entitlements and the balance of rights she sold to Radha for a consideration of Rs.1.50 per share.
(e) Dividends for the year ended 31-3-2006, at the rate of 15% were declared by the company and received by Sindhuja on 20th October, 2006.
(f) On 1st November, 2006, Sindhuja sold 20,000 equity shares at a premium of Rs.3 per share.

The market price of share on 31-12-2006 was Rs.13 .Show the investment account as it would appear in Sindhuja's books on 31-12-2006and the value of shares held on that date. (16 marks)

(VI) A Railway station had to be replaced by a new one. The new station costs only Rs.8,00,000,whereas the old one had cost Rs.2,00,000,material forming 3/7ths of the total expenditure and labour accounting for the rest. Prices of material have doubled and wage rates have gone up 250%since the old station was built. Materials worth Rs.38, 000 were used in the new station and the sale proceeds of the materials were Rs.11, 000.Thesse materials were obtained by pulling down the old station .Pass journal entries and show the total amount to be capitalized and written off. (8marks)

(VII) On 31st March, 2007, Overseas Bank had a balance of Rs.9 crores in "rebate on bills discounted account". During the year ended 31st March 2007,Overseas bank Ltd.discounted bills of exchange of Rs.4,000 crores charging interest at 18% per annum ,the average period of discount being for 73 days. Of these, bills of exchange of RS.600 crores were due for realization from acceptors/customers after 31st March, 2007, the average period outstanding after 31st March, 2007 being 36.5 days. Overseas Bank limited wants you to pass journal entries and show ledger accounts pertaining to

(i) Discounting of bills of exchange ii) Rebate on bills discounted. (8 marks)