PRIME ACADEMY
MODEL EXAM - MAY 2007
ACCOUNTING ANSWERS

Calculation of the number of equity shares and preference shares to be alloted by Laxman Lt

1 (I) **Purchase Consideration :**

Fixed Assets	2,80,000
Stock	7,70,000
Bills receivable	30,000

	20,80,000
Value of equity shares	5,10,000

	15,70,000

No of preference shares = 5,10,(/ 100 = 5,100 preference shares

No of equity shares = 15,70, / 8 = 1,96,250 equity shares

(ii) **Realisation Account**

To Fixed Assets	9,64,000	By Provision for doubtful debts
To Stock	7,75,000	By Bills payable
To Sundry Debtors	1,60,000	By Sundry Creditors
To Bills Receivable	30,000	By provision for income tax
To Bank (bills payable)	38,000	By Bank (debtors)
To Bank (expenses)	8,000	By Laxman ltd (Purchase Conside
To Bank (Tax)	2,20,000	
To Bank (sundry Creditors)	2,13,000	
To equity shareholders	3,16,000	

	27,24,000	

Bank Account

To Balance b/d	3,29,000	By Realisation (Bills payable)
To Realisation (Debtors)	1,50,000	By Realisation (expenses)
		By Realisation (Tax)
		By Realisation (Sundry Creditors) (Bal fig)

	4,79,000	

Equity shareholders Account

To equity shares in Laxman Ltd	15,70,000		By Equity share caplital A/c
To Preference shares in Laxman	5,10,000		By Profit prior to incorporation
			By Contingency reserve
			By Profit & loss A/c
			By Realisation A/c

		20,80,000	

Laxman Ltd A/c

To Realisation	20,80,000	By equity shareholders	
		--- equity shares	15,
		---- preference shares	5,

	20,80,000		

(iii) Journal entries in the books of Laxman Ltd

Fixed Assets A/c	Dr	12,80,000	
Stock A/c	Dr	7,70,000	
Bills Receivable A/c	Dr	30,000	
To liquidation of Ram Ltd			20,80,000
(Being the take over of Assets of Ram Ltd)			
Liquidation of Ram Ltd A/c	Dr	20,80,000	
To equity share capital			15,70,000
To preference share capital			5,10,000
(Being the issue of equity shares and preference shares a consideration for assets taken			

II In the books of Shiva Company Ltd.,

Cash flow statements for the yeat ended 31.03.07
Cash flow from Operating Activity :

Net income before tax	
Add: Depreciation charges	3,42,000
(41400 + 18000)	
Preliminary expenses	59,400
Loss on sale of equipment	3,600
Interest expenses	21,600

Operating Profit before working capital changes	4,30,200

Working Capital changes :

Increase in stock	(86,400)

Increase in Debtors	(86,400)
Decrease in Sundry Creditors	(30,600)
Increase in expenses payable	18,000

Cash generated from Operation :	2,44,800
Less : Taxes paid	1,17,000

Cash Flow from Operating Activities	

Cash flow from Investing Activities

Cash paid for purchase of equipment	(2,98,800)
Inflow from sale of equipment	61,200
Proceeds from Sale of Land	45,000

Cash flow from Investing Activity	

Cash flow from Financing Activity :

Proceeds from issue of Share Capital	1,62,000
Cash paid for redemption of debentures	(18,000)
Cash paid for dividends	(27,000)
Cash paid for interest	(21,600)

Cash flow from Financing activity	

Net Increase in Cash and Cash equivalents

<u>Reconciliation :</u>

Cash at the end of the year
Cash at the beginning of the year

Net increase in cash

Analysis of Non - Current Assets :

Land A/c

To Balance b/d	1,26,000	By Bank (Bal fig)	
		By Balance c/d	

	1,26,000		

Equipment A/c

To Balance b/d	1,22,400	By Disposal A/c	

To Bank A/c	2,98,800	By Balance c/d	

	4,21,200		

Disposal A/c

To Equipment A/c	73,800	By Bank	
		By Loss on sale	
		By Accumulated Depreciation (73,800 - 64,800)	

	73,800		

Preliminary expenses A/c

To Balance B/d	10,800	By P&L A/c	
		By Balance c/d	

	10,800		

Analysis of Non - Current liabilities :

Equity Share Capital A/c

To Balance C/d	3,96,000	By Balance b/d	
		By retained earnings (Bonus) (1,08,000 x 2/3)	
		By Share Application	
		By Debentures	

	3,96,000		

Retained Earnings A/c

To equity share capital (Bonus)	72,000	By Balance b/d	
To Dividend	27,000	By Net profit	
To Balance c/d	3,70,800		

	4,69,800		

9% Debentures A/c

To equity share capital	54,000	By Balance B/d	
To Bank A/c	18,000		
To Balance c/d	1,98,000		

	2,70,000		

Accumulated Depreciation on Building

To Balance c/d	37,800	By Balance b/d	
		By P&L A/c	

	37,800		

Accumulated Depreciation on Equipment

To Disposal A/c	9,000	By Balance b/d	
To Balance c/d	50,400	By P&L A/c	

	59,400		

III (I) **Deparmental Trading and profit and Loss Account**

	Dept X	**Dept Y**	**Dept Z**	
To Opening Stock	75,780	48,000		40,000
To Purchases	2,81,400	1,61,200		88,800
To Transfer				22,600
To Gross profit	1,14,380	96,960		71,780
	4,71,560	3,06,160	2,23,180	
To Salaries (1:1:1)	32,000	32,000		32,000
To Advertising (4:3:2)	2000	1500		1000
To Rent (2:2:5)	4800	4800		12000
To Discount Allowed (4:3:2)	1200	900		600
To Sundry Expenses (4:3:2)	10,800	8,100		5,400
To Depreciation (1:1:1)	500	500		500
To Net Profit	63,330	49,660		20,580
	1,15,180	97,460		72,080

P&L Appropriation Account

To provision for unrealised Profit 17,100 x 25/ 125)	17,100	By Departmental profit	
To Net Profit	**1,30,700**	X -	
		Y -	
		Z -	

	1,34,120		

To Partner's remuneration		By Net profit	
G (1/2 of 63,880) 31,940			
B (1/2 of 49660) 24,830			
T (1/2 of 21,580) 10,290			
--------------	67,060		
G (5/10 of 63,640) 31,820			
B (3/10 of 63,640) 19,092			
T (2/10 of 63,640) 12,728			
--------------	63,640		

	1,30,700		

IV **Accounting Standards** **Third Edition - Revised by M.P. Vijay Kumar**

(1) Pg 35 AS - 6
(2) Pg 41 AS- 7
(3) Pg 60 AS - 10
(4) Pg 23 AS - 4

V **In the books of Sindhiya**

Investment in equity shares of XXX Ltd

Date	Particulars	Number	Cost	Dividend
01.01.06	To Balance b/d	20,000	3,20,000	---
01.06.06	To Bank	5,000	70,000	---
02.08.06	TO Bonus issue	5,000	---	---
30.09.06	To Bank	5,000	75,000	---
31.12.06	To P&L A/c	----	---	$\boxed{\textbf{37,500}}$
		35,000	4,65,000	37,500

<u>Working notes</u>

(1) Opening balance = 20,000 x = 320000
(2) Purchases in June = 5,000 x (10 + 4) = 70,000
(3) Bonus issue = 1 share for every 5 held
No of Shares held = 25,000 shares
Bonus is: = 5,000 shares
(4) Right's issue = 1 share for every 3 shares held
No of Shares held = 30,000
Right's = 10,000 shares
Of the 10,000 - 50% sold = 5,000 x 1.5 = Rs 7,500
- 50% Subscribe = 5,000 x 15 = 75,000
(5) Dividend @ 15 % diclared on 25,000 shares = 25,000 x 10 x 15 / 100 = 37,500

Shares held at the beginning of the year = 20,000 x 10 x 15 /100
Dividend for the year = 30,000
Shares newly acquired = 5,000 x10 x15 / 100
Pre acquisition dividend = 7,500
Sale of Shares = 20,000 x 13 = 2,60,000

End of Accounting year Valuation of Closing stock of shares

Cost :

	Number	**Cost**
Opening	20,000	3,20,000
Purchases	5,000	70,000
Bonus	5,000	---
Rights	5,000	75,000
Pre - acqusition dividend	---	(7,500)
	------------	-----------------
	35,000	4,57,500

Cost of 15,000 shares = 4,57,500 x 15,000 /35,000
Market price of 15,000 shares = 15,000 x 13 = 1,95,000
Value of stock = Cost or market price whichever is lower

Value of closing stock = 1,95,000

VI **Journal**

Replacement A/c	Dr	5,33,429	
New station A/c	Dr	2,28,571	
To Bank			7,62,000

(Being the amount written off and capitalised out of the
Total cash spent ie .. Rs 8,00,000 - 38,000)

Bank A/c	Dr	11,000	
To Replacement A./c			11,000

(Being the sale proceeds of old materials obtained by pulling down the old station)

New station A/c	Dr	38,000			
To Replacement A/c					38,000

(Being the materials of old station used for the new station)

Revenue A/c	Dr	4,84,429		
To Replacement A/c			4,84,429	

(Being the balance in replacement A/c transferred to Revenue A/c)

Discount on Bills A/c	Dr	10.8	
To Rebate on Bills discounted			10.8

(Being the unexpired portion of discount inrespect of the discounted bills carried forward

Discount on bills A/c	Dr	142.2	
To Profit & Loss A/c			142.2

(Being the amount of income for the year from discounting of bills of exchange transferre

Discount on Bills A/c

31.03.07	To Rebate on Bills discounted	10.8	01.04.06	Rebate on bills discounted
31.03.07	To profit & Loss	142.2	06- 07	By Bills purchased discounted
		------------------		
		153		

Rebate on Bills discounted A/c

01.04.06	To Discount in bills A/c	9	01.04.06	By Balance b/d
	To Balance c/d	10.8	31.03.07	By Discount on bills A/c

		19.8		

Working notes :

(1) Total cost of the station = Rs 2,00,000
Materials = Rs 85,714

1,14,286
----

(2) Present Cost :
Materials = 85,714 x 2 = 1,71,428
Labour = 1,14,286 x 350 /100 = 4,00,001

5,71,429
----

(3) Amount to be capitalised = 8,00,000 - 5,71,4 = 2,28,571

VII Uncertain Bank Ltd (Rs in Crores)

Rebate on bills discounted A/c	Dr	9	
To Discount in Bills			9
(Being the transfer of rebate in bills discounted opening balance to discount on bills A/c)			
Bills purchased and discounted A/c	Dr	4,000	
To Discount on bills A/c			144
(4,000 x 18/100 x 73/365)			3,856
To Client A/c			
(Being the discounting of bills of exchange during the year)			

td

	8,000
	40,000
	2,26,000
	2,20,000
	1,50,000
leration)	20,80,000

	27,24,000

	38,000
	8,000
	2,20,000
)	$\boxed{2,13,000}$

	4,79,000

12,00,000
42,000
2,70,000
2,520,000
3,16,000

20,80,000

,70,000
5,10,000
-------- 20,80,000

20,80,000
----

n over from Ram Ltd)

1,27,800

(1,92,600)

95,400

30,600

97,200
66,600

30,600

45,000
81,000

1,26,000

73,800

3,47,400

4,21,200

61,200
3,600

9000

73,800

$\boxed{\textbf{3,600}}$
7,200

10,800

1,08,000

72,000
1,62,000
54,000

3,96,000

2,44,800
2,25,000

4,69,800

2,70,000

2,70,000

19,800
$\boxed{\textbf{18,000}}$

37,800

18,000
$\boxed{41,400}$

59,400

	Dept X	**Dept Y**	**Dept Z**
By Sales	3,60,000	2,70,000	1,80,000
By Transfer to Z	21,400	1,200	NIL
By Closing stock	90,160	34,960	43,180
	4,71,560	3,06,160	2,23,180

By Gross profit	1,14,380	96,960	71,780
By Discount received (8:5:3)	800	500	300
	1,15,180	97,460	72,080

63,880	
49,660	
20,580	
-----------------	1,34,120

	1,34,120

1,30,700

1,30,700

Date	Particulars	Number	Cost	Dividend
30.09.06	By Bank (Sale of rights)	---	---	7,500
20.10.06	By Bank (Dividend)	---	7,500	30,000
01.11.06	By Bank	20,000	2,60,000	---
31.12.06	By P&L A/c		**2,500**	
31.12.06	By Balance (	15,000	1,95,000	---
		35,000	4,65,000	37,500

= 196071

l)

ed to profit & Loss A/c)

9
144

153

9
10.8

19.8
