

Agashi Virar Arnala Education Society's
Padmashree Bhausaheb Vartak College

**Financial Accounting Sem IV
Question Bank**

Profit- Prior to Incorporation

1) the promoters of the proposed new company ZEDO ltd. purchased a running business on 1st January,2017 from MR.antonio. the new company was incorporated on 1st may,2017 . the profit and loss account for the year ended 31st December ,2017 was as under :

Particular	Rs	Particular	Rs
Rent,rates ,insurance ,electricity	24000	Gross profit	300000
Directors sitting fees	7200	Discount received	12000
Preliminary expenses	9800		
Selling expenses	11000		
Interest paid to vendors	20000		
Net profit	240000		

Following further information available:

Sales upto 30 april,2017 was rs 600000 out of total purchase of 1800000 of the year . intrest paid to vendors was @ 12% on rs 200000 p.a till the payment was made. From the above information, prepare statement of profit and loss for the year ended 31st December, 2017 showing pre and post-incorporation profits and how it will be treated in account.

2) xyz limited was incorporated on 1st July,2016 to acquire the business from 1st April,2016. It commenced its business on 1st august,2016. Its profit and loss account for the year ending 31st march ,2017 is as under .

Particular	Rs	Particular	Rs
To office salaries	60000	By gross profit b/d	520000
To selling commission	78000		
To carriage outward	42250		
To rent and taxes	120000		
To debenture interest	25400		
To printing and stationery	15000		
To advertising expenses	65000		
To net profit	114350		
	520000		520000

Additional information:

Sales for the pre-incorporation period was @ rs 500000 pre month. Total sales for the year ended 31st march ,2017 was rs 6500000 prepare statement of profit and loss in the columnar form for the year ending 31st march,2017 allocating various items an suitable basis in pre-incorporation and post incorporation period

3) Sachin Ltd. was incorporated to take over the running business of Tendulkar bros. w.e.f. 1st April, 2016. The company was incorporated on 1st August, 2016 and it commenced its business on 1st October, 2016. The following information was available from the books of accounts which were closed on 31st March, 2017.

Particular	Rs
Gross profit	350000
Less: office salaries	-----135000
Office expenses	-----45000
Travelling expenses	-----24600
Office rent	-----48000
Salesman's commission	-----24500
Depreciation	-----10500
	287600
Net profit	62400

Additional information :-

1. Sales were 2,50,000 p.m. during pre-incorporation period, while total sales for the year were 35,00,000. The sales arose evenly throughout the concerned period.
 2. Office rent was 42,000 p.a. It became ₹54,000 p.a. from the date of commencement of business.
 3. Travelling expenses included ₹3,600 incurred by the office staff and balance by the sales staff.
 4. Depreciation included 3,000 for the asset acquired in post-incorporated period.
 5. Salaries included Partner's salaries 30,000 while the remaining salary was for the office staff.
- Prepare Statement of Profit and Loss for the year ended 31st March, 2017 in the columnar form showing profit or loss during the Pre-incorporation and Post-incorporation period separately.

4) Ameya Ltd. was incorporated on 1st August, 2016 to take over a running partnership business with effect from 1st April 2016. Following are the details of income and expenses for the year ended 31st March 2017 :

Particulars	Rs	Rs
Gross profits	-----	1920000
Less: expenses	-----	
Directors fees	-----98000	
Rent	-----171000	
Bad debts	-----24000	
Salaries	-----366000	
Interest on debentures	---48000	
Depreciation	-----132000	
Preliminary expenses written off	---84000	
General expenses	-----98400	
Commission on sales	-----72000	
Printing and stationery	-----186000	
Advertisement expenses	-----241000	
Audit fees	-----117200	
Carriage outward	-----145600	
Electricity charges	-----88800	
Insurance premium	-----48000	1920000
Net profit		Nil

Additional information :-

a) Rent is paid on the basis of floor space occupied. Floor space occupied was doubled in the post incorporation period.

b) Sales for each month of December, 2016 to March, 2017 were double the monthly sales of April 2016 to November, 2016.

c) Audit fees is for the entire year.

d) Bad debts 1,000 were in respect of sales effected two years ago.

e) Mr. Amog was a working partner in the firm entitled to a remuneration @ 24,000 per month. From 1st August 2016, he was made the Managing Director of the company and was entitled to a salary @30,000 per month. The remaining salary is to two clerks employed during the period from 1st July, 2016 to 30th November 2016.

Prepare a statement showing profits for the per and post incorporation period separately.

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Redemption of Debenture

1) A company issued 10,000 - 8% Debentures of ₹100 each at par on 01-01-2010 - redeemable on 31-12-2013 at par. The company decided to invest money outside business to provide funds for redemption. The outside investments were made @ 5% p.a. on the last day of each year. On 31st December, 2013, the company sold all investments for ₹7,25,000 and redeemed the 8% Debentures. The Sinking Fund value of ₹ 1 @ 5% interest for 4 years is 0.23012.

Prepare for all the four years:

- 1) 8% Debentures Account.
- 2) sinking fund account
- (3) Sinking Fund Investment Account

Note: Calculations to be rounded off to the nearest rupee.

2) Hindustan Pvt. Ltd. had issued 5000 -12% debentures of ₹ 100 each redeemable on 31-12-2013 at par

The Company offered three options to the debenture holders as under:

- (i) 14% Preference shares of 10 each at 12.
- (ii) 15% Debentures of 100 each at par.
- (iii) Redemption in cash.

The options were accepted as under:

- Option (i) by holders of 1500 debentures
Option (ii) by holders of 1500 debentures
Option (iii) by holders of 2000 debentures.

The redemption was carried out by the Co.

Pass journal entries in the books of Hindustan Pvt. Ltd. without narration. Company decided to use the minimum amount of profits required by law.

3) Hindustan Manufacturing Limited gave notice of its intention to redeem its 6% Debenture, amounting to ₹4,00,000 of ₹ 100 each at ₹ 102 and offered the debenture holders the following three options to apply the redemption money to subscribe for :

- (a) 5% cumulative preference shares of ₹20 each at ₹ 22.50 per share. (b) 6% debenture at ₹ 96 and
- (c) to have their holdings redeemed for cash.

Debenture holders for ₹ 1,71,000 accepted the proposal (a)

Debenture holders for ₹ 1,44,000 accepted the proposal (b)

Remaining debenture holders accepted the proposal (c).

Pass the necessary journal entries to record the above transactions in the books of the company. The redemption in cash, wherever applicable, was made fully out of profit.

4) Prudence Ltd. redeemed ₹ 50,00,000; 12% Debentures at a premium of 5% fully out of profit on 30th Sept., 2018. The company had a Debenture Redemption Reserve of ₹10,00,000. For the purpose of redemption of debentures, apart from creating Debenture Redemption Reserve the Company complied with the necessary statutory provisions in such a manner so as to utilize the funds of the company to the minimum possible extent. Pass necessary journal entries for the redemption of debentures.

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Redemption of Preference share

1) A Company has 4,000 redeemable preference shares of ₹ 100 each, fully paid. The company decides to redeem these shares on December 31, 2017 at a premium of 5%. The company makes the following issues:

- (a) 1,000 Equity Shares of ₹ 100 each at a premium of 10%.
- (b) 1,000 Debentures of ₹ 100 each.

The issues were fully subscribed and allotments were made. The redemption was duly carried out. The company has sufficient profits. Give Journal entries to record the above transactions

2) balance sheet of shiva ltd. on 31st march ,2017 was as under:

Liabilities	Rs	Assets	Rs
10% preference shares of rs 100 each fully paid .	500000	Fixed assets	1100000
Equity shares of rs 10 each fully paid	1000000	Investment	400000
Securities premium	400000	Bank	90000
General reserve	300000	Other current assets	1400000
8% debentures of rs 100 each	400000	Preliminary expenses	10000
Current liabilities	400000		
	3000000		3000000

On the above date the company decided to redeem its preference shares at 10% premium. For this purpose the company sold its investments at a profit of 10% and issued 25,000 equity shares of ₹ 10 each at par. Preference Shares were duly redeemed. All the money under new issue was received and all money on redemption was paid. You are required to give necessary journal entries for the above transactions keeping in view all the legal requirements

3) following is the balance sheet of zarkal auto ltd.as on 31-3-2017:

liabilities	Rs	Assets	Rs
3000 -9%redeemable preference share of rs 100 each rs 80 paid up	240000	Fixed assets	1200000
120000 equity share of rs 10 each fully paid	1200000	Investment (at cost)	290000
Revenue reserve	150000	Bank balance	170000
8% debentures	200000	Other current assets	400000
Current liabilities	270000		
	2060000		2060000

On the above date 9% Preference Shares were redeemable at a premium of 5%.

1. The company made final call of 20 per share on these shares. All the shareholders paid the call money.

2. The company issued 20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share for cash consideration. The issue was fully subscribed and paid for.
3. Part of the investments were sold for 1,32,000 at a profit of 10% on cost.
4. The company redeemed the preference shares as per the terms. One preference shareholder holding 100 shares was untraceable, hence payment could not be made to him.

You are required to pass necessary Journal Entries in the books of Zakal Auto Ltd. to record the above transactions.

4) following is the balance sheet of Prakash Ltd. as on 31st March, 2017 :

Liabilities	Rs	Assets	Rs
2000-8% redeemable preference shares of rs 100 each ,fully paid	200000	Fixed assets	1575000
100000 equity shares of rs 10 each ,fully paid	1000000	Bank	218000
Securities premium	35000	Investments (market value rs 190000)	150000
Profit and loss account	450000		
Sundry creditors	258000		
	1943000		1943000

on the above date, the directors of the company took following steps to redeem 8% preference shares at a premium of 5%.

- a) The company issued 4,000 Equity Shares of ₹ 10 at a premium of 2 per share for the purpose of redemption of preference shares.
- b) Investments were sold at market price.
- c) All the payments were made to the Preference Shareholders except those holding 100 shares who could not be traced.

You are required to:

- 1) Pass necessary Journal Entries in the books of Prakash Limited complying with requirements of Companies Act, 2013.
- 2) Prepare the Balance Sheet of the company after redemption of Preference Shares.

Theory Questions

- A. What are the different types of companies ?
- B. Explain the procedure for issue of shares
- C. Explain different types of debenture
- D. Distinguish Between shares and debenture

Short Notes

- a. Book Building
- b. Capital Reserve
- c. Wasting Assets
- d. Securities Premium
- e. Bonus Shares
- f. ESCROW Account
- g. Divisible Profit
- h. Profit Prior to Incorporation
- i. Sweat Equity Shares
- j. Source of Bonus Share
- k. Debenture Redemption Reserve
- l. Not – Divisible Profits

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