

J.K. SHAH[®]

**TEST
SERIES**



SUGGESTED SOLUTION

CA FOUNDATION

SUBJECT- ACCOUNTS

Test Code – JMU 2407

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

Answer: 1

Journal Entries in the Books of the Company

Date	Particulars	L.F.	Debit	Credit
2022			Amount	Amount
			(Rs.)	(Rs.)
Jan. 31	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 10,000 shares @ Rs. 25 per share)		2,50,000	2,50,000
March 1	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 10,000 shares to share capital)		2,50,000	2,50,000
March 1	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ Rs. 30 per share)		3,00,000	3,00,000
April 1	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		3,00,000	3,00,000
June 1	Equity Share First Call A/c Dr. To Equity Share Capital A/c (First call money due on 10,000 shares @ Rs. 20 per share)		2,00,000	2,00,000
July 1	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share First Call A/c To Calls-in-Advance A/c (First call money received on 9000 shares		1,92,500 20,000	2,00,000 12,500

and calls-in-advance on 500 shares @
Rs. 25 per share)

(8 Marks)

Answer: 2

Journal Entries in the books of Kapil Limited

Date	Particulars	Rs.	Rs.
2022 March 1	Bank A/c Dr. To Debentures Application A/c (Being the money received on 50,000 debentures @ Rs. 110 each including premium of Rs. 10 each)	55,00,000	55,00,000
March 9	Debentures Application A/c Dr. To 12% Debentures A/c To Securities Premium A/c (Being the allotment of 50,000 debentures of Rs. 100 each, premium @ Rs. 10 each transferred to Securities Premium Account as per Board's Resolution No....dated....)	55,00,000	50,00,000 5,00,000

(6 Marks)

Answer: 3

Journal Entries in the Books of Case Ltd.

	Dr.Rs.	Cr.Rs.
Bank A/c Dr. To Equity Shareholders A/c (Application money received on 7,500 shares @ Rs.15 per share to be issued as rights shares in the ratio of 1:4)	1,12,500	1,12,500
Equity Shareholders A/c Dr. To Equity Share Capital A/c To Securities Premium A/c	1,12,500	75,000 37,500

(Share application money on 7,500 shares @ Rs. 10 per share transferred to Share Capital Account, and Rs. 5 per share to Securities Premium Account vide Board's Resolution dated...)			
Securities Premium A/c	Dr.	37,500	
Profit & Loss A/c	Dr.	37,500	
To Bonus to Shareholders A/c			75,000
(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
Bonus to Shareholders A/c	Dr.	75,000	
To Equity Share Capital A/c			75,000
(Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated...)			
12% Debentures A/c	Dr.	1,80,000	
Premium Payable on Redemption A/c (@ 3%)	Dr.	5,400	
To Debenture holders A/c			1,85,400
(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	5,400	
To Premium Payable on Redemption A/c			5,400
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	18,000	
To General Reserve			18,000
(For DRR transferred to general reserve)			
Bank A/c	Dr.	27,000	
To Debenture Redemption Reserve Investment			27,000
(for DRR Investment realised)			
Debenture holders A/c	Dr.	1,85,400	
To Bank A/c			1,85,400
(Amount paid to debenture holders on redemption)			

(8 Marks)

Answer: 4

A company limited by shares if so authorised by its Articles, may issue preference shares which at the option of the company, are liable to be redeemed within a period, normally not exceeding 20 years from the date of their issue. It should be noted that:

- (a) no shares can be redeemed except out of divisible or distributable profit, (i.e. out of the profit of the company which would otherwise be available for dividend) or out of proceeds of fresh issue of shares made for the purpose of redemption;
- (b) no such shares can be redeemed unless they are fully paid;
- (c) (i) in case of such class of companies, as may be prescribed and whose financial statement comply with the accounting standards prescribed for such class of companies under Section 133, the premium, if any, payable on redemption shall be provided for out of the profits of the company, before the shares are redeemed: Provided also that premium, if any, payable on redemption of any preference shares issued on or before the commencement of this Act by any such company shall be provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed.
(ii) in case of other companies (not falling under (i) above), the premium, if any payable on redemption shall be provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed. (Refer to the Note given in para 5.4.1 for the basis applied in the Illustrations in this Chapter.)
- (d) where any such shares are proposed to be redeemed out of the profits of the company, there shall, out of the divisible profits, i.e. the profits which would otherwise have been available for dividends, be transferred to a reserve account to be called Capital Redemption Reserve Account, a sum equal to the nominal amount of the shares redeemed; and the provisions of the Act relating to the reduction of the share capital of a company shall, except as provided in the Section, apply as if the Capital Redemption Reserve (CRR) Account were the paid-up share capital of the company. The utilisation of CRR Account is further restricted to issuance of fully paid-up bonus shares only.

From the legal provision outlined above, it is apparent that on the redemption of redeemable preference shares out of accumulated divisible profits, it will be necessary to transfer to the Capital Redemption Reserve Account an amount equal to the amount repaid on the redemption of preference shares on account of face value less proceeds of a fresh issue of shares made for the purpose of redemption. The object is that with the repayment of redeemable preference shares, the security for creditors/ bankers, etc. should not be reduced. At times, a part of the preference share capital may be redeemed out of accumulated divisible profits and the balance out of a fresh issue.

(6 Marks)

Answer: 5

Journal Entries in the books of Mars Ltd.

2022		Dr. Rs.	Cr. Rs.
April 1	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Final call of Rs. 2 per share on 4,00,000 equity shares made due)	8,00,000	8,00,000
April 25	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on equity shares received)	8,00,000	8,00,000
May 1	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. General Reserve A/c Dr. Profit and Loss A/c (b.f.) Dr.	2,40,000 2,75,000 1,60,000 3,25,000	
	To Bonus to Shareholders A/c (Bonus issue of one shares for every four shares held, by utilising various reserves as per Board's resolution dated.....)		10,00,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalisation of profit)	10,00,000	10,00,000
June 20	Bank A/c Dr. To Securities Premium A/c To Equity Share Capital A/c (Being Rights issue of 2 shares for every 5 shares held as per board resolution dated)	24,00,000	4,00,000 20,00,000

(8 Marks)

Answer: 6

(i) Foreign Company

According to Section 2 (42) of the Companies Act, 2013, "Foreign company" means any company or body corporate incorporated outside India which –

- (a) Has a place of business in India whether by itself or through an agent physically or through electronic mode; and
- (b) Conducts any business activity in India in any other manner.

(ii) Small Company

Section 2(85) of the Companies Act, 2013 defines "Small company" means a company, other than a public company.

- (i) paid-up share capital of which does not exceed four crores rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; or
- (ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed forty crores rupees or such higher amount as may be prescribed which shall not be more than hundred crore rupees. Provided that nothing in this clause should apply to:
 - (A) a holding company or a subsidiary company
 - (B) a company registered under section 8
 - (C) a company or body corporate governed by any special Act

(4 Marks)

State with reason whether following statements are true or false

- i.** True: Only the shares of public company are listed on stock exchange. Every listed company is a public company.
- ii.** False. Right shares are normally offered at a price less than the cum-right value of the share, causing dilution in its value post-right issue.
- iii.** False: When shares are redeemed by utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve account by debiting the distributable profit.
- iv.** False: under payment in instalments method, the payment of specified portion of debentures are made in instalments at specified intervals.
- v.** True: Convertible debentures can be converted into equity share after a certain period of time from the date of its issue.

(2*5 Marks)