

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

Attempt **all** the questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Time Allowed: 35 Minutes

Maximum Marks: 20

Question – 1:

Sushil Limited had 10,000, 10% Redeemable Preference Shares of Rs. 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

- (i) 80,000 Equity Shares of Rs. 10 each at par.
- (ii) 4,000 12% Debentures of Rs. 100 each.

The issue was fully subscribed and all accounts were received in full. The payment was duly made. The company had sufficient profits. Show journal entries in the books of the company.
(10 Marks)

Answer:

In the books of Sushil Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 80,000 equity shares of ₹ 10 each at par as per Board's resolution No.....dated.....)	Dr.	8,00,000	8,00,000
	Bank A/c To 12% Debenture A/c (Being the issue of 4,000 Debentures of ₹ 100 each as per Board's Resolution No.....dated.....)	Dr.	4,00,000	4,00,000

10% Redeemable Preference Share Capital A/c	Dr.	10,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	1,00,000	
To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)			11,00,000
Preference Shareholders A/c	Dr.	11,00,000	
To Bank A/c (Being the amount paid on redemption of preference shares)			11,00,000
Profit & Loss A/c	Dr.	1,00,000	
To Premium on Redemption of Preference Shares A/c (Being the adjustment of premium on redemption against Profits & Loss Account)			1,00,000
Profit & Loss A/c	Dr.	2,00,000	
To Capital Redemption Reserve A/c (Working Note) (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			2,00,000

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed

Rs. 10,00,000

Less: Proceeds from new issue

(Rs. 8,00,000)

Balance

Rs. 2,00,000

Question 2:

Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

- No. of partly convertible debentures issued- 2,00,000; face value and issue price- Rs. 100 per debenture.
- Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
- Date of closure of subscription lists- 1.5.2021, date of allotment- 1.6.2021, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs. 60 (Face Value Rs. 10).
- No. of debentures applied for- 2,00,000.
- Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022 (including cash and bank entries).

(10 marks)

Answer:

Journal Entries in the books of Libra Ltd.

Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>Amount ₹ Dr.</i>	<i>Amount ₹ Cr.</i>
1.5.2021	Bank A/c Dr. To Debenture Application A/c (Application money received on 1,50,000 debentures @ ₹ 100 each)	2,00,00,000	2,00,00,000
1.6.2021	Debenture Application A/c Dr. To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)	2,00,00,000	2,00,00,000
1.6.2021	Debenture Redemption Investment A/c Dr. To Bank A/c (2,00,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)	12,00,000	12,00,000

30.9.2021	Debenture Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 2,00,00,000)	Dr.	10,00,000	10,00,000
31.10.2021	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)	Dr.	1,20,00,000	20,00,000 1,00,00,000
31.3.2022	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year) (Refer working note)	Dr.	7,50,000	7,50,000

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2022

On ₹ 80,00,000 for 6 months @ 15%	= ₹6,00,000
On ₹ 1,20,00,000 for 1 months @ 15%	= ₹ 1,50,000
	<u>₹7,50,000</u>