PAPER – 1 : ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS-3 for the year ended 31st March, 2018?*

- (i) *10% Debentures issued: As on 01-04-2017 ₹ 1,10,000*
  As on 31-03-2018 ₹ 77,000
- (ii) *Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.*
- (iii) *Unpaid Interest on Debentures: As on 01-04-2017 ₹ 275*
  As on 31-03-2018 ₹ 1,175
- (iv) *Debtors of ₹ 36,000 were written off against the Provision for Doubtful Debts A/c during the year.*
- (v) *10% Bonds (Investments): As on 01-04-2017 ₹ 3,50,000*
  As on 31-03-2018 ₹ 3,50,000
- (vi) *Accrued Interest on Investments: As on 31-03-2018 ₹ 10,500*

(b) *State whether the following statements are 'True' or 'False'. Also give reason for your answer.*

- (i) *Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.*
- (ii) *If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.*
- (iii) *All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.*
- (iv) *Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the fact need not to be indicated.*

(v) There is no single list of accounting policies which are applicable to all circumstances.

(c) Som Ltd. agreed to takeover Dove Ltd. on 1st April, 2018. The terms and conditions of takeover were as follows:

(i) Som Ltd. issued 56,000 equity shares of ₹ 100 each at a premium of ₹ 15 per share to the equity shareholders of Dove Ltd.

(ii) Cash payment of ₹ 39,000 was made to equity shareholders of Dove Ltd.

(iii) 24,000 fully paid preference shares of ₹ 50 each issued at par to discharge the preference shareholders of Dove Ltd.

(iv) The 8% Debentures of Dove Ltd. (₹ 78,000) converted into equivalent value of 9% debentures in Som Ltd.

(v) The actual cost of liquidation of Dove Ltd. was ₹ 23,000. Liquidation cost is to be reimbursed by Som Ltd. to the extent of ₹ 15,000.

You are required to:

(1) calculate the amount of purchase consideration as per the provisions of AS-14 and

(2) pass Journal Entry relating to discharge of purchase consideration in books of Som Ltd.

(d) Explain 'Bearer Plant' & 'Biological Asset' as per AS-10. ***(4 Parts x 5 Marks = 20 Marks)***

Answer

(a) Cash Flow Statement of M/s GAGAN Ltd. for the year ended March 31, 2018

A	**Cash Flow from Operating Activities**	
	Net Profit as per Profit & Loss A/c	--------
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
B	**Cash Flow from Investing Activities**	
	Interest on Investments [35,000-10,500]	24,500
C	**Cash Flow from Financing Activities**	
	Interest on Debentures paid [11,000 - (1,175 - 275)]	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium]	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

(b) (i) False; As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) False; As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) True; To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

(iv) False; Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(v) True; As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

(c) As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

(i) Computation of Purchase Consideration:

		₹
(a)	Preference Shares: ₹ 50 per share	
	24,000 Preference shares	12,00,000
(b)	Cash	39,000
(c)	Equity shares: 56,000 equity shares in	
	Som Ltd. @ ₹ 115	64,40,000
		76,79,000

(ii) Journal entry

		₹	₹
Liquidator of Dove Ltd.	Dr.	76,79,000	

To Cash	39,000
To Preference Share Capital A/c	12,00,000
To Equity Share Capital A/c	56,00,000
To Securities Premium A/c	8,40,000
[56,000 x 15 (115-100)]	

(Payment of cash and issue of shares in satisfaction of purchase consideration)

(d) As per AS 10 Property, Plant and Equipment

Bearer plant is a plant that

(a) is used in the production or supply of agricultural produce;

(b) is expected to bear produce for more than a period of twelve months; and

(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

(d) The following are **not bearer plants**:

(i) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);

(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and

(iii) annual crops (for example, maize and wheat).

When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

Biological Asset is a living animal or plant.

Question 2

On 31st March, 2018, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31st March, 2018.

Particulars	*Amount (₹)*	
	Debit	*Credit*
Equity Share Capital, fully paid shares of ₹ 50 each		*80,00,000*
Calls in arrear	*15,000*	
Land	*25,00,000*	
Buildings	*30,00,000*	

Plant & Machinery	*24,00,000*	
Furniture & Fixture	*13,00,000*	
Securities Premium		*15,00,000*
General Reserve		*9,41,000*
Profit & Loss Account		*5,80,000*
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		*26,30,000*
Other Long Term Loans		*22,50,000*
Short Term Borrowings		*4,60,000*
Inventories: Finished goods	*45,00,000*	
Raw materials	*13,00,000*	
Trade Receivables	*17,50,000*	
Advances: Short Term	*3,75,000*	
Trade Payables		*8,13,000*
Provision for Taxation		*3,80,000*
Unpaid Dividend		*70,000*
Cash in Hand	*70,000*	
Balances with Banks	*4,14,000*	
Total	***1,76,24,000***	***1,76,24,000***

The following additional information was also provided in respect of the above balances:

(1) 50,000 fully paid equity shares were allotted as consideration for land.

(2) The cost of assets were:

Building	*₹ 32,00,000*
Plant and Machinery	*₹ 30,00,000*
Furniture and Fixture	*₹ 16,50,000*

(3) Trade Receivables for ₹ 4,86,000 due for more than 6 months.

(4) Balances with banks include ₹ 56,000, the Naya bank, which is not a scheduled bank.

(5) Loan from Public Finance Corporation repayable after 3 years.

(6) The balance of ₹ 26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹ 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.

(7) Other long term loans (unsecured) includes:

Loan taken from Nixes Bank	*₹ 13,80,000*
(Amount repayable within one year	*₹ 4,80,000)*
Loan taken from Directors	*₹ 8,50,000*

(8) Bills Receivable for ₹ 1,60,000 maturing on 15th June, 2018 has been discounted.

(9) Short term borrowings includes:

Loan from Naya bank	*₹ 1,16,000 (Secured)*
Loan from directors	*₹ 48,000*

(10) Transfer of ₹ 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.

(11) Inventory of finished goods includes loose tools costing ₹ 5 lakhs (which do not meet definition of property, plant & equipment as per AS-10)

You are required to prepare the Balance Sheet of the Company as on March 31st 2018 as required under Part - I of Schedule III of the Companies Act, 2013.

You are not required to give previous year figures. ***(16 Marks)***

Answer

SR Ltd.

Balance Sheet as on 31st March, 2018

		Particulars	*Notes*	*Figures at the end of current reporting period (₹)*
Equity and Liabilities				
1		Shareholders' funds		
	a	Share capital	1	79,85,000
	b	Reserves and Surplus	2	30,21,000
2		Non-current liabilities		
	a	Long-term borrowings	3	42,66,000
3		Current liabilities		
	a	Short-term borrowings	4	4,60,000
	b	Trade Payables		8,13,000
	c	Other current liabilities	5	6,84,000
	d	Short-term provisions	6	3,80,000
		Total		1,76,09,000

Assets				
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	7	92,00,000
2		Current assets		
	a	Inventories	8	58,00,000
	b	Trade receivables	9	17,50,000
	c	Cash and cash equivalents	10	4,84,000
	d	Short-term loans and advances		3,75,000
		Total		1,76,09,000

Notes to accounts

			₹
1.	Share Capital		
	Equity share capital		
	Issued, subscribed and called up		
	1,60,000 Equity Shares of ₹ 50 each (Out of the above 50,000 shares have been issued for consideration other than cash)	80,00,000	
	Less: Calls in arrears	(15,000)	79,85,000
	Total		79,85,000
2.	Reserves and Surplus		
	General Reserve	9,41,000	
	Add: Transferred from Profit and loss account	35,000	9,76,000
	Securities premium		15,00,000
	Surplus (Profit & Loss A/c)	5,80,000	
	Less: Appropriation to General Reserve (proposed)	(35,000)	5,45,000
			30,21,000
3.	Long-term borrowings		
	Secured: Term Loans		
	Loan from Public Finance Corporation [repayable after 3 years (26,30,000 - ₹ 1,34,000 for interest accrued but not due)]		24,96,000

	Secured by hypothecation of land			
	Unsecured			
	Bank Loan (Nixes bank) (₹ 13,80,000 - ₹ 4,80,000 repayable within 1 year)	9,00,000		
	Loan from Directors	8,50,000		
	Others	20,000		17,70,000
	Total			42,66,000
4.	Short-term borrowings			
	Loan from Naya bank (Secured)		1,16,000	
	Loan from Directors		48,000	
	Others		2,96,000	4,60,000
5.	Other current liabilities			
	Loan from Nixes bank repayable within one year		4,80,000	
	Unpaid dividend		70,000	
	Interest accrued but not due on borrowings		1,34,000	6,84,000
6.	Short-term provisions			
	Provision for taxation			3,80,000
7.	Tangible assets			
	Land			25,00,000
	Buildings		32,00,000	
	Less: Depreciation		(2,00,000)	30,00,000
	Plant & Machinery		30,00,000	
	Less: Depreciation		(6,00,000)	24,00,000
	Furniture & Fittings		16,50,000	
	Less: Depreciation		(3,50,000)	13,00,000
	Total			92,00,000
8.	Inventories			
	Raw Material		13,00,000	
	Finished goods		40,00,000	
	Loose tools		5,00,000	58,00,000
9.	Trade receivables			
	Outstanding for a period exceeding six months			4,86,000

	Others		12,64,000
	Total		17,50,000
10.	Cash and cash equivalents		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with others banks	56,000	4,14,000
	Cash in hand		70,000
	Total		4,84,000
11.	Contingent Liabilities and Commitments (to the extent not provided for)		
	Contingent Liabilities:		
	Bills discounted but not matured		1,60,000

Question 3

(a) A partnership firm M/s. Nice Sons was carrying on business from 1st May, 2017. The partners of the firm decided to convert the partnership firm into a private company called Zenith (P) Ltd. with effect from 1st September, 2017. The annual accounts were drawn upto 31st March, 2018. The summarised Profit and Loss Account from 1st May, 2017 to 31st March, 2018 is as follows:

Particulars		*Amount (₹)*
Turnover		*55,20,000*
Interest on Investment		*60,000*
Profit on sale of Investment		*42,000*
		56,22,000
Less:		
Cost of goods sold	*34,50,000*	
Printing & Stationery	*77,000*	
Manager's Salary	*82,000*	
Audit Fees	*41,000*	
Rent	*1,33,000*	
Bad Debts	*33,000*	
Underwriting Commission	*56,000*	
Depreciation	*71,500*	
Interest on Debentures	*8,900*	

Advertising campaign expenses	*69,800*	
Sundry office expenses	*1,06,700*	
Interest on borrowings	*1,25,000*	
		42,53,900
Net Profit		***13,68,100***

Additional Information Provided:

(1) The company's only borrowing was a loan of ₹ 15,00,000 at 9% p.a., to pay the purchase consideration due to the firm and for working capital requirements. The loan was taken on 1st September, 2017.

(2) The company occupied additional space from 1st September, 2017 for which rent of ₹ 8,000 per month was incurred.

(3) Audit fee pertains to the company.

(4) Bad debts recovered amounting to ₹ 36,000 for a sale made in June 2017, has been deducted from bad debts mentioned above.

(5) All investments were sold in August 2017.

(6) Zenith (P) Ltd. initiated an advertising campaign on 1st September, 2017, which resulted increase in monthly average sales by 40%.

(7) The salary of Manager was increased by ₹ 3,000 p.m. from 1st July, 2017.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March 2018. ***(8 Marks)***

(b) M/s. Heavy keeps self-balancing ledgers. From the following information available, you are required to prepare Debtors Ledger Adjustment Account in the General Ledger and General Ledger Adjustment Account in Creditors Ledger for the year ended 31st March, 2018:

(a) Debtor's Ledger Adjustment Account balance as on 01-04-2017 (Dr.) ₹ 8,78,500 & (Cr.) ₹ 75,250.

(b) Creditor's Ledger Adjustment Account balance as on 01-04-2017 (Dr.)? & (Cr.) ₹ 2,34,500.

(c) Goods purchased from Mr. Suraj ₹ 1,61,000 against advance which was paid last year.

(d) Goods returned by Mr. Ginni ₹ 70,000.

(e) From Debtor's ledger ₹ 87,500 transferred to Creditor's ledger.

(f) Total sales amounted to ₹ 49,70,000 including the sale of old machinery for ₹ 1,40,000.

(g) The total credit sales were 25% less than the total cash sales.

(h) A cheque received from a customer for ₹ 33,000 was dishonoured.

(i) Bad debts written off in the earlier years and now recovered from debtors amounted ₹ 9,800.

(j) Cash collection from debtors amounted to 90% of the opening debtors and 80% of the credit sales for the year.

(k) Debtors were allowed cash discount for ₹ 10,850.

(l) Bad debts written off ₹ 9,100.

(m) Paid advance ₹ 66,000 to M/s. Chi Traders for purchase of goods.

(n) Purchased goods from Mr. Rachel ₹ 6,13,000.

(o) Cash purchases during the year amounted to ₹ 86,000.

(p) Payment to creditors ₹ 3,23,000.

(q) Goods returned to Mr. Rachel ₹ 15,000.

(r) Bills Payable accepted during the year ₹ 89,000.

(s) Bills Receivable dishonoured ₹ 54,000.

(t) Bills Receivable matured ₹ 23,000.

(u) Bills Receivable endorsed to creditors ₹ 5,800.

(v) Over payments refunded by suppliers ₹ 5,900.

(w) Interest charged on overdue Customer's Accounts ₹ 2,100. **(8 Marks)**

Answer

(a) Statement showing calculation of profit/loss for pre and post incorporation periods

₹

	Ratio	*Total*	*Pre Incorporation*	*Post Incorporation*
Sales	1:2.45	55,20,000	16,00,000	39,20,000
Interest on Investments	Pre	60,000	60,000	-
Bad debts recovered	Pre	36,000	36,000	-
Profit on sale of investment	Pre	42,000	42,000	-
(i)		56,58,000	17,38,000	39,20,000
Cost of goods sold	1:2.45	34,50,000	10,00,000	24,50,000
Advertisement	Post	69,800	-	69,800
Sundry office expenses	4:7	1,06,700	38,800	67,900

Printing & Stationary	4:7	77,000	28,000	49,000
Manager Salary	(W.N.3)	82,000	26,000	56,000
Interest on Debentures	Post	8,900	-	8,900
Rent	(W.N.4)	1,33,000	28,000	1,05,000
Bad debts	1:2.45	69,000	20,000	49,000
Underwriting commission	Post	56,000	-	56,000
Audit fees	Post	41,000	-	41,000
Depreciation	4:7	71,500	26,000	45,500
Interest on Borrowing	(W.N. 5)	1,25,000	46,250	78,750
(ii)		42,89,900	12,13,050	30,76,850
Net Profit [(i) – (ii)]		13,68,100	5,24,950	8,43,150

Working Notes:

1. **Calculation of Sales Ratio**

   Let the average sales per month be x

   Total sales from 01.05.2017 to 31.08.2017 will be 4x

   Average sales per month from 01.09.2017 to 31.03.2018 will be 1.4x

   Total sales from 01.09.2017 to 31.03.2018 will be 1.4x X 7 =9.8x

   Ratio of Sales will be 4x: 9.8x =1:2.45

2. **Calculation of time Ratio**

   4 Months: 7 Months i.e. 4:7

3. **Manager Salary** ₹

Total salary	82,000
Less: Increased salary	27,000
	55,000
Monthly Salary =55,000/11	5,000
Salary from May to Aug	5,000 + 5,000 + 8,000 + 8,000 = 26,000
Salary from Sep to March	8,000 x 7= 56,000

4. **Apportionment of Rent** ₹

	₹
Total Rent	1,33,000
Less: additional rent from 1.9.2017 to 31.3.2018	56,000
Rent of old premises for 11 months	77,000

	Pre	Post
Apportionment in time ratio (4:7)	28,000	49,000
Add: Rent for new space		56,000
Total	28,000	1,05,000

5. **Interest on borrowing**

Company's Borrowing Interest = ₹ 15,00,000 x 9% x 7/12= ₹ 78,750

Interest for Pre-incorporation period = ₹ 1,25,000 – 78,750 = ₹ 46,250

(b) **In General Ledger**

Debtors Ledger Adjustment Account

17-18	*Particulars*	*₹*	*17-18*	*Particulars*	*₹*
To	Balance b/d	8,78,500	By	Balance b/d	75,250
To	General ledger adjustment account:		By	General ledger adjustment account:	
	Sales - Credit	20,70,000		Cash Collection	24,46,650
	Bank- cheques dishonoured	33,000		Discount	10,850
				Sales Return	70,000
	Interest	2,100		Bad debts	9,100
	B/R dishonoured	54,000		Transfers to credit ledger	87,500
			By	Balance c/d	3,38,250
		30,37,600			30,37,600

In Creditors Ledger

General Ledger Adjustment Account

17-18	*Particulars*	*₹*	*17-18*	*Particulars*	*₹*
To	Balance b/d	2,34,500	By	Balance b/d (advance to Suraj)	1,61,000
To	Creditors ledger adjustment account:		By	Creditors ledger adjustment account:	
	Purchases from Rachel	6,13,000		Cash paid	3,23,000
	Purchase from Suraj	1,61,000		Return outwards	15,000

	Cash (overpayments refunded)	5,900		Bills payable	89,000
				Bill receivable endorsed	5,800
To	Balance c/d (advance to M/s Chi Traders)	66,000		Advances given	66,000
				Transfers from debtor ledger	87,500
			By	Balance c/d	3,33,100
		10,80,400			10,80,400

Working Notes:

1. Total sales = ₹49,70,000 - ₹1,40,000= ₹48,30,000

   Total sales = Cash sales + Credit sales

   Let cash sales = a

   Total sales = a + (a x 75%)

   Therefore Cash sales is Total sales/ 1.75

   Cash sales = ₹48,30,000/ 1.75 = ₹27,60,000

   Credit sales = ₹20,70,000 (75% of ₹27,60,000)

2. Cash Collection = 90% of 8,78,500 + 80% of 20,70,000

   = ₹7,90,650 + ₹16,56,000

   = ₹24,46,650

3. Bad debts recovered will not appear in the Total Debtors Account. It should be credited to Profit and Loss Account.

Question 4

From the following Receipts and Payments Account of M/s. Antony Education Society for the year ended 31st March, 2018, prepare Income and Expenditure Account for the year ended 31st March, 2018 and Balance Sheet as on that date:

Receipts and Payments Account

Receipts	₹	*Payments*	₹
To Opening Cash and Bank Balance	*37,000*	*By Staff Salaries*	*4,00,000*
To Tuition Fees	*7,00,000*	*By Electricity Charges*	*48,000*
To Hire of School's Hall	*70,000*	*By Repairs*	*60,000*

To Sale of Investment (Building fund)	*9,50,000*	*By Purchase of Building*	*9,50,000*
To Grant-in-aid	*5,00,000*	*By Purchase of Materials & Supplies*	*6,00,000*
To Laboratory & Library Security Deposit	*6,000*	*By Students Welfare Expenses*	*80,000*
		By Closing Cash and Bank Balance	*1,25,000*
	22,63,000		***22,63,000***

Additional Information:

(a) The Education Society maintained separate Building Fund of ₹ 9,50,000 from previous year represented by investment of equivalent amount. Building was acquired on 1st April, 2017 and payment of ₹ 9,50,000 was made and reflected in the Receipts and Payments Account. It was decided that maintenance of separate Building Fund is no longer required.

(b) Grant-in-aid receivable from the State Govt. for backward students ₹ 1,00,000.

(c) Opening stock of materials and supplies was ₹ 2,00,000. The consumption of materials and supplies during the year was as follows:

For Students Welfare - ₹ 4,70,000

For Teaching - ₹ 20,000

For Laboratory - ₹ 1,30,000

(d) Laboratory equipments of ₹ 1,80,000 received from Mr. Khaitan as donation.

(e) Annual tuition fee receivable ₹ 20,000.

(f) Annual tuition fees received in advance ₹ 10,000.

(g) Staff salaries outstanding ₹ 40,000.

(h) Depreciation is to be provided for full year on straight line basis on the following:

Building - 5%

Laboratory Equipments - 10% ***(16 Marks)***

Answer

Income and Expenditure Account A/c of M/s Antony Education Society

for the year ended 31st March, 2018

	Expenditure	₹	₹		*Incomes*	₹	₹
To	Staff Salaries	4,00,000		By	Tuition Fees	7,00,000	
	Add: Outstanding				*Add:* Receivable	20,000	

	Staff salaries	40,000	4,40,000		*Less:* Advance Received	(10,000)	7,10,000
To	Electricity Charges		48,000	By	Hire of School Hall		70,000
To	Repairs		60,000	By	Grants in Aid	5,00,000	
To	Students Welfare Expenses		80,000		*Add:* Receivable grant	1,00,000	6,00,000
To	Depreciation:						
	Building (5% of 9,50,000)		47,500				
	Equipment (10% of 1,80,000)		18,000				
To	Consumption of Materials & Supplies		6,20,000				
To	Surplus – excess of income over expenditure (balancing fig.)		66,500				
			13,80,000				13,80,000

Balance Sheet of M/s Antony Education Society

As on 31st March, 2018

Liabilities	₹	₹	*Assets*			₹
Capital Fund (W.N. 1)	2,37,000		Building	9,50,000		
Add: Donation of Lab equipment	1,80,000		*Less:* Depreciation	47,500		9,02,500
Add: Transferred from Building Fund	9,50,000		Lab Equipment	1,80,000		
			Less: Depreciation	18,000		1,62,000
Surplus	66,500		Materials & Supplies			1,80,000
		14,33,500	Tuition fee receivable			20,000
Tuition Fee (received in advance)		10,000	Cash & Bank			1,25,000
Staff Salaries outstanding		40,000	Grant-in-aid receivable from State Govt.			1,00,000
Lab and Library Security Deposit		6,000				
		14,89,500				14,89,500

Working Notes :

1. **Balance Sheet (Opening) of M/s Antony Education Society as on 1st April, 2017**

	₹		₹
Building Fund	9,50,000	Cash & Bank	37,000
Capital Fund (balancing fig.)	2,37,000	Investments	9,50,000
		Opening Stock	2,00,000
	11,87,000		11,87,000

2. **Closing stock of Material & Supplies**

	₹
Opening Stock	2,00,000
Purchases	6,00,000
	8,00,000
Less: Consumed during the year (4,70,000 + 20,000 + 1,30,000)	6,20,000
Balance as closing stock	1,80,000

Note: It has been considered that M/s Antony Education Society is not registered under the Companies Act, 2013. Therefore, Income & Expenditure A/c and Balance Sheet are not prepared as per Schedule III of the Companies Act, 2013.

Question 5

(a) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1st April, 2017. The hire purchase price was ₹ 48,000. Down payment was ₹ 12,000 and the balance is payable in 3 annual instalments of ₹ 12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payment of ₹ 12,000.

Depreciation at 10% p.a. is to be written off using the straight line method.

You are required to:

(i) calculate the cash price of the generator and the interest paid on each instalment.

(ii) pass relevant journal entries in the books of M/s. Kodam Enterprises from 1st April, 2017 to 31st March, 2018 following the interest suspense method. ***(8 Marks)***

(b) A fire occurred in the premises of M/s. Raxby & Co. on 30-06-2017. From the salvaged accounting records, the following particulars were ascertained

	₹
Stock at cost as on 01-04-2016	*1,20,000*
Stock at cost as on 31-03-2017	*1,30,000*
Purchases less return during 2016-17	*5,25,000*

Sales less return during 2016-17	*6,00,000*
Purchases from 01-04-2017 to 30-06-2017	*97,000*
Purchases upto 30-06-2017 did not include ₹ 35,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.	
Sales from 1.4.2017 to 30.6.2017	*1,66,000*

In valuing the stock for the Balance Sheet at 31st March, 2017, ₹ 5,000 had been written off on certain stock which was a poor selling line having the cost of ₹ 8,000. A portion of these goods were sold in May, 2017 at a loss of ₹ 1,000 on original cost of ₹ 7,000. The remainder of the stock was now estimated to be worth its original cost. Subject to that exception, gross profit had remained at a uniform rate throughout the year.

The value of the salvaged stock was ₹ 10,000. M/s. Raxby & Co. had insured their stock for ₹ 1,00,000 subject to average clause.

Compute the amount of claim to be lodged to the insurance company. ***(8 Marks)***

Answer

(a) (i) Calculation of Interest and Cash Price

Ratio of interest and amount due = 8 / (100 + rate of interest) i.e. 8/108

To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

No. of instalments	*Amount due at the time of instalment*	*Interest*	*Cumulative Cash price*
[1]	*[2]*	*[3]*	*(2-3) = [4]*
3rd	12,000	8/108 of ₹ 12,000 =₹ 889	11,111
2nd	23,111 [W.N.1]	8/108 of ₹ 23,111= ₹ 1,712	21,399
1st	33,399 [W.N.2]	8/108 of ₹ 33,399= ₹ 2,474	30,925
		5,075	

Total cash price = ₹ 30,925 + 12,000 (down payment) =₹ 42,925

Working Notes:

1. ₹ 11,111+ 2nd instalment of ₹ 12,000= ₹ 23,111
2. ₹ 21,399+ 1st instalment of ₹ 12,000= ₹ 33,399

(ii) Journal Entries in the books of M/s Kodam Enterprises

1.4.2017			₹	₹
1.	Generator Account	Dr. [Full cash price]	42,925	

	To Sanctum Ltd. Account				42,925
	(Asset acquired on hire purchase)				
2.	H.P. Interest Suspense Account	Dr.	[Total interest]	5075	
	To Sanctum Ltd. Account				5075
	(For total interest payment, due)				
3.	Sanctum Ltd. Account	Dr.		12,000	
	To Bank Account				12,000
	(When down payment is made)				
31.3.2018					
4.	Interest Account	Dr.		2,474	
	To H.P. Interest Suspense Account				2,474
	(For Interest of the year)				
5.	Sanctum Ltd. Account	Dr.		12,000	
	To Bank Account				12,000
	(Being instalment paid)				
6.	Depreciation Account	Dr.	[Calculated on cash price i.e. 10% of ₹ 42,925]	4,292.50	
	To Generator Account				4,292.50
	(Being depreciation charged on the asset @ 10%)				
7.	Profit and Loss Account	Dr.		6,766.50	
	To Interest Account				4,292.50
	To Depreciation Account				2,474.00
	(For closing interest and depreciation account)				

(b) **M/s Raxby & Co.**

Trading Account for 2016-17

(to determine the rate of gross profit)

		₹			₹	₹
To	Opening Stock	1,20,000	By	Sales A/c		6,00,000
To	Purchases	5,25,000	By	Closing Stock :		
To	Gross Profit	90,000		As valued	1,30,000	
				Add: Amount written off to restore stock to full cost	5,000	1,35,000
		7,35,000				7,35,000

The normal rate of gross profit to sales is = $\frac{90,000}{6,00,000} \times 100$ = 15%

Memorandum Trading Account up to June 30, 2017

	Normal items	Abnormal items	Total		Normal	Abnormal items	Total items
	₹	₹	₹		₹	₹	₹
To Opening Stock	1,27,000	8,000*	1,35,000	By Sales	1,60,000	6,000	1,66,000
To Purchases (97,000+35,000)	1,32,000	—	1,32,000	By Loss	—	1,000	1,000
To Gross Profit (15% on ₹ 1,60,000)	24,000	—	24,000	By Closing Stock (bal. fig.)	1,23,000	1,000	1,24,000
	2,83,000	8,000	2,91,000		2,83,000	8,000	2,91,000

* at cost.

Calculation of Insurance Claim

	₹
Value of stock on June 30, 2017	1,24,000
Less: Salvage	(10,000)
Loss of stock	1,14,000

Claim subject to average clause:

$$\frac{\text{Amount of Policy}}{\text{Value of stock}} \times \text{Actual Loss of Stock} = 1,00,000 / 1,24,000 \text{ X } 1,14,000$$

= ₹ 91,935 (approx.)

Therefore, insurance claim will be limited to ₹ 91,935 (approx.)

Question 6

On 31st March, 2018, the Balance Sheet of Mary, Rima and Sunny who were sharing profits and losses in the ratio 3:4:2 stood as follows:

Liabilities	*₹*	*₹*	*Assets*	*₹*
Capital Account :			*Land & Building*	*90,000*
Mary	*45,000*		*Machinery*	*55,000*
Rima	*60,000*		*Trade Receivables*	*60,000*
Sunny	*30,000*	*1,35,000*	*Inventories*	*30,000*
General Reserve		*45,000*	*Cash in hand and at Bank*	*20,000*
Workmen Compensation Reserve		*5,000*		
Trade Payables		*70,000*		
		2,55,000		*2,55,000*

Sunny retired on 31st March 2018. Mary and Rima continued in partnership sharing profits / losses in the ratio 6:4.

The following adjustments are agreed upon:

(a) Adjustment for Machinery having net book value of ₹ 4,000 which had been scrapped during the year. The original cost of Machinery was ₹ 15,000.

(b) Debts amounting ₹ 3,000 considered bad and further debts amounting ₹ 5,000 were considered doubtful and required 100% provision.

(c) An item of the inventory having value of ₹ 6,000 had been omitted from the stock valuation.

(d) Provision of ₹ 3,000 to be made in respect of an outstanding bill of purchase.

(e) Goodwill of the entire firm be fixed at ₹ 36,000 and Sunny's share of the same be adjusted into the accounts of Mary and Rima. No goodwill account to be raised.

(f) The entire capital of the firm as newly constituted be fixed at ₹ 1,40,000 between Mary and Rima in proportion to their profit sharing ratio after passing entries in the accounts for adjustments i.e. actual cash to be paid off or to be brought in by the continuing partners as the case may be.

Sunny to be paid ₹ 30,000 cash on the date of retirement and balance to be transferred to her Loan Account.

Prepare Revaluation Account, Capital Account of the Partners and the Balance Sheet of the firm of Mary and Rima after retirement of Sunny. (Journal entries are not required) ***(16 Marks)***

Answer

(i) Revaluation Account

	₹		₹	₹
To Machinery	4,000	By Inventory		6,000
To Provision for Doubtful Debts	5,000	By Loss on revaluation transferred		
To Bad debt	3,000	By Capital Accounts:		
To Provision for Outstanding bill	3,000	Mary (3/9)	3,000	
		Rima (4/9)	4,000	
		Sunny (2/9)	2,000	
				9,000
	15,000			15,000

(ii) Capital Accounts of Partners

	Mary	Rima	Sunny		Mary	Rima	Sunny
	₹	₹	₹		₹	₹	₹
To Revaluation A/c (loss)	3,000	4,000	2,000	By Balance b/d	45,000	60,000	30,000
To Rima	1,600	-	-	By General Reserve A/c	15,000	20,000	10,000
To Sunny	8,000	-	-	By Mary (goodwill)	-	1,600	8,000
To Cash	-	21,600	30,000	By cash	36,600	-	-
To Loan			16,000				
To balance c/d	84,000	56,000					
	96,600	81,600	48,000		96,600	81,600	48,000

Balance Sheet of Mary and Rima (after Sunny's retirement)

Liability	₹	₹	*Assets*	₹	₹
Capital Accounts			Land & Building		90,000
Mary	84,000		Machinery	55,000	
Rima	56,000	1,40,000	*Less:* Scrapped	(4,000)	51,000
Sunny's loan		16,000	Inventory		36,000

Workmen compensation reserve		5,000	Trade receivables	60,000	
Provision for outstanding bill		3,000	*Less:* Bad debt	(3,000)	
Trade payables		70,000	*Less:* Provision for doubtful debts	(5,000)	52,000
			Cash in hand & at Bank		5,000
		2,34,000			2,34,000

Working Notes :

(1) Goodwill of the firm = ₹ 36,000

	Goodwill in Old ratio	*Goodwill in New ratio*
Mary	12,000	21,600
Rima	16,000	14,400
Sunny	8,000	--

Journal Entry for adjustment of goodwill

Mary's capital account	Dr.	9,600	
To Sunny's capital account			8,000
To Rima's capital account			1,600

(2) Cash balance given in the balance sheet after retirement of Sunny =

₹ 20,000 + ₹ 36,600 – ₹ 30,000 – ₹ 21,600 = ₹5,000

Question 7

*Answer any **four** questions:*

(a) *Pass Journal Entries in the following conditions:*

(1) *Super Ltd. had 62,000 equity shares of ₹ 50 each on which ₹ 45 is paid up. In September, 2017 company decided to sub-divide each share into 5 shares of ₹ 10 with ₹ 9 paid up.*

(2) *Top Ltd. had 1,05,000 equity shares of ₹ 10 each fully paid up. In November 2017 company decided to convert the issued shares into stock. But in January 2018 the company re-converted the stock into equity shares of ₹ 100 each fully paid up.*

(3) *New Ltd. had capital of ₹ 15,00,000 divided into 1,50,000 equity shares of ₹ 10 each on which ₹ 6 is paid up. During the year, company decided to reorganize its capital by consolidating 5 shares into one share of ₹ 50 each, ₹ 30 paid up.*

(b) The following transactions took place between Chiron and Berry during the year 2017-18:

Date	*Particulars*	*Amount (₹)*
April 3, 2017	*Sales by Berry to Chiron*	*1,17,000*
April 9, 2017	*Purchases by Berry from Chiron*	*46,800*
May 8, 2017	*Purchase by Berry from Chiron*	*79,300*
May 25,2017	*Sales to Berry to Chiron*	*1,07,250*

They decided to settle their account on average due date.

Calculate Average Due Date and the amount to be paid or received by Chiron. Any fraction of a day arising from the calculation to be considered as full day.

(c) Sun Ltd. wants to re-classify its investments in accordance with AS-13. State the values at which the investments have to be re-classified as per AS-13 in the following cases:

(1) Current investments in Company Fine Ltd. costing ₹ 39,000 are to be re-classified as long term investments. The fair value on the date of transfer is ₹ 37,000.

(2) Long term investment in Company Bold Ltd., costing ₹ 16 lakhs are to be re-classified as current investments. The fair value on the date of transfer is ₹ 15 lakhs and book value is ₹ 16 lakhs.

(d) State the advantages of outsourcing the Accounting Functions of an enterprise.

(e) (i) Total capital employed by a partnership firm is ₹ 1,50,000. Last 3 years' profit of the firm are as follows:

	₹
2014	*30,000*
2015	*26,000*
2016	*28,000*

Rate of normal profit in the industry is 15%.

It is agreed that good's is valued at 3 years' purchase. Calculate, the value of goodwill of the firm under Super Profit Basis.

(ii) What are the conditions that require valuation of goodwill in a partnership firm?

(4 Parts x 4 Marks = 16 Marks)

Answer

(a)

			₹	₹
Sept, 2017	**Journal Entries in books of Super Ltd.**			
(i)	Equity Share Capital A/c (₹ 50)	Dr.	27,90,000	

	To Equity Share Capital A/c (₹ 10) (Being subdivision of 62,000 equity shares of ₹ 50 (₹ 45 paid up) each into 3,10,000 shares of ₹ 10 each (₹ 9 paid up) as per resolution dated…)			27,90,000
Nov. 2017 (ii)	**Journal Entries in books of Top Ltd.** (a) Equity share Capital A/c (₹ 10)	Dr.	10,50,000	
	To Equity Stock A/c (Being conversion of 1,05,000 lakh equity shares of ₹ 10 each into stock of 10,50,000 as per resolution dated…)			10,50,000
	(b) Equity Stock A/c	Dr.	10,50,000	
	To Equity share Capital A/c (₹ 100) (Being conversion of 10,50,000 stock into 10,500 equity shares of ₹ 100 each)			10,50,000
(iii)	**Journal Entries in books of New Ltd.** Equity Share Capital A/c (₹ 10)	Dr.	9,00,000	
	To Equity Share Capital A/c (₹ 50) (Being consolidation of 1,50,000 shares of ₹ 10, ₹ 6 paid up each into 30,000 shares of ₹ 50 each (₹ 30 paid up) as per resolution dated…)			9,00,000

(b) **Calculation of Average Due Date**

Computation of products for Berry payments
(Taking 3.4.17 as base date)

Due Date	*Amount*	*No. of days from base date to due date*	*Product*
	₹		₹
9.4.2017	46,800	6	2,80,800
8.5.2017	79,300	35	27,75,500
	1,26,100		30,56,300

Computation of products for Chiron payments (Base date = 3.4.17)

Due Date	*Amount*	*No. of days from base date to due date*	*Product*
	₹		₹
3.4.17	1,17,000	0	0
25.5.17	1,07,250	52	55,77,000
	2,24,250		55,77,000

Excess of Chiron products over Berry [55,77,000-30,56,300]	₹ 25,20,700
Excess of Chiron amounts over Berry [2,24,250-1,26,100]	₹ 98,150

Number of days from base date to date of settlement is = 25,20,700/98,150= 26 days (approx.)

Hence, the date of settlement of the balance amount is 26 days after 3rd April, i.e. 29th April.

Thus, on 29th April, 2017, Chiron has to pay ₹ 98,150 to Berry.

(c) Re-classification will be done on the following basis:

(i) As per AS 13, where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. In this case, fair value is ₹ 37,000 which is lower than the cost of ₹ 39,000. The reclassification of current investment as long-term investments will be made at ₹ 37,000.

(ii) As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer**.** The carrying / book value of the long term investment is same as cost i.e. ₹ 16 lakhs. Hence this long term investment will be reclassified as current investment at book value of ₹ 16 lakhs only.

(d) Advantages of outsourcing the accounting functions:

1. **Saving of Time:** The organization that outsources its accounting function is able to save time to concentrate on the core area of business activity.
2. **Expertise of the third party:** The organization is able to utilize the expertise of the third party in undertaking the accounting work.
3. **Maintenance of data:** Storage and maintenance of the data is in the hand of professional people.
4. **Economical:** The organization is not bothered about people leaving the organization in key accounting positions. The proposition is proving to be economically and more sensible as they do not have to train the people again. Hence, the training cost is saved.

(e) (i) Average Profit:

Year	*Profit (₹)*
2014	30,000
2015	26,000
2016	28,000
	84,000

Average Profit = ₹ 84,000/3 = 28,000

Super Profit Basis

	₹
Average Profit	28,000
Normal Profit (15% on ₹ 1,50,000)	22,500
	5,500

Goodwill is to be valued at 3 years purchase.

Value of Goodwill: ₹ 5,500 × 3 = ₹ 16,500

(ii) Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits. The necessity for valuation of goodwill in a firm arises in the following conditions:

(a) When the profit sharing ratio amongst the partners is changed;

(b) When a new partner is admitted;

(c) When a partner retires or dies, and

(d) When the business is dissolved or sold.

PAPER – 1 : ACCOUNTING

Question No. ***1*** *is compulsory.*

Answer any ***five*** *questions from the remaining* ***six*** *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.

Question 1

(a) *ABC Ltd. is installing a new plant at its production factory. It provides you the following information:*

Cost of the plant (cost as per supplier's invoice)	*₹ 31,25,000*
Estimated dismantling costs to be incurred after 5 years	*₹ 2,50,000*
Initial Operating losses before commercial production	*₹ 3,75,000*
Initial delivery and handling costs	*₹ 1,85,000*
Cost of site preparation	*₹ 4,50,000*
Consultants used for advice on the acquisition of the plant	*₹ 6,50,000*

Please advise ABC Ltd. on the costs that can be capitalised for plant in accordance with AS 10: Property, Plant and Equipment.

(b) *A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.*

	₹ Per unit
Raw Material X	
Cost price	*380*
Unloading Charges	*20*
Freight Inward	*40*
Replacement cost	*300*
Chemical Y	
Material consumed	*440*
Direct Labour	*120*
Variable Overheads	*80*

Additional Information:

(i) *Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 20,000 units.*

(ii) *Closing balance of Raw Material X was 1,000 units and Chemical Y was 2,400 units.*

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

(a) Net realizable value of Chemical Y is ₹ 800 per unit

(b) Net realizable value of Chemical Y is ₹ 600 per unit

(c) *Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:*

(i) *On 15th January, 2017 garments worth ₹ 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.*

(ii) *Garments worth ₹ 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.*

(iii) *On 1st November, 2016 garments worth ₹ 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.*

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.

(d) What are Accounting Standards? Explain the issues, with which they deal.

(4 x 5 Marks = 20 Marks)

Answer

(a) According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd. are as follows:

	₹
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	46,60,000

Note: Operating losses before commercial production amounting ₹ 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(b) (a) When Net Realizable Value of the Chemical Y is ₹ 800 per unit

NRV is greater than the cost of Finished Goods Y i.e. ₹ 660 (Refer W.N.)

Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

	Qty.	*Rate (₹)*	*Amount (₹)*
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

(b) When Net Realizable Value of the Chemical Y is ₹ 600 per unit

NRV is less than the cost of Finished Goods Y i.e. ₹ 660. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	*Rate (₹)*	*Amount (₹)*
Raw Material X	1,000	300	3,00,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,40,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price	380
Add: Freight Inward	40
Unloading charges	20
Cost	440
Chemical Y	₹
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/20,000 units)	20
Cost	660

(c) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 3,00,000 (75% of ₹ 4,00,000) for the year ended on 31.3.17. In case of consignment sale, revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of ₹1,95,000 for the year ended 31st March, 2017.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act accepting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹ 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

(d) **Accounting Standards (ASs)** are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. Accounting Standards reduce the accounting alternatives in the preparation of financial statements and ensure standardization of alternative accounting treatments and comparability of financial statements of different enterprises.

Accounting Standards deal with the issues of

(i) **Recognition of events and transactions** in the financial statements,

(ii) **Measurement** of these transactions and events,

(iii) **Presentation** of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

(iv) **Disclosure requirements** which should be there to enable the public at large and the stakeholders and the potential investors, in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

Question 2

M/s Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2017 before reconstruction:

Particulars	*Note No.*	*Amount (₹ In lakh)*
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050
Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		2,556
Assets		
Non-Current Assets:		
Fixed Assets		
Tangible Assets	6	1,125
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		2,556

Notes to Accounts:

		₹ In lakh
(1)	*Share capital*	
	Authorised:	
	300 lakh shares of ₹ 10 each	3,000
	12 lakh, 8% preference Shares of ₹ 100 each	1,200
		4,200

	Issued, Subscribed and Paid up:	
	150 Lakh Equity Shares of ₹ 10 each, fully paid up	*1,500*
	6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	*600*
		2,100
(2)	*Reserves and Surplus*	
	Debit balance of Profit & Loss A/c	*(783)*
(3)	*Long term borrowings*	
	6% Debentures (Secured by freehold property)	*600*
	Director's Loan	*450*
		1,050
(4)	*Trade payables*	
	Trade payables for Goods	*153*
(5)	*Other Liabilities*	
	Interest Accrued and Due on 6% Debentures	*36*
(6)	*Tangible Assets*	
	Freehold Property	*825*
	Plant & machinery	*300*
		1,125
(7)	*Current Investment*	
	Investment in Equity Instruments	*300*
(8)	*Inventories*	
	Finished Goods	*450*
(9)	*Trade Receivables*	
	Trade receivables for Goods	*675*
(10)	*Cash and Cash equivalents*	
	Balance with bank	*6*

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 550 lakh.

(6) All investments sold out for ₹ 425 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be alloted.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying 8% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account, Bank Account; and

(c) Prepare Notes to Accounts on Share Capital and Tangible Assets, immediately after the implementation of internal reconstruction. ***(16 Marks)***

Answer

(a) Journal Entries related to internal reconstruction in the books of Planet Ltd.

(₹ in lakh)

	Particulars		Debit ₹	Credit ₹
i	8% Preference share capital A/c (₹ 100 each)	Dr.	600	
	To 8% Preference share capital A/c (₹ 75 each)			450
	To Capital reduction A/c			150
	(Being the Preference shares of ₹ 100 each reduced to ₹ 75 each as per the approved scheme)			
ii	Equity share capital A/c (₹ 10 each)	Dr.	1,500	
	To Equity share capital A/c (₹ 2 each)			300
	To Capital reduction A/c			1,200
	(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			
iii	Capital reduction A/c	Dr.	48	
	To Equity share capital A/c (₹ 2 each)			48
	(Being 1/3rd of arrears of preference share dividend of three years to be satisfied by issue of 24 lakh equity shares of ₹ 2 each)			
iv	6% Debentures A/c	Dr.	450	

	To Freehold property A/c			450
	(Being claim settled in part by transfer of freehold property)			
v	Accrued debenture interest A/c	Dr.	36	
	To Bank A/c			36
	(Being accrued debenture interest paid)			
vi	Freehold property A/c	Dr.	175	
	To Capital reduction A/c			175
	(Being appreciation ₹ (550-375) in the value of freehold property)			
vii	Bank A/c	Dr.	425	
	To Investment A/c			300
	To Capital reduction A/c			125
	(Being investment sold on profit)			
viii	Director's loan A/c	Dr.	450	
	To Equity share capital A/c (₹ 2 each)			135
	To Capital reduction A/c			315
	(Being director's loan waived by 70% and balance being discharged by issue of 67.5 lakh equity shares of ₹ 2 each)			
ix	Capital reduction A/c	Dr.	1,485	
	To Profit and loss A/c			783
	To Trade receivables A/c (₹ 675 x 40%)			270
	To Inventories-in-trade A/c (450 x 80%)			360
	To Bank A/c			72
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			
x	Capital reduction A/c	Dr.	432	
	To Capital reserve A/c			432
	(Being balance transferred to capital reserve account as per the scheme)			

(b) Capital Reduction Account

(₹ in lakh)

To	Equity Share Capital	48	By	8% Pref. Share Capital	150
To	P & L A/c	783	By	Equity Share Capital	1,200
To	Trade Receivables	270	By	Freehold property	175
To	Inventories	360	By	Bank (profit on sale of investment)	125
To	Bank	72	By	Director's loan	315
To	Capital Reserve	432			
		1,965			1,965

Bank Account

(₹ in lakh)

To	Balance b/d	6	By	Accrued debenture interest	36
To	Investments	300	By	Capital Reduction Account (Penalty on cancellation of contract)	72
To	Capital reduction	125	By	Balance c/d	323
		431			431

(c) Note to Accounts on Share Capital and Tangible Assets after implementation of internal reconstruction

Share Capital	*(₹ in lakh)*
Authorised:	
300 lakh shares of ₹ 2 each	600
12 lakh, 8% Preference shares of ₹ 75 each	900
	1,500
Issued, subscribed and paid up:	
241.5 lakh Equity shares of ₹ 2 each	483
(out of which 91.5 lakh shares have been issued for consideration other than cash)	
6 lakh, 8% Preference shares of ₹ 75 each fully paid up	450
Total	933

Tangible assets		
Freehold property	825	
Less: Utilized to pay Debenture holders	(450)	
Add: Appreciation	175	550
Plant and machinery		300
Total		850

Working Note:

Calculation of number of equity shares issued:

Equity shareholders	150 Lakh
Preference shareholders (in lieu of arrear of preference dividend)	24 Lakh
Directors	67.5 Lakh
	241.5 Lakh

Question 3

(a) On 27th July, 2016, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged. Their fire fighting expenses were amounting to ₹ 1,300.

From the salvaged accounting records, the following information is available relating to the period from 1.4.2016 to 27.7.2016:

1.	*Stock as per balance sheet as on 31.3.2016*	*₹ 63,000*
2.	*Purchases (including purchase of machinery costing ₹ 10,000)*	*₹ 2,92,000*
3.	*Wages (including wages paid for installation of machinery ₹ 3,000)*	*₹ 53,000*
4.	*Sales (including goods sold on approval basis amounting to ₹ 40,000). No approval has been received in respect of 1/4th of the goods sold on approval.*	*₹ 4,12,300*
5.	*Cost of goods distributed as free sample*	*₹ 2,000*

Other Information:

(i) *While valuing the stock on 31.1.2016, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2016 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.*

(ii) Past record shows the normal gross profit rate is 20%.

(iii) The insurance company also admitted fire-fighting expenses. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2016 to 27.7.2016 for normal and abnormal items. ***(10 Marks)***

(b) M/s Martin Ltd. maintains self balancing ledgers. On the basis of the following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of March, 2017

	₹
Debit balance in Debtors Ledger on 01.03.2017	*4,36,200*
Credit balance in Debtors ledger on 01.03.2017	*12,600*
Transactions during the month of March, 2017 are:	
Total sales (Including cash sales of ₹ 2,50,000)	*18,00,000*
Bad debts recovered (written off in the year 2015-16)	*1,000*
Interest debited for delay in payment	*3,500*
Sales Returns	*40,000*
Cash received from Debtors	*16,55,000*
Bills Receivables received from Debtors	*98,000*
Bills Receivables dishonoured	*6,000*
Discount allowed to debtors for prompt payment	*1,500*
Noting charges on bills dishonoured	*300*
Bills Receivables endorsed to suppliers	*7,000*
Credit balance in Debtors Ledger on 31.03.2017	*15,400*

(6 Marks)

Answer

(a) Memorandum Trading Account for the period 1st April, 2016 to 27th July, 2016

	Normal Items ₹	*Abnormal Items* ₹	*Total* ₹		*Normal Items* ₹	*Abnormal Items* ₹	*Total* ₹
To Opening stock (W.N.5)	60,000	4,000	64,000	By Sales (W.N. 3)	4,00,000	2,300	4,02,300

To Purchases (W.N. 1)	2,80,000	-	2,80,000	By Loss	-	700	700
To Wages (W.N. 4)	50,000	-	50,000	By Goods on Approval (W.N. 2)	8,000	-	8,000
To Gross profit @ 20%	80,000	-	80,000	By Closing stock (Bal.fig.)	62,000	1,000	63,000
	4,70,000	4,000	4,74,000		4,70,000	4,000	4,74,000

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 27th July, 2016	62,000
Add: Abnormal Stock	1,000
Less: Stock salvaged	(5,000)
Loss of stock	58,000
Add: Fire fighting expenses	1,300
Total Loss	59,300

Amount of claim to be lodged with insurance company

$$= \text{Loss x } \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

= ₹ 59,300 x (55,000/ 63,000) = ₹ 51,770 (rounded off)

Working Notes:

1. Calculation of Adjusted Purchases

	₹
Purchases	2,92,000
Less: Purchase of Machinery	(10,000)
Less: Free samples	(2,000)
Adjusted purchases	2,80,000

2. Calculation of Goods with Customers

Approval for sale has not been received = ₹ 40,000 X 1/4 = ₹ 10,000.

Hence, these should be valued at cost i.e. (₹ 10,000 – 20% of ₹ 10,000) = ₹ 8,000

3. **Calculation of Actual Sales**

Total Sales	₹ 4,12,300
Less: Approval for sale not received (1/4 X ₹ 40,000)	₹ 10,000
Actual Sales	₹4,02,300

4. **Calculation of Wages**

Total Wages	₹ 53,000
Less: Wages for installation of machinery	₹ 3,000
	₹ 50,000

5. **Value of Opening Stock**

Original cost of stock as on 31st March,2017

= ₹ 63,000 + ₹1,000 (Amount written off)

= ₹ 64,000.

(b) **Books of Martin Ltd.**

General Ledger Adjustment Account in Debtors' Ledger

			₹				₹
1.3.17	To Balance b/d		12,600	1.3.17	By Balance b/d		4,36,200
1.3.17 to 31.3.17	To Debtor's ledger adjustment account:			1.3.17 to 31.3.17	By Debtors ledger adjustment account:		
	Bank/Cash	16,55,000			Sales (on credit)	15,50,000	
	Discount	1,500			Interest	3,500	
	Bills receivable	98,000			Bills receivable dishonoured	6,000	
	Sales returns	40,000	17,94,500		Noting charges on Bill receivable dishonoured	300	15,59,800
31.3.17	To Balance c/d (bal. fig.)		2,04,300				
				31.3.17	By Balance c/d		15,400
			20,11,400				20,11,400

Note:

1. No entry will be made in the above account for cash sales.
2. Bad debts of the year 2015-16 recovered in 2016-17 will not appear in the General Ledger Adjustment account in the Debtors Ledger. It will be credited to profit & loss account.
3. Bills receivables endorsed to the supplier will not be shown in the General Ledger Adjustment account because at the time of endorsement, Supplier's account will be debited and Bills receivable account will be credited.

Question 4

Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017:

	₹
Opening Cash Balance	*56,000*
Donation Received (including ₹ 50,000 for Building Fund.)	*1,55,000*
Payment to creditors for Medicines Supply	*2,10,000*
Salaries	*70,000*
Purchase of Medical Equipments	*1,05,000*
Medical Camp Collections	*87,500*
Subscription Received	*3,50,000*
Interest on Investments @9% p.a.	*63,000*
Honorarium to Doctors	*1,90,000*
Telephone Expenses	*6,000*
Medical camp expenses	*10,500*
Miscellaneous expenses	*7,000*

Addition information:

Sl. No.		*01.04.2016* ₹	*31.03.2017* ₹
1.	*Subscription Due*	*10,500*	*15,400*
2.	*Subscription Received in Advance*	*8,400*	*4,900*
3.	*Stock of Medicine*	*70,000*	*1,05,000*
4.	*Medical Equipments*	*1,47,000*	*2,14,200*
5.	*Building*	*3,50,000*	*3,15,000*
6.	*Creditor for Medicine Supply*	*63,000*	*91,000*
7.	*Investments*	*7,00,000*	*7,00,000*

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017.

(16 Marks)

Answer

Receipts and Payments Account of Radix Clinic

for the year ended 31.3.2017

Receipts	₹	***Payments***	₹
To Cash in hand (opening)	56,000	By Medicine supply	2,10,000
To Subscription	3,50,000	By Honorarium to doctors	1,90,000
To Donation	1,55,000	By Salaries	70,000
To Interest on investment	63,000	By Misc. expenses	7,000
To Medical camp collections	87,500	By Purchase of equipment	1,05,000
		By Telephone expenses	6,000
		By Medical camp expenses	10,500
		By Cash in hand (closing)	1,13,000
	7,11,500		7,11,500

Income and Expenditure Account of Radix Clinic

for the year ended 31.3.2017

Expenditure		₹	***Income***		₹
To Medicine consumed		2,03,000	By Subscription		3,58,400
To Honorarium to doctors		1,90,000	By Donation		1,05,000
To Salaries		70,000	By Interest on investments		63,000
To Telephone expenses		6,000	By Profit on Medical camp:		
To Misc. expenses		7,000	Collections	87,500	
To Depreciation on:			*Less:* Expenses	(10,500)	77,000
Medical equipment	37,800				
Building					
(3,50,000 -3,15,000)	35,000	72,800			
To Surplus-excess of income over expenditure		54,600			
		6,03,400			6,03,400

Balance Sheet of Radix Clinic

as on 31.3.2017

Liabilities	₹	₹	*Assets*	₹	₹
Capital fund:			Building	3,50,000	
Opening balance	12,62,100		*Less:* Depreciation	(35,000)	3,15,000
Add: Surplus	54,600	13,16,700	Medical Equipment	1,47,000	
Building Fund		50,000	*Add:* Purchase	1,05,000	
				2,52,000	
Subscription received in advance		4,900	*Less:* Depreciation	(37,800)	2,14,200
Creditors for medicine supply		91,000	Stock of medicine		1,05,000
			Investments		7,00,000
			Subscription receivable		15,400
			Cash in hand		1,13,000
		14,62,600			14,62,600

Working Notes:

			₹
1.	**Subscription for the year ended 31.3.2017**		
	Subscription received during the year		3,50,000
	Less: Subscription receivable on 1.4.2016	10,500	
	Less: Subscription received in advance on 31.3.2017	4,900	(15,400)
			3,34,600
	Add: Subscription receivable on 31.3.2017	15,400	
	Add: Subscription received in advance on 1.4.2016	8,400	23,800
			3,58,400
2.	**Purchase of medicine**		
	Payment for medicine supply		2,10,000
	Less: Amounts due for medicine supply on 1.4.2016		(63,000)
			1,47,000
	Add: Amounts due for medicine supply on 31.3.2017		91,000
			2,38,000

3.	**Medicine consumed**		
	Stock of medicine on 1.4.2016		70,000
	Add: Purchase of medicine during the year		2,38,000
			3,08,000
	Less: Stock of medicine on 31.3.17		(1,05,000)
			2,03,000
4.	**Depreciation on equipment**		
	Value of equipment on 1.4.2016		1,47,000
	Add: Purchase of equipment during the year		1,05,000
			2,52,000
	Less: Value of equipment on 31.3.17		(2,14,200)
	Depreciation on equipment for the year		37,800

Balance Sheet of Radix clinic

as on 31.3.2016

Liabilities	**₹**	**Assets**	**₹**
Capital fund (balancing figure)	12,62,100	Building	3,50,000
Subscription received in advance	8,400	Medical Equipment	1,47,000
Creditors for medicine supply	63,000	Stock of medicine	70,000
		Investments	7,00,000
		Subscription receivable	10,500
		Cash in hand	56,000
	13,33,500		13,33,500

Question 5

(a) The Balance Sheet of Harry Ltd. for the year ending 31st March, 2017 and 31st March, 2016 were summarised as:

	2017 ***₹***	***2016*** ***₹***
Equity share capital	*1,20,000*	*1,00,000*
Reserves:		
Profit and Loss Account	*9,000*	*8,000*
Current Liabilities:		
Trade Payables	*8,000*	*5,000*

Income tax payable	*3,000*	*2,000*
Proposed Dividends	*4,000*	*2,000*
	1,44,000	*1,17,000*
Fixed Assets (at W.D.V)		
Building	*19,000*	*20,000*
Furniture & Fixture	*34,000*	*22,000*
Cars	*25,000*	*16,000*
Long Term Investments	*32,000*	*28,000*
Current Assets:		
Inventory	*14,000*	*8,000*
Trade Receivables	*8,000*	*6,000*
Cash & Bank	*12,000*	*17,000*
	1,44,000	*1,17,000*

The Profit and Loss account for the year ended 31st March, 2017 disclosed:

	₹
Profit before tax	*8,000*
Income Tax	*(3,000)*
Profit after tax	*5,000*
Proposed Dividends	*(4,000)*
Retained Profit	*1,000*

Further Information is available:

1. *Depreciation on Building ₹ 1,000*
2. *Depreciation on Furniture & Fixtures for the year ₹ 2,000*
3. *Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.*
4. *Purchase investments for ₹ 6,000.*
5. *Sold investments for ₹ 10,000, these investments cost ₹ 2,000.*

Prepare Cash Flow Statements as per AS-3 (revised) using indirect method. ***(12 Marks)***

(b) Explain the special features of hire purchase agreement. ***(4 Marks)***

Answer

(a) **Harry Ltd.**

Cash Flow Statement

for the year ended 31st March, 2017

	(₹)	*(₹)*
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation ₹ (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

** Dividend proposed for the year ended 31st March, 2016 amounting ₹ 2,000 must have been declared and paid in the year 2016-17. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2016-17.*

Working Notes:

1. Calculation of Income taxes paid

	₹
Income tax expense for the year	3,000
Add: Income tax liability at the beginning of the year	2,000
	5,000
Less: Income tax liability at the end of the year	(3,000)
	2,000

2. Calculation of Fixed assets acquisitions

	Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2017	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	—	2,000
	36,000	32,000
Less: W.D.V. at 31. 3. 2016	(22,000)	(16,000)
Acquisitions during 2016-2017	14,000	16,000

(b) Special features of Hire Purchase Agreement

1. ***Possession:*** The hire vendor transfers possession of the goods to the hire purchaser immediately after the contract for hire purchase is made.
2. ***Instalments:*** The goods are delivered by the hire vendor on the condition that a hire purchaser should pay the amount in periodical instalments.
3. ***Down Payment:*** The hire purchaser generally makes a down payment i.e an amount on signing the agreement.
4. ***Constituents of Hire purchase instalments:*** Each instalment consists partly of a finance charge (interest) and partly of a capital payment.
5. ***Ownership:*** The property in goods is to pass to the hire purchaser on the payment of the last instalment and exercising the option conferred upon him under the agreement.
6. ***Repossession:*** In case of default in respect of payment of even the last instalment, the hire vendor has the right to take the goods back without making any compensation

Question 6

A and B were partners of a firm sharing profits and losses in the ratio 2:1. The Balance Sheet of the firm as at 31st March, 2017 was as under:

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital Accounts		Plant and Machinery	5,00,000
A	8,00,000	Building	9,00,000
B	4,00,000	Sundry Debtors	2,50,000
Reserves	5,25,000	Stock	3,00,000
Sundry Creditors	2,75,000	Cash	1,50,000
Bills Payable	1,00,000		
	21,00,000		21,00,000

They agreed to admit P and Q into the partnership on the following terms:

(i) *The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits of the last 3 years. The relevant figures are:*

Year ended 31.3.2014 - Profit ₹ 37,000

Year ended 31.3.2015 - Profit ₹ 40,000

Year ended 31.3.2016 - Profit ₹ 45,000

(ii) *The value of the stock and Plant & Machinery were to be reduced by 10%.*

(iii) *Building was to be valued at ₹ 10,11,000.*

(iv) *There was an unrecorded liability of ₹ 10,000.*

(v) *A, B, P & Q agreed to share profits and losses in the ratio 3:2:1:1.*

(vi) *The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.*

(vii) *P and Q were to bring Capitals equal to their shares of profit considering B' s Capital as base after all adjustments.*

You are required to prepare:

(1) *Memorandum Revaluation Account,*

(2) *Partner's Capital Accounts and*

(3) *The Balance Sheet of the newly constructed firm.* ***(16 Marks)***

Answer

Memorandum Revaluation Account

	₹		₹
To Stock	30,000	By Building	1,11,000
To Plant & machinery	50,000		
To Unrecorded liability	10,000		
To Profit transferred to Partners' Capital A/cs (in old ratio)			
A = 14,000			
B = 7,000	21,000		
	1,11,000		1,11,000
To Building	1,11,000	By Stock	30,000
		By Plant & machinery	50,000
		By Unrecorded liability	10,000
		By Loss transferred to Partners' Capital A/cs (in new ratio)	
		A = 9,000	
		B = 6,000	
		P = 3,000	
		Q = 3,000	21,000
	1,11,000		1,11,000

Partners' Capital Accounts

	A	B	P	Q		A	B	P	Q
To Memorandum Revaluation	9,000	6,000	3,000	3,000	By Balance b/d	8,00,000	4,00,000	-	-
To Reserves	2,25,000	1,50,000	75,000	75,000	By Memorandum Revaluation A/c	14,000	7,000		
To A&B (W.N.2)	-	-	12,000	12,000	By Reserves	3,50,000	1,75,000	-	-
To Balance c/d (Refer W.N.3)	9,50,000	4,30,000	2,15,000	2,15,000	By P&Q (W.N.2)	20,000	4,000	-	
					By Cash (Bal. Fig.)	-	-	3,05,000	3,05,000
	11,84,000	5,86,000	3,05,000	3,05,000		11,84,000	5,86,000	3,05,000	3,05,000

Balance Sheet of newly reconstituted firm as on 31.3.2017

Liabilities		***₹***	***Assets***	***₹***
Capital Accounts			Plant & Machinery	5,00,000
A	9,50,000		Building	9,00,000
B	4,30,000		Sundry Debtors	2,50,000
P	2,15,000		Stock	3,00,000
Q	2,15,000	18,10,000	Cash	7,60,000
Reserve		5,25,000	(1,50,000 +3,05,000+3,05,000)	
Sundry Creditors		2,75,000		
Bills Payable		1,00,000		
		27,10,000		27,10,000

Working Notes:

1. **Calculation of Goodwill**

Weighted Average Profit:

Year	*Profit (₹)*	*Weight*	*Weighted Profit (₹)*
2014	37,000	1	37,000
2015	40,000	2	80,000
2016	45,000	3	1,35,000
		6	2,52,000

Weighted Average Profit = ₹ 2,52,000/6= ₹ 42,000

Goodwill is valued at 2 year's purchase

Value of Goodwill: ₹ 42,000 × 2 = ₹ 84,000

2. (a) **Profit sacrificing Ratio**

Particulars	*Old Shares*	*New Shares*	*Share sacrificed*	*Share gained*
A	2/3	3/7	5/21	-
B	1/3	2/7	1/21	-
P	-	1/7	-	1/7
Q	-	1/7	-	1/7

(b) Adjustment for goodwill

Partners	*Goodwill as per old ratio*	*Goodwill as per new ratio*	*Effect*	
A	56,000	36,000	+ 20,000	-
B	28,000	24,000	+ 4,000	-
P		12,000		12,000
Q	-	12,000	-	12,000
	84,000	84,000	24,000	24,000

Journal Entry

	₹	₹
P's Capital A/c Dr.	12,000	
Q's Capital A/c Dr.	12,000	
To A's Capital A/c		20,000
To B's Capital A/c		4,000

3. Calculation of closing capitals of P and Q

B's capital is taken as base. Closing capital of B after all adjustments is ₹ 4,30,000.

Total capital of firm will be= ₹ 4,30,000 x7/2 = ₹ 15,05,000

Hence, P's and Q's closing capital should be ₹ 2,15,000 (15,05,000 x 1/7) each i.e. at par with B (as per new profit and loss sharing ratio)

Question 7

*Answer any **four**:*

(a) ERP (Enterprise Resource Planning) package is gaining popularity in big organisations. Briefly explain the advantages and disadvantages of using an ERP Package.

(b) The following transactions took place between Abhik and Dipak during 1st January, 2017 to 31st March, 2017:

Date		*₹*
1.1.2017	*Balance due to Abhik by Dipak*	*2,16,000*
15.1.2017	*Goods sold by Dipak to Abhik*	*3,50,000*
15.2.2017	*Cash paid by Abhik to Dipak*	*1,00,000*
15.3.2017	*Goods sold by Abhik to Dipak*	*2,00,000*

Draw up an Account Current upto 31.3.2017 to be rendered by Abhik to Dipak, by means of Product Method, charging interest at 9% per annum. Interest to be calculated to the nearest rupee.

(c) *Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2016-17, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information :*

On 31st March, 2016	
Sundry Assets	*₹ 16,65,000*
Liabilities	*₹ 4,13,000*
On 31st March, 2017	
Sundry Assets	*₹ 28,40,000*
Liabilities	*₹ 5,80,000*
Mr. Aman's drawings for the year 2016-17	*₹ 32,000 per month*
Income declared to the Income Tax Officer	*₹ 9,12,000*

During the year 2016-17, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business.

State whether the Income Tax Officer's contention is correct. Explain by giving your working.

(d) *A Ltd. decides to absorb B Ltd. The draft Balance Sheet of B Limited is as follows:*

	₹
Liabilities	
Share Capital:	
5,000 9% Preference shares of ₹ 100 each (Fully paid up)	*5,00,000*
12,500 Equity shares of ₹ 100 each (Fully paid up)	*12,50,000*
Reserves	*7,50,000*
6% Debentures	*5,00,000*
Trade payables	*2,50,000*
Total	*32,50,000*
Assets	
Sundry Assets	*32,50,000*
Total	*32,50,000*

A Ltd. has agreed:

(i) To pay ₹ 20 per share in cash to equity shareholders of B Ltd. and will issue six equity shares of ₹ 100 each (Market value ₹ 125) in lieu of every five equity shares held in B Ltd.

(ii) To issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of A Ltd. for 4 Preference shares in B Ltd.

(iii) To issue 8% debentures at ₹ 96 in lieu of 6% debentures in B Ltd. which are to be redeemed at a premium of 20%.

You are required to calculate the purchase consideration.

(e) What is self-balancing system? How certain accounts can be kept secret from the members of the staff, in this system? ***(4x 4 Marks = 16 Marks)***

Answer

(a) An ERP is an integrated software package that manages the business process across the entire enterprise.

Advantages of using an ERP

The advantages of using an ERP for maintaining accounts are as follows:

1. **Standardized processes and procedures:** An ERP is a generalized package which covers most of the common functionalities of any specific module.
2. **Standardized reporting:** Majority of the desired reports are available in an ERP package. These reports are standardized across industry and are generally acceptable to the users.
3. **Duplication of data entry** is avoided as it is an integrated package.
4. **Greater information** is available through the package.

Disadvantages of an ERP

The disadvantages of an ERP are the following:

1. **Lesser flexibility:** The user may have to modify their business procedure at times to be able to effectively use the ERP.
2. **Implementation hurdles:** Many of the consultants doing the implementation of the ERP may not be able to fully appreciate the business procedure to be able to do a good implementation of an ERP.
3. **Very expensive:** ERP are normally priced at an amount which is often beyond the reach of small and medium sized organization. However, there are some ERP

coming into the market which are moderately priced and may be useful to the small businesses.

4. **Complexity of the software:** Generally, an ERP package has large number of options to choose from. Further the parameter settings and configuration makes it a little complex for the common users.

(b) **In the books of Abhik**

Dipak in Account Current with Abhik for 1.1.2017 to 31.3.2017

(interest to 31st March,2017@ 9%p.a.)

Date	*Particulars*	*₹*	*Days*	*Product (₹)*	*Date*	*Particulars*	*₹*	*Days*	*Product (₹)*
01.01.17	To Bal. b/d	2,16,000	90	1,94,40,000	15.1.17	By Purchase	3,50,000	75	2,62,50,000
15.2.17	To Cash	1,00,000	44	44,00,000	31.3.17	By Balance of Products			7,90,000
15.3.17	To Sales	2,00,000	16	32,00,000	31.3.17	By Bal. c/d	1,66,195		-
31.3.17	To Interest	195							
		5,16,195		2,70,40,000			5,16,195		2,70,40,000

Interest $= ₹\ 7{,}90{,}000 \times \frac{9}{100} \times \frac{1}{365} = ₹\ 195$ (Rounded off)

(c) Determination of Capital balances of Mr. Aman on 31.3.2016 and 31.3.2017

	31.3.2016	*31.3.2017*
	₹	₹
Assets	16,65,000	28,40,000
Less: Liabilities	(4,13,000)	(5,80,000)
Capital	12,52,000	22,60,000

Determination of Profit by applying the method of the capital comparison

	₹
Capital Balance as on 31-3-2017	22,60,000
Less: Fresh capital introduced (matured life insurance policy amount)	(50,000)
	22,10,000
Add: Drawings (₹ 32,000 × 12)	3,84,000
	25,94,000
Less: Capital Balance as on 1.4.2016	(12,52,000)

Profit	13,42,000
Income declared	9,12,000
Suppressed Income	4,30,000

The Income-tax officer's contention that Mr. Aman has not declared his true income is correct. Mr. Aman's true income is in excess of the disclosed income by ₹ 4,30,000.

Note:

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

(d) According to AS 14, 'consideration' for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Therefore, debentures issued to the debenture holders will not be included in purchase consideration.

Purchase consideration

	₹	*Form*
Preference shareholders : 5,000 × 3/4 × 100	3,75,000	9% Pref. shares
Equity shareholders: 12,500 × ₹ 20	2,50,000	Cash
12,500 × 6/5 × 125	18,75,000	Equity shares
Total Purchase Consideration	25,00,000	

(e) A self-balancing ledger system implies a system of ledger keeping which classifies ledgers as per nature of transactions namely Sales Ledger, Bought Ledger, General Ledger etc. and also make them to balance independently. In order to make each ledger self-balancing, an extra account called General Ledger Adjustment Account is opened in each of the sales ledger and bought ledger. The correctness of individual balances in each ledger would be verified by extracting its balances and agreeing them with the balance of the Control Accounts. Against these ledger adjustment accounts, two other adjustment accounts are maintained in the general ledger to complete journal entry.

If certain accounts are desired to be keep secret from members of the staff, the accounts would be segregated into a Private Ledger and posting will be made in the ledger by a confidential clerk, under the direct supervision of the Chief Accountant. Also, a General Ledger Adjustment Account will be set up in the Private Ledger and a Private Ledger Adjustment Account in the General Ledger. In this way, though the individual entries in the accounts kept in the Private Ledger will be revealed to the accounting staff, their total effect will be kept secret.

PAPER – 1 : ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

Question 1

(a) ABC Financial Services Ltd. is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claims/petitions in a Special Court. ABC Financial Services Ltd. has accepted Inter Corporate Deposits (ICDs) and it is making its best efforts to settle the dues. There were claims at varied rates of interest, from lenders, from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest from the due date to date of repayment was mentioned in financial statements.

On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt", and the same has been disclosed by way of a note in the accounts instead of making a provision in the Profit and Loss Account.

State whether the treatment done by the company is correct or not as per relevant accounting Standard.

(b) Explain the meaning of the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3.

Ruby Exports had a bank balance of USD 25,000, stated in books at ₹ 16,76,250 using the rate of exchange ₹ 67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was ₹ 67.80 and the bank balance had to be restated at ₹ 16,95,000.

Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS-3.

(c) Akar Ltd. Signed on 01/04/16, a construction contract for ₹ 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/17.

- *Materials issued ₹ 75,00,000*
- *Labour charges paid ₹ 36,00,000*
- *Hire charges of plant ₹ 10,00,000*

- *Other contract cost incurred ₹ 15,00,000*
- *Out of material issued, material lying unused at the end of period is ₹ 4,00,000*
- *Labour charges of ₹ 2,00,000 are still outstanding on 31.3.17.*
- *It is estimated that by spending further ₹ 33,50,000 the work can be completed in all respect.*

You are required to compute profit/loss to be taken to Profit & Loss Account and additional provision for foreseeable loss as per AS-7.

(d) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. With reference to the provision of AS-9.

(4 x 5 Marks = 20 Marks)

Answer

(a) AS1 'Disclosure of Accounting Policies' recognizes 'prudence' as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

As per AS 1, 'accrual' is one of the fundamental accounting assumptions. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be placed in a disadvantageous position for non-payment of interest in respect of overdue amount. From the facts given in the question, it is apparent that the company has an obligation to pay because of the overdue interest amount.

Hence, the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. However, in respect of the overdue interest amounts, which are settled, the liability should be accrued to the extent of amounts settled. Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting. Therefore, the treatment, done by the company, of not providing the interest amount from due date to the date of repayment, is not correct.

(b) Cash flow statement consists of:(a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (b) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value.

Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents. *Any transaction, which does not result in cash flow, should not be reported in the cash flow statement.* Movements within cash or cash equivalents are not cash flows because they do not change cash as defined by AS 3 "Cash Flow Statements" which is sum of cash, bank and cash equivalents.

In the given case, due to increase in rate of foreign exchange by 75 paise, there is increase (change) in bank balance. This increase of ₹ 18,750 (25,000 x 0.75) is not a cash flow because neither there is any cash inflow nor there is any cash outflow. Therefore, this change in bank balance amounting ₹ 18,750 need not be disclosed in Cash Flow Statement of Ruby exports.

The net increase/decrease in Cash/Cash equivalents in the Cash Flow Statements are stated exclusive of exchange gains and losses. The resultant difference between Cash and Cash Equivalents as per the Cash flow statement and that recognized in the balance sheet is reconciled in the note on cash flow statements.

(c) Statement showing the amount of profit/loss to be taken to Profit and Loss Account and additional provision for the foreseeable loss as per AS 7

	Cost of Construction	₹	₹
	Material Issued	75,00,000	
Less:	Unused Material at the end of period	4,00,000*	71,00,000
	Labour Charges paid	36,00,000	
Add:	Outstanding on 31.03.2017	2,00,000	38,00,000
	Hire Charges of Plant		10,00,000
	Other Contract cost incurred		15,00,000
	Cost incurred upto 31.03.2017		1,34,00,000
Add:	Estimated future cost*		33,50,000
	Total Estimated cost of construction		1,67,50,000
	Degree of completion (1,34,00,000/1,67,50,000 x 100)		80%
	Revenue recognized (80% of 1,50,00,000)		1,20,00,000
	Total foreseeable loss (1,67,50,000 - 1,50,00,000)		17,50,000
Less:	Loss for the current year (1,34,00,000 - 1,20,00,000)		14,00,000
	Loss to be provided for		3,50,000

** Unused material amounting ₹ 4,00,000 is considered to be included in amount of ₹ 33,50,000 (estimated future cost).*

(d) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

Question 2

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	*P Ltd.* ₹	*Q Ltd.* ₹	*Assets*	*P Ltd.* ₹	*Q Ltd.* ₹
Equity Shares (₹ 100 each)	*8,20,000*	*3,20,000*	*Goodwill*	*1,00,000*	*80,000*
9% Pref. Shares (₹ 100 each)	*3,80,000*	*2,80,000*	*Land & Building*	*4,50,000*	*3,40,000*
8% Debentures	*2,00,000*	*1,00,000*	*Furniture & Fittings*	*1,00,000*	*50,000*
General Reserve	*1,50,000*	*50,000*	*Plant & Machinery*	*6,20,000*	*4,50,000*
Profit & Loss a/c	*3,52,000*	*2,05,000*	*Debtors*	*3,25,000*	*1,50,000*
Unsecured Loan	*-*	*1,75,000*	*Stock*	*2,33,000*	*1,05,000*
Creditors	*88,000*	*1,60,000*	*Cash at bank*	*1,08,000*	*95,000*
			Cash in hand	*54,000*	*20,000*
	19,90,000	***12,90,000***		***19,90,000***	***12,90,000***

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on Stock and Debtors respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The debtors of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd. will issue:

(i) 5 Pref. shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up a premium of ₹ 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

Prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books. *(16 Marks)*

Answer

Books of P Ltd.

Realization Account

		₹			₹
To	Goodwill	1,00,000	By	8% Debentures	2,00,000
To	Land & Building	4,50,000	By	Trade Payables/ Creditors	88,000
To	Plant & Machinery	6,20,000	By	PQ Ltd.	16,02,100
To	Furniture & Fitting	1,00,000		(Purchase consideration)	
To	Trade receivables/Debtors	3,25,000	By	Equity Shareholders A/c	1,37,900
To	Inventory/Stock	2,33,000		(loss)	
To	Cash at Bank	1,08,000			
To	Cash in Hand	54,000			
To	Preference shareholders				
	(excess payment)	38,000			
		20,28,000			20,28,000

Equity Shareholders Account

		₹			₹
To	Realization A/c (loss)	1,37,900	By	Share capital	8,20,000
To	Equity Shares in PQ Ltd.	10,82,400	By	Profit & Loss A/c	3,52,000
To	Cash	1,01,700	By	General Reserve	1,50,000
		13,22,000			13,22,000

9% Preference Shareholders Account

		₹			₹
To	Preference Shares in PQ Ltd.	4,18,000	By	Pref. Share capital	3,80,000
			By	Realization A/c	38,000
		4,18,000			4,18,000

PQ Ltd. Account

		₹				₹
To	Realization A/c	16,02,100	By	Shares in PQ Ltd.		
				For Equity	10,82,400	
				" Pref.	4,18,000	15,00,400
			By	Cash		1,01,700
		16,02,100				16,02,100

8% Debentures holders Account

	₹		₹
To 6% Debentures	2,00,000	By 8% Debentures	2,00,000

Books of Q Ltd.

Realization Account

		₹			₹
To	Goodwill	80,000	By	8% Debentures	1,00,000
To	Land & Building	3,40,000	By	Trade payables/ Creditors	1,60,000
To	Plant & Machinery	4,50,000	By	Unsecured loan	1,75,000
To	Furniture & Fittings	50,000	By	PQ Ltd. (Purchase	
To	Trade receivables/ Debtors	1,50,000		consideration)	7,92,250
To	Inventory/ Stock	1,05,000	By	Equity Shareholders A/c—	
To	Cash at bank	95,000		Loss	90,750
To	Cash in hand	20,000			
To	Pref. shareholders	28,000			
		13,18,000			13,18,000

Equity Shareholders Account

		₹			₹
To	Equity shares in PQ Ltd.	4,22,400	By	Share Capital	3,20,000
To	Realization	90,750	By	Profit & Loss A/c	2,05,000
To	Cash	61,850	By	General Reserve	50,000
		5,75,000			5,75,000

9% Preference Shareholders Account

		₹			₹
To	Preference Shares in PQ Ltd.	3,08,000	By	Share capital	2,80,000
			By	Realization A/c	28,000
		3,08,000			3,08,000

PQ Ltd. Account

		₹				₹
To	Realization A/c	7,92,250	By	Equity shares in PQ Ltd.		
				For Equity	4,22,400	
				Preference	3,08,000	7,30,400
			By	Cash		61,850
		7,92,250				7,92,250

8% Debentures holders Account

	₹		₹
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

Working Notes:

(i) Purchase consideration

	P Ltd. ₹	*Q Ltd.* ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,18,000	3,08,000
Equity Shares at ₹ 22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)]	1,01,700	61,850
	16,02,100	7,92,250

(ii) Value of Net Assets

		P Ltd. ₹		Q Ltd. ₹
Goodwill		1,00,000		80,000
Land & Building		4,50,000		3,40,000
Plant & Machinery less 10% Depreciation		5,58,000		4,05,000
Furniture & Fittings less 10% Depreciation		90,000		45,000
Trade receivables less 5%		3,08,750		1,42,500
Inventory less 5%		2,21,350		99,750
Cash at Bank		1,08,000		95,000
Cash in hand		54,000		20,000
		18,90,100		12,27,250
Less: Debentures	2,00,000		1,00,000	
Trade payables	88,000		1,60,000	
Secured Loans	–	(2,88,000)	1,75,000	(4,35,000)
		16,02,100		7,92,250
Payable in shares		15,00,400		7,30,400
Payable in cash*		1,01,700		(61,850)

(iii)

	P	Q
Plant &Machinery	6,20,000	4,50,000
Less: Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000
Less: Depreciation 10%	10,000	5,000
	90,000	45,000

**This cash is paid to equity shareholders of both the companies for adjustment of their rights as per intrinsic value of both companies.*

Question 3

(a) *JRB Engineering College maintains a building fund. As on 31.3.2016, balance of building of building fund was ₹ 7,50,000 and it was represented fixed deposit (7½ % p.a.) of ₹ 4,50,000 and Bank current account balance of ₹ 3,00,000. During the year 2016-17, the college collected as donations towards the building fund ₹ 4,20,000 and transferred 40% of development fees collected ₹ 16,92,375 to building fund. Capital work in progress as on 31st March 2016 was ₹ 6,18,750 for which contractors' bill up to 70% was paid on 14.4.2016. The extension of building was finished on 31.12.2016 costing ₹ 5,43,750 for* *which contractors' bill was fully met. It was decided to transfer the cost of completed building i.e. ₹ 11,62,500 to the corresponding asset account.*

You are required to pass journal entries to incorporate the above transactions in the books of JRB Engineering College for the year 2016-17 and show the trial balance of building fund ledger. *(8 Marks)*

(b) The following transactions took place between A and B for the three months ending 31st March. 2017:

Books of A		
Date	*Particulars*	*₹*
1.1.2017	*B 's Opening balance*	*1,00,000*
10.1.2017	*Sold goods to B*	*2,00,000*
15.1.2017	*Cash received from B*	*2,00,000*
15.2.2017	*Sold goods to B*	*2,00,000*
1.3.2017	*Cash received from B*	*1,00,000*

You are required to calculate the amount of interest to be paid by one party to the other at 10% per annum using Epoque Method. (1 year =365 days) *(8 Marks)*

Answer

(a) Journal Entries in the books of JRB Engineering College

			₹	₹
(1)	Bank A/c	Dr.	4,20,000	
	To Building fund A/c			4,20,000
	(On collection of donations)			
(2)	Bank A/c*	Dr.	6,76,950	
	To Building fund A/c			6,76,950
	(40% of the development fees directly transferred to building fund)			
(3)	Fixed deposit A/c	Dr.	33,750	
	To Interest A/c			33,750
	(On accrual of interest)			
(4)	Interest A/c	Dr.	33,750	

* *Development fee considered to be collected during the year.*

	To Building fund			33,750
	(Interest accrued on fixed deposit transferred)			
(5)	Capital work in progress A/c	Dr.	5,43,750	
	To Contractors' A/c			5,43,750
	(Work completed and certified during the year)			
(6)	Contractors' A/c**	Dr.	9,76,875	
	To Bank A/c			9,76,875
	(Payments made during the year)			
(7)	Building A/c	Dr.	11,62,500	
	To Capital work in progress A/c			11,62,500
	(Transfer of completed buildings to Asset A/c)			
(8)	Building Fund A/c	Dr.	11,62,500	
	To General Fund A/c			11,62,500
	(Corresponding building fund transferred)			

Trial Balance of Building Fund as on 31st March, 2017

	Dr.	***Cr.***
	₹	₹
Building Fund		7,18,200
Contractors' A/c (6,18,750 x 30%)		1,85,625
Fixed Deposit A/c	4,83,750	
Bank Current A/c	4,20,075	
	9,03,825	9,03,825

*** It has been considered that the contractor was paid 70% of 6,18,750 and balance 30% is still outstanding on 31st March, 2017.*

(b) Mr. B in Account Current with Mr. A (Books of A - Interest to 31st March 2017 @ 10% p.a.)

Date	*Particulars*	*Due date*	*Amt. ₹*	*Days*	*Product ₹*	*Date*	*Particulars*	*Due date*	*Amt. ₹*	*Days*	*Product ₹*
01.01.17	To Balance b/d		1,00,000			15.1.17	By Cash A/c	15.1.17	2,00,000	15	30,00,000
10.1.17	To Sales A/c	10.1.17	2,00,000	10	20,00,000	1.3.17	By Cash A/c	1.3.17	1,00,000	60	60,00,000
15.2.17	To Sales A/c	15.2.17	2,00,000	46	92,00,000						
31.3.17	To Balance of Products				1,58,00,000						
31.3.17	To Interest on Balance for 1 day @ 10% $\left[\frac{1,58,00,000 \times 10 \times 1}{100 \times 365}\right]$		4,329			31.3.17	By Balance of Products [2,00,000 x 90]				1,80,00,000
			———		———	31.3.17	By Balance c/d		2,04,329		———
			5,04,329		2,70,00,000				5,04,329		2,70,00,000

Note: While counting the number of days for closing balances, the opening date as well as date upto which the account is prepared, has been considered.

Question 4

The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

		in ₹
	1.4.2016	*31.3.2017*
Furniture	*60,000*	*63,500*
Stock	*80,000*	*70,000*
Sundry Debtors	*1,60,000*	*?*
Sundry Creditors	*1,10,000*	*1,50,000*
Prepaid Expenses	*6,000*	*7,000*
Outstanding Expenses	*20,000*	*18,000*
Cash in Hand & Bank Balance	*12,000*	*26,250*

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face Value ₹ 100 each) on 1st October 2016 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipt of ₹ 5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.

(d) *Goods costing ₹ 9,000 were used as advertising material.*

(e) *Goods are invariably sold to show a gross profit of 20% on sales.*

(f) *Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.*

(g) *Provide at 2% for doubtful debts on closing debtor.* *(16 Marks)*

Answer

Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017

		₹		₹
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight inwards		30,000		
To Gross profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross profit b/d	1,21,750
To Advertisement		9,000	By Interest on investment	600
To Discount allowed –			(20,000 x 6/100 x ½)	
Debtors	15,000		By Discount received	8,000
Bills Receivable	1,250	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net profit		10,145		
		1,35,350		135,350

Balance Sheet as on 31st March, 2017

Liabilities	*Amount*		*Assets*		*Amount*
	₹	₹		₹	₹
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.) Additions during the	60,000	
Less: Drawings	(91,000)		year	10,000	
	97,000		*Less:* Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing inventory		70,000
			Sundry debtors	72,750	
			Less: Provision for		
			doubtful debts	1,455	71,295
			Bills receivable		17,500
			Cash in hand and at bank		26,250
			Prepaid expenses		7,000
		2,75,145			2,75,145

Working Notes:

(1) Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liabilities	₹	*Assets*	₹
Capital (Bal.fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

(2) Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000

To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		5,70,000

(3) Sales made during the year

		₹
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000
Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

(4) Debtors on 31st March, 2017

Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(bill dishonoured)	4,000	By Balance c/d (Bal.fig.)	72,750
	7,72,750		7,72,750

(5) Additional drawings by proprietors of ABC enterprises

Cash and Bank Account

	₹		₹
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000

To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c	
		[₹ 70,000 + ₹ 21,000)	91,000
		(Additional drawings)]	
		By Balance c/d	26,250
	6,63,250		6,63,250

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	₹		₹
To Prepaid expenses A/c (on 1.4.2016)	6,000	By Outstanding expenses A/c (on 1.4.2016)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding expenses A/c (on 31.3.2017)	18,000	By Prepaid expenses A/c (on 31.3.17)	7,000
	1,19,000		1,19,000

(7) Bills Receivable on 31st March, 2017

Bills Receivable Account

	₹		₹
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		1,00,000

Note: All sales and purchases are assumed to be on credit basis.

Question 5

(a) *Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2016 to take over their existing business. The* *summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2017 is as under:*

Happy Ltd.

Profit & Loss A/c. for the year ending March 31, 2017

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salary	1,44,000	By Gross Profit	4,50,000
To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Audit fees	12,000		
To Net Profit	1,33,350		-
Total	4,50,000	Total	4,50,000

Prepare a Statement showing allocation of expenses & calculation of pre-incorporation & post- incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes ₹ 1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to ₹ 14,000 for a sale made in 2013-14 has been deducted from bad debts mentioned above.

(iv) Total sales were ₹ 18,00,000 of which ₹ 6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2016 for which rent was ₹ 2,400 per month. *(8 Marks)*

(b) Akash Ltd. had 4,000 equity share of X Limited, at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April 2016. On 1st September 2016, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of ₹ 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were -

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2016.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2016. The company issued two right shares for every seven shares held at 25% premium. No dividend. Was payable on these shares. The whole sum being payable by 31st December, 2016.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.

(5) Dividend for the year ended 31st March 2016, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2017.

(6) On 1st February 2017, Akash Ltd., sold half of its share holdings at a premium of ₹ 4 per share.

(7) The market price of share on 31.03.2017 was ₹ 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2017 and determine the value of share held on that date assuming the investment as current investment. *(8 Marks)*

Answer

Pre-incorporation period is for two months, from 1st April, 2016 to 31st May, 2016. 10 months' period (from 1st June, 2016 to 31st March, 2017) is post-incorporation period.

Statement showing calculation of profit/losses for pre and post incorporation periods

		Pre-Inc ₹	***Post Inc*** ₹
Gross Profit		50,000	4,00,000
Bad debts Recovery		14,000	
		64,000	4,00,000
Less:	Salaries	24,000	1,20,000
	Audit fees	-	12,000
	Depreciation	3,000	16,250
	Sales commission	2,000	16,000
	Bad Debts (49,000 + 14,000)	7,000	56,000
	Interest on Debentures	–	36,000
	Rent	4,000	34,400
Net Profit		24,000	1,09,350

* Pre-incorporation profit is a capital profit and will be transferred to Capital Reserve.

Working Notes:

(i) Calculation of ratio of Sales

Sales from April to September = 6,00,000 (1,00,000 p.m. on average basis)

Oct. to March = ₹ 12,00,000 (2,00,000 p.m. on average basis)

Thus, sales for pre-incorporation period = ₹2,00,000

post-incorporation period = ₹ 16,00,000

Sales are in the ratio of 1:8

(ii) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales.

(iii) Rent, salary are allocated on time basis.

(iv) Interest on debentures is allocated in post incorporation period.

(v) Audit fees charged to post incorporation period/ assuming relating to company audit.

(vi) Depreciation of ₹ 18,000 divided in the ratio of 1:5 (time basis) and ₹ 1,250 charged to post incorporation period.

(vii) Bad debt recovery of ₹ 14,000/- is allocated in pre-incorporation period, being sale made in 2013-14.

(viii) Rent

(₹ 38,400 – Additional rent for 6 months)		₹
[38,400- 14,400 (2,400 x 6)]	=	24,000
1/4/16 -31/5//16 (2,000 x 2)	=	4,000
1/6/16 -31/3/17 – [(2,000 x 10) +14,400]	=	34,400
		38,400

(b) Investment Account-Equity Shares in X Ltd.

Date		*No. of shares*	*Dividend*	*Amount*	*Date*		*No. of shares*	*Dividend*	*Amount*
			₹	₹				₹	₹
2016					2017				
April 1	To Balance b/d	4,000	-	60,000	Jan. 20	By Bank (dividend)		8,000	2,000
Sept 1	To Bank	1,000	-	14,000	Feb. 1	By Bank	4,000		56,000
Sept.30	To Bonus Issue	2,000		—	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	-	12,500					
2017									
Feb. 1	To Profit & Loss A/c			13,750					
Feb. 1	To Profit & Loss A/c								

	(Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		42,250					

Working Notes:

1. **Cost of shares sold — Amount paid for 8,000 shares**

	₹
(₹ 60,000 + ₹ 14,000 + ₹ 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2016	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. **Value of investment at the end of the year**

   Closing balance will be valued based on lower of cost (₹ 42,250) or net realizable value (₹13 x 4,000). Thus investment will be valued at ₹ 42,250.

3. **Calculation of sale of right entitlement**

   1,000 shares x ₹ 8 per share = ₹ 8,000

   Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments'.

4. **Dividend received on investment held as on 1st April, 2016**

   = 4,000 shares x ₹ 10 x 20%

   = ₹ 8,000 will be transferred to Profit and Loss A/c

   Dividend received on shares purchased on 1stSep. 2016

   = 1,000 shares x ₹ 10 x 20% = ₹ 2,000 will be adjusted to Investment A/c

   Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2016 and dividend pertains to the year ended 31.3.2016.

Question 6

Ram, Shyam and Laxman are in partnership sharing Profit & Loss equally. Interest on partner's capital and remuneration to partners not to be provided as agreed among partners.

On 31st March, 2016 their Balance Sheet stood as follows:

Liability	Amount ₹	Assets	Amount ₹
Capital A/c - Ram	2,70,000	Building	4,50,000
Capital A/c - Shyam	2,40,000	Plant & Machinery	90,000
Capital A/c - Laxman	2,40,000	Furniture & Fittings	69,000
Current A/c - Ram	4,200	Closing Stock	27,000
Current A/c- Shyam	6,000	Sundry Debtors	60,600
Sundry Creditors	24,600	Cash at Bank	85,200
		Current A/c - Laxman	3,000
Total	7,84,800	Total	7,84,800

On 31st July, 2016 Ram died. According to the partnership deed, on the death of partner, the sum to be paid to his estate will be:

(i) the amount of his capital and current account balance at the end of last financial year.

(ii) his share of profit for the relevant part of the year of death.

(iii) his share of goodwill.

Goodwill is to be valued at two years purchase of the average profit of immediately preceding three accounting years.

The profit as per Books of Accounts were as follows:

For accounting year ended 31st March, 2013 ₹ 86,700

For accounting year ended 31st March, 2014 ₹ 143,200

For accounting year ended 31st March, 2015 ₹ 1,07,600

No goodwill account is to remain in the books after any change in the partnership's constitution. The stock value at 31st July has been calculated and all other accounts balanced off, including provision for depreciation, accrued expenses and prepaid expenses.

This results in the following position of assets and liabilities at 31st July 2016:

	₹		₹
Building	4,50,000	Stock	33,000
Plants & Machinery	97,700	Sundry Debtors	66,900
(including addition of ₹ 12,000)			
Furniture & Fittings	66,700	Cash at Bank	1,01,100
		Sundry Creditors	29,400

There were no additions to, or reduction in the capital accounts during the four months, but the following drawings have been made by the partners:

Ram ₹ 60,000 Shyam ₹ 48,000 Laxman ₹ 54,000

It has also been agreed that the share of deceased partner should be repaid in three equal installments, the first payment being made on the day after the day of death.

On 1st August 2016, Ram's son Shankar was admitted in to partnership as a new partner and agreed that he would bring in to the business ₹ 1,20,000 as his capital together with a premium for his share of goodwill using the existing valuation.

The new profit sharing ratio Shyam: 2/5th, Laxman: 2/5th and Shankar: 1/5th.

You are required to prepare the partnership firm's Balance Sheet as at 1st August 2016, on the assumption that the above transactions have been completed by that date. (16 Marks)

Answer

Balance Sheet as at 1st August, 2016

Liabilities	₹	*Assets*	₹
Capital Accounts:		Building	4,50,000
Shyam	2,25,000	Plant and Machinery	97,700
Laxman	2,25,000	Stock	33,000
Shankar	1,20,000	Debtors	66,900
Current Accounts:		Furniture and Fittings	66,700
Shyam	21,600	Cash at Bank	1,48,500
Laxman	6,600	(1,01,100+1,65,000-	
Sundry Creditors	29,400	1,17,600)	
Ram's Executor's Loan	2,35,200		
	8,62,800		8,62,800

Working Notes:

(1) Calculation of Goodwill: ₹

Profit for the year ended 31.3.2013	86,700
Profit for the year ended 31.3.2014	1,43,200
Profit for the year ended 31.3.2015	1,07,600
	3,37,500

Average profit = $\frac{3,37,500}{3} = 1,12,500$

Goodwill = ₹ 1,12,500 X 2 years = ₹ 2,25,000

Ram's share of goodwill = $2,25,000 \times \frac{1}{3} = 75,000$

Shankar's share of goodwill = $2,25,000 \times \frac{1}{5} = 45,000$

2. Balance Sheet as on 31st July, 2016

Liabilities	**₹**	***Assets***	**₹**
Capital A/c (balancing figure)	7,86,000	Building	4,50,000
Creditors	29,400	Stock	33,000
		Sundry Debtors	66,900
		Plant and Machinery	97,700
		Furniture & Fittings	66,700
		Cash at bank	1,01,100
	8,15,400		8,15,400

3. Calculation of profits made during the period of 1st April, 2016 to 31st July, 2016

	₹
Combined Capital (of all partners) as on 31.7.2016	7,86,000
Less: Combined Capitals on 1.4.16	
[2,70,000 + 2,40,000 + 2,40,000 + 4,200 + 6,000 less 3,000)	7,57,200
	28,800
Add: Drawings of all partners (60,000 + 48,000 + 54,000)	1,62,000
Total Profit	1,90,800
Share of Profit of each partner	63,600

Partners' Capital Accounts

Dr.	Ram	Shyam	Laxman	Shankar		Ram	Shyam	Laxman	Shankar Cr.
	₹	₹	₹	₹		₹	₹	₹	₹
To Ram (Goodwill adj.)	-	37,500	37,500	–	By Balance b/d	2,70,000	2,40,000	2,40,000	–
					By Goodwill adjustment (Shyam and Laxman)	75,000	–	–	–
To Ram's	3,52,800	–	–	–	By Ram's	7,800	–	–	

Executors A/c					current a/c				
To Shyam and Laxman	–	–	–	45,000	By Cash	–	–	–	1,65,000
					By Shankar (Goodwill adj.)		22,500	22,500	
To Balance c/d		2,25,000	2,25,000	1,20,000					–
	3,52,800	2,62,500	2,62,500	1,65,000		3,52,800	2,62,500	2,62,500	1,65,000

5. **Partners' Current Accounts**

Dr.							
	Ram	***Shyam***	***Laxman***		***Ram***	***Shyam***	***Laxman***
	₹	₹	₹		₹	₹	₹
To Balance b/d	–	–	3,000	By Balance b/d	4,200	6,000	–
To Drawings	60,000	48,000	54,000	By Profit and loss A/c	63,600	63,600	63,600
To Capital A/c (bal. fig.)	7,800	–	–				
To Balance c/d	–	21,600	6,600				
	67,800	69,600	63,600		67,800	69,600	63,600

6. **Ram' Executors' Account**

	₹		₹
To Cash and Bank	1,17,600	By Ram's CapitalA/c	3,52,800
To Ram's Executor's Loan A/c	2,35,200		
	3,52,800		3,52,800

Question 7

Answer any ***four:***

(a) *Prepare journal entries under the sectional balancing system in the books of Rex Ltd. for the following:*

(i) *The Sales book was found undercast by ₹ 10,000.*

(ii) *Discount allowed to Ram ₹ 500 correctly, entered in cash book, was not posted to his account.*

(iii) *Credit balance of ₹ 3,600 in Manish's account in the purchase ledger was to be transferred to his account in Sales Ledger.*

(b) Distinguish between Hire Purchase System and Installment system.

(c) What is Consequential loss policy and what items are generally covered by such policy.

(d) Accounting software is an invaluable source for modern business. Explain the criteria for selection of such Accounting software.

(e) Mr. Praveen buys goods on Credit on following dates. 10 days credit is allowed to him after which interest @ 8% p.a. is charged by supplier.

(1)	*30th July*	*₹ 12,000*
(2)	*12th August*	*₹ 25,000*
(3)	*27th July*	*₹ 18,000*
(4)	*10th September*	*₹ 7,000*
(5)	*12th September*	*₹ 21,000*

It was agreed to be settled on 30th September. Compute interest payable by him using average due date method. Due Date of earliest purchase shall be taken as base date. (one year = 365 days).

Any fraction of a day arising from the calculation to be considered as full day.

(4 x 4 Marks = 16 Marks)

Answer

(a) Journal of Rex. Ltd.

Sectional Balancing System

(a)	Total Debtors Account	Dr.	10,000	
	To Sales Account			10,000
	(Rectification of the consequence of the under-casting the Sales Book)			
(b)	Credit Ram with ₹ 500 (In Sales Ledger)			
(c)	1. Manish (In Purchase Ledger)	Dr.	3600	
	To Manish (In Sales Ledger)			3600
	(Transfer of Manish credit balance ₹ 3600 in the Purchase Ledger to his account in the Sales Ledger)			
	2. Total Creditors A/c	Dr.	3600	
	To Total Debtors A/c			3600
	(Adjustment of total accounts because of the transfer of Manish account, in the Purchase Ledger to the Sales Ledger)			

(b) Statement showing differences between Hire Purchase and Installment System

	Basis of Distinction	***Hire Purchase***	***Installment System***
1.	Governing Act	It is governed by Hire Purchase Act,1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
6.	Right of Disposal	Hirer cannot hire out sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose of the goods and give good title to the bonafide purchaser.
7.	Responsibility for Risk of Loss	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the transfer in ownership.
8.	Name of Parties involved	The parties involved are called Hire purchaser and Hire vendor.	The parties involved are called buyer and seller.

(c) Business enterprises get insured against the loss of stock on the happening of certain events such as fire, flood, theft, earthquake etc. Insurance being a contract of indemnity, the claim for loss is restricted to the actual loss of assets. Sometimes an enterprise also gets itself insured against consequential loss of profit due to decreased turnover, increased expenses etc.

If loss of profits consequent to the event or mis-happening (Fire, flood, theft etc.) is also insured, the policy is known as loss of profit or consequential loss policy.

The Loss of Profit Policy normally covers the following items:

(1) Loss of net profit

(2) Standing charges.

(3) Any increased cost of working *e.g.,* renting of temporary premises.

(d) Accounting software is an invaluable resource for modern business.

Selection of the accounting software dependents upon the requirement of business. If you have small organization that makes only a few basic transactions a month—deposits, withdrawals and invoices, you can even use a spread sheet package like Microsoft Excel.

If your business is growing fast you should consider using pre-packaged accounting software like, Sage, Tally, or any other billing software. At the higher end, in service industry or if some business has its specific requirements which are not available in common pre-packaged software, one will have to go for customised accounting software.

Larger organisations go often for an ERP package where finance comes as module. An ERP is an integrated software package which manages the business process across the entire enterprise.

Thus, fulfilment of business requirements, completeness of reports, ease of use, complexity, size of business and cost are some of the important criteria for selection of appropriate accounting software for the organization.

(e) Calculation of Average Due date (Taking 6th August as the base date)

Date	*Due Date*	*Amount* ₹	*No. of days from Base date*	*Product* ₹
27/7	6/8	18,000	0	0
30/7	9/8	12,000	3	36,000
12/8	22/8	25,000	16	4,00,000
10/9	20/9	7,000	45	3,15,000
12/9	22/9	21,000	47	9,87,000
		83,000		17,38,000

Average due date = 6th August + 17,38,000/83,000

= 6th August + 21 days = 27th August

Thus average due date is 27th August.

If the payment is made on 30th September, then no. of days after 27th August till 30th Sept. will be 34 days

Interest if settlement is done on 30th September

Interest payable by Parveen on ₹ 83,000 for 34 days @ 8% p.a.

= ₹ 83,000 x 8/100 x 34/365 = ₹ 618.50

PAPER – 1 : ACCOUNTING

Question No. ***1*** *is compulsory.*

Answer any ***five*** *questions from the remaining* ***six*** *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.

Question 1

(a) GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of "Retail Petrol & Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. ₹102 lacs, ₹150 lacs, ₹130 lacs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.

Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

(b) Hema Ltd. purchased a machinery on 1.04.2008 for ₹15,00,000. The company charged straight line depreciation based on 15 years working life estimate and residual value ₹3,00,000. At the beginning of the 4^{th} year, the company by way of systematic evaluation revalued the machinery upward by 20% of net book value as on date and also re-estimated the useful life as 7 years and scrap value as nil. The increase in net book value was credited directly to revaluation reserves. Deprecation (on SLM basis) later on was charged to Profit & Loss Account. At the beginning of 8^{th} year the company decided to dispose off the machinery and estimated the realizable value to ₹2,00,000.

You are required to ascertain the amount to be charged to Profit & Loss Account at the beginning of 8^{th} year with reference to AS-10.

(c) How you will deal with following in the financial statement of the Paridhi Electronics Ltd. as on 31.3.16 with reference to AS-13?

(i) Paridhi Electronics Ltd. invested in the shares of another unlised company on 1^{st} May 2012 at a cost of ₹3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2016 reveals that the company has incurred cash losses with decline market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹45,000.

(ii) Also Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for ₹5 lakhs, which the company want to reclassify as long term investment. The market value of these investments as on date of Balance Sheet was ₹ 2.5 lakhs.

(d) A manufacturing company has the following stages of production and sale in manufacturing Fine paper rolls:

Date	**Activity**	***Cost to Date (₹)***	***Net Realizable Value (₹)***
15.1.16	*Raw Material*	*1,00,000*	*80,000*
20.1.16	*Pulp (WIP 1)*	*1,20,000*	*1,20,000*
27.1.16	*Rough & thick paper (WIP 2)*	*1,50,000*	*1,80,000*
15.2.16	*Fine Paper Rolls*	*1,80,000*	*3,50,000*
20.2.16	*Ready for sale*	*1,80,000*	*3,50,000*
15.3.16	*Sale agreed and invoice raised*	*2,00,000*	*3,50,000*
02.4.16	*Delivered and paid for*	*2,00,000*	*3,50,000*

Explain the stage on which you think revenue will be generated and state how much would be net profit for year ending 31.3.16 on this product according to AS-9.

(4 x 5 = 20 Marks)

Answer

(a) As per AS 7 'Construction Contracts', when a contract covers number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Offices, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one single agreement for contracts.

Therefore, three separate contract accounts must be recorded and maintained in the books of GTI Ltd. For each contract, principles of revenue and cost recognition must be applied separately and net income will be determined for each asset as per AS 7.

(b)

	₹
Depreciation charged for first three years [(15,00,000 - 3,00,000)/15] x 3	2,40,000
W.D.V. at beginning of 4th year (15,00,000 – 2,40,000)	12,60,000
Add: Upward revaluation	2,52,000
Revalued Value (12,60,000 x 120%)	15,12,000

Revised useful life	7 years
Depreciation from 4th year onwards (15,12,000/ 7)	2,16,000
Depreciation from 4th to 7th year (2,16,000 x 4)	8,64,000
W.D.V. at beginning of 8th year (15,12,000 - 8,64,000)	6,48,000
Disposal value	2,00,000
Loss on disposal (6,48,000 – 2,00,000)	4,48,000
Loss to be charged against revaluation reserve as per AS 10	2,52,000
Amount to be charged to P & L Account at beginning of 8th year (4,48,000 - 2,52,000)	1,96,000

Note: Information regarding revaluation and re-estimation of the useful life has been given in the question. It has been given that at the beginning of the 4th year, useful life was re-estimated as 7 years. In the above solution, this useful life has been considered as remaining useful life. Alternatively, it may also be assumed as the total useful life. In that case the remaining useful life will be considered as 4 years because 3 years have already passed.

(c) **(i)** As per AS 13, "Accounting for investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to ₹ 45,000 in the financial statements for the year ended 31st March, 2016 and charge the difference of loss of ₹ 2,55,000 to Profit and Loss account.

(ii) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is ₹ 2.50 lakhs, which is lower than its cost i.e. ₹5 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹2.50 lakhs. The loss of ₹ 2.50 lakhs should be charged to profit and loss account.

(d) According to AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Thus, sales will be recognized only when following two conditions are satisfied:

(i) The sale value is fixed and determinable.

(ii) Property of the goods is transferred to the customer.

Both these conditions are satisfied only on 15.3.2016 when sales are agreed upon at a price and goods are allocated for delivery purpose through invoice. The amount of net profit ₹ 150,000 (3,50,000 – 2,00,000) would be recognized in the books for the year ending 31st March, 2016.

Question 2

Proficient Infosoft Ltd. is in the hand of a Receiver for Debenture Holders who holds a charge on all asset except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2016:

Liabilities	***₹***		***₹***
8,000 shares of ₹ 100 each	*-*	*Property (cost is ₹ 3,80,800)*	
₹ 60 paid up		*estimated at*	*1,08,000*
First Debentures	*3,60,000*	*Plant & Machinery*	
Second Debentures	*7,80,000*	*(Cost is ₹ 2,87,200)*	
Unsecured trade payables	*5,40,000*	*estimated at*	*72,000*
		Cash in hand of the receiver	*3,24,000*
			5,04,000
		Uncalled capital	*3,20,000*
			8,24,000
		Deficiency	*8,56,000*
	16,80,000		*16,80,000*

A holds the first debentures for ₹ 3,60,000 and second debentures for ₹ 3,60,000. He is also an unsecured trade payable for ₹ 1,08,000. B holds second debentures for ₹ 3,60,000 and is an unsecured trade payable for ₹ 72,000.

The following scheme of reconstruction is proposed.

(i) A is to cancel ₹ 2,52,000 of the total debt owing to him; to bring ₹ 36,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 6,12,000 in satisfaction of all his claims.

(ii) B to accept ₹1,08,000 in cash in satisfaction of all claims by him.

(iii) In full settlement of 60% of the claim, unsecured trade payable (other than A and B) agreed to accept three shares of ₹25 each, fully paid against their claim for each ₹100.

The balance of 40% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.

(iv) Uncalled capital is to be called up in full and ₹75 per share cancelled, thus making the shares of ₹ 25 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries. ***(16 Marks)***

Answer

Journal Entries

Particulars		*Debit (₹)*	*Credit (₹)*
First debentures A/c	Dr.	3,60,000	
Second debentures A/c	Dr.	3,60,000	
Unsecured trade payables A/c	Dr.	1,08,000	
To A			8,28,000
(Being A's total liability ascertained)			
A	Dr.	2,52,000	
To Capital reduction A/c			2,52,000
(Being cancellation of debt up to ₹2,52,000)			
Bank A/c	Dr.	36,000	
To A			36,000
(Being cash received in course of settlement)			
A	Dr.	6,12,000	
To First debentures A/c			6,12,000
(Being liability of A, discharged against first debentures)			
Second debentures A/c	Dr.	3,60,000	
Unsecured trade payables A/c	Dr.	72,000	

To B			4,32,000
(Being B's liability ascertained)			
B	Dr.	4,32,000	
To Bank A/c			1,08,000
To Capital reduction A/c			3,24,000
(Being B's liability discharged in satisfaction of all claims)			
Unsecured trade payables A/c	Dr.	3,60,000	
To Equity share capital A/c			1,62,000
To Loan (Unsecured) A/c			1,44,000
To Capital reduction A/c			54,000
(Being settlement of unsecured Trade payables)			
Share call A/c	Dr.	3,20,000	
To Share capital A/c			3,20,000
(Being final call money due)			
Bank A/c	Dr.	3,20,000	
To Share call A/c			3,20,000
(Being final call money received)			
Share capital A/c (Face value ₹100)	Dr.	8,00,000	
To Share capital (Face value ₹25)			2,00,000
To Capital reduction A/c			6,00,000
(Being share capital reduced to ₹25 each)			
Capital reduction A/c	Dr.	11,68,000	
To Profit and loss A/c			11,68,000
(Being reconstruction surplus used to write off losses – W.N. 2)			
Capital Reduction A/c	Dr.	62,000	
To Capital Reserve A/c			62,000
(Being balance in capital reduction account transferred to capital reserve account)			

Working Notes:

1.	Settlement of claim of remaining unsecured Trade payables	₹
	60% of ₹3,60,000	2,16,000
	Considering their claim for share of ₹100 each	

	2,16,000/100 =2,160 shares Less: Number of shares to be issued 2,160 x 3= 6,480 shares of ₹25 each	
		(1,62,000)
	Transferred to Capital reduction A/c	54,000

2. Ascertainment of profit and loss account's debit balance at the time of reconstruction.

	₹	₹
Assets		
Fixed assets (3,80,800 + 2,87,200)	6,68,000	
Cash	3,24,000	9,92,000
Less: Capital & Liabilities:		
Share capital	4,80,000	
1st Debentures	3,60,000	
2nd Debentures	7,80,000	
Unsecured trade payables	5,40,000	(21,60,000)
Profit and loss A/c (Debit balance)		(11,68,000)

Question 3

(a) On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2016 (Using direct method):

(i) Total sales for the year were ₹ 398 crores out of which cash sales amounted to ₹ 262 crores.

(ii) Receipts from credit customers during the year, totaled ₹ 134 crores.

(iii) Purchases for the year amounted to ₹ 220 crores out of which credit purchase was 80%.

Balance in creditors as on

1.4.2015 ₹ 84 crores

31.3.2016 ₹ 92 crores

(iv) Suppliers of other consumables and services were paid ₹ 19 crores in cash.

(v) Employees of the enterprises were paid 20 crores in cash.

(vi) Fully paid preference share of the face value of ₹32 crores were redeemed. Equity shares of the face value of ₹20 crores were allotted as fully paid up at premium of 20%.

(vii) *Debentures of ₹ 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.*

(viii) *₹26 crores were paid by way of income tax.*

(ix) *A new machinery costing ₹ 25 crores was purchased in part exchange of an old machinery. The book value of the old machinery was ₹13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of ₹15 crores. The balance was paid in cash to the vendor.*

(x) *Investment costing ₹ 18 cores were sold at a loss of ₹2 crores.*

(xi) *Dividends totalling ₹ 15 crores (including dividend distribution tax of ₹ 2.7 crores) was also paid.*

(xii) *Debenture interest amounting ₹ 2 crore was paid.*

(xiii) *On 31st March 2015, Balance with Bank and Cash on hand totaled ₹ 2 crores.* ***(8 Marks)***

(b) *The following particulars are obtained from books of Prime Ltd. for the year ended 31st March, 2016:*

	₹		₹
Cash Sales	50,000	Bills Receivable dishonoured	5,000
Credit Purchases	5,60,000	Return Inward	17,000
Collection from Debtors	8,50,000	Payment to creditors	3,24,000
Bills Receivable drawn	40,000	Discount allowed	6,000
Discount Received	5,000	Debtor's cheque returned dishonoured	15,000
Cash Purchases	24,000	Credit Sales	9,80,000
Bills Payable Paid	13,000	Bills Receivable Collected	20,000
Recovery of Bad Debts	3,000	Return Outward	7,400
Bills receivable discounted with Bank	16,000	Bills Receivable endorsed to Creditors	15,800
Interest charged on overdue customer's A/c	2,400	Overpayment refunded by Suppliers	1,200
Endorsed Bills Receivable dishonoured (noting charges ₹ 150)	11,000	Bad debts Opening Balances: Sundry Debtors	2,000 1,56,000
Bills payable accepted	32,000	Sundry Creditor	1,70,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

(8 Marks)

Answer

(a) Cash flow statement (using direct method) for the year ended 31st March, 2016

	(₹ in crores)	*(₹ in crores)*
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(251)	
Cash from operations	145	
Less: Income tax paid	(26)	
Net cash generated from operating activities		119
Cash flow from investing activities		
Net Payment for purchase of Machine (25 – 15)	(10)	
Proceeds from sale of investments	16	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	
Net cash used in financing activities		(25)
Net increase in cash and cash equivalents		100
Add: Cash and cash equivalents as on 1.04.2015		2
Cash and cash equivalents as on 31.3.2016		102

Working Note:

Calculation of cash paid to suppliers of goods and services and to employees

	(₹ in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176
Total	260
Less: Closing balance in Creditors Account	92

Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19
Add: Payment to employees (c)	20
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	251

(b) **In the books of Prime Ltd.**

Total Debtors Account

		₹			₹
To	Balance b/d	1,56,000	By	Cash	8,50,000
To	Bank (Cheque dishonoured)	15,000	By	Discount Allowed	6,000
To	B/R (Dishonoured)	5,000	By	B/R	40,000
To	Interest	2,400	By	Returns Inward	17,000
To	Sales	9,80,000	By	Bad Debts	2,000
To	Sundry Creditors (endorsed bill dishonoured with noting charges)	11,150	By	Balance c/d	2,54,550
		11,69,550			11,69,550

Total Creditors Account

		₹			₹
To	Cash	3,24,000	By	Balance b/d	1,70,000
To	B/R (endorsed)	15,800	By	Purchases	5,60,000
To	Discount received	5,000	By	Sundry Debtors A/c (endorsed B/R dishonoured with noting charges)	11,150
To	Bills Payable	32,000			
To	Return outward	7,400	By	Cash (over payments refunded)	1,200
To	Balance c/d	3,58,150			
		7,42,350			7,42,350

Note: Transactions relating to cash sales or purchases; honour of bills receivable or payable; recovery of bad debts and discount or endorsement of bill will not be entered in Total Debtors and Total Creditors Accounts.

Question 4

The Accountant of 'Retreat & Refresh' Club furnishes you the following Receipts and Payment Account for the year ending 31st March, 2016:

Receipts	₹	Payments	₹
Opening Balance:		Honoraria to Secretary	19,200
Cash & Bank	33,520	Misc. expenses	6,120
Subscription	42,840	Rates & Taxes	5,040
Sale of Old Magazines	9,600	Ground man's wages	3,360
Entertainment Fees	17,080	Printing & Stationary	1,880
Bank Interest	920	Payment for bar purchases	23,080
Bar Receipts	29,800	Repairs	1,280
		Telephone expenses	9,560
		New car (less sale proceeds of old car ₹ 12,000) (Old car was sold on 1.4.2015)	50,400
		Closing Balance:	
		Cash & Bank	13,840
	1,33,760		1,33,760

Additional Information

	1.4.2015 (₹)	31.3.2016 (₹)
Subscription due (not received)	4,800	3,920
Cheque issued, but not presented (payment of printing expenses)	360	120
Club premises at cost	1,16,000	-
Depreciation on club premises provided so far	75,200	-
Car at cost	48,760	-
Depreciation on car provided so far	41,160	-
Value of Bar stock	2,840	3,480
Amount unpaid for bar purchases	2,360	1,720

Depreciation is to be provided @ 5% p.a. on written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an Income & Expenditure A/c of Retreat & Refresh Club for the year ending 31st March, 2016 and Balance Sheet as on that date. ***(16 Marks)***

Answer

Income and Expenditure Account of Retreat & Refresh Club for the year ended 31st March, 2016

Expenditure		*Amount*	*Income*	*Amount*
		₹		₹
To Honoraria to secretary		19,200	By Subscriptions (W.N.3)	41,960
To Misc. expenses		6,120	By Sale of old magazines	9,600
To Rates and taxes		5,040	By Entertainment fees	17,080
To Groundman's wages		3,360	By Bank interest	920
To Printing and stationary		1,880	By Bar receipts	29,800
To Telephone expenses		9,560	By Profit on sale of car (W.N.5)	4,400
To Bar expenses				
Opening bar stock	2,840			
Add. Purchases (W.N.2)	22,440			
	25,280			
Less: Closing bar stock	(3,480)	21,800		
To Repairs		1,280		
To Depreciation				
Club premises (W.N.4)	2,040			
Car (W.N. 6)	9,360	11,400		
To Excess of income over expenditure transferred to capital fund		24,120		
		1,03,760		1,03,760

Balance Sheet of Retreat & Refresh Club as on 31st March, 2016

Liabilities		*Amount*	*Assets*	*Amount*
		₹		₹
Capital fund (W.N. 1)	87,200		Club Premises	38,760
Add: Excess of income over expenditure	24,120	1,11,320	Car	53,040
			Bar stock	3,480

Outstanding liabilities for bar purchases		1,720	Outstanding subscription Cash and bank	3,920 13,840
		1,13,040		1,13,040

Working Notes:

1. Balance Sheet of Retreat & Refresh Club as on 1st April, 2015

Liabilities	*Amount*	*Assets*		*Amount*
	₹			₹
Amount due for bar purchases	2,360	Club premises	1,16,000	
		Less: Depreciation	(75,200)	40,800
Capital fund on 1.4.2015 (balancing figure)	87,200	Car	48,760	
		Less: Depreciation	(41,160)	7,600
		Bar stock		2,840
		Outstanding subscription		4,800
		Cash at bank		33,520
	89,560			89,560

2. Calculation of bar purchases for the year

	₹
Bar payments as per receipts and payments account	23,080
Add: Amount due on 31st March, 2016	1,720
	24,800
Less: Amount due on 1st April, 2015	(2,360)
	22,440

3. Calculation of subscriptions accrued during the year

	₹
Subscriptions received as per receipts and payments account	42,840
Add: Outstanding on 31st March, 2016	3,920
	46,760
Less: Outstanding on 1st April, 2015	(4,800)
	41,960

4. Depreciation on club premises and its written down value on 31st March, 2016

	₹
Written down value on 1st April, 2015 (1,16,000- 75,200)	40,800
Less: Depreciation for the year @ 5% p.a.	(2,040)
	38,760

5. Calculation of profit on sale of car

		₹
Sale proceeds of old car		12,000
Less: Written down value of old car:		
Cost of car on 1st April, 2015	48,760	
Less: Depreciation upto 1st April, 2015	(41,160)	(7,600)
		4,400

6. Depreciation on car and its written down value on 31st March, 2016

	₹
Cost of new car purchased (50,400 + 12,000)	62,400
Less: Depreciation for the year @ 15% p.a.	(9,360)
Written down value on 31st March, 2016	53,040

Note: The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing.

Question 5

(a) *Srikumar bought 2 cars from 'Fair Value Motors Pvt. Ltd. on1.4.2012 on the following terms:*

Down payment	*6,00,000*
1st Installment at the end of first year	*4,20,000*
2nd Installment at the end of 2nd year	*4,90,000*
3rd Installment at the end of 3rd year	*5,50,000*

Interest is charged at 10% p.a.

Srikumar provides depreciation @ 25% on the diminishing balances.

On 31.3.2015 Srikumar failed to pay the 3rd installment upon which ' Fair Value Motors Pvt. Ltd.' repossessed 1 car. Srikumar agreed to leave one car with Fair Value Motors

Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Srikumar after 3 months with interest @ 20% p.a.

You are required to:

(i) Calculate the cash price of the cars and the interest paid with each installment.

(ii) Prepare Car Account and Fair Value Motors Pvt. Ltd. Account in the books of Srikumar assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee. ***(8 Marks)***

(b) On 1st April, 2016 the stock of Mr. Hariprasad was destroyed by fire but sufficient records were saved from which following particulars were ascertained:

Stock at cost 1 Jan. 2015	*1,47,000*
Stock at cost 31 Dec. 2015	*1,59,200*
Purchases year ended 31 Dec. 2015	*7,96,000*
Sales year ended 31st Dec. 2015	*9,74,000*
Purchases 1.1.2016 to 31.3.2016	*3,24,000*
Sales 1.1.2016 to 31.3.2016	*4,62,400*

In valuing the stock for the Balance Sheet at 31st Dec. 2015 ₹ 4,600 had been written off on certain stock which was a poor selling line having the cost ₹ 13,800. A portion of these goods were sold in March, 2016 at a loss of ₹ 500 on original cost of ₹ 6,900. The remainder of this stock was now estimated to be worth its original cost. Subject to the above exception gross profit had reminded at a uniform rate throughout the year.

The value of stock salvaged was ₹ 11,600. The policy was for ₹ 1,00,000 and was subject to average clause.

Work out the amount of the claim of loss by fire. ***(8 Marks)***

Answer

(a) (i) Calculation of Interest and Cash Price

No. of installments	*Outstanding balance at the end after the payment of installment*	*Amount due at the time of installment*	*Outstanding balance at the end before the payment of installment*	Interest	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4] = 2 +3*	*[5] = 4 x 10/110*	*[6] = 4-5*
3rd	-	5,50,000	5,50,000	50,000	5,00,000

2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = ₹12,00,000+ 6,00,000 (down payment) = ₹18,00,000.

(ii) In the books of Srikumar

Cars Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2012	To Fair Value Motors A/c	18,00,000	31.3.2013	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2013	To Balance b/d	13,50,000	31.3.2014	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2014	To Balance b/d	10,12,500	31.3.2015	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000 + 2,16,000 + 1,29,600)]	1,94,400
				By Loss transferred to Profit and Loss A/c on surrender (Bal. fig.)	1,85,288*
				By Balance c/d ½ (10,12,500-2,53,125)	3,79,687*
		10,12,500			10,12,500

** May be rounded off as 1,85, 287. In that case, the balance in Cars account will be 3,79,688.*

Fair Value Motors Pvt. Ltd.

Date	Particulars	₹	Date	Particulars	₹
1.4.12	To Bank (down payment)	6,00,000	1.4.12	By Cars a/c	18,00,000
31.3.13	To Bank (1st Installment)	4,20,000	31.3.13	By Interest a/c	1,20,000
	To Balance c/d	9,00,000			
		19,20,000			19,20,000
31.3.14	To Bank (2nd Installment)	4,90,000	1.4.13	By Balance b/d	9,00,000
	To Balance c/d	5,00,000	31.3.14	By Interest a/c	90,000
		9,90,000			9,90,000

31.3.15	To Car A/c	1,94,400	1.4.14	By Balance b/d	5,00,000
	To Balance c/d	3,55,600	31.3.15	By Interest a/c	50,000
		5,50,000			5,50,000
30.6.15	To Bank (Amount settled after 3 months)	3,73,380	1.4.15	By Balance b/d	3,55,600
			30.6.15	By Interest a/c (@ 20% on bal.) $\left(3,55,600 \times \frac{3}{12} \times \frac{20}{100}\right)$	17,780
		3,73,380			3,73,380

(b)

Trading Account for year 2015
(to determine the rate of gross profit)

		₹			₹	₹
To	Opening Stock	1,47,000	By	Sales A/c		9,74,000
To	Purchases	7,96,000	By	Closing Stock :		
To	Gross Profit	1,94,800		As valued	1,59,200	
				Add: Amount written off to restore stock to full cost	4,600	1,63,800
		11,37,800				11,37,800

The (normal) rate of gross profit to sales is = $\frac{1,94,800}{9,74,000} \times 100$ = 20%

Memorandum Trading Account upto March 31, 2016

	Normal items	*Abnormal items*	*Total*		*Normal*	*Abnormal items*	*Total items*
	₹	₹	₹		₹	₹	₹
To Opening Stock (1,59,200 + 4,600-13,800)	1,50,000	13,800*	1,63,800	By Sales	4,56,000	6,400	4,62,400
				By Loss	—	500	500
To Purchases	3,24,000	—	3,24,000	By Closing			
To Gross Profit				Stock (bal. fig.)	1,09,200	6,900	1,16,100

(20% on ₹4,56,000)	91,200	____	91,200		____	____	____
	5,65,200	13,800	5,79,000		5,65,200	13,800	5,79,000

* at cost, book value is ₹ 9,200

Calculation of Insurance Claim

	₹
Value of Stock on April,1, 2016	1,16,100
Less: Salvage	(11,600)
Loss of stock	1,04,500

Claim subject to average clause:

$$= \frac{\text{Amount of Policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$$

$$\frac{1,00,000}{1,16,100} \times 1,04,500$$

= ₹ 90,008.60 (or rounded off to 90,009)

Question 6

A, B and C were partners sharing Profits and Losses in the ratio of 2 : 2 : 1. Their Balance Sheet as on 1.4.2015 stood as follows:

Liabilities		₹	*Assets*	₹
Capital Accounts:			*Fixed Assets*	*10,00,000*
A	*5,00,000*		*Inventory*	*2,50,000*
B	*4,00,000*		*Trade Receivable*	*3,50,000*
C	*3,00,000*	*12,00,000*	*Cash and Bank*	*1,00,000*
Reserves		*1,00,000*		
Trade Payables		*4,00,000*		
		17,00,000		***17,00,000***

On 1st October, 2015, C died. His representatives agreed that:

(i) Goodwill of the firm be valued at ₹ 5,00,000. Goodwill not to be shown off in books of Accounts.

(ii) Fixed assets be written down by ₹ 1,00,000 and

(iii) In lieu of profits, C should be paid at the rate of 25% p.a. on his capital as on 1.4.2015.

Current year's (2014-2015) profits after charging depreciation of ₹ 95,000 (₹50,000 related to the 1st half) was ₹4,05,000. Profit was evenly spread throughout the year.*

As on 31.3.2016, the following were the balance

Inventory	*₹ 2,30,000*
Trade Receivable	*₹ 1,90,000*
Trade Payable	*₹ 3,50,000*
Cash and Bank Balance	*₹ 43,770*

The particulars regarding their drawings are given below:

	Upto 1-10-2015	*After 1-10-2015*
A	*41,250*	*50,000*
B	*41,250*	*50,000*
C	*17,500*	*-*

You are required:

(i) Prepare the Balance Sheet of the firm as on 31.3.2016, assuming that final settlement to C's executors was made on 31.3.2016.

(ii) Prepare the Capital A/cs of the partners as on 1.10.2015 & 31.3.2016. **(16 Marks)**

Answer

(i) Balance Sheet as on 31st March, 2016

Liabilities	₹	₹	*Assets*	₹	₹
Capital Accounts			Fixed Assets	10,00,000	
A	5,09,385		*Less*: Written down	(1,00,000)	
B	4,09,385	9,18,770		9,00,000	
Trade Payables		3,50,000	*Less*: Depreciation	(95,000)	8,05,000
			Trade Receivables		1,90,000
			Inventory		2,30,000
			Cash and Bank		43,770
		12,68,770			12,68,770

(ii) Partners' Capital Accounts as on 1-10-2015

		A	B	C			A	B	C
To	Revaluation A/c (Loss of Fixed Assets)	40,000	40,000	20,000	By	Balance b/d	5,00,000	4,00,000	3,00,000

* to be read as 2015-16

To	Drawings	41,250	41,250	17,500	By	Reserves	40,000	40,000	20,000
To	C	50,000	50,000	-	By	A & B (goodwill adj.)	-	-	1,00,000
To	Executor's A/c	-	-	4,20,000	By	Profit and Loss Appn. A/c (W.N.2)	81,250	81,250	37,500
To	Balance c/d	4,90,000	3,90,000	-					
		6,21,250	5,21,250	4,57,500			6,21,250	5,21,250	4,57,500

Partners' Capital Accounts as on 31-3-2016

Dr.	*A*	*B*		*A*	*Cr.* *B*
To Drawings	50,000	50,000	By Balance b/d	4,90,000	3,90,000
To Balance c/d	5,09,385	4,09,385	By Profit & Loss Appn. A/c	69,385	69,385
	5,59,385	4,59,385		5,59,385	4,59,385

Working Notes:

1. Calculation of profits

		₹
(a)	Profit after Depreciation	4,05,000
	Add: Depreciation	95,000
	Profit before Depreciation	5,00,000
(b)	Profit for the 1st half (evenly spread)	2,50,000
	Less: Depreciation with respect to 1st half	(50,000)
	Post Depreciation profit	2,00,000
(c)	Profit for the 2nd half	2,50,000
	Less: Depreciation for the 2nd half	(45,000)
	2nd half profit after Depreciation	2,05,000

2. Profit and Loss Appropriation A/c (for the first half)

Dr.		₹	₹		*Cr.* ₹
To	Interest on C Capital (3,00,000 × 25% for 6 months)		37,500	By Profit	2,00,000
To	A	81,250			
	B	81,250	1,62,500		
			2,00,000		2,00,000

3. Application of Section 37 of the Partnership Act

Either

(i) Interest of 4,20,000 $\times \frac{6}{100} \times \frac{6}{12}$ = ₹ 12,600

Or

(ii) Profit earned out of unsettled capital

$$2,05,000 \times \frac{4,20,000}{(4,90,000 + 3,90,000 + 4,20,000)} = ₹\ 66,230$$

In the absence of specific agreement amongst partners on the above subject matter, the representatives of the deceased partner can receive at their option, interest at the rate of 6% p.a. or the share of profit earned for the amount due to the deceased partner.

In the given case, it would be rational to assume that the representatives would opt for ₹ 66,230.

4. Profit and Loss Appropriation A/c for the second half

Dr.					*Cr.*
			₹		₹
To	Executors A/c		66,230	By Net Profit	2,05,000
To	A	69,385			
	B	69,385	1,38,770		
			2,05,000		2,05,500

5. Executors Account

Dr.			*Cr.*
To Bank	4,86,230	By C's Capital A/c	4,20,000
		By Profit & Loss Appn. A/c	66,230
	4,86,230		4,86,230

Question 7

Answer any **four** out of the following:

(a) Recently a growing trend has developed for outsourcing the accounting function to a third party. What are the basis on which choice of such third party made?

(b) A merchant trader having accepted the following several bills falling due on different dates, now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date:

Sl. No.	*Date of Bills*	*Amount (₹)*	*Usance of the bill*
1	*1st May, 2016*	*500*	*2 months*
2	*10th May, 2016*	*300*	*3 months*
3	*5th June, 2016*	*400*	*2 months*
4	*20th June, 2016*	*375*	*1 month*
5	*10th July, 2016*	*500*	*2 months*

You are required to find the said average due date.

Any fraction of a day arising from the calculation to be considered as full day.

(c) On 1st December, 2015, M/s Blue & Black purchased, 20,000 12% fully paid debentures of ₹ 100 each at ₹ 105 cum interest price, also paying brokerage @ 1% of cum interest amount of the purchase. On 1st March, 2016, the firm sold all these debentures at ₹ 110 cum-interest price, again paying brokerage @ 1% of cum interest amount. Prepare Investment Account in the books of M/s. Blue & Black for the period 1st December, 2015 to 1st March, 2016. Interest being payable half yearly on 30th September and 31st March of every accounting year.

(d) X, Y, Z were partners in a firm sharing Profit & Loss in ratio of 2 : 1 : 1.

The firm took a joint life policy on the lives of all the partners of assured value of ₹ 2,00,000. The firm also took separate life policies of partners as follows:

	Assured values
X	*1,50,000*
Y	*2,00,000*
Z	*3,00,000*

The premium paid for separate life policies was debited to Profit & Loss A/c. Surrender value of all policies is 50%.

You are required to calculate the share of life policies which X's executors will get in even of X's death?

(e) What are the purposes for which Pre-incorporation Profit & Pre-incorporation Losses can be used for? ***(4 x 4 = 16 Marks)***

Answer

(a) Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilise the expertise of the outsourced party. The third party maintains the accounting software and the client data, does the processing and hands over the report from time to time.

The choice of outsourcing vendor is made on the basis of the proposals received from these vendors. The proposals are evaluated and the decision is often taken based on the following criteria:

1. The type of services provided and whether the same matches with the requirements,
2. The reputation and background of the vendor,
3. The comparative costs of the various propositions,
4. The assurance of quality.

(b) Calculation of the average due date

Taking 4th July as the base date

Sl. No.	*Date of bill*	*Due Date of Maturity*	*Amount ₹*	*No. of days from starting date (4th July)*	*Product*
1	1st May 2016	4th July	500	0	0
2	10th May 2016	13th August	300	40	12,000
3	5th June 2016	8th August	400	35	14,000
4	20th June 2016	23rd July	375	19	7,125
5	10th July 2016	13th September	500	71	35,500
Total			2,075		68,625

Average Due Date is $\frac{68,625}{2,075}$ = 34 days after the assumed due date, 4th July, 2016. The new bill should be for ₹ 2,075 payable on 7th August,2016.

(c) In the books of M/s Blue & Black

Investment Account
for the period from 1st December 2015 to 1st March, 2016
(Scrip: 12% fully paid Debentures)

Date	*Particulars*	*Nominal Value (₹)*	*Interest*	*Cost (₹)*	*Date*	*Particulars*	*Nominal Value (₹)*	*Interest*	*Cost (₹)*
1.12.2015	To Bank A/c (W.N.1)	20,00,000	40,000	20,81,000	1.03.2016	By Bank A/c (W.N.2)	20,00,000	1,00,000	20,78,000

1.3.2016	To Profit & loss A/c	-	60,000		1.3.2016	By Profit & loss A/c			3,000
		20,00,000	1,00,000	20,81,000			20,00,000	1,00,000	20,81,000

Working Notes:

(i) Cost of 12% debentures purchased on 1.12.2015 ₹

Cost Value (20,000 × ₹105)	=	21,00,000
Add: Brokerage (1% of ₹21,00,000)	=	21,000
Less: Interest (20,000 x 100 x12% x 2/12)	=	(40,000)
Total	=	20,81,000

(ii) Sale proceeds of 12% debentures sold on 1st March, 2016 ₹

Sales Price (20,000 ×₹ 110)	=	22,00,000
Less: Brokerage (1% of ₹ 22,00,000)	=	(22,000)
Less: Interest (20,000 x 100 x12% x 5/12)	=	(1,00,000)
Total	=	20,78,000

(d)

Joint life policy		₹ 2,00,000
Individual Policies:	X	₹ 1,50,000 (Assured Value)
	Y	₹ 1,00,000 (Surrender Value)
	Z	₹1,50,000 (Surrender Value)
		₹6,00,000

Total amount of Life Policies = ₹ 6,00,000

Share of life policies which X's executors will get = ₹ 6,00,000 $\times \frac{2}{4}$ = ₹ 3,00,000

X's executor will get ₹ 3,00,000 in the event of X's death as share of life policies.

Note: In the above answer, it has been assumed that the JLP was not appearing in the balance sheet of the partnership firm, hence total amount of JLP should be credited to partners' capital accounts. Alternatively, it may be assumed that JLP was appearing in the balance sheet of the partnership firm at surrender value of ₹ 1,00,000 (50% value), in that case, ₹1,00,000 will be considered for JLP in place of ₹ 2,00,000 and Share of X will be computed as 5,00,000 x 2/4 = ₹ 2,50,000

(e) Purposes for which pre-incorporation profits and pre-incorporation losses can be used are as follows:

Pre-incorporation Profits can be used for:	Pre-incorporation Losses can be used for:
• writing off Goodwill on acquisition • writing off Preliminary Expenses • writing down over-valued assets • issuing of bonus shares • paying up partly paid shares.	• setting off against Post-Incorporation Profit • addition to Goodwill on acquisition • writing off Capital Profit

PAPER – 1 : ACCOUNTING

Question No. ***1*** *is compulsory.*

Answer any ***five*** *questions from the remaining* ***six*** *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.

Question 1

(a) Uday Constructions undertake to construct a bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2016 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crores with an escalation clause. The costs to complete the whole contract are estimated at ₹ 9.50 crores of rupees. You are given the following information for the year ended 31.03.2016:

Cost incurred upto 31.03.2016 ₹ 4 crores

Cost estimated to complete the contract ₹ 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and state the revenue and profit to be recognized for the year as per AS-7.

(b) M/s Active Builders Ltd. invested in the shares of another company on 31st October, 2015 at a cost of ₹ 4,50,000. It also earlier purchased Gold of ₹ 5,00,000 and Silver of ₹ 2,25,000 on 31st March, 2013.

Market values as on 31st March, 2016 of the above investments are as follows:

Shares ₹ 3,75,000; Gold ₹ 7,50,000 and Silver ₹ 4,35,000

How will the above investments be shown in the books of account of M/s Active Builders Ltd. for the year ending 31st March, 2016 as per the provision of AS-13?

(c) Argon Ltd. purchased a shop on 1st January, 2001 at a cost of ₹ 8,50,000. The useful life of the shop is estimated as 30 years with residual value of ₹ 25,000 and depreciation is provided on a straight line basis. The shop was revalued on 30th June, 2015 for ₹ 19,50,000 and the revaluation was incorporated in the accounts.

Calculate:

(i) The surplus on revaluation;

(ii) Depreciation to be charged in the Profit and Loss account for the year ended on 31st December, 2015.

(d) Z Limited ordered 13,000 kg. of chemicals at ₹ 90 per kg. The purchase price includes excise duty of ₹ 5 per kg, in respect of which full CENVAT credit is admissible. Further,

State VAT is leviable at ₹ 2.5 per kg on purchase price. Freight incurred amounted to ₹ 30,000.

Normal transit loss is 4%. The company actually received 12,400 kg and consumed 10,000 kg. The company has received trade discount in the form of cash amounting to ₹ 1 per kg. The chemicals were delivered in containers. The containers were not reusable, hence sold for ₹ 500. The administrative expenses incurred to bring the chemicals were ₹ 10,000.

Compute the value of inventory and allocate the material cost as per AS-2. (4 x 5 = 20 Marks)

Answer

(a)

	₹ in crore
Cost of construction of bridge incurred 31.3.16	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

$= (4/10)\times 100 = 40\%$

Revenue and Profit to be recognized for the year ended 31st March, 2016 as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

=₹ 12.60 crore x 40% =₹ 5.04 crore

Profit for the year ended 31st March, 2016 = ₹ 5.04 crore less ₹ 4 crore = 1.04 crore

(b) As per AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short-term period then investment will be shown at the realizable value.

If equity shares are acquired with an intention to hold for long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of the investments. In the given case, shares purchased on 31st October, 2015, will be valued at ₹ 3,75,000 as on 31st March, 2016.

Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in gold and silver (purchased on 31st March, 2013) shall continue to be shown at cost as on 31st March, 2016 i.e., ₹ 5,00,000 and ₹ 2,25,000 respectively, though their realizable values have been increased.

Thus the shares, gold and silver will be shown at ₹ 3,75,000, ₹ 5,00,000 and ₹ 2,25,000 respectively and hence, total investment will be valued at ₹ 11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2016 as per provisions of AS 13.

(c) As per AS 6 "Depreciation Accounting", where the depreciable assets are revalued, the provision for depreciation should be based on the revalued amount and on the estimate of the remaining useful lives of such assets.

Surplus on revaluation

Depreciation provided upto 30th June, 2015	₹ 27,500 [(₹ 8,50,000 – ₹ 25,000)/30] p.a.]
Total depreciation	₹ 3,98,750 (₹ 27,500 p.a. for 14.5 years)
W.D. V of shop on 30th June, 2015 (a)	₹ 4,51,250 [₹ 8,50,000 less ₹ 3,98,750]
Revalued value (b)	₹ 19,50,000
Surplus [(b) less (a)]	₹ 14,98,750

Depreciation to be charged in the profit and loss account for the year ended 31st Dec., 2015

Depreciation for Jan. to June 15 (before revaluation)	₹ 13,750 (₹ 27,500 /2)
Remaining useful life	15.5 years
Depreciation for July to Dec. 15(after revaluation)	₹ 62,097 [₹ 19,25,000 (19,50,000 less 25,000) / 15.5 x 1/2]
Total Depreciation for the year ended 31st Dec., 2015	₹ 75,847[₹ 13,750 + ₹ 62,097]

Note:

Depreciation for the year ended 31st Dec., 2015 has been computed on the basis of assumption that there is no change in residual value and the remaining useful life after revaluation of the shop

(d) **Cost of inventory and allocation of material cost**

	₹
Purchase price (13,000 Kg. x ₹ 89)	11,57,000
Less: CENVAT Credit (13,000 Kg. x ₹ 5)	(65,000)
	10,92,000
Add: Freight	30,000
Allocated Administrative expenses	10,000
A. Total material cost	11,32,000

B. Number of units to be normally received = 96% of 13,000 Kg.	Kg. 12,480
C. Normal cost per Kg. (A/B)	90.705

Allocation of material cost

	Kg.	₹/Kg.	₹
Materials consumed	10,000		9,07,050
Cost of inventory (12,400- 10,000)	2,400	90.705(approx.)	2,17,692
Abnormal loss	80		7,258*
Total material cost	12,480		11,32,000

*The difference due to rounding off of normal cost per Kg has been adjusted.

Thus the inventory will be valued at ₹ 2,17,692.

Note:

1. The Company has received trade discount in the form of cash. This discount has been treated as trade discount in the given answer.
2. Abnormal losses are recognized as separate expenses.
3. Containers are used for delivery of the chemicals and are not reusable. Cost of these containers is treated as selling and distribution expense. The sale value of these containers will be credited to Profit and Loss Account and shall not be considered for the purpose of valuation of inventory.

   Alternatively, the sales value of container amount of ₹ 500 may be deducted, while computing material cost. In that case the material cost will be computed as ₹ 11,31,500 (11,32,000-500) instead of ₹ 11,32,000. Accordingly the allocation of material cost will get changed.
4. State VAT has not been included in the cost of materials in the above answer as VAT is generally credited in the later course of time.

Question 2

Given below are the Balance Sheet of two companies as on 31st December, 2015.

A Limited

Liabilities	*₹*	*Assets*	*₹*
Share Capital:		*Patent*	*1,00,000*
Issued and fully paid up		*Building*	*5,40,000*
50,000 8% Cumulative		*Plant and Machinery*	*15,10,000*
Preference Shares of ₹ 10 each	*5,00,000*	*Furniture*	*75,000*

1,50,000 Equity shares of ₹ 10 each	*15,00,000*	*Investment*	*1,55,000*
General Reserve	*7,65,000*	*Stock*	*3,58,000*
Profit and Loss account	*1,25,000*	*Sundry Debtors*	*72,000*
Sundry Creditors	*60,000*	*Cash and Bank*	*1,40,000*
	29,50,000		*29,50,000*

B Limited

Liabilities	*₹*	*Assets*	*₹*
Share Capital:		*Goodwill*	*62,000*
Issued and fully paid		*Motor Car*	*1,26,000*
50,000 Shares of ₹ 10 each	*5,00,000*	*Furniture*	*58,000*
Profit and Loss Account	*45,000*	*Stock*	*2,40,000*
Sundry Creditors	*31,000*	*Sundry Debtors*	*70,000*
		Cash and Bank	*20,000*
	5,76,000		*5,76,000*

It has been agreed that both these companies should be wound up and a new company AB Ltd. should be formed to acquire the assets of both the companies on the following terms and conditions:

(i) AB Ltd. is to have an authorized capital of ₹ 36,00,000 divided into 60,000, 8% cumulative preference shares of ₹ 10 each and 3,00,000 equity shares of ₹ 10 each.

(ii) AB Ltd. to purchase the whole of the assets of A Ltd. (except cash and Bank balances) for ₹ 28,25,000 to be settled as to ₹ 5,75,000 in cash and as to the balance by issue of 1,80,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.

(iii) AB Ltd. is to purchase the whole of the assets of B Ltd. (except cash and bank balances) for ₹ 4,91,000 to be settled as to ₹ 16,000 in cash and as to the balance by issue of 38,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.

(iv) A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in AB Ltd. in kind among the equity shareholders of the respective companies.

(v) The liquidator of A Ltd. is to pay the preference shareholders ₹ 12 in cash for every share held in full satisfaction of their claims.

(vi) AB Ltd. is to make a public issue of 60,000, 5%[*] cumulative preference shares at a premium of 10% and 30,000 equity shares at the issue price of ₹ 12.50 per share, all amount payable in full on application.

It is estimated that the cost of liquidation (including the liquidators' remuneration) will be ₹ 10,000 in case of A Ltd. and ₹ 5,000 in case of B Ltd. and that the preliminary expenses of AB Ltd. will amount to ₹ 24,000· exclusive of the underwriting commission of ₹ 38,900 payable on the public issue.

You are required to prepare the initial Balance Sheet of AB Ltd. on the basis that all assets other than goodwill are taken over at the book value. *(16 Marks)*

Answer

Balance Sheet of AB Ltd.

Particulars			*Notes*	*₹*
Equity and Liabilities				
1	Shareholders' funds			
	a	Share capital	1	30,80,000
	b	Reserves and Surplus	2	6,17,100
2	Current liabilities			
	a	Other liabilities		38,900
		Total		37,36,000
Assets				
1	Non-current assets			
	a	Fixed assets		
		Tangible assets	3	23,09,000
		Intangible assets	4	1,12,000
	b	Non-current investments		1,55,000
2	Current assets			
	a	Inventories (3,58,000 + 2,40,000)		5,98,000
	b	Trade receivables (72,000 +70,000)		1,42,000
	c	Cash and cash equivalents		4,20,000
		Total		37,36,000

[*] *To be read as 8%*

Notes to accounts

			₹
1	**Share Capital**		
	Authorized share capital		
	3,00,000 equity shares of ₹ 10 each	30,00,000	
	60,000, 8% cumulative Preference Shares of ₹10 each	6,00,000	36,00,000
	Equity share capital		
	2,48,000 equity shares of ₹ 10 each (Of the above shares, 2,18,000 shares have been issued for consideration other than cash)		24,80,000
	Preference share capital		
	60,000, 8% cumulative Preference Shares of ₹10 each		6,00,000
	Total		30,80,000
2	**Reserves and Surplus**		
	Debit balance of Profit and Loss Account		
	Underwriting commission	38,900	
	Preliminary expenses	24,000	(62,900)
	Securities Premium A/c		
	(2,48,000 equity shares x 2.50)	6,20,000	
	(60,000 Preference shares x ₹ 1)	60,000	6,80,000
			6,17,100
3	**Tangible assets**		
	Building	5,40,000	
	Motor car	1,26,000	
	Plant & machinery	15,10,000	
	Furniture	1,33,000	23,09,000
4	**Intangible assets**		
	Goodwill (W.N. 4) (15,000 +62,000-65,000)	12,000	
	Patents	1,00,000	1,12,000

Working Notes:

1. **Mode of discharge of Purchase Consideration of A Ltd.**

	₹
Cash payment	5,75,000
Equity shares (1,80,000 Shares x ₹ 12.5)	22,50,000
Total Purchase consideration	28,25,000

2. **Mode of discharge of Purchase Consideration of B Ltd.**

	₹
Cash payment	16,000
Equity shares (38,000 shares x ₹ 12.5)	4,75,000
Total Purchase consideration	4,91,000

3. **Cash at bank balance in the initial balance sheet of AB Ltd.**

Cash and Bank Account

		₹			₹
To	Issue of preference shares		By	Payment to A ltd.	5,75,000
	(60,000 x 11)	6,60,000	By	Payment to B ltd.	16,000
To	Equity shares		By	Preliminary expenses	24,000
	(30,000 x 12.50)	3,75,000	By	Balance c/d	4,20,000
		10,35,000			10,35,000

4. **Calculation of goodwill/ capital reserve of A Ltd. & B Ltd.**

Particulars	A Ltd.		B Ltd.	
Business Purchase A/c		28,25,000		4,91,000
Less: Goodwill			62,000	
Patent A/c	1,00,000		-	
Building A/c	5,40,000		-	
Plant & Mach. A/c	15,10,000		-	
Motor car A/c	-		1,26,000	
Furniture A/c	75,000		58,000	
Investment A/c	1,55,000		-	
Stocks A/c	3,58,000		2,40,000	
Debtors A/c	72,000	(28,10,000)	70,000	(5,56,000)
Goodwill / Capital reserve (Bal. fig.)		15,000		(65,000)
Net goodwill (15,000 +62,000 -65,000) = 12,000				

Note:

1. As per the information given in the question, only the assets of A Ltd. and B Ltd. are taken over by AB Ltd. Thus the creditors are considered to be paid by the liquidators of the respective companies and hence being not taken over by AB Ltd.
2. As per the information given in the second last para of the question, it is stated that the preliminary expenses of AB Ltd. will amount to ₹ 24,000 exclusive of the underwriting commission of ₹ 38,900 payable on the public issue. It has been assumed that ₹ 24,000 has been paid and underwriting commission is still payable in the balance sheet of the amalgamated company. Alternatively, any other reasonable assumption about this may be considered.
3. Preliminary expenses and underwriting commission have been written off as per the provisions of Accounting standards.

Question 3

(a) The following is the Balance Sheet of Manish and Suresh as on 1st April, 2015:

Liabilities	*₹*	*Assets*	*₹*
Capital:		*Building*	*1,00,000*
Manish	*1,50,000*	*Machinery*	*65,000*
Suresh	*75,000*	*Stock*	*40,000*
Creditors for goods	*30,000*	*Debtors*	*50,000*
Creditors for expenses	*25,000*	*Bank*	*25,000*
	2,80,000		*2,80,000*

They give you the following additional information:

(i) Creditors' Velocity 1.5 month & Debtors' Velocity 2 months.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.

(vii) Closing stock is to be valued on LIFO Basis.

Prepare Trading, Profit and Loss Account, Trade Debtors A/c and Trade Creditors A/c for the year ending 31.03.2016.

(b) Following information has been given for Bharat Sports Club, Delhi for the year ending 31.12.2014 and 31.12.2015.

	31.12.2014	*31.12.2015*
Building (subject to 10% depreciation for the current year)	*60,000*	*?*
Furniture (subject to 10% depreciation for the current year)	*-*	*20,000*
Stock of Sports Materials	*5,000*	*2,000*
Prepaid Insurance	*3,000*	*6,000*
Outstanding Subscription	*12,000*	*8,000*
Advance Subscription	*6,000*	*4,000*
Outstanding Locker Rent	*-*	*6,000*
Advance Locker Rent received	*-*	*2,000*
Outstanding Rent for Godown	*6,000*	*3,000*
12% General Fund Investments	*2,00,000*	*2,00,000*
Accrued Interest on above	*-*	*4,000*
Cash Balance	*1,000*	*64,000*
Bank Balance	*2,000*	*-*
Bank Overdraft	*-*	*2,000*

Additional Information:

(i) Entrance fees received ₹ 20,000, Life membership fees received ₹ 20,000 during the year.

(ii) Surplus from Income and Expenditure Account ₹ 60,000.

(iii) It is the policy of the club to treat 60% of entrance fees and 40% of life membership fees as revenue nature.

(iv) The furniture was purchased on 01.01.2015.

Prepare Opening and Closing Balance Sheet of Bharat Sports Club as on 31st December, 2014 and 31st December, 2015 respectively. *(8 + 8 = 16 Marks)*

Answer

(a) Trading and Profit and Loss account
(for the year ending 31st March, 2016)

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	4,31,250

To	Purchases (Working Note)	3,45,000	By	Closing Stock	40,000
To	Gross Profit c/d (20% on sales)	86,250			
		4,71,250			4,71,250
To	Business Expenses	50,000	By	Gross Profit b/d	86,250
To	Depreciation on :				
	Machinery 6,500				
	Building 5,000	11,500			
To	Net profit	24,750			
		86,250			86,250

Trade Debtors Account

Particulars		₹	Particulars		₹
To	Balance b/d	50,000	By	Bank (bal.fig.)	4,09,375
To	Sales	4,31,250	By	Balance c/d (1/6 of 4,31,250)	71,875
		4,81,250			4,81,250

Trade Creditors Account

Particulars		₹	Particulars		₹
To	Bank (Balancing figure)	3,31,875	By	Balancing b/d	30,000
To	Balance c/d/ (1/8 of ₹ 3,45,000)	43,125	By	Purchases	3,45,000
		3,75,000			3,75,000

Working Note:

		₹
(i)	*Calculation of Rate of Gross Profit earned during previous year*	
A	Sales during previous year (₹ 50,000 x 12/2)	3,00,000
B	Purchases (₹ 30,000 x 12/1.5)	2,40,000
C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 – ₹ 40,000)	2,40,000
D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{₹\ 60,000}{₹\ 3,00,000} \times 100$	20%
(ii)	*Calculation of sales and Purchases during current year*	₹
A	Cost of goods sold during previous year	2,40,000

B	*Add:* Increases in volume @ 25 %	60,000
		3,00,000
C	*Add:* Increase in cost @ 15%	45,000
D	Cost of Goods Sold during Current Year	3,45,000
E	*Add:* Gross profit @ 25% on cost (20% on sales)	86,250
F	Sales for current year [D+E]	4,31,250

Note: It has been considered that all sales and purchases are on credit basis only and there are no cash purchases and sales.

(b) Balance Sheet of Bharat sports club as at 31st December, 2014

Liabilities	₹	*Assets*	₹
Outstanding Rent	6,000	Building	60,000
Advance Subscription	6,000	Stock of Sports materials	5,000
Capital Fund	2,71,000	Prepaid Insurance	3,000
(balancing Figure)		Outstanding subscription	12,000
		12% General Fund Investments	2,00,000
		Cash Balance	1,000
		Bank Balance	2,000
	2,83,000		2,83,000

Balance Sheet of Bharat Sports club as at 31st December, 2015

Liabilities		₹	*Assets*		₹
Outstanding Rent		3,000	Building		
Advance Subscription		4,000	Book Value	60,000	
Advance Locker Rent		2,000	*Less:* Depreciation	6,000	54,000
Bank Overdraft		2,000	Furniture Cost	20,000	
Capital Fund:			*Less:* Depreciation	2,000	18,000
Opening Balance	2,71,000		Stock of sports materials		2,000
Add: Entrance Fees	8,000		Prepaid Insurance		6,000
[20,000 x 40%]			Outstanding Subscription		8,000
Add: Life Membership fee	12,000		Outstanding Locker Rent		6,000
[₹ 20,000 x 60%]			12% General		2,00,000
Add: Surplus	60,000	3,51,000	Fund Investments		
			Accrued Interest on 12%		

			General Fund Investments		4,000
			Cash Balance		64,000
		3,62,000			3,62,000

Question 4

(a) *Girish Transport Ltd. purchased from NCR Motors 3 electric rickshaws costing ₹ 60,000 each on the hire purchase system on 1.1.2013. Payment was to be made ₹ 30,000 down and the remainder in 3 equal installments payable on 31.12.2013, 31.12.2014 and 31.12.2015 together with interest @ 10% p.a. Girish Transport Ltd. writes off depreciation @ 20% p.a. on the reducing balance. It paid the installment due at the end of 1st year i.e. 31.12.2013 but could not pay next on 31.12.2014. NCR Motors agreed to leave one e-rickshaw with the purchaser on 31.12.2014 adjusting the value of the other two e-rickshaws against the amount due on 31.12.2014. The e-rickshaws were valued on the basis of 30% depreciation annually on WDV basis.*

Show the necessary Ledger accounts in the books of Girish Transport Ltd. for the year 2013, 2014, and 2015.

(b) *A Ltd. purchased on 1st April, 2015 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2015 A Ltd. purchased another ₹ 1,00,000 debenture @ ₹ 112 cum interest.*

On 1st October, 2015 ₹ 80,000 debenture was sold @ ₹ 105. On 1st December, 2015, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2015 is ₹ 110 and ₹ 15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September.

The accounting year of A Ltd. is calendar year.

Prepare investment account in the books of A Ltd. on average cost basis.

(8 + 8 = 16 Marks)

Answer

(a) Ledger Accounts in the books of Girish Transport Ltd.

E-Rickshaws Account

Year			₹	*Year*			₹
1.1.13	To	NCR Motors A/c	1,80,000	31.12.13	By	Depreciation A/c	36,000
					By	Balance c/d	1,44,000
			1,80,000				1,80,000
1.1.14		To Balance b/d	1,44,000	31.12.14	By	Depreciation	28,800

				By	NCR Motors (value of 2 E-Rickshaw after depreciation for 2 years @ 30%)	58,800
				By	P & L A/c (bal.fig.)	18,000
				By	Balance c/d (one E-Rickshaw less depreciation for 2 years) @ 20%	38,400
		1,44,000				1,44,000
1.1.15	To Balance b/d	38,400	31.12.15	By	Deprecation A/c	7,680
				By	Balance c/d	30,720
		38,400				38,400

NCR Motors Account

Year		₹	*Year*		₹
1.1.13	To Bank A/c	30,000	1.1.13	By E-Rickshaws A/c	1,80,000
31.12.13	To Bank A/c	65,000		By Interest @ 10% on ₹ 1,50,000	15,000
	To Balance c/d	1,00,000			
		1,95,000			1,95,000
31.12.14	To E-Rickshaws A/c	58,800	1.1.14	By Balance b/d	1,00,000
	To Balance c/d	51,200		By Interest @ 10% on ₹ 1,00,000	10,000
		1,10,000			1,10,000
31.12.15	To Balance c/d	56,320	1.1.15	By Balance b/d	51,200
				By Interest @ 10% on ₹ 51,200	5,120
		56,320			56,320

Note:

In the absence of any information regarding payment of the balance amount of ₹ 56,320 by Girish Transport Ltd. to NCR Motors Ltd., it has been assumed in the above solution that the balance payment amounting ₹ 56,320 had not been made till 31st Dec. 2015.

(b)

Investment Account for the year ending on 31st December, 2015

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value (₹)	Interest (₹	Cost (₹
1.4.15	To Bank A/c	2,00,000	-	2,16,000	30.09.15	By Bank A/c	-	12,000	-
1.7.15	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12]			
31.12.15	To P & L A/c	-	14,033	-	1.10.15	By Bank A/c	80,000		84,000
	[Interest]				1.10.15	By P&L A/c (loss) (W.N.1)			2,933
					1.12.15	By Bank A/c (Accrued interest) (₹ 55,000 x .08x 2/12)		733	
					1.12.15	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12..15	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.15	To 8 % debentures	59,767	31.12.15	By balance c/d	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹1,12,000 – ₹2,000 (Interest)

= ₹1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (₹2,16,000 + ₹1,10,000) x 80,000/3,00,000 = ₹ 86,933

(iii) Loss on sale of Debentures = ₹ 86,933– ₹84,000 = ₹2,933

Nominal value of debentures converted into equity shares =₹ 55,000

[(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000

= ₹ 59,767

(v) Cost of closing balance of Debentures = (₹ 2,16,000 + ₹1,10,000) x 1,65,000 / 3,00,000

= ₹ 1,79,300

(vii) Closing balance of Debentures has been valued at cost being lower than the market value i.e. ₹ 1,81,500 (₹ 1,65,000 @ ₹ 110)

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

Question 5

(a) A firm has decided to take out a loss of profit policy for the year 2016 and given the following information for the last accounting year 2015.

Variable manufacturing expenses ₹ 14,20,000, Standing charges ₹ 1,50,000, Net Profits ₹ 80,000, Non-operating income ₹ 2,500, Sales ₹ 18,00,000.

Compute the sum to be insured in each of the following alternative cases showing the anticipation for the year 2016:

(i) If sales will increase by 15%.

(ii) If sales will increase by 15% and only 50% of the present standing charges are to be insured.

(iii) If sales and variable expenses will increase by 15% and standing charges will increase by 10%.

(iv) If sales will increase by 15% and variable expenses will decrease by 5%.

(v) If sales will increase by 10% and standing charges will increase by 15%.

(vi) If the turnover and standing charges will increase by 15% and variable expenses will decrease by 10%·but only 50% of the present standing charges are to be insured.

(b) Rahim has a current account with partnership firm. It has debit balance of ₹ 2,40,000 as on 1.04.2015. He has further deposited the following amounts:

Date	***Amount (₹)***
14/04/2015	*1,20,000*
30/04/2015	*3,00,000*
18/05/2015	*1,23,000*

He withdrew the following amounts:

Date	***Amount (₹)***
29/04/2015	*97,000*
09/05/2015	*1,71,000*

Show Rahim's A/c in the ledger of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 31st May, 2015 by means of product of balance method. (8 + 8 = 16 Marks)

Answer

(a) Statement showing computation of sum insured under various cases

	(i)	(ii)	(iii)	(iv)	(v)	(vi)
Sales	20,70,000	20,70,000	20,70,000	20,70,000	19,80,000	20,70,000
Less: Variable exp	16,33,000	16,33,000	18,77,950	15,51,350	15,62,000	14,69,700
Gross profit	4,37,000	4,37,000	1,92,050	5,18,650	4,18,000	6,00,300
Add: increase in Insured standing charges	-	-	15,000	-	22,500	11,250*

Less: uninsured standing charges	-	(75,000)	-	-	-	(75,000)
Sum insurable	4,37,000	3,62,000	2,07,050	5,18,650	4,40,500	5,36,550

Note:

1. The above solution is based on the assumption that increase in sale is due to increase in volume of sales. Alternatively, it may be assumed that this increase is because of rise in selling price. In that case, there will be no proportionate increase in variable expenses and the answer will get changed accordingly.
2. *In case (vi), it is given in the question that 50% of the present standing charges are to be insured. It is assumed in the above answer that 50% of the increased standing charges are insured.
3. In case (iii), 15% increase in variable expenses has been calculated after considering proportionate increase in variable expenses due to increase in turnover.

(b) Rahim's Current Account with Partnership firm (as on 31.5.15)

Date	Particulars	Dr (₹)	Cr (₹)	Balance (₹)	Dr. or Cr.	Days	Dr Product (₹)	Cr Product (₹)
1.4.15	To Bal b/d	2,40,000		2,40,000	Dr.	13*	31,20,000	
14.4.15	By Cash A/c		1,20,000	1,20,000	Dr.	15	18,00,000	
29.4.15	To Self	97,000		2,17,000	Dr.	1	2,17,000	
30.4.15	By Cash A/c		3,00,000	83,000	Cr.	9		7,47,000
9.5.15	To Self	1,71,000		88,000	Dr.	9	7,92,000	
18.5.15	By Cash A/c		1,23,000	35,000	Cr.	14*		4,90,000
31.5.15	To Interest A/c	1,361			Dr.			
31.5.15	By Bal. c/d	33,639						
		5,43,000	5,43,000				59,29,000	12,37,000

Interest Calculation:

On ₹ 59,29,000x 10% x 1/365 = ₹ 1,624

On ₹ 12,37,000 x 8% x 1/365 = (₹ 271)

Net interest to be debited = (₹1,353)

Note: *In the given answer, starting/transaction date has been considered and the date of next transaction has been ignored for the purpose of calculation of number of days.

Question 6

Ajay, Vijay and Sanjay are partners sharing Profit & Loss in the ratio of 2:3:1. The Balance Sheet of the firm as on 31.03.2015 is as follows:

Liabilities	₹	Assets	₹
Capital A/c:		Furniture & Fixture	30,000
Vijay's Capital	85,000	Office equipment	20,000
Sanjay's Capital	68,000	Motor Car	60,000
General Reserve A/c	30,000	Stock	40,000
Sundry Creditors	25,000	Sundry Debtors	20,000
		Cash at Bank	18,000
		Ajay's Capital	20,000
	2,08,000		2,08,000

Kamal is admitted as a new partner with effect from 1st April, 2015 by receiving 1/4 share in the profit & loss of the firm. The profit or loss sharing ratios between other partners remain same as before. It was agreed that Kamal would bring some private furniture worth ₹ 3,000 and private stock worth ₹ 5,000 and balance in cash towards his capital.

The following adjustments are to be made prior to Kamal admission:

1. *Goodwill of the firm is to be valued at 2 years purchase of the average profit of last 3 years. The profits for the last 3 years were ₹ 35,900, ₹ 38,200 and ₹ 31,500. However on checking of the past records it was noticed that on 01.04.11 a new furniture costing, ₹ 8,000 was purchased but wrongly debited to revenue and also in year 2012-13, a purchase invoice for ₹ 4,000 has been omitted in the book. The firm charged depreciation on furniture @ 10% on original cost. Your calculation of goodwill is to be made on the basis of correct profits. It is agreed among existing partners that Sanjay's interest in the goodwill of the firm is only up to value of ₹ 42,000.*
2. *Motor Car is taken over by Vijay at ₹ 70,000.*
3. *Office equipment is revalued at ₹ 25,000.*
4. *Expenses incurred but not paid of ₹ 6,500 are provided for.*
5. *Value of the stock is to be reduced by 5%.*
6. *Kamal is to bring proportionate capital. Capital of Vijay, Ajay and Sanjay are also to be adjusted in profit sharing ratio.*

Assuming the above mentioned adjustments are duly carried out, show the revaluation account, partner's capital accounts and the Balance Sheet of the firm after Kamal's admission.

(16 Marks)

Answer

Revaluation Account

			₹			₹
To	Stock		2,000	By	Motor car	10,000
To	Expenses		6,500	By	Office equipment	5,000
To	Purchases Omitted		4,000			
To	Capital A/c					
	Ajay	833				
	Vijay	1,250				
	Sanjay	417	2,500			
			15,000			15,000

Partners' Capital Accounts

Particulars	*Ajay*	*Vijay*	*Sanjay*	*Kamal*	*Particulars*	*Ajay*	*Vijay*	*Sanjay*	*Kamal*
Before admission									
To Balance b/d	20,000	-	-	-	By bal b/d	-	85,000	68,000	-
To Motor Car	-	70,000	-	-	By Reserve	10,000	15,000	5,000	
To Balance c/d	16,087	69,130	81,127	-	By Furniture	1,600	2,400	800	
					By Revaluation A/c	833	1,250	417	-
					By Goodwill	23,654	35,480	7,000	-
Total	36,087	1,39,130	81,217			36,087	1,39,130	81,217	
At the time of admission									
To Goodwill	17,395	26,094	5,250	17,395	By Balance b/d	16,087	69,130	81,127	-
To Balance c/d	-	43,036	75,967	-	By assets	-	-	-	8,000
					By bal c/d	1,308	-	-	9,395
Total	17,395	69,130	81,217	17,395		17,395	69,130	81,217	17,395
Adjustments to make Capital proportionate									
To balance b/d	1,308	-	-	9,395	By bal b/d	-	43,036	75,967	-
To Bank (bal. fig.)	-	-	56,351	-					
To balance c/d (WN 4)	39,232	58,847	19,616	39,232	By Bank (bal. fig.)	40,540	15,811	-	48,627
Total	40,540	58,847	75,967	48,627		40,540	58,847	75,967	48,627

Balance Sheet of the Firm (after Kamal's admission)

Equity & Liabilities	₹	*Assets*	₹
Capital Account:		Furniture& fixture	37,800
Ajay	39,232	(30,000 +3,000+4,800)	
Vijay	58,847	Office equipment	25,000
Sanjay	19,616	Stock (38,000 +5,000)	43,000
Kamal	39,232	Debtors	20,000
Creditors (25,000 +4,000)	29,000	Cash at Bank (W. N. 5)	66,627
Outstanding Expenses	6,500		
	1,92,427		1,92,427

Working Notes:

1. **Computation of New Profit sharing ratio**

   Since Kamal's Share= 1/4th, Balance 3/4th to be shared by Ajay, Vijay and Sanjay in the ratio 2:3:1

	Ajay	*Vijay*	*Sanjay*	*Kamal Total*	
New Ratio	$\frac{2}{6}\times\frac{3}{4}=\frac{2}{8}$	$\frac{3}{6}\times\frac{3}{4}=\frac{3}{8}$	$\frac{1}{6}\times\frac{3}{4}=\frac{1}{8}$	$\frac{1}{4}=\frac{2}{8}$	2:3:1:2

2. **Computation of Goodwill**

Year	*12-13*	*13-14*	*14-15*	*Total*
Profit	35,900	38,200	31,500	
Less: Depreciation	(800)	(800)	(800)	
Purchase invoice omitted	(4,000)	–	–	
	31,100	37,400	30,700	99,200
Average Profit		99,200/3		₹ 33,067
Goodwill at 2 years purchase		₹ 33,067 $\times$ 2		₹ 66,134

3. (i) **Distribution of Goodwill to be credited to Ajay, Vijay and Sanjay**

Particulars	*Ajay*	*Vijay*	*Sanjay*	*Total*
First – ₹ 42,000 to be distributed among all the Partners in the ratio of 2:3:1	14,000	21,000	7,000	42,000
Balance - ₹ 24,134 to be distributed between Ajay and Vijay in the ratio 2:3	9,654	14,480	-	24,134
Total	23,654	35,480	7,000	66,134

(ii) Writing off of Goodwill

Particulars	*Ajay*	*Vijay*	*Sanjay*	*Kamal*	*Total*
First – ₹ 42,000 to be debited among all the Partners in the ratio of 2:3:1:2	10,500	15,750	5,250	10,500	42,000
Balance- ₹ 24,134 to be distributed between Ajay,Vijay and kamal in the ratio 2:3:2	6,895	10,344	-	6,895	24,134
Total	17,395	26,094	5,250	17,395	66,134

4. Computation of proportionate Capital of Partners

	₹
Combined Capital of Ajay, Vijay, Sanjay (Existing partners) – as per balance derived in partners' Capital Account = ₹ 43,036+ ₹ 75,967 - 1,308= 1,17,695	1,17,695
Share of Ajay, Vijay and Sanjay in the new firm after deducting Kamal's $1/4^{th}$ share	3/4th
Total Capital of the Firm after Kamal's admission = ₹ 1,17,695÷ $3/4^{th}$	1,56,927

Apportionment of Capital in New Profit Sharing Ratio i.e. Proportionate Capital of partners

Partners	*Ajay*	*Vijay*	*Sanjay*	*Kamal*
Ratio	2	3	1	2
Proportionate Capital of partners (1,56,927)	39,232	58,847	19,616	39,232

5. Cash at Bank

= Given ₹ 18,000 +40,540+ 15,811+ 48,627– 56,351 = ₹ 66,627

<u>Note</u>:

1. In the above solution, adjustment of furniture for ₹ 4,800 has been routed through Partners' capital accounts. Alternatively, it may also be routed through Revaluation A/c.
2. Since goodwill is not a purchased goodwill, it has been written off in the above solution, in accordance with the AS 10.
3. As per the requirement given in the question, it is agreed among existing partners that Sanjay's interest in the goodwill of the firm is only upto the value of ₹ 42,000. It has been assumed in the above solution that Sanjay is credited at the time of raising of goodwill as well as debited only to the extent of ₹ 42,000 at the time of writing off of goodwill.

Question 7

*Answer any **four** from the following:*

(a) *Anjana Ltd. is absorbed by Sanjana Ltd.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000) the payment of the 9% debentures of ₹ 50,000 at a premium of 20% in 8% debentures issued at a premium of 25% at face value and the payment of ₹ 15 per share in cash and allotment of three 11% preference share of ₹ 10 each at a discount of 10% and four equity share of ₹ 10 each. at a premium of 20% fully paid for every five shares in Anjana Ltd. The number of share of the vendor company are 1,50,000 of ₹ 10 each fully paid.*

Calculate purchase consideration as per Accounting Standard 14.

(b) *What are the disadvantages of a spreadsheet as an accounting tool ?*

(c) *X owes Y the following sums of money due on the dates started :*

₹ 400 due on 5th January, 2016

₹ 200 due on 20th January; 2016

₹ 800 due on 4th February, 2016

₹ 100 due on 26th February, 2016

₹ 50 due on 10th March, 2016

Calculate such a date when payment may be made by X in one installment resulting in no loss of interest to either party. Assume base date as 5th January, 2016.

(d) *Classify the following activities as per AS 3 Cash Flow Statement:*

(i) *Interest paid by financial enterprise*

(ii) *Dividend paid*

(iii) *Tax deducted at source on interest received from subsidiary company*

(iv) *Deposit with Bank for a term of two years*

(v) *Insurance claim received towards loss of machinery by fire*

(vi) *Bad debts written off*

Which activity does the purchase of business falls under and whether netting off of aggregate cash flows from disposal and acquisition of business units is possible ?

(e) *From the following information available from the books of a trader from 01/01/2015 to 31/03/2015, you are required to draw up the Debtors Ledger Adjustment Account in the General Ledger :*

i. *Total sales amounted to ₹ 2,00,000 including the sale of machine for ₹ 6,800 (book value ₹ 12,000). The total cash sales were 85% less than the total credit sales.*

ii. *Cash collections from debtors amounted to 70% of the aggregate of the opening debtors and credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.*

iii. *Bills receivable drawn during the three months totalled ₹ 45,000 of which bills amounting to ₹ 20,000 were endorsed in favour of suppliers. Out of the endorsed bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realized nothing.*

iv. *Cheque received from debtors ₹ 15,000 were dishonoured, a sum of ₹ 3,500 was irrecoverable, Bad debts written off in the earlier year's realized ₹ 15,000.*

v. *Sundry debtors as on 01/01/2015 stood at ₹ 1,50,000.* *(4 × 4 = 16 Marks)*

Answer

(a) As per AS 14 on Accounting for Amalgamations, the term 'consideration' has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company

The payment made by transferee company to discharge the Debenture holders and outside liabilities and cost of winding up of transferor company shall not be considered as part of purchase consideration

Computation of Purchase Consideration

	₹
Cash payment [₹15 x 1,50,000]	22,50,000
11% Preference Shares of ₹ 10 each @ 10% discount [(1,50,000 x 3/5) x ₹ 9]	8,10,000
Equity shares of ₹ 10 each @ 20% premium [(1,50,000 x 4/5) x ₹ 12]	14,40,000
Total Purchase consideration	45,00,000

For every 5 shares Anjana Ltd. will receive (i) 4 equity shares @ ₹ 12 per share and (ii) 3 11% Preference Shares shares @ ₹ 9 per share.

(b) Disadvantages of a spreadsheet as an accounting tool are as follows:

1. Spreadsheet has data limitations. Depending upon the package, it can accept data only up to a specified limit.

2. Simultaneous access on a network may not be possible. Many of the modern softwares allow locking of the table when updation is taking place. This is not possible in a spread sheet.

3. Double entry is not automatically completed in Spread Sheet. Formulas or other means have to be adopted to complete the double entry.
4. Reports are not automatically formatted and generated but have to be user controlled. Each time a report has to be printed, settings have to be checked and data range has to be set. In many accounting softwares this is automatically taken care of by the program.

(c) Calculation of the average due date

Taking 5th January as the base date

Due date	*Amount* ₹	No. of days from the base date i.e. 5th January, 2016	*Product* ₹
2016			
5th January, 2016	400	0	0
20th January, 2016	200	15	3,000
4th February, 2016	800	30	24,000
26th February, 2016	100	52	5,200
10th March, 2016	50	65	3,250
	1,550		35,450

Average due date=Base date+ Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

= 5th January, 2016+ $\frac{35,450}{1,550}$

= 5th January, 2016 + 22.8 days

= 5th January, 2016 + 23 days

=28th January, 2016

If the payment is made by X in one installment on 28th January, 2016, no loss of interest would arise to any of the parties.

(d) (i) Interest paid by financial enterprise

Cash flows from operating activities

(ii) Dividend paid

Cash flows from financing activities

(iii) TDS on interest received from subsidiary company

Cash flows from investing activities

(iv) Deposit with bank for a term of two years

Cash flows from investing activities

(v) Insurance claim received against loss of fixed asset by fire

Extraordinary item to be shown as a separate heading under 'Cash flow from investing activities'

(vi) Bad debts written off

It is a non-cash item which is adjusted from net profit/loss under indirect method, to arrive at net cash flow from operating activity.

Purchase of business falls under Investing Activities as per AS 3 "Cash Flow Statement". The aggregate cash flows arising from acquisitions and from disposals of other business units should be presented separately and classified as investing activities. Thus netting of aggregate cash flows from disposal and acquisition of business units is not possible.

(e) **In General Ledger**

Debtors Ledger Adjustment Account

2015		₹	2015		₹
Jan. 1	To Balance b/d	1,50,000	Jan. 1 to Mar.31	By General ledger adjustment account:	
Jan. 1 to Mar.31	To General ledger adjustment account:				
	Sales [(100/115) x (2,00,000-6,800)]	1,68,000		Collection-cash and bank[70 % of (1,50,000+ 1,68,000)]	2,22,600
	Creditors-bill receivable dishonoured	6,000		Discount	20,000
				Bills receivable	45,000
	Bank-cheques dishonoured	15,000		Bad debts (6,000+3,500)	9,500
			March 31	By Balance c/d	41,900
		3,39,000			3,39,000

Note: If credit sales is ₹ 100, cash sales will be ₹ 15. Total credit sales shall be 100/115 of ₹ 1,93,200, i.e., ₹ 1,68,000.

PAPER – 1 : ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumptions should be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *M/s Umang Ltd. sold goods through its agent. As per terms of sales, consideration is payable within one month. In the event of delay in payment, interest is chargeable @ 12% p.a. from the agent. The company has not realized interest from the agent in the past. For the year ended 31st March, 2015 interest due from agent (because of delay in payment) amounts to ₹ 1,72,000. The accountant of M/s Umang Ltd. booked ₹ 1,72,000 as interest income in the year ended 31st March, 2015. Discuss the contention of the accountant with reference to Accounting Standard-9.*

(b) *In the books of M/s Prashant Ltd., closing inventory as on 31.03.2015 amounts to ₹ 1,63,000 (on the basis of FIFO method).*

The company decides to change from FIFO method to weighted average method for ascertaining the cost of inventory from the year 2014-15. On the basis of weighted average method, closing inventory as on 31.03.2015 amounts to ₹ 1,47,000. Realisable value of the inventory as on 31.03.2015 amounts to ₹ 1,95,000.

Discuss disclosure requirement of change in accounting policy as per AS-1.

(c) *A machinery with a useful life of 6 years was purchased on 1st April, 2012 for ₹ 1,50,000. Depreciation was provided on straight line method for first three years considering a residual value of 10% of cost.*

In the beginning of fourth year the company reassessed the remaining useful life of the machinery at 4 years and residual value was estimated at 5% of original cost.

The accountant recalculated the revised depreciation historically and charged the difference to profit and loss account. You are required to comment on the treatment by accountant and calculate the depreciation to be charged for the fourth year.

(d) *Briefly explain the treatment of following items as per relevant accounting standards:*

- *The accountant of Star Limited valued the Goodwill of the company at ₹ 50 lakhs and showed the same as Fixed Asset in Balance Sheet. The corresponding credit was given to Reserves.*
- *An expense of ₹ 5 crores was incurred on a Machine towards its Repairs and Maintenance. The accountant wants to capitalize the same considering the significance of amount spent.*
- *A plant was ready for commercial production on 01.04.2014 but could commence*

actual production only on 01.06.2014. The company incurred ₹ 50 lakhs as administrative expenditure during the period of which 20% was allocable to the plant. The accountant added ₹ 10 lakhs to cost of plant. *(5 x 4 = 20 Marks)*

Answer

(a) As per para 9.2 of AS 9 "Revenue Recognition", "where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty involved. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made".

In this case, the company never realized interest for the delayed payments made by the agent. Hence, based on the past experience, the realization of interest for the delayed payments by the agent is very much uncertain. The interest should be recognized only if the ultimate collection is certain. Therefore, the interest income of ₹ 1,72,000 should not be recognized in the books for the year ended 31st March, 2015. Thus the contention of accountant is incorrect.

However, if the agents have agreed to pay the amount of interest and there is an element of certainty associated with these receipts, the accountant is correct regarding booking of ₹ 1,72,000 as interest amount.

(b) As per para 22 of AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Prashant Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

'The company values its inventory at lower of cost and net realisable value. Since net realisable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2014-15, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by ₹ 16,000'.

(c) As per AS 6 "Depreciation Accounting", when there is a revision of the estimated useful life of an asset, the unamortized depreciable amount should be charged over the revised remaining useful life. Accordingly revised depreciation shall be calculated prospectively. Thus, the treatment done by the accountant regarding recalculating the revised depreciation historically i.e. retrospectively is incorrect.

As per para 18 of AS 6, if the depreciable assets are revalued, the provision for depreciation should be based on the revalued amount and on the estimate of the remaining useful lives of such assets. In case the revaluation has a material effect on the amount of depreciation, the same should be disclosed separately in the year in which revaluation is carried out.

Calculation of Depreciation

Depreciation per year charged for first three years	= ₹ (1,50,000 - 15,000) / 6
	= ₹ 22,500
WDV of the machine at the beginning of the fourth year	= ₹ 1,50,000 – (₹ 22,500× 3)
	= ₹ 82,500
Depreciable amount after reassessment of residual vale	= ₹ 82,500 – (1,50,000 x 5%)
	= ₹ 75,000

Remaining useful life as per revised estimate = 4 years

Depreciation from the fourth year onwards = ₹ 75,000 / 4 = ₹ 18,750

(d) Treatment of given items

- As per AS 10 "Accounting for Fixed Assets", goodwill, in general, is recorded in the books only when some consideration in money or money's worth has been paid for it. In the given situation, the company has valued its goodwill which will be considered as earned over the years i.e. it is self-generated goodwill. Therefore, the same shall not be recorded in the books, as consideration in money or money's worth has not been paid for it. Thus raising goodwill by giving corresponding credit to Reserve is incorrect.
- Only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity. The cost of an addition or extension to an existing asset which is of a capital nature and which becomes an integral part of the existing asset is usually added to its gross book value. Any other expenses incurred, though substantial, on machine towards its repairs and maintenance should not be capitalized but charged to profit and loss account since it does not increase capacity.
- If the interval between the date a project is ready to commence commercial production and the date at which commercial production actually begins is prolonged, all expenses incurred during this period are charged to the profit and loss statement. However, the expenditure incurred during this period is also sometimes treated as deferred revenue expenditure, to be amortized over a period not exceeding 3 to 5 years, after the commencement of commercial production. Thus the amount of ₹ 10 lakh should either be charged to profit and loss statement in the year ended 31st March, 2015 or may be amortized for a future period not

exceeding 3 to 5 years after the commencement of commercial production i.e. 1.6.2014.

Question 2

The Balance Sheet of M/s Clean Ltd. as on 31st March, 2015 was summarized as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital:		Land & Building	75,00,000
Equity Shares of ₹ 50 each, fully paid up	60,00,000	Plant & Machinery	22,00,000
9% Preference Shares of ₹ 10 each, fully paid up	40,00,000	Trade Investment	16,50,000
		Inventories	9,50,000
7% Debentures (secured by plant & machinery)	23,00,000	Trade Receivable	18,00,000
8% Debentures	17,00,000	Cash and Bank Balances	3,60,000
Trade Payables	6,00,000	Profit & Loss Account	2,15,000
Provision for Tax	75,000		
	1,46,75,000		1,46,75,000

The Board of Directors of the company decided upon the following scheme of reconstruction duly approved by all concerned parties:

(1) The equity shareholders agreed to receive in lieu of their present holding of ₹ 1,20,000 shares of ₹ 50 each as under:

(a) New fully paid equity shares of ₹ 10 each equal to 2/3rd of their holding.

(b) 9% preference shares of ₹ 8 each to the extent of 25% of the above new equity share capital.

(c) ₹ 2,80,000, 10% debentures of ₹ 80 each.

(2) The preference shareholders agreed that their ₹ 10 shares should be reduced to ₹ 8 by cancellation of ₹ 2 per share. They also agreed to subscribe for two new equity shares of ₹ 10 each for every five preference shares held.

(3) The taxation liability of the company is settled at ₹ 66,000 and the same is paid immediately.

(4) One of the trade creditors of the company to whom the company owes ₹ 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of ₹ 10 each in full satisfaction of his balance claim.

(5) Other trade creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% preference shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for

₹ 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.

(6) Company's contractual commitments amounting to ₹ 6,50,000 have been settled by paying 4% penalty of contract value.

(7) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.

(8) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of ₹ 50 each and agreed to accept 10% debentures of ₹ 80 each for every two debentures held by them.

(9) The land and building to be depreciated by 5%.

(10) The debit balance of profit and loss account is to be eliminated.

(11) 1/4th of trade receivables and 1/5th of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of M/s Clean Ltd. as per Schedule III to the Companies Act, 2013.

(16 Marks)

Answer

(i) Journal Entries

		₹	₹
(i)	Equity share capital (₹ 50) A/c Dr.	60,00,000	
	To Equity share capital (₹ 10)* A/c		8,00,000
	To 9% Preference share capital A/c (25,000 x ₹ 8)		2,00,000
	To 10% Debentures A/c (3,500 x ₹ 80)		2,80,000
	To Capital Reduction A/c		47,20,000
	(Being payment made in lieu of equity share capital of ₹ 50 each by issue of equity shares of ₹ 10 each, 9% Preference share capital and 10% Debentures as per reconstruction scheme)		
(ii)	9% Preference Share capital (₹ 10) A/c Dr.	40,00,000	
	To 9% Preference Share Capital (₹ 8) A/c		32,00,000
	To Capital Reduction A/c		8,00,000
	(Being 9% preference share capital of ₹ 10 each reduced to ₹ 8 each as per reconstruction scheme)		

* Holding interpreted as number of shares i.e. number of newly issued shares computed as 2/3rd of 1,20,000 = 80,000

(iii)	Bank A/c Dr.	16,00,000	
	To Equity Share Capital (₹ 10) A/c		16,00,000
	(Being preference share holders subscribed for 2 new equity shares of 10 each against every 5 shares)		
(iv)	(a) Provision for Taxation A/c Dr.	75,000	
	To Capital Reduction A/c		9,000
	To Taxation Liability A/c		66,000
	(Being liability for taxation settled)		
	(b) Taxation Liability A/c Dr.	66,000	
	To Bank A/c		66,000
	(Being liability for taxation paid)		
(v)	Trade payables A/c Dr.	1,00,000	
	To Equity share capital A/c (7,000 x ₹ 10)		70,000
	To Capital Reduction A/c		30,000
	(Being payment made to creditors in shares to the extent of 70% as per reconstruction scheme)		
(vi)	Trade Payables A/c Dr.	5,00,000	
	To 9% Preference share capital A/c (43,750 x ₹ 8)		3,50,000
	To Bank A/c		1,20,000
	To Capital Reduction A/c		30,000
	(Being payment made to creditors in shares and cash as per reconstruction scheme)		
(vii)	Capital Reduction A/c Dr.	26,000	
	To Bank A/c		26,000
	(Being contractual commitment settled by payment of 4% penalty)		
(viii)	7% Debentures A/c Dr.	23,00,000	
	To Plant & Machinery A/c		22,00,000
	To Capital Reduction A/c		1,00,000
	(Being 7% debentures holders settled through charge of plant & machinery as per reconstruction scheme)		
(ix)	8% Debentures A/c (34,000 x ₹ 50) Dr.	17,00,000	
	To 10% Debentures A/c (17,000 x ₹ 80)		13,60,000
	To Capital Reduction A/c		3,40,000
	(Being conversion of 8% debentures to 10% debentures at one for every two debentures held by them as per reconstruction scheme)		

(x)	Capital Reduction A/c Dr.	12,30,000	
	To Land & building A/c		3,75,000
	To Profit and Loss A/c		2,15,000
	To Trade receivables A/c		4,50,000
	To Inventories A/c		1,90,000
	(Being amount of Capital Reduction utilized in writing off Profit & loss Dr. bal., Land & building, Current Assets, Inventories through capital reduction account)		
(xi)	Capital Reduction A/c Dr.	47,73,000	
	To Capital Reserve A/c		47,73,000
	(Being balance in capital reduction account transferred to capital reserve account)		

(ii) Balance Sheet of M/s Clean Ltd. (as reduced) as on 31.3.2015

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share Capital	1	62,20,000
	b	Reserves and Surplus	2	47,73,000
2		**Non-current liabilities**		
	a	Long-term Borrowings	3	16,40,000
		Total		**1,26,33,000**
		Assets		
1		**Non-current assets**		
	a	Fixed Assets		
		Tangible Assets	4	71,25,000
	b	Investments		16,50,000
2		**Current assets**		
	a	Inventories	5	7,60,000
	b	Trade Receivables	6	13,50,000
	c	Cash and Cash equivalents		17,48,000
		Total		**1,26,33,000**

Notes to accounts

			₹
1.	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	2,47,000 equity shares of ₹ 10 each		24,70,000
	(out of which 7,000 equity shares have been issued for consideration for other that cash)		
	Preference share capital		
	Issued, subscribed and paid up		
	4,68,750 Preference shares of ₹ 8 each		37,50,000
	(out of which 43,750 equity shares have been issued for consideration for other that cash)		62,20,000
2.	**Reserves and Surplus**		
	Capital Reserve		47,73,000
3.	**Long-term borrowings**		
	Secured		
	20,500 10% Debentures of ₹ 80 each		16,40,000
4.	**Tangible assets**		
	Land & building	75,00,000	
	Adjustment under scheme of reconstruction	(3,75,000)	71,25,000
5.	**Inventories**	9,50,000	
	Adjustment under scheme of reconstruction	(1,90,000)	7,60,000
6.	**Trade receivables**	18,00,000	
	Adjustment under scheme of reconstruction	(4,50,000)	13,50,000

Working Notes:

1. **Cash at Bank Account**

Particulars	₹	*Particulars*	₹
To Balance b/d	3,60,000	By Taxation liability	66,000
To Equity Share capital A/c	16,00,000	By Trade Payables A/c	1,20,000
		By Penalty A/c	26,000
		By Balance c/d (bal. fig.)	17,48,000
	19,60,000		19,60,000

2. **Capital Reduction Account**

Particulars	₹	*Particulars*	₹
To Land & building A/c	3,75,000	By Equity Share Capital A/c	47,20,000
To Machinery A/c	2,15,000	By 9% Preference share capital	8,00,000
To Trade receivables A/c	4,50,000	By 7% Debentures	1,00,000
To Inventories A/c	1,90,000	By Provision for tax	9,000
To Bank	26,000	By Trade Payables	60,000
To Capital Reserve		(30,000 + 30,000)	
(bal. fig.)	47,73,000	By 8% Debentures	3,40,000
	60,29,000		60,29,000

Question 3

(a) *Prepare cash flow statement of M/s MNT Ltd. for the year ended 31st March, 2015 with the help of the following information:*

(1) Company sold goods for cash only.

(2) Gross Profit Ratio was 30% for the year, gross profit amounts to ₹ 3,82,500.

(3) Opening inventory was lesser than closing inventory by ₹ 35,000.

(4) Wages paid during the year ₹ 4,92,500.

(5) Office and selling expenses paid during the year ₹ 75,000.

(6) Dividend paid during the year ₹ 30,000 (including dividend distribution tax.)

(7) Bank loan repaid during the year ₹ 2,15,000 (included interest ₹ 15,000)

(8) Trade payables on 31st March, 2014 exceed the balance on 31st March, 2015 by ₹ 25,000.

(9) Amount paid to trade payables during the year ₹ 4,60,000.

(10) Tax paid during the year amounts to ₹ 65,000 (Provision for taxation as on 31.03.2015 ₹ 45,000).

(11) Investments of ₹ 7,00,000 sold during the year at a profit of ₹ 20,000.

(12) Depreciation on fixed assets amounts to ₹ 85,000.

(13) Plant and machinery purchased on 15th November, 2014 for ₹ 2,50,000.

(14) Cash and Cash Equivalents on 31st March, 2014 ₹ 2,00,000.

(15) Cash and Cash Equivalents on 31st March, 2015 ₹ 6,07,500.

(b) *Mr. Yash and Mr. Harsh are partners in a firm. They had drawn the following amounts* *from the firm during the year ended 31.03.2015:*

Date	*Amount (₹)*	*Drawn by*
01.05.2014	*75,000*	*Mr. Yash*
30.06.2014	*20,000*	*Mr. Yash*
14.08.2014	*60,000*	*Mr. Harsh*
31.12.2014	*50,000*	*Mr. Harsh*
04.03.2015	*75,000*	*Mr. Harsh*
31.03.2015	*15,000*	*Mr. Yash*

Interest is charged @ 10% p.a. on all drawings. Calculate interest chargeable from each partner by using Average due date system. (Consider 1st May as base date)

(8 + 8 = 16 Marks)

Answer

(a) **M/s MNT Ltd.**

Cash Flow Statement for the year ended 31st March, 2015

(Using direct method)

Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,82,500/.30)		12,75,000
Less: Cash payments for trade payables	(4,60,000)	
Wages Paid	(4,92,500)	
Office and selling expenses	(75,000)	(10,27,500)
Cash generated from operations before taxes		2,47,500
Income tax paid		(65,000)
Net cash generated from operating activities (A)		1,82,500
Cash flows from investing activities		
Sale of investments	7,20,000	
Payments for purchase of Plant & machinery	(2,50,000)	
Net cash used in investing activities (B)		4,70,000
Cash flows from financing activities		
Bank loan repayment(including interest)	(2,15,000)	
Dividend paid(including dividend distribution tax)	(30,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,07,500
Cash and cash equivalents at beginning of the period		2,00,000
Cash and cash equivalents at end of the period		6,07,500

(b) Calculation of Interest chargeable from Partners

Taking 1st May as the base date

	Dates	*Amount (₹)*	*Days from 1st May*	*Products (₹)*
Yash	1.5.2014	75,000	0	0
	30.6.2014	20,000	60	12,00,000
	31.3.2015	15,000	334	50,10,000
		1,10,000		62,10,000

Average Due Date = $\frac{62,10,000}{1,10,000}$ days from 1st May. i.e 57 days

= 27th June

Interest is chargeable for Yash from 27th June to March 31 i.e. 277 days

₹ 1,10,000 x 10% x 277/365 = ₹ 8,348

	Dates	*₹*	*Days from 1 May*	*Products (₹)*
Harsh	14.8.2014	60,000	105	63,00,000
	31.12.2014	50,000	244	1,22,00,000
	4.3.2015	75,000	307	2,30,25,000
		1,85,000		4,15,25,000

Average Due Date = $\frac{4,15,25,000}{1,85,000}$ days from 1 May = 225 days.

= 12th Dec.

Interest is chargeable for Harsh from 12 December to 31st March i.e. for 109 days.

₹ 1,85,000 x $\frac{10}{100}$ x $\frac{109}{365}$ = ₹ 5,525

Thus, interest amounting ₹ 8,348 will be charged from Yash and amount of ₹ 5,525 will be charged from Harsh.

Question 4

(a) A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

Turnover in last financial year	*₹ 6,75,000*
Standing charges in the last financial year	*₹ 1,14,750*

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 30%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 42,500.

(b) SALE Limited was incorporated on 01.08.2014 to take-over the business of a partnership firm w.e.f. 01.04.2014. The following is the extract of Profit and Loss Account for the year ended 31.03.2015:

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*
To Salaries	*1,20,000*	*By Gross Profit*	*6,00,000*
To Rent, Rates & Taxes	*80,000*		
To Commission on Sales	*21,000*		
To Depreciation	*25,000*		
To Interest on Debentures	*32,000*		
To Director Fees	*12,000*		
To Advertisement	*36,000*		
To Net Profit for the Year	*2,74,000*		
	6,00,000		*6,00,000*

(i) SALE Limited initiated an advertising campaign which resulted increase in monthly average sales by 25% post incorporation.

(ii) The Gross profit ratio post incorporation increased to 30% from 25%.

You are required to apportion the profit for the year between pre-incorporation and post-incorporation, also explain how pre-incorporation profit is treated in the accounts.

(8 + 8 = 16 Marks)

Answer

(a) (i) **Calculation of Gross Profit**

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100$$

= [(67,500+ 1,14,750) / 6,75,000] x 100 = 27%

(ii) **Calculation of policy amount to cover loss of profit**

	₹
Turnover in the last financial year	6,75,000
Add: 30% increase in turnover	2,02,500
	8,77,500
Gross profit on increased turnover (8,77,500 x 27%)	2,36,925

Add: Additional standing charges*	42,500
Policy Amount	2,79,425

Therefore, the trader should go in for a loss of profit policy of ₹ 2,79,425

(b) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	*Total Amount*	*Basis of Allocation*	*Pre-incorporation*	*Post-incorporation*
	₹		₹	₹
Gross Profit	6,00,000	1:3	1,50,000	4,50,000
Less: Salaries	1,20,000	Time	40,000	80,000
Rent, rates and taxes	80,000	Time	26,667	53,333
Sales' commission	21,000	Sales(2:5)	6,000	15,000
Depreciation	25,000	Time	8,333	16,667
Interest on debentures	32,000	Post		32,000
Directors' fee	12,000	Post		12,000
Advertisement	36,000	post		36,000
Net profit	2,74,000		69,000*	2,05,000

* Pre-incorporation profit is a capital profit and will be transferred to capital reserve.

Working Notes:

1. Sales ratio

Let the monthly sales for first 4 months (i.e. from 1.4.2014 to 31.7.2014) be = x

Then, sales for 4 months = 4x

Monthly sales for next 8 months (i.e. from 1.8.14 to 31.3.2015) = x + 25% of x= 1.25x

Then, sales for next 6 months = 1.25x X 8 = 10x

Total sales for the year = 4x + 10x = 14x

Sales Ratio = 4 x :10x i.e. 2:5

2. Gross profit ratio

From 1.4.2014 to 31.7.2014 gross profit is 25% of sales

Then, 25% of 4x= 1x

* Additional expenditure of ₹ 42,500 has been considered as standing charge and hence included in the policy amount.

gross profit for next 8 months (i.e. from 1.8.14 to 31.3.2015) is 30%

Then, 30% of 10x = 3x

Therefore gross profit ratio will be 1:3

3. **Time ratio**

1st April, 2014 to 31st July, 2014 : 1st August, 2014 to 31st March, 2015

= 4 months: 8 months = 1:2

Thus, time ratio is 1:2.

Question 5

Ms. Naina, Ms. Radha and Ms. Khushi were partners in a firm sharing profits and losses in the ratio of 4:3:2. Balance Sheet of the firm as on 31-03-2014 was as follows:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital Accounts		*Plant & Machinery*	*4,26,000*
Naina	*3,00,000*	*Stock*	*1,85,800*
Radha	*2,25,000*	*Debtors*	*1,30,500*
Khushi	*1,50,000*	*Bank Balance*	*92,700*
Current Accounts:			
Naina	*25,000*		
Radha	*12,500*		
Khushi	*18,750*		
Creditors	*1,03,750*		
	8,35,000		*8,35,000*

On 1st April 2014, Ms. Naina retired. On her retirement goodwill is valued at ₹ 1,80,000. Ms. Radha and Ms. Khushi do not wish to raise Goodwill account in the books.

Ms. Naina drew her balance of current account on 2nd April, 2014 and it is agreed to pay balance of her capital account over a period of two years by half yearly installments with interest at 10% per annum.

On 1st Oct. 2014 Ms. Asmita (Daughter of Radha) admitted as a partner. Ms. Radha surrendered one third of her share of profit and loss in favour of Asmita and also transferred one third of her capital to Ms. Asmita. Ms. Asmita was manager in the firm with annual salary of ₹ 16,000, prior to admission as a partner.

The other bank transactions during the financial year 2014-15 were as follows:

		(₹)
(1)	*Payment to creditors*	*7,75,000*

(2)	*Received from debtors*	*11,25,000*
(3)	*Expenses paid*	*11,250*
(4)	*Asmita's salary paid*	*8,000*
(5)	*Partners' Drawing :*	
	Ms. Radha	*50,000*
	Ms. Khushi	*41,250*
	Ms. Asmita	*11,250*

(6) First installment with interest paid to Ms. Naina on 1st Oct, 2014.

(7) Plant & Machinery sold at ₹ 9,000 on 3rd April, 2014 (Cost ₹ 10,000 & Book value ₹ 7,000).

(8) Balances as on 31st March, 2015: Debtors ₹ 1,50,000, Creditors for purchases ₹ 1,25,000, Creditors for expenses ₹ 10,000 and Stock ₹ 1,71,250.

(9) Depreciation is to be written off on Plant & Machinery ₹ 30,350.

(10) Second installment with interest paid to Ms. Naina on 1st April, 2015.

You are required to prepare:

(a) Ms. Naina's loan account,

(b) Partners' capital accounts,

(c) Partners' current accounts,

(d) Bank Account, and

(e) Balance Sheet as on 31st March, 2015 in the books of the firm. *(16 Marks)*

Answer

(a) Naina's Loan A/c

		₹			₹
1.10.2014	To Bank [95,000(3,80,000/4) + 19,000)]	1,14,000	1.4.2014	By Capital A/c	3,80,000
			30.9.2014	By Interest – For 6 months on 3,80,000	19,000
31.3.2015	To Balance c/d	2,99,250	31.3.2015	By Interest –For 6 months on ₹ 2,85,000 @ 10% p.a	14,250
		4,13,250			4,13,250
				By Balance b/d	2,99,250

(b) **Partners' Capital Accounts**

Particulars	Naina	Radha	Khushi	Asmita	Particulars	Naina	Radha	Khushi	Asmita
	₹	₹	₹	₹		₹	₹	₹	₹
To Naina		48,000	32,000		By Balance b/d	3,00,000	2,25,000	1,50,000	-
To Asmita Capital A/c		59,000			By Radha and Khushi	80,000	-	-	-
To Naina's Loan a/c	3,80,000	-	-	-	By Radha capital a/c	-	-	-	59,000
To Balance c/d		1,18,000	1,18,000	59,000			-	-	-
	3,80,000	2,25,000	1,50,000	59,000		3,80,000	2,25,000	1,50,000	59,000

(c) **Partners' Current Accounts**

Particulars	Naina	Radha	Khushi	Asmita	Particulars	Naina	Radha	Khushi	Asmita
	₹	₹	₹	₹		₹	₹	₹	₹
To Drawings		50,000	41,250	11,250	By Balance b/d	25,000	12,500	18,750	
To Bank A/c	25,000								
To Bal. c/d		82,850	74,640	14,110	By P&L Account upto:				
					Sept. 30, 2014		69,630	46,420	
					March 31, 2015		50,720	50,720	25,360
	25,000	1,32,850	1,15,890	25,360		25,000	1,32,850	1,15,890	25,360

(d) **Bank Account**

	₹		₹
To Balance b/d	92,700	By Naina's Current Account	25,000
To Sundry Debtors	11,25,000	By Sundry Creditors	7,75,000
To Sale of Machine	9,000	By Sundry Expenses	11,250
		By Asmita's Salary	8,000
		By Naina's Loan Account	1,14,000
		By Drawings:	
		Naina	50,000
		Radha	41,250
		Khushi	11,250
		By balance c/d	1,90,950
	12,26,700		12,26,700

(e) Balance Sheet of firm as on March 31, 2015

Liabilities	₹	₹	*Assets*	₹	₹
Creditors : Trade	1,25,000		Machinery	4,26,000	
Expenses	10,000	1,35,000	Less: Sold	(7,000)	
Naina's Loan Account		2,99,250	Depreciation	(30,350)	3,88,650
Partners' Capital Accounts:			Current Assets:		
Radha	1,18,000		Stock in trade	1,71,250	
Khushi	1,18,000		Debtors	1,50,000	
Asmita	59,000	2,95,000	Bank Balance	1,90,950	5,12,200
Partners' Current Accounts:					
Radha	82,850				
Khushi	74,640				
Asmita	14,110	1,71,600			
		9,00,850			9,00,850

Working Notes:

(1) Calculation of Sales

Debtors Account

	₹		₹
To Bal. b/d	1,30,500	By Cash	11,25,000
To Sales (bal. fig.)	11,44,500	By Bal. c/d	1,50,000
	12,75,000		12,75,000

Calculation of Purchases

Creditors Account

	₹		₹
To Cash A/c	7,75,000	By Bal. b/d	1,03,750
To Bal. c/d	1,25,000	By Purchase (bal. fig.)	7,96,250
	9,00,000		9,00,000

*All Sales and purchases are considered to be on credit basis.

2. Computation of Profits for the year ended March 31, 2015

Trading and Profit and Loss Account for the year ended March 31, 2015

	₹		₹
To Opening Stock	1,85,800	By Sales	11,44,500
To Purchases	7,96,250	By Closing Stock	1,71,250
To Gross Profit c/d	3,33,700		
	13,15,750		13,15,750

		Apr 1 to Sept. 30 (₹)	Oct 1 to Mar. 31 (₹)		Apr 1 to Sept. 30 (₹)	Oct 1 to Mar. 31 (₹)
To	Sundry Expenses (11,250 +10,000)	10,625	10,625	By Gross Profit b/d	1,66,850	1,66,850
To	Depreciation on Machinery	15,175	15,175	By Profit on Sale of Machine	2,000	-
To	Interest on Naina's Loan	19,000	14,250			
To	Salary- Asmita	8,000				
To	Profit transferred to					
	Radha	69,630	50,720			
	Khushi	46,420	50,720			
	Asmita	-	25,360			
		1,68,850	1,66,850		1,68,850	1,66,850

3. Adjustment of goodwill at the time of retirement of Naina

		₹	₹
Radha	Dr.	48,000	
Khushi	Dr.	32,000	
To Naina (₹ 1,80,000 x4/9)			80,000

(Naina's share of goodwill adjusted among

Radha and Khushi in their gaining ratio of 3:2)

4. New profit sharing ratio after admission of Asmita will be 2:2:1.

Profits for the half year ended on 30.9.2014 will be distributed among Radha and Khushi in the ratio of 3:2 and profits for the half year ended on 31.3.2015 will be distributed among Radha, Khushi and Asmita in the ratio of 2:2:1.

Question 6

(a) The following information of M/s. TT Club are related for the year ended 31st March, 2015:

(1)

Balances	*As on 01-04-2014 (₹)*	*As on 31-3-2015 (₹)*
Stock of Sports Material	*75,000*	*1,12,500*
Amount due for Sports Material	*67,500*	*97,500*
Subscription due	*11,250*	*16,500*
Subscription received in advance	*9,000*	*5,250*

(2) Subscription received during the year ₹ 3,75,000

(3) Payments for Sports Material during the year ₹ 2,25,000

You are required to:

(A) Ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2015 and

(B) Also show how these items would appear in the Balance Sheet as on 31.03.2015.

(b) A Limited purchased 5,000 equity shares (face value ₹ 100 each) of Allianz Limited for ₹ 105 each on 1st April, 2014. The shares were quoted cum dividend. On 15th May, 2014, Allianz Limited declared & paid dividend of 2% for year ended 31st March, 2014. On 30th June, 2014 Allianz Limited issued bonus shares in ratio of 1:5. On 1st October, 2014 Allianz Limited issued rights share in the ratio of 1:12 @ 45 per share. A limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per right entitlement. The company declared interim dividend of 1% on 30th November, 2014. Right shares were not entitled to dividend. The company sold 3,000 shares on 31st December, 2014 at ₹ 95 per share. The company A Ltd. incurred 2% as brokerage while buying and selling shares.

You are required to prepare Investment Account in books of A Ltd. (6 + 10 = 16 Marks)

Answer

(a) Subscription for the year ended 31.3.2015

		₹
Subscription received during the year		3,75,000
Less: Subscription receivable on 1.4.2014	11,250	
Less: Subscription received in advance on 31.3.2015	5,250	(16,500)
		3,58,500
Add: Subscription receivable on 31.3.2015	16,500	

Add: Subscription received in advance on 1.4.2014	9,000	25,500
Amount of Subscription appearing in Income & Expenditure Account		3,84,000

Sports material consumed during the year end 31.3.2015

		₹
Payment for Sports material		2,25,000
Less: Amounts due for sports material on 1.4.2014		(67,500)
		1,57,500
Add: Amounts due for sports material on 31.3.2015		97,500
Purchase of sports material		2,55,000
Sports material consumed:		
Stock of sports material on 1.4.2014		75,000
Add: Purchase of sports material during the year		2,55,000
		3,30,000
Less: Stock of sports material on 31.3.2015		(1,12,500)
Amount of Sports Material appearing in Income & Expenditure Account		2,17,500

Balance Sheet of M/s TT Club For the year ended 31st March, 2015 (An extract)

Liabilities	₹	*Assets*	₹
Unearned Subscription	5,250	Subscription receivable	16,500
Amount due for sports material	97,500	Stock of sports material	1,12,500

(b) In the books of A Ltd.

Investment in equity shares of Allianz Ltd.

for the year ended 31st March, 2015

Date	*Particulars*	*No.*	*Income ₹*	*Amount ₹*	*Date*	*Particulars*	*No.*	*Income ₹*	*Amount ₹*
2014					2014				
April 1	To Bank A/c	5,000	-	5,35,500	May 15	By Bank A/c (dividend)	-	-	10,000
June 30	To Bonus Issue(W.N 2)	1,000	-	-	Oct. 1	By Bank (rights sales)	-	1,250	-
Oct. 1	To Bank A/c (W.N. 3)	250	-	11,250	Nov. 30	By Bank A/c (Interim dividend)	-	6,000	-

Dec.31	To P & L A/c (W.N. 5)	-	-	21,660	Dec. 31	By Bank A/c (W.N.5)	3,000	-	2,79,300
2015					2015				
March 31	To P & L A/c	-	7,250	-	March 31	By Balance c/d (W.N. 7)	3,250	-	2,79,110
		6,250	7,250	5,68,410			6,250	7,250	5,68,410

Working Notes:

1. **Calculation of cost of purchase on 1st April, 2014**

   ₹ 105 X 5,000 shares = ₹ 5,25,000

   Add: Brokerage (2%) = ₹ 10,500

   ₹ 5,35,500

2. **Calculation of number of bonus shares issued**

   Bonus Shares = $\frac{5,000}{5} \times 1 = 1,000$

3. **Calculation of right shares subscribed**

   Right Shares = $\frac{6,000}{12} = 500$ shares

   Shares subscribed = $\frac{500}{2} = 250$ shares

   Value of right shares subscribed = 250 shares @ ₹ 45 per share = ₹ 11,250

4. **Calculation of sale of right entitlement**

   250 shares x ₹ 5 per share = ₹ 1,250

   (Amount received from sale of rights will be credited to P&L a/c)

5. **Calculation of profit on sale of shares**

Total holding	=	5,000 shares	original
		1,000 shares	bonus
		250 shares	right shares
		6,250 shares	

   3,000 shares were sold on 31.12.2014

   Cost of total holdings of 6,250 shares (on average basis)

   = ₹ 5,35,500 + ₹ 11,250 – ₹ 10,000 = ₹ 5,36,750

Average cost of 3,000 shares would be

$$= \frac{5,36,750}{6,250} \times 3,000 \quad = \text{₹ } 2,57,640$$

	₹
Sale proceeds of 3,000 shares (3,000 x ₹ 95)	2,85,000
Less: 2% Brokerage	(5,700)
	2,79,300
Less: Cost of 3,000 shares	(2,57,640)
Profit on sale	21,660

6. **Dividend received on investment held as on 15th May, 2014**

   = ₹ 10,000 (5,000 x ₹ 100 x 2%) adjusted to Investment A/c

   Dividend amounting ₹ 6,000 received on 30.11.2014 will be credited to P&L A/c

7. **Calculation of closing value of shares (on average basis) as on 31st March, 2015**

$$\frac{5,36,750}{6,250} \times 3,250 = \text{₹ } 2,79,110$$

Question 7

Attempt any ***four*** *out of the following:*

(a) *Prepare the General ledger adjustment account in creditors ledger for the year ending 31st March, 2015 from the following information:*

Sundry creditors as on 01.04.2014 ₹ 2,30,000.

Total purchases amounted to ₹ 8,25,000 including purchase of trade investment for ₹ 45,000 (face value ₹ 50,000). The total cash purchases were 60% more than the credit purchases.

Cash paid to creditors during the year was 50% of the aggregate of the opening creditors and credit purchases for the period. Creditors allowed a cash discount of ₹ 8,000.

A Cheque paid to creditors ₹ 7,000 was dishonored.

Goods returned to suppliers ₹ 11,000.

Bills receivables amounting to ₹ 30,000 endorsed in favour of a creditor in the month of February, 2015.

(b) *Describe the conditions to be satisfied for Amalgamation in the nature of merger as per AS-14.*

(c) *Anand purchased goods from Amirtha, the average due date for payment in cash is 10.08.2015 and the total amount due is ₹ 67,500. How much amount should be paid by Anand to Amirtha, if total payment is made on following dates and interest is to be considered at the rate of 12% p.a.*

(i) *On average due date.*

(ii) *On 25th August, 2015.*

(iii) *On 30th July, 2015.*

(d) *A company sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2015 is ₹ 1,25,000. Assume that the sale is uniform through out the year. Calculate the credit sales and total sales of the company for the year ended 31.03.2015.*

(e) *What are the disadvantages of using an Enterprise Resource Planning package?*

(4 x 4 = 16 Marks)

Answer

(a) **Creditors' Ledger**

General Ledger Adjustment Account for the year ended 31.3.2015

			₹				₹
1.4.14	To Balance b/d		2,30,000	31.3.15	By Creditors ledger		
31.3.15	To Creditors ledger adjustment A/c:				adjustment A/c: Bank	2,65,000	
	Purchases	3,00,000			Discount		
	Cheque paid				received	8,000	
	dishonoured	7,000	3,07,000		Returns	11,000	
					Bills receivable endorsed	30,000	3,14,000
					By balance c/d		2,23,000
			5,37,000				5,37,000

Working Note:

Calculation of credit purchases and Cash paid to creditors

If credit purchases are 100% then cash purchase will be 60% higher i.e.100% +60% = 160%

Thus, credit purchases and cash purchases are in ratio of 100:160= 5:8. Hence credit purchase is 5/13 of ₹ (8,25,000-45,000)= ₹ 3,00,000

Cash paid to creditors is 50% of (2,30,000+3,00,000)= ₹ 2,65,000

(b) An amalgamation should be considered as an amalgamation in the nature of merger if the following conditions are satisfied:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

(c)

A	*B*	*C*	*D = B ± C*
	Principal Amount	*Interest from Average Due Date to Actual date of Payment*	*Total amount to be paid*
(i)	**Payment on average due date**		
	₹ 67,500	₹ 67,500 x $\frac{12}{100} \times \frac{0}{365} = 0$	₹ 67,500
(ii)	**Payment on 25th Aug. 2015**		
	₹ 67,500	₹ 67,500 x $\frac{12}{100} \times \frac{15}{365} = 333$ Interest to be charged for period of 15 days from 10.8.2015 to 25th Aug. 2015	₹ 67,833
(iii)	**Payment on 30th July, 2015**		
	₹ 67,500	₹ 67,500 x $\frac{12}{100} \times \frac{(11)}{365} = (244)$ Rebate has been allowed for unexpired credit period of 11 days from 30.7.2015 to 10.8.2015	₹ 67,256

(d) Calculation of Credit Sales and Total sales

Credit Sales for the year ended 2014-15 = Debtors x $\frac{12 \text{ months}}{1.5 \text{ months}}$

= ₹ 1,25,000 x $\frac{12 \text{ months}}{1.5 \text{ months}}$

= ₹ 10,00,000

Total sales for the year ended 2014-15 = Credit sales x $\frac{100\%}{80\%}$

= ₹ 10,00,000 x $\frac{100\%}{80\%}$

= ₹ 12,50,000

(e) The disadvantages of using an ERP Package are the following:

1. **Lesser flexibility:** The user may have to modify their business procedure at times to be able to effectively use the ERP.
2. **Implementation hurdles:** Many of the consultants doing the implementation of the ERP may not be able to fully appreciate the business procedure to be able to do a good implementation of an ERP.
3. **Very expensive:** ERP are normally priced at an amount which is often beyond the reach of small and medium sized organisation. However, there are some ERP coming into the market which are moderately priced and may be useful to the small businesses.
4. **Complexity of the software:** Generally an ERP package has large number of options to choose from. Further the parameter settings and configuration makes it a little complex for the common users.

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PAPER – 1 : ACCOUNTING

Question No. ***1*** *is compulsory.*

Answer any ***five*** *questions from the remaining* ***six*** *questions.*

Wherever necessary suitable assumptions should be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *Prepare Cash Flow from Investing Activities of M/s. Creative Furnishings Limited for the year ended 31-3-2015.*

Particulars	***₹***
Plant acquired by the issue of 8% Debentures	*1,56,000*
Claim received for loss of plant in fire	*49,600*
Unsecured loans given to subsidiaries	*4,85,000*
Interest on loan received from subsidiary companies	*82,500*
Pre-acquisition dividend received on investment made	*62,400*
Debenture interest paid	*1,16,000*
Term loan repaid	*4,25,000*
Interest received on investment	*68,000*
(TDS of ₹ 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred ₹ 9,600)	*84,000*

(b) *A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is a under:*

	(Amount ₹ in lacs)		
	Year 1	*Year 2*	*Year 3*
Initial Amount for revenue agreed in contract	*9,000*	*9,000*	*9,000*
Variation in Revenue (+)	*-*	*200*	*200*
Contracts costs incurred up to the reporting date	*2093*	*6168**	*8100***
Estimated profit for whole contract	*950*	*1000*	*1000*

**Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.*

***Excludes ₹ 100 lacs for standard material brought forward from year 2.*

The variation in cost and revenue in year 2 has been approved by customer.

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised)

(c) Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2015. His factory produces Product X using Raw material A.

(i) 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on 31-3-2015 is ₹ 90 per unit.

(ii) 500 units of partly finished goods in the process of producing X and cost incurred till date ₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit.

(iii) 1500 units of finished Product X and total cost incurred ₹ 320 per unit.

Expected selling price of Product X is ₹ 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2015. Also calculate the value of total inventory as on 31-3-2015.

(d) M/s. Laghu Udyog Limited has been charging depreciation on an item of Plant and Machinery on straight line basis. The machine was purchased on 1-4-2012 at ₹ 3,25,000. It is expected to have a total useful life of 5 years from the date of purchase and residual value of ₹ 25,000. Calculate the book value of the machine as on 1-4-2014 and the total depreciation charged till 31-3-2014 under SLM. The company wants to change the method of depreciation and charge depreciation @ 20% on WDV from 2014-15.

Is it valid to change the method of depreciation? Explain the treatment required to be done in the books of accounts in the context of AS-6.

Ascertain the amount of depreciation to be charged for 2014-15 and the net book value of the machine as on 31-3-2015 after giving effect of the above change.(4 x 5 = 20 Marks)

Answer

(a) Cash Flow Statement from Investing Activities of

M/s Creative Furnishings Limited for the year ended 31-03-2015

Cash generated from investing activities	₹	₹
Interest on loan received	82,500	
Pre-acquisition dividend received on investment made	62,400	
Unsecured loans given to subsidiaries	(4,85,000)	
Interest received on investments (gross value)	76,200	
TDS deducted on interest	(8200)	
Sale of Plant	74,400	
Cash used in investing activities (before extra ordinary item)		(1,97,700)

Extraordinary claim received for loss of plant		49,600
Net cash used in investing activities (after extra ordinary item)		(1,48,100)

NOTES:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Plant acquired by issue of 8% debentures does not amount to cash outflow, hence also not considered in the above cash flow statement.

(b) The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years are shown below:

(Amount in ₹ lakhs)

	Upto the reporting date	Recognized in prior years	Recognized in current year
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340
Expenses (8,050 x 26%)	2,093	-	2,093
Profit	247	-	247
Year 2			
Revenue (9,200 x 74%)	6,808	2,340	4,468
Expenses (8,200 x 74%)	6,068	2,093	3,975
Profit	740	247	493
Year 3			
Revenue (9,200 x 100%)	9,200	6,808	2,392
Expenses (8,200 x 100%)	8,200	6,068	2,132
Profit	1,000	740	260

Working Note:

	Year 1	Year 2	Year 3
Revenue after consider variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	950	1,000	1,000
Estimated total cost of the contract (A)	8,050	8,200	8,200
Actual cost incurred upto the reporting date (B)	2,093	6,068 (6,168-100)	8,200 (8,100+100)
Degree of completion (B/A)	26%	74%	100%

(c) As per AS 2 "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product X is ₹ 300 and total cost per unit for production is ₹ 320.

Hence the valuation will be done as under:

(i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 90 per unit.

(ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost ₹ 320 (₹ 260 + additional cost ₹ 60) or Net estimated selling price ₹ 240 (Estimated selling price ₹ 300 per unit less additional cost of ₹ 60).

(iii) 1500 units of finished product X will be valued at NRV of ₹ 300 per unit since it is lower than cost ₹ 320 of product X

Valuation of Total Inventory as on 31.03.2015:

	Units	Cost (₹)	NRV/Replacement cost	Value = units x cost or NRV whichever is less (₹)
Raw material A	600	120	90	54,000
Partly finished goods	500	260	240	1,20,000
Finished goods X	1,500	320	300	4,50,000
Value of Inventory				6,24,000

(d) **Book Value of Machine and Depreciation under SLM as on 01-04-2014**

Cost of Machine purchased on 01.04.2012	₹ 3,25,000
Less: Residual Value	₹ 25,000
Depreciable amount	₹ 3,00,000
Useful life of Machine	5 Years
Depreciation for 2 Years (3,00,000 x 2/5)	₹ 1,20,000
Book value as on 01.04.2014	₹ 2,05,000

As per AS 6 "Depreciation Accounting", a change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise

When a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use.

The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss. In case the change in the method results in surplus, the surplus should be credited to the statement of profit and loss.

Such a change should be treated as change in accounting policy and its effect should be quantified and disclosed.

In the given case, the company cannot change the method of depreciation from year 2014-15 without making re-computations for the previous year's also according to new method.

Depreciation for 2014-15 and net book value of Machine as on 31.3.15 after effect of the change		₹
Purchase value of Machinery as on 01.04.2012		3,25,000
Depreciation for 2 years under WDV @ 20% (₹ 65,000 + ₹ 52,000)		1,17,000
Book value as on 01.04.2014 under WDV	(i)	2,08,000
Book value as on 01.04.2014 under SLM	(ii)	2,05,000
Excess depreciation credited to Statement of Profit & Loss	(i-ii)	3,000
Current year depreciation as per new method (WDV) (2,08,000 X 20%)		41,600
Net Book value as on 31.03.2015 (2,08,000 – 41,600)		1,66,400

Question 2

The financial position of two companies M/s. Abhay Ltd. and M/s. Asha Ltd. as on 31-3-2015 is as follows:

Balance Sheet as on 31-3-2015

	Abhay Ltd. ₹	*Asha Ltd.* ₹
Sources of Funds		
Share Capital – Issued and Subscribed		
15,000 equity shares @ ₹ 100, fully paid	*15,00,000*	
10,000 equity shares @ ₹ 100, fully paid		*10,00,000*

General Reserve	*2,75,000*	*1,25,000*
Profit & Loss	*75,000*	*25,000*
Securities Premium	*1,50,000*	*50,000*
Contingency Reserve	*45,000*	*30,000*
12% Debentures, @ ₹ 100 fully paid		*2,50,000*
Sundry Creditors	*55,000*	*35,000*
	21,00,000	*15,15,000*
Application of Funds		
Land and Buildings	*8,50,000*	*5,75,000*
Plant and Machinery	*3,45,000*	*2,25,000*
Goodwill		*1,45,000*
Inventory	*4,20,000*	*2,40,000*
Sundry Debtors	*3,05,000*	*2,85,000*
Bank	*1,80,000*	*45,000*
	21,00,000	*15,15,000*

They decided to merge and form a new company M/s. Abhilasba Ltd. as on 1-4-2015 on the following terms:

(1) Goodwill to be valued at 2 years purchase of the super profits. The normal rate of return is 10% of the combined share capilal and general reserve. All other reserves are to be ignored for the purpose of goodwill.

Average profits of M/s. Abhay Ltd. is ₹ 2,75,000 and M/s. Asha Ltd. is ₹ 1,75,000.

(2) Land and Buildings, Plant and machinery and Inventory of both companies to be valued at 10% above book value and a provision of 10% to be provided on Sundry Debtors.

(3) 12% debentures to be redeemed by the issue of 12% preference shares of M/s. Abhilasha Ltd. (face value of ₹ 100) at a premium of 10%.

(4) Sundry creditor to be taken over at book value. There is an unrecorded liability of ₹ 15,500 of M/s. Asha Ltd. as on 1-4-2015.

(5) The bank balance of both companies to be taken over by M/s. Abhilasha Ltd. after deducting liquidation expenses of ₹ 60,000 to be borne by M/s. Abhay Ltd. and M/s. Asha Ltd. in the ratio of 2 : 1.

You are required to :

(i) Compute the basis on which shares of M/s. Abhilasha Ltd. are to be issued to the shareholders of the existing company assuming that the nominal value of per share of M/s. Abhilasha Ltd. is ₹ 100.

(ii) *Draw Balance Sheet of M/s. Abhilasha Ltd. as on 1-4-2015 after the amalgamation.*

(16 Marks)

Answer

(i) Computation of Purchase consideration and Basis of Shares

	Abhay Ltd.	Asha Ltd.
Average profits	2,75,000	1,75,000
Less: Normal profits	1,77,500	1,12,500
Super Profit	97,500	62,500
Goodwill (at 2 years purchase)	1,95,000	1,25,000
Land and Building	9,35,000	6,32,500
Plant and Machinery	3,79,500	2,47,500
Inventory	4,62,000	2,64,000
Debtors less provision	2,74,500	2,56,500
Bank (less liquidation expenses ₹ 40,000: 20,000)	1,40,000	25,000
	23,86,000	15,50,500
Less: Creditors	(55,000)	(50,500)
Debentures	-	(2,75,000)
Purchase consideration (Basis for issue of shares)	23,31,000	12,25,000
To be satisfied by issue of equity share of Abhilasha Ltd. @ 100 face value	23,310	12,250

(ii) Balance Sheet of Abhilasha Ltd. (After Amalgamation) as on 01.04.2015

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	38,31,000
	b	Reserves and surplus		-
2		**Current liabilities**		
	a	Trade Payables		1,05,500
		Total		39,36,500
		Assets		
1		**Non-current assets**		
	a	Fixed assets		

			(i) Tangible assets	2	21,94,500
			(ii) Intangible assets	3	3,20,000
2			**Current assets**		
			Inventories		7,26,000
			Trade receivables	4	5,31,000
			Cash and cash equivalents	5	1,65,000
			Total		39,36,500

Notes to accounts

			₹
1.	**Share Capital**		
	Equity share capital		
	35,560 equity shares of ₹ 100 each	35,56,000	
	2,750 12% Preference shares @ ₹ 100 each	2,75,000	38,31,000
	(The above shares have been issued for consideration other than cash)		
2.	**Tangible assets**		
	Fixed Assets		
	Land and Building (₹ 9,35,000 + ₹ 6,32,500)	15,67,500	
	Plant and Machinery (₹ 3,79,500 + ₹ 2,47,500)	6,27,000	21,94,500
3.	**Intangible assets**		
	Goodwill (₹ 1,95,000 + ₹ 1,25,000)		3,20,000
	Current Assets		
4.	Trade Receivables ₹ (3,05,000 + 2,85,000)	5,90,000	
	Less: Provision for doubtful debts	(59,000)	5,31,000
5.	Cash and cash equivalents (Bank)		1,65,000

Note: It has been presumed that debentures of Asha Ltd. are redeemed at premium of 10% by issue of preference shares of Abhilasha Ltd. at par.

Question 3

(a) *The partners Kamal and Vimal decided to convert their existing partnership business into a Private Limited Company called M/s. KV Trading Private Ltd. with effect from 1-7-2014.*

The same books of accounts were continued by the company which closed its account for first term on 31-3-2015

The summarized Profit and Loss Account for the year ended 31-3-2015 is below:

	(₹) in lakhs	**(₹) in lakhs**
Turnover		*240.00*
Interest on investments		*6.00*
		246.00
Less: Cost of goods sold	*102.00*	
Advertisement	*3.00*	
Sales Commission	*6.00*	
Salary	*18.00*	
Managing directors remuneration	*6.00*	
Interest on Debentures	*2.00*	
Rent	*5.50*	
Bad Debts	*1.00*	
Underwriting Commission	*2.00*	
Audit fees	*2.00*	
Loss on sale of investment	*1.00*	
Depreciation	*4.00*	*152.50*
		93.50

The following additional information was provided

(i) The average monthly sales doubled from 1-7-2014. GP ratio was constant.

(ii) All investments were sold on 31-5-2014.

(iii) Average monthly salary doubled from 1-10-2014.

(iv) The company occupied additional space from 1-7-2014 for which rent of ₹ 20,000 per month was incurred.

(v) Bad debts recovered amounting to ₹ 50,000 for a sale made in 2012, has been deducted from bad debts mentioned above.

(vi) Audit fees pertains to the company.

Prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the Profit/Loss for such periods. Also suggest how the pre-incorporation profits are to be dealt with. *(10 Marks)*

(b) M/s. Platinum Jewellers wants to take up a "Loss of Profit Policy" for the year 2015. The extract of the Profit and Loss Account of the previous year ended 31-12-2014 provided below:

	₹
<u>Variable Expenses</u>	
Cost of Materials	*18,60,000*
<u>Fixed Expenses</u>	
Wages for skilled craftsmen	*1,60,000*
Salaries	*2,80,000*
Audit Fees	*40,000*
Rent	*64,000*
Bank Charges	*18,000*
Interest income	*44,000*
Net Profit	*6,72,000*

Turnover is expected to grow by 25% next year.

To meet the growing working capital needs the partners have decided to avail overdraft facilities from their bankers @ 12% p.a. interest

The average daily overdraft balance will be around ₹ 2 lakhs.

The wages for the skilled craftsmen will increase by 20% and salaries by l0% in the current year. All other expenses will remain the same. Determine the amount of policy to be taken up for the current year by M/s. Platinum Jewellers. *(6 Marks)*

Answer

(a) **K V Trading Private Limited**

Statement showing calculations of profit/loss for pre and post incorporation periods

₹ in lakhs

	Ratio	**Total**	**Pre Incorporation**	**Post Incorporation**
Sales	1:6	240.00	34.29	205.71
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.50	0.50	-
(i)		246.50	40.79	205.71
Cost of goods sold	1:6	102.00	14.57	87.43
Advertisement	1:6	3.00	0.43	2.57
Sales commission	1:6	6.00	0.86	5.14
Salary (WN3)	1:5	18.00	3.00	15.00

Managing directors remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (WN4)		5.50	0.93	4.57
Bad debts	1:6	1.50	0.21	1.29
Underwriting commission	Post	2.00	-	2.00
Audit fees	Post	2.00	-	2.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
(ii)		153.00	22.00	131.00
Net Profit [(i) – (ii)]		93.50	18.79*	74.71

*Note: ₹ 18.79 lakhs pre-incorporation profit is a capital profit and will be transferred to Capital Reserve.

Working Notes:

1. **Calculation of Sales Ratio**

   Let the average sales per month be x

   Total sales from 01.04.2014 to 30.06.2014 will be 3x

   Average sales per month from 01.07.2014 to 31.03.2015 will be 2x

   Total sales from 01.07.2014 to 31.03.2015 will be 2x X 9 =18x

   Ratio of Sales will be 3x: 18x i.e**. 3:18 or 1:6**

2. **Calculation of time Ratio**

   3 Months: 9 Months i.e. 1:3

3. **Apportionment of Salary**

   Let the salary per month from 01.04.2014 to 30.09.2014 is x

   Salary per month from 01.10.2014 to 31.03.2015 will be 2x

   Hence, pre incorporation salary (01.04.2014 to 30.06.2014) = 3x

   Post incorporation salary from 01.07.2014 to 31.03.2015 = (3x + 12x) i.e.15x

   Ratio for division 3x: 15x or **1: 5**

4. **Apportionment of Rent**

	₹ Lakhs
Total Rent	5.5
Less: additional rent from 1.7.2014 to 31.3.2015	1.8
Rent of old premises for 12 months	3.7

	Pre	**Post**
Apportionment in time ratio	0.925	2.775
Add: Rent for new space	-	1.80
Total	0.925	4.575

(b) In the books of M/s. Platinum Jewelers

Insurance Policy to be taken ₹

Turnover of previous year		30,50,000
Add: Increase in sales by 25%		7,62,500
Sales for Current Year		38,12,500
Less: Cost of Materials (18,60,000 + 25% increase)		(23,25,000)
		14,87,500
Less: Wages of Skilled Craftsmen(1,60,000 + 20% increase)		(1,92,000)
Gross Profit for Current Year		12,95,500
Add: Increased standing charges:		
Interest on overdraft	24,000	
Salaries	28,000	52,000
Policy to be taken for current year 2015		13,47,500

Working Note:

Calculation of Sales

Trading and Profit and Loss account for the year ended 31.12.2014

Particulars	**₹**	**Particulars**	**₹**
To Cost of material	18,60,000	By Sales (Balancing figure)	30,50,000
To Wages of skilled craftsman	1,60,000	By Interest Income	44,000
To Salaries	2,80,000		
To Audit Fees	40,000		
To rent	64,000		
To Bank Charges	18,000		
To Net Profit	6,72,000		
	30,94,000		30,94,000

Question 4

The following is the Balance Sheet of M/s. Care Traders as on 1-4-2014:

	₹
Source of Funds	
Share Capital	*10,00,000*
Profit and Loss	*1,47,800*
Unsecured loan @ 10%	*1,75,000*
Trade Payable	*45,800*
	13,68,600
Application of Funds	
Machinery	*8,25,500*
Furniture	*1,28,700*
Inventory	*1,72,000*
Trade Receivables	*2,29,600*
Bank Balance	*12,800*
	13,68,600

A fire broke out in the premises on 31-3-2015 and destroyed the books of account. The accountant could however provide the following information:

(1) Sales for the year ended 31-3-2014 was ₹ 18,60,000. Sales for the current year was 20% higher than the last year.

(2) 25% sales were made in cash and the balance was on credit.

(3) Gross profit on sales is 30%.

(4) Terms of Credit

Debtor : 2 months

Creditors : 1 month

All creditor are paid by cheque and all credit sales are collected in cheque.

(5) The Bank Pass Book has the following details (other than payment to creditors and collection from debtors)

	₹
Machinery purchased	*1,14,000*
Rent paid	*1,32,000*
Advertisement expenses	*80,000*

Travelling expenses	*78,400*
Repairs	*36,500*
Sales of furniture	*9,500*
Cash withdrawn for petty expenses	*28,300*
Interest paid on unsecured loan	*8,750*

(6) Machinery was purchased on 1-10-2014.

(7) Rent was paid for 11 months only and 25% of the advertisement expenses relates to the next year.

(8) Travelling expenses of ₹ 7,800 for which cheques were issued but not presented in bank.

(9) Furniture was sold on l-4-2014 at a loss of ₹ 2,900 on book value.

(10) Physical verification as on 31-3-2015 ascertained the stock position at ₹ 1,81,000 and petty cash balance at nil.

(11) There was no change in unsecured loan during the year.

(12) Depreciation is to be provided at 10% on machinery and 20% on furniture.

Prepare Bank Account, Trading and Profit and Loss Account for the year ended 31-3-2015 in the books of M/s. Care Traders and a Balance Sheet as on that date. Make necessary assumptions wherever necessary. (16 Marks)

Answer

In the books of M/s. Care Traders

Bank Account as on 31.3.2015

Particulars	Amount Dr. (₹)	Particulars	Amount Cr. (₹)
To Opening Balance	12,800	By Creditors (Payment made) (WN 6)	14,86,250
To Cash sales (WN 1)	5,58,000	By Machinery Purchased	1,14,000
To Debtors (collection made) (WN 4)	16,24,600	By Advertisement expenses	80,000
		By Rent	1,32,000
To Furniture (sold)	9,500	By Travelling expenses (78,400 + 7,800)	86,200
		By Repairs	36,500
		By Petty Cash	28,300
		By Interest on unsecured	8,750

		loan	
		By Balance c/d (bal. fig,)	2,32,900
	22,04,900		22,04,900

Trading and Profit and Loss Account

For the year ended 31st March, 2015

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,72,000	By Sales (WN 1)	22,32,000
To Purchases (WN 2)	15,71,400	By Closing Stock	1,81,000
To Gross Profit b/d (WN 1)	6,69,600		
	24,13,000		24,13,000
To Rent (1,32,000x12/11)	1,44,000	By Gross Profit c/d	6,69,600
To Advertisement expenses	60,000		
To Travelling expenses	86,200		
To Repairs	36,500		
To Petty Cash expenses	28,300		
To Interest on unsecured loan	17,500		
To Loss on sale of Furniture	2,900		
To Depreciation			
Machinery(WN8)	88,250		
Furniture	23,260		
To Net Profit	1,82,690		
	6,69,600		6,69,600

Balance Sheet of M/s. Care Traders as on 01.04.2015 ₹

Liabilities		
Share Capital		10,00,000
Profit and Loss		
Opening Balance	1,47,800	
Add: Profit for the year	1,82,690	3,30,490
Unsecured loan @10%		1,75,000
Interest on unsecured loan		8,750
Trade Payable (WN 5)		1,30,950
Outstanding expenses Rent		12,000
		16,57,190

Assets		
Machinery		
Gross block value (WN 7)	9,39,500	
Less: depreciation	(88,250)	8,51,250
Furniture		
Gross block value (WN 9)	1,16,300	
Less: depreciation	(23,260)	93,040
Inventory		1,81,000
Trade Receivables (WN 3)		2,79,000
Prepaid expenses (Advertisement)		20,000
Bank balance		2,32,900
		16,57,190

Working Notes:

1. **Sale for the year ended 31.03.2015** ₹

Last year Sales	18,60,000
Add growth @20%	3,72,000
Sale for 2014-15 (A)	22,32,000
Cash Sales (25% of ₹ 22,32,000)	5,58,000
Credit sales (22,32,000 – 5,58,000)	16,74,000
Gross profit 30% on sales (B)	6,69,600

2. **Purchases for the year ended 31.03.2015** ₹

Cost of Sales (A-B) (22,32,000 -6,69,600)	15,62,400
Add Closing stock	1,81,000
	17,43,400
Less: Opening stock	(1,72,000)
Purchases during the year	**15,71,400**

3. **Debtors as on 31.03.2015** ₹

Total credit sales	16,74,000
Debtors 2 months credit (16,74,000 x 2/12)	**2,79,000**

4. **Collections from Debtors account**

	Dr. Amount (₹)		Cr. Amount (₹)
To opening Balance	2,29,600	By Bank (collection) Bal .fig.	16,24,600

To Credit sales	16,74,000	By Closing balance	2,79,000
	19,03,600		19,03,600

5. Creditors as on 31.03.2015 ₹

Total Credit purchases (all creditors paid by cheque hence there are no cash purchases)	15,71,400
Creditors 1 month credit (15,71,400 x 1/12)	**1,30,950**

6. Payment to Creditors account

	Dr. Amount (₹)		Cr. Amount (₹)
To Bank (Payment) Bal. fig.	14,86,250	By Opening Balance	45,800
To Closing Balance	1,30,950	By Credit Purchases	15,71,400
	16,17,200		16,17,200

7. Machinery Account

	Dr. Amount (₹)		Cr. Amount (₹)
To Opening Balance	8,25,500	By Closing Balance (Bal. fig.)	9,39,500
To Machinery Purchased	1,14,000		
	9,39,500		9,39,500

8. Depreciation on Machinery ₹

Existing Machinery for 1 Year (₹ 8,25,500 x 10%)	82,550
New Machinery (Purchased on 1.10.2014)	
For 6 months (₹ 1,14,000 x ½ x 10%)	5,700
	88,250

9. Furniture Account

	Dr. Amount (₹)		Cr. Amount (₹)
To Opening Balance	1,28,700	By Bank (Sale)	9,500
		By Loss on Sale	2,900
		By Closing balance	1,16,300
	1,28,700		1,28,700

Question 5

(a) *Lucky bought 2 tractors from Happy on 1-10-2011 on the following* terms:

	₹
Down payment	*5,00,000*
1st installment at the end of first year	*2,65,000*
2nd installment at the end of 2nd year	*2,45,000*
3rd installment at the end of 3rd year	*2,75,000*

Interest is charged at 10% p.a.

Lucky provides depreciation @ 20% on the diminishing balances.

On 30-9-2014 Lucky failed to pay the 3rd installment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @ 18% p.a.

You are required to :

(1) *Calculate the cash price of the tractors and the interest paid with each installment.*

(2) *Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee.* *(8 Marks)*

(b) *Mr. Chatur had 12% Debentures of Face Value ₹ 100 of M/s. Unnati Ltd. as current investments.*

He provides the following details relating to the investments.

1-4-2014	*Opening balance 4000 debentures costing ₹ 98 each*
1-6-2014	*Purchased 2000 debentures @ ₹ 120 cum interest*
1-9-2014	*Sold 3000 debentures @ ₹ 110 cum interest*
1-12-2014	*Sold 2000 debentures @ ₹ 105 ex interest*
31-1-2015	*Purchased 3000 debentures @ ₹ 100 ex interest*
31-3-2015	*Market value of the investments ₹ 105 each*

Interest due dates are 30th June and 31st December.

Mr. Chatur closes his books on 31-3-2015. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Chatur assuming FIFO method is followed.

(8 Marks)

Answer

(a) Calculation of Interest and Cash Price

No. of installments	*Outstanding balance at the end after the payment of installment*	*Amount due at the time of installment*	*Outstanding balance at the end before the payment of installment*	*Interest*	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4]= 2 +3*	*[5]= 4 x 10/110*	*[6]= 4-5*
3rd	-	2,75,000	2,75,000	25,000	2,50,000
2nd	2,50,000	2,45,000	4,95,000	45,000	4,50,000
1st	4,50,000	2,65,000	7,15,000	65,000	6,50,000

Total cash price = ₹ 6,50,000+ 5,00,000 (down payment) =₹ 11,50,000.

<u>In the books of Lucky</u>

Tractors Account

Date	*Particulars*	*₹*	*Date*	*Particulars*	*₹*
1.10.2011	To Happy a/c	11,50,000	30.9.2012	By Depreciation A/c	2,30,000
				Balance c/d	9,20,000
		11,50,000			11,50,000
1.10.2012	To Balance b/d	9,20,000	30.9.2013	By Depreciation A/c	1,84,000
				Balance c/d	7,36,000
		9,20,000			9,20,000
1.10.2013	To Balance b/d	7,36,000	30.9.2014	By Depreciation A/c	1,47,200
				By Happy a/c (Value of 1 Tractor taken over after depreciation for 3 years @30% p.a.) {5,75,000-(1,72,500+1,20,750+84,525)}	1,97,225
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,94,400-1,97,225)	97,175
				By Balance c/d ½ (7,36,000-1,47,200=5,88,800)	2,94,400
		7,36,000			7,36,000

Happy Account

Date	Particulars	₹	Date	Particulars	₹
1.10.11	To Bank (down payment)	5,00,000	1.10.11	By Tractors a/c	11,50,000
30.9.12	To Bank 1st Installment	2,65,000	30.9.12	By Interest a/c	65,000
	To Balance c/d	4,50,000			
		12,15,000			12,15,000
30.9.13	To Bank 2nd Installment	2,45,000	1.1012	By Balance b/d	4,50,000
	To Balance c/d	2,50,000	30.9.13	By Interest a/c	45,000
		4,95,000			4,95,000
30.914	To Tractor a/c	1,97,225	1.10.13	By Balance b/d	2,50,000
	To Balance c/d	77,775	30.9.14	By Interest a/c	25,000
		2,75,000			2,75,000
31.12.14	To Bank (Amount settled after 3 months	81,275	1.10.14	By Balance b/d	77,775
			31.12.14	By Interest a/c (@ 18% on bal.) (77,775x3/12x18/100)	3,500
		81,275			81,275

(b) **Investment A/c of Mr. Chatur**

for the year ending on 31-3-2015

(Scrip: 12% Debentures of Unnati Limited)

(Interest Payable on 30th June and 31st December) **Amt. in ₹**

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
1.4.2014	To Balance b/d	4,00,000	12,000	3,92,000	30.6.2014	By Bank 6,00,000x6%	-	36,000	-
1.6.2014	To Bank	2,00,000	10,000	2,34,800	1.9.2014	By Bank	3,00,000	6,000	3,17,400
1.9.2014	To Profit & Loss A/c			23,400	1.12.2014	By Bank	2,00,000	10,000	2,05,800
31.1.2015	To Bank	3,00,000	3,000	3,06,000	1.12.2014	By Profit & Loss a/c	-	-	9,600
31.3.2015	To Profit & Loss A/c (Bal .fig.)		45,000		31.12.14	By Bank 1,00,000x 6%	-	6,000	-
					31.3.2015	By Profit & Loss A/c	-	-	3,400
					31.3.2015	By Balance c/d	4,00,000	12,000	4,20,000
		9,00,000	70,000	9,56,200			9,00,000	70,000	9,56,200

Working Notes:

1. **Valuation of closing balance as on 31.3.2015:**

Market value of 4,000 Debentures at ₹ 105 =	₹ 4,20,000
Cost price of 1,000 debentures at	1,17,400
3,000 debentures at	3,06,000
	4,23,400

Value at the end = ₹ 4,20,000 i.e. whichever is less

2. **Profit on sale of debentures as on 1.9.2014**

	₹
Sales price of debentures (3,000 x ₹ 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Less: Cost price of Debentures $\left(3{,}92{,}000 \text{x} \frac{3{,}000}{4{,}000}\right)$	(2,94,000)
Profit on sale	23,400

3. **Loss on sale of debentures as on 1.12.2014**

	₹
Sales price of debentures (2,000 x ₹ 105)	2,10,000
Less: Brokerage @ 2%	(4,200)
	2,05,800
Less: Cost price of Debentures (98,000 + 1,17,400)	(2,15,400)
Loss on sale	9,600

4. **1.6.2014 Purchase cost of 2,000 debentures**

	₹
200 Debentures @₹ 120 cum interest	2,40,000
Add: Brokerage @ 2%	4,800
	2,44,800
Less: Interest for 5 months	(10,000)
Purchase cost of 2,000 debentures	2,34,800

5. 1.9.2014 Sale value for 3,000 debentures

	₹
Sales price of debentures cum interest (3,000 x ₹ 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Sale value for 3,000 debentures	3,17,400

Question 6

A and B who carry on partnership business in the name of M/s. AB Ltd., closes their firm's account as on 31st March each year.

Their partnership agreement provides:

(i) Profit Loss sharing, A : 2/3 and B : 1/3.

(ii) On retirement or admission of Partner:

(a) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission, is to be arrived at by apportionment on a Lime basis except otherwise stated for specific item(s).

(b) No account for Goodwill is to be maintained in the firm's books.

(c) Any balance due to an outgoing partner is to carry interest @ 9% p.a. from the date of his retirement to the date of payment.

The Trial Balance of the firm as on March 31st 2015 was as follows:

Particulars	***(Dr.) Amount in ₹***	***(Cr.) Amount in ₹***
Capital Account		
A	-	*24,000*
B	-	*12,000*
C – Cash brought in on 30-09-2014	-	*9,000*
Plant and machinery at cost	*22,000*	-
Depreciation provision up to 31-03-2014	-	*4,400*
Motor car at cost	*30,000*	-
Depreciation provision up to 31-03-2014	-	*6,000*
Purchases	*84,000*	-
Stock as on 31st March 2014	*15,500*	-

Salaries	*18,000*	-
Debtors	*5,400*	-
Sales	-	*1,20,000*
Travelling expenses	*800*	
Office Maintenance	*1,200*	
Conveyance	*500*	
Trade Expenses	*1,000*	
Creditors	-	*10,100*
Rent and Rates	*3,000*	-
Bad Debts	*900*	-
Cash in hand and at Bank	*3,200*	-
	1,85,500	*1,85,500*

'A'·retired from the firm on 30th September, 2014 and on the same day 'C' an employee of the firm was admitted as partner. Further Profits or Losses shall be shared - B : 3/5 and C : 2/5. Necessary Accounting Entries adjustments were pending up to 31-03-2015. You are given the following further information:

(i) The value of firm's goodwill as on 30th September, 2014 was agreed to ₹ 15,000.

(ii) The stock as on 31st March, 2015 was valued at ₹ 18,550.

(iii) Partners' drawings which are included in Salaries : A - ₹ 2,000, B - ₹ 3,000 and C - ₹ 1,000.

(iv) Salaries also includes ₹ 1,500 paid to C prior to his being admitted as a partner.

(v) Bad-debts of ₹ 500 related to the period upto 30th September, 2014.

(vi) As on 31st March, 2015 rent paid in advance amounted to ₹ 600 and trade expenses accrued amounted to ₹ 250.

(vii) Provision is to be made for depreciation on Plant and Machinery and on Motor car at the rate of 10% p.a. on cost.

(viii) A bad-debts provision, specifically attributable to the second half of the year, is to be made@ 5% on debtors as on March 31st 2015.

(ix) Amount payable to A on retirement remained unpaid till March 31st 2015.

You are required to prepare:

(a) The Trading and Profit & Loss Account for the year ended March 31st 2015;

(b) Partners' Capital Account for the year ended March 31st 2015.

(c) The Balance Sheet as on that date. *(16 Marks)*

Answer

Trading and Profit and Loss A/c

for the year ended 31st march, 2015

	₹	₹
Sales		1,20,000
*Less:*Cost of goods sold:		
Opening Stock	15,500	
Purchase	84,000	
	99,500	
*Less:*Closing stock	(18,550)	(80,950)
Gross Profit		39,050

	Half year to 30th September 2014		*Half year to 31st March 2015*	
	₹	₹	₹	₹
Gross profit allocated on time basis		19,525		19,525
Less: Expenses				
Salaries (W.N. 1)	6,750		5,250	
Travelling expenses	400		400	
Office maintenance	600		600	
Conveyance	250		250	
Trade expenses (W.N .2)	625		625	
Rent and rates (W.N. 3)	1,200		1,200	
Bad debts	500		400	
Provision for doubtful debts	-		270	
Depreciation:				
Plant and machinery	1,100		1,100	
Motor vehicles	1,500		1,500	
Interest on loan (WN 4)			1,638	
	-	(12,925)		(13,233)
		6,600		6,292
Appropriation of profits:				
Remaining profits				
A and B (2:1)	4,400			
	2,200	6,600	3,775	
B and C(3:2)			2,517	6,292

Partners' Capital Accounts

	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹
To A (goodwill)		4,000	6,000	By Balance b/d	24,000	12,000	-
To Drawings	2,000	3,000	1,000	By Cash	-	-	9,000
To Transfer to loan a/c	36,400	-	-	By B (Goodwill) By C (Goodwill)	4,000 6,000	- -	- -
To Balance c/d	-	10,975	4,517	By Profit	4,400	5,975	2,517
	38,400	17,975	11,517		38,400	17,975	11,517

Balance Sheet as on 31st March, 2015

Liabilities		*Amount (₹)*	*Assets*	*Amount (₹)*
Capital A/c			Plant & Machinery	
B	10,975		*Less:* Depreciation	
C	4,517	15,492	(22,000 – 6,600)	15,400
A's Loan	36,400		Motor Car	
Interest	1,638	38,038	*Less:* Depreciation	
			(30,000 – 9,000)	21,000
Current Liabilities			Current Assets:	
Creditors		10,100	Stock	18,550
Out-standing Trade expenses		250	Debtors (*Less:* Provision (5,400-270)	5,130
			Prepaid Rent	600
			Balance at bank	3,200
Total		63,880		63,880

Working Notes:

			₹	₹
1.	**Salaries**			
	Total as per trial balance			18,000
	*Less:*Partners' Drawings -	A	2,000	
		B	3,000	
		C	1,000	(6,000)
				12,000

	Less: C's Salary upto 30.09.2014		1,500
			10,500
	Allocation on time basis	Upto 30.09.2014	Upto 31.03.2015
		5,250	5,250
	Add: C's salary upto 30.09.2014	1,500	0
		6,750	5,250
2.	**Trade Expenses**		
	Total as per trial balance		1,000
	Add: Accrual		250
			1,250
	Allocation: on time basis (50 : 50)	625	625
3.	**Rent and rates**		
	Total as per trial balance		3,000
	Less: Rent paid in advance		(600)
			2,400
	Allocation: on time basis (50 : 50)	1,200	1,200
4.	**Interest on loan account of 'A'**		
	Balance in Capital a/c as per trial balance		24,000
	Less: Drawings		(2,000)
	Add: Share of Goodwill	10,000	
	Share in Profit	4,400	14,400
			36,400
	Interest payable @9% p.a. from 01.10.2014 to 31.03.2015 (6 months)		
	36,400 x 6/12 x 9/100 =		1,638

Adjustment of A's share of Goodwill

Value of goodwill ₹ 15,000

Net entry for Goodwill

B's Capital account Dr. ₹ 4,000

C's Capital account Dr. ₹ 6,000

To A's Capital account ₹ 10,000

(A's share in goodwill adjusted to existing partners in their gaining ratio)

Question 7

Answer any **four** out of the following:

(a) From the following information of M/s. Officers Sports Club (A non-profit organization) calculate (i) the total cost of sports material consumed in the club and (ii) Sale value of sports material during the *year 2014-15.*

	₹
Opening balance of sports material as on 1-4-2014	*56,800*
Closing balance of sports material as on 31-3-2015	*32,900*
Sports material purchased in cash	*23,500*
Payment made to creditors of sports material	*64,300*
Creditors for sports materials	
Opening	*23,200*
Closing	*29,400*

Out of the total sports material used during the year 40% was consumed by the club and the remaining was sold at a profit of 20% op cost.

(b) From the following details, find out the average due date:

Date of bill	***Amount (₹)***	***Usance of bill***
29th January 2014	*10,000*	*1 month*
20th March 2014	*8,000*	*2 months*
12th July 2014	*14,000*	*1 month*
10th August 2014	*12,000*	*2 months*

(c) Given the following information of M/s. Paper Products Ltd.

(i) Goods of ₹ 60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.

(ii) On 15-1-20l5 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.

(iii) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval received for the remaining goods till 31-3-2015.

(iv) Apart from the above, the company has made cash sales of ₹ 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

(d) *What factors are to be considered at the time of choosing an appropriate Accounting Software for an organization?*

(e) *M/s. Versatile Limited purchased machinery for 4,80,000 (inclusive of excise duty of 40,000). CENVAT credit is available for 50% of the duty paid. The company incurred the following other expenses for installation.*

	₹
Cost of preparation of site for installation	*21,000*
Total labour charges.	*66,000*
(200 out of the total of 600 men hours worked, were spent	
for installation of the machinery)	
Spare parts and tools consumed in installation	*6,000*
Total salary of supervisor	*24,000*
(time spent for installation was 25% of the total time worked.)	
Total administrative expenses	*32,000*
(1/10 relates to the plant installation)	
Test run and experimental production expenses	*23,000*
Consultancy changes to architect for plant set up	*9,000*
Depreciation on assets used for the installation	*12,000*

The machine was ready for use on 15-1-2015 but was used from 1-2-2015. Due to this delay further expenses of ₹ 19,000 were incurred. Calculate the value at which the plant should be capitalized in the books of M/s. Versatile Limited. *(4 x 4 = 16 Marks)*

Answer

(a)

		₹
	Opening balance of sports material	56,800
	Add: Purchases during the year (cash 23,500 + credit 70,500)	94,000
		1,50,800
	Less: Closing Stock	32,900
	Sports material used	1,17,900

(i)	Total cost of sports material consumed in the Club 40% of used material was consumed. (i.e. 40% of 1,17,900)	 47,160
(ii)	Sale value of sports material Cost of sports material sold (117900-47160)=70740 *Add:* Profit @20% on cost OR Remaining sold for ₹ [120% of 70,740 (60% of 1,17,900)]	 70,740 14,148 84,888

Working Note:

Calculation of Credit purchase of Sports Material

	₹		₹
To Bank	64,300	By Balance b/d	23,200
To Balance c/d	29,400	By Purchases (Balancing Figure)	70,500
	93,700		93,700

(b) Calculation of Average Due Date

(Taking 3rd March, 2014 as base date)

Date of bill 2014	*Term*	*Due date 2014*	*Amount* ₹	*No. of days from the base date i.e. 3rd March, 2014* ₹	*Product* ₹
29th January	1 month	3rd March*	10,000	0	0
20th March	2 months	23rd May	8,000	81	6,48,000
12th July	1month	14th Aug.**	14,000	164	22,96,000
10th August	2 months	13th Oct.	12,000	224	26,88,000
			44,000		56,32,000

= 3rd March, 2014 + (56,32,000/ 44,000)

= 3rd March, 2014 + 128 days

Note: 1. * Bill dated 29th January, 2014 has the maturity period of one month, but there is no corresponding date in February, 2014, therefore, due date (after adding 3 days of grace) falls on 3rd March ,2014 as the last date of the month shall be deemed maturity date.

2. ** Bill dated 12th July, 2014 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2014. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2014.

(c) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In case (i):

The sale is complete but delivery has been postponed at buyer's request. M/s Paper Products Ltd. should recognize the entire sale of ₹ 60,000 for the year ended 31st March, 2015.

In case (ii):

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,20,000 (80% of ₹ 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

In case (iii):

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, in case (iii) revenue should be recognized for the total sales amounting ₹ 1,20,000 as the time period for rejecting the goods had expired.

In case (iv):

Trade discounts given should be deducted in determining revenue. Thus ₹ 39,000 should be deducted from the amount of turnover of ₹ 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be ₹ 7,41,000.

Thus total revenue amounting ₹ 10,41,000 (60,000 + 1,20,000+ 1,20,000+7,41,000) will be recognized for the year ended 31st March, 2015 in the books of M/s Paper Products Ltd.

(d) There are many accounting software available in the market. To choose the accounting software appropriate to the need of the organization is a difficult task, some of the criteria for selection could be the following:

Choice of accounting software depends upon the following factors:

1. ***Functional requirement of the organisation***: The software that matches most of the requirements of an organisation is preferred over the others.

2. ***Reports available in the software***: The organisation visualises the reporting requirements and chooses a vendor which fulfils its reporting requirements.
3. ***Background of the vendors***: The service and deliverable record of a vendor is extremely important in choosing the vendor.
4. ***Cost comparisons***: The budget constraints and fund position of an enterprise often becomes the deciding factor for choosing a particular package.
5. ***Ease of Use***: Some packages could be very detailed and cumbersome compare to the others.
6. ***Regular updates***: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

(e) Calculation of Cost of Fixed Asset (i.e. Machine)

Particulars		₹
Purchase Price	Given	4,80,000
Add:		
Site Preparation Cost	Given	21,000
Labour charges	(66,000/600x200)	22,000
Spare parts	Given	6,000
Supervisor's Salary	25% of ₹ 24,000	6,000
Administrative costs	1/10 of ₹ 32,000	3,200
Test run and experimental production charges	Given	23,000
Architect Fees for set up	Given	9,000
Depreciation on assets used for installation	Given	12,000
Total Cost of Asset		5,82,200
Less: Cenvat credit receivable	50% of ₹ 40,000	20,000
		5,62,200

Note: Expenses of ₹ 19,000 from 15.1.2015 to 1.2.2015 to be charged to profit and loss A/c as plant were ready for production on 15.1.2015.

DISCLAIMER

PAPER – 1 : ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary suitable assumptions should be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *In the books of Optic Fiber Ltd., plant and machinery stood at ₹ 6,32,000 on 1.4.2013. However on scrutiny it was found that machinery worth ₹ 1,20,000 was included in the purchases on 1.6.2013. On 30.6.2013 the company disposed a machine having book value of ₹ 1,89,000 on 1.4.2013 at ₹ 1,75,000 in part exchange of a new machine costing ₹ 2,56,000. The company charges depreciation @ 20% WDV on plant and machinery.*

You are required to calculate:

(i) *Depreciation to be charged to P/L*

(ii) *Book value of Plant and Machinery A/c as on 31.3.2014*

(iii) *Loss on exchange of machinery.*

(b) *Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2014 and ₹ 60,000 on 10.4.2014 for the March 2014 issue.*

Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014 ?

(c) *Capital Cables Ltd., has a normal wastage of 4% in the production process. During the year 2013-14 the Company used 12,000 MT of raw material costing ₹ 150 per MT.*

At the end of the year 630 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

Explain in the context of AS 2 the treatment of abnormal loss and abnormal loss and also find out the amount of abnormal loss if any.

(d) *Blue-chip Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13.*

(i) *Long term investments in Company A, costing ₹ 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 6.5 lakhs to* *recognize a permanent decline in value. The fair value on date of transfer is ₹ 6.8 lakhs.*

(ii) Long term investments in Company B, costing ₹ 7 lakhs are to be re-classified as current. The fair value on date of transfer is ₹ 8 lakhs and book value is ₹ 7 lakhs.

(iii) Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakhs.

(iv) Current investment in Company D, costing ₹ 15 lakhs are to be re-classified as long term. The market value on date of transfer is ₹ 14 Lakhs. *(4 x 5 = 20 Marks)*

Answer

(a) (i) Depreciation to be charged in the Profit and Loss Account

	(₹)
Depreciation on old Machinery [20% on ₹6,32,000 for 3 months(01.4.13 to 30.6.13)]	31,600
Add: Depreciation machinery acquired on 01.06.2013 (₹ 1,20,000 x 20% x 10/12)	20,000
Depreciation on Machinery after adjustment of Exchange [20% of ₹(6,32,000 -1,89,000+2,56,000) for 9 months]	1,04,850
Total Depreciation to be charged in Profit and Loss A/c	1,56,450

(ii) Book Value of Plant and Machinery as on 31.03.2014

	₹	₹
Balance as per books on 01.04.2013		6,32,000
Add: Included in purchases on 01.06.2013	1,20,000	
Add: Purchase on 30.06.2013	2,56,000	3,76,000
		10,08,000
Less: Book value of Machine sold on 30.06.2013		(1,89,000)
		8,19,000
Less: Depreciation on machinery in use (1,56,450-9,450)		(1,47,000)
Book Value as on 31.03.2014		6,72,000

(iii) Loss on exchange of Machinery

Book value of machinery as on 01.04.2013	1,89,000
Less: Depreciation for 3 months	9,450
WDV as on 30.06.2013	1,79,550

Less: Exchange value	1,75,000
Loss on exchange of machinery	4,550

(b) As per AS 9 'Revenue Recognition', in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method as the service is performed, whichever relates the revenue to the work accomplished.

In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is seen by public and hence revenue is recognized on that date. In this case, it is 15.03.2014, the date of publication of the magazine.

Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2014. The terms of payment are not relevant for considering the date on which revenue is to be recognized. ₹ 60,000 is treated as amount due from advertisers as on 31.03.2014 and ₹ 2,40,000 will be treated as payment received against the sale.

However, if the publication is delayed till 02.04.2014 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized for the year ended 31.03.2015 after the magazine is published on 02.04.2014**.** The amount received from sale of advertising space on 10.03.2014 of ₹ 2,40,000 will be considered as an advance from advertisers as on 31.03.2014.

(c) As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Abnormal Loss:

Material used	12,000 MT @ ₹150 = ₹18,00,000
Normal Loss (12,000 MT 4%)	480 MT
Net quantity of material	11,520 MT
Abnormal Loss in quantity	150 MT
Abnormal Loss	₹ 23,437.50

[150 units @ ₹ 156.25 (₹ 18,00,000/11,520)]

Amount ₹ 23,437.50 will be charged to the Profit and Loss statement.

(d) As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 6.5 lakhs in the books.

(ii) The carrying / book value of the long term investment is same as cost i.e. ₹ 7 lakhs. Hence this long term investment will be reclassified as current investment at book value of ₹ 7 lakhs only.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 10 lakhs as cost is less than its market value of ₹ 12 lakhs.

(iv) In this case, market value is ₹ 14 lakhs which is lower than the cost of ₹ 15 lakhs. The reclassification of current investment as long-term investments will be made at ₹ 14 lakhs.

Note: The question simply states that Blue chip Equity Investment Ltd. wants to reclassify its investments in accordance with AS 13. The values, at which the investments have to be reclassified, have been given in the above answer

Question 2

The following information relates to Country Sports Club for the year ended 31.3.2014. You are required to prepare the Receipts and Payments Account for the year ended 31.3.2014 and Balance Sheet as on that date.

Expenditure	*₹*	*Income*		*₹*
To Salaries	*3,36,000*	*By Subscriptions*		*8,40,000*
To Repairs and Maintenance	*88,000*	*By Receipts for annual Sports*	*3,25,000*	
To Ground upkeep	*1,66,500*	*Less: Expenses for Sports*	*2,75,000*	*50,000*
To Electricity charges	*82,600*	*By Entrance fees*		*1,80,000*
To Sports material used *To Printing and Stationary*	*1,48,000* *42,200*	*By Interest on 10% government bond*		*12,000*
To Groundsman wages *To Depreciation*	*80,000* *1,36,000*	*By Rent on hire of club ground*		*84,000*
To Prizes distributed (Net of fund income)	*4,000*	*By Profit on sale of sports material*		*10,500*
To Surplus carried to capital fund	*96,700*	*By Sale of old newspaper*		*3,500*
	11,80,000			*11,80,000*

Additional information:

(a)

	Balance as on 1.4.2013 (₹)	*Balance as on 31.3.2014 (₹)*
Fixed assets (net block)	*6,36,000*	*7,20,000*
Stock of sports material	*1,24,000*	*1,38,000*
Investment in 10% government bond	*1,20,000*	*1,20,000*
Subscription received in advance	*64,000*	*72,000*
Outstanding subscriptions	*1,24,000*	*88,000*
Creditors for sports material	*13,500*	*24,500*
Salary paid in advance	*78,600*	*62,500*
Prize fund	*32,000*	*28,000*
Prize fund investments	*2,40,000*	*2,40,000*
Bank balance	*2,36,000*	*2,36,000*
	54,500	*?*

(b) During the year the club purchased sports material off ₹ 1,80,000, out of which 75% was credit purchase.

(c) 25% of the entrance fees is to be capitalized.

(d) As per the Club's policy any excess of expense for prizes distributed over prize fund income is to be charged to Income and Expenditure A/c and vice versa:-

prize fund income earned during the year ₹ 36,000

prizes distributed during the year ₹ 40,000

(e) Interest on Government bond is received half yearly on 30th June and 31st December each year. *(16 Marks)*

Answer

Country Sports Club

Receipts and Payments Account for the year ended 31st March, 2014

Receipts	*₹*	*Payments*	*₹*
To Balance b/d	54,500	By Salaries (W.N.4)	3,32,000
To Subscription (W.N.3)	8,84,000	By Repairs & maintenance (W.N.5)	77,000
To Receipts for Annual Sports	3,25,000	By Expenses for Annual Sports	2,75,000
		By Ground upkeep	1,66,500

To	Entrance fee (₹ 1,80,000 x 4/3)	2,40,000	By By	Electricity charges Sports materials (Cash)	82,600 45,000
To To	Interest Rent received	12,000 84,000	By	Sports material creditors paid (W.N.2)	1,51,100
To	Sale of old newspapers	3,500	By	Printing and Stationery	42,200
To	Prize fund income	36,000	By	Ground man wages	80,000
To	Sale of Sports Material (W.N.2)	28,500	By By	Fixed Assets (W.N.6) Prizes distributed	2,20,000 40,000
			By	Balance c/d (Bal. fig)	1,56,100
		16,67,500			16,67,500

Balance Sheet of Club as on 31.3.2014

Liabilities		*Amount* (₹)	*Assets*	*Amount* (₹)
Capital fund (opening balance) (W.N.1)	9,33,400		Fixed Assets (net) Sports Material	7,20,000 1,38,000
Add: Surplus Entrance fee	96,700 60,000	10,90,100	Investment (10% Govt. Bonds)	1,20,000
Prize fund		2,40,000	Accrued Interest	3,000
Subscription received in advance		72,000	Outstanding Subscriptions	88,000
Outstanding repair expenses		24,500	Salary paid in advance Prize fund investments	28,000 2,36,000
Creditors (Sports Material)		62,500	Bank Balance	1,56,100
		14,89,100		14,89,100

Working Notes:-

1. Balance Sheet of Club as on 1.4.2013

Liabilities	*Amount* (₹)	*Assets*	*Amount* (₹)
Capital fund opening (bal. fig.)	9,33,400	Fixed Assets (net)	6,36,000
Prize fund	2,40,000	Sports Material	1,24,000
Subscription received in advance	64,000	Investment (10% Govt. Bonds)	1,20,000
O/s repair expenses	13,500	Accrued interest	3,000

		(₹ 1,20,000x 10% x 3/12)	
Creditors (Sports Material)	78,600	Outstanding Subscriptions	1,24,000
		Salary paid in advance	32,000
		Prize fund investments	2,36,000
		Bank Balance	54,500
	13,29,500		13,29,500

2. **Stock of Sports Materials**

	Amount (₹)		Amount (₹)
To Balance b/d	1,24,000	By Sale of Materials (Bal .fig.)	28,500
To Cash (1,80,000x 0.25) To Creditors	45,000	By Sports Materials used (given)	1,48,000
(Purchase on credit)	1,35,000	By Balance c/d	1,38,000
To Profit on Sale	10,500		
	3,14,500		3,14,500

Creditors for Sports Materials

	Amount (₹)		Amount (₹)
To Cash (bal. fig.)	1,51,100	By Balance b/d	78,600
To Balance c/d	62,500	By Sports Materials	1,35,000
	2,13,600		2,13,600

[Payments for Sports materials is ₹1,96,100 (₹1,51,100 + ₹ 45,000)]

3. **Subscriptions received during the year**

		₹
Subscription credited to Income and Expenditure A/c		8,40,000
Add: Outstanding subscription at the beginning of the year		1,24,000
Advance subscription received at the end of the year		72,000
		10,36,000
Less: Outstanding subscription at the end of the year	88,000	
Advance subscription received at the beginning of the year	64,000	(1,52,000)
Subscription received during the year		8,84,000

4. Salaries paid during the year

	₹
Amount debited to Income and Expenditure A/c	3,36,000
Add: Salary paid in advance as on as on 31.3.2014	28,000
	3,64,000
Less: Salary paid in advance as on as on 31.3.2013	(32,000)
	3,32,000

5. Repairs and maintenance paid during the year

Amount debited to Income and Expenditure A/c	88,000
Add: Outstanding as on as on 31.3.2013	13,500
	1,01,500
Less: Outstanding as on as on 31.3.2014	(24,500)
	77,000

6 **Purchase of Fixed Assets**

	Amount (₹)		*Amount* (₹)
To Balance b/d	6,36,000	By Depreciation	1,36,000
To Purchase of fixed assets (Bal. fig.)	2,20,000	By Balance c/d	7,20,000
	8,56,000		8,56,000

Note: The above solution is prepared on the basis that club has not been registered under the Companies Act.

Question 3

(a) Prepare Cash flow for Gamma Ltd., for the year ending 31.3.2014 from the following information:

(1) Sales for the year amounted to ₹ 135 crores out of which 60% was cash sales.

(2) Purchases for the year amounted to ₹ 55 crores out of which credit purchase was 80%.

(3) Administrative and selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹ 22 crores.

(4) The Company redeemed debentures of ₹ 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹ 15 crores towards redemption

and the balance was paid in cash. Debenture interest paid during the year was ₹1.5 crores.

(5) Dividend paid during the year amounted to ₹ 10 crores. Dividend distribution tax @ 17% was also. paid.

(6) Investment costing ₹ 12 crores were sold at a profit of ₹ 2.4 crores.

(7) ₹ 8 crores was paid towards income tax during the year.

(8) A new plant costing ₹ 21 crores was purchased in part exchange of an old plant. The book value of the old plant was ₹ 12 crores but the vendor took over the old plant at a value of ₹ 10 crores only. The balance was paid in cash to the vendor.

(9) The following balances are also provided.

	₹ in crores 1.4.2013	₹ In crores 31.3.2014
Debtors	45	50
Creditors	21	23
Bank	6	

(b) From the following particulars furnished by Elegant Ltd., prepare the Balance Sheet as on 31st March 2014 as required by Part I, revised Schedule VI of the Companies Act.

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Stock:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			3,40,000
Sundry Debtors		10,00,000	
Advances		2,13,500	
Proposed Dividend			3,00,000
Profit & Loss Account			5,00,000
Cash in Hand		1,50,000	

Cash at Bank		*12,35,000*	
Preliminary expenses		*66,500*	
Unsecured Loan			*6,05,000*
Sundry Creditors (for Goods and Expenses)			*10,00,000*

The following additional information is also provided:

(i) Preliminary expenses included ₹ 25,000 Audit Fees and ₹ 3,500 for out of pocket expenses paid to the Auditors.

(ii) 10000 Equity shares were issued for consideration other than cash.

(iii) Debtors of ₹ 2,60,000 are due for more than 6 months.

(iv) The cost of the Assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(v) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(vi) Balance at Bank includes ₹ 10,000 with Global Bank Ltd., which is not a Scheduled Bank. *(6 + 10 = 16 Marks)*

Answer

(a) **Gamma Ltd.**

Cash Flow Statement for the year ended 31st March, 2014

(Using direct method)

Particulars	*₹ in crores*	*₹ in crores*
Cash flows from operating activities		
Cash sales (135 x.6)	81	
Cash receipts from Debtors	49	
[45+ (135x40%) - 50]		
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers	(42)	
[21+ (55x80%) – 23]		
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	
Income tax paid	(8)	
Net cash generated from operating activities		29

Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets	(11)	
N*et cash used in investing activities*		3.4
Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	(10.0)	
DDT paid	(1.7)	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

(b) **Elegant Ltd.**

Balance Sheet as on 31st March, 2014

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	14,83,500
2		**Non-current liabilities**		
	a	Long-term borrowings	3	13,17,500
3		**Current liabilities**		
	a	Trade Payables		10,00,000
	b	Other current liabilities	4	37,500
	c	Short-term provisions	5	6,40,000
		Total		**94,73,500**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	6	56,25,000
2		**Current assets**		
	a	Inventories	7	12,50,000

b	Trade receivables	8	10,00,000
c	Cash and cash equivalents	9	13,85,000
d	Short-term loans and advances		2,13,500
	Total		**94,73,500**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of ₹ 100 each (of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		**49,95,000**
2	**Reserves and Surplus**		
	General Reserve		10,50,000
	Surplus (Profit & Loss A/c)	5,00,000	
	Less: Preliminary expenses	(66,500)	4,33,500
	Total		**14,83,500**
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation (7,50,000- 37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		**13,17,500**
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
	Total		**37,500**
5	**Short-term provisions**		
	Provision for taxation		3,40,000
	Proposed Dividend		3,00,000
	Total		**6,40,000**

6	**Tangible assets**		
	Land and Building	30,00,000	
	Less: Depreciation	(2,50,000)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500)	2,50,000
	Total		**56,25,000**
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		**12,50,000**
8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		**10,00,000**
9	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Global Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Total		**13,85,000**

* *As per Para 56 of AS 26, preliminary expenses are not shown in the balance sheet, thus they are written off. The amount of ₹ 25,000 as audit fee and out of pocket expenses paid to auditors amounting ₹ 3,500 have been included in the amount of ₹ 66,500. The combined figure of ₹66,500 has been reduced from Profit and Loss Account balance in the given solution.*

Question 4

(a) *The Balance Sheet of Vaibhav Ltd. as on 31st March 2014 is as follows:*

Liabilities	₹	*Assets*	₹
Equity Shares of ₹ 100 each	*2,00,00,000*	*Fixed Assets*	*2,50,00,000*
6%, Cumulative Preference Shares of ₹ 100 each	*1,00,00,000*	*Investments (Market Value ₹ 19,00,000)*	*20,00,000*
5% Debentures of ₹ 100 each	*80,00,000*	*Current Assets*	*2,00,00,000*

Sundry Creditors	*1,00,00,000*	*P & L A/c*	*12,00,000*
Provision for taxation	*2,00,000*		
TOTAL	*4,82,00,000*	*TOTAL*	*4,82,00,000*

The following scheme of Internal Reconstruction is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced for ₹ 60 each.

(iii) The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) Fixed assets are to be written down by 20%.

(v) Current assets ale to be revalued at ₹ 90,00,000.

(vi) Investments are to be brought to their market value.

(vii) One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.

(viii) The taxation liability is to be settled at ₹ 3,00,000.

(ix) It is decided to write off the debit balance of Profit & Loss A/c.

Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

(b) From the following particulars, prepare the Creditors' Ledger Adjustment Account as would, appear in the General Ledger of Mr. Sathish for the month of March 2014.

Date	*Particulars*
1	*Purchase from Mr. Akash ₹ 7,500*
3	*Paid ₹ 3000 after adjusting the initial advance in full to Mr. Akash*
10	*Paid ₹ 2,500 to Mr. Dev towards the purchases made in February in full.*
12	*Paid advance to Mr. Giridhar ₹ 6,000*
14	*Purchase goods from Mr. Akash ₹ 6,200*
20	*Returned goods worth ₹ 1,000 to Mr. Akash*
24	*Settled the balance due to Mr. Akash at a discount of 5%.*
26	*Goods purchased from Mr. Giridhar against the advance paid already*
29	*Purchased from Mr. Nathan ₹ 3,500*
30	*Goods returned to Mr. Prem 1,200. The goods were originally purchased form cash in the month of February 2014.*

(12 + 4 = 16 Marks)

Answer

(a) Journal Entries in the books of Vaibhav Ltd.

		₹	₹
(i)	Equity share capital (₹ 100) A/c Dr.	2,00,00,000	
	To Equity Share Capital (₹ 40) A/c		80,00,000
	To Capital Reduction A/c		1,20,00,000
	(Being conversion of equity share capital of ₹ 100 each into ₹40 each as per reconstruction scheme)		
(ii)	6% Cumulative Preference Share capital (₹ 100) A/c Dr.	1,00,00,000	
	To 6% Cumulative Preference Share Capital (₹ 60)A/c		60,00,000
	To Capital Reduction A/c		40,00,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	5% Debentures (₹ 100) A/c Dr.	80,00,000	
	To 6% Debentures (₹ 70) A/c		56,00,000
	To Capital Reduction A/c		24,00,000
	(Being 6% debentures of ₹ 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Sundry Creditors A/c Dr.	40,00,000	
	To Equity Share Capital (₹ 40) A/c		24,00,000
	To Capital Reduction A/c		16,00,000
	(Being a creditor of ₹ 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	2,00,000	
	Capital Reduction A/c Dr.	1,00,000	
	To Liability for Taxation A/c		3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)		
(vi)	Capital Reduction A/c Dr.	199,00,000	
	To P & L A/c		12,00,000

	To Fixed Assets A/c		50,00,000
	To Current Assets A/c		110,00,000
	To Investments A/c		1,00,000
	To Capital Reserve A/c (Bal. fig.)		26,00,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		
(vii)	Liability for Taxation A/c Dr.	3,00,000	
	To Current Assets (Bank A/c)		3,00,000
	(Being the payment of tax liability)		

Balance Sheet of Vaibhav Ltd. (After Reconstruction) as on 31.3.2014

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	164,00,000
	b	Reserves and Surplus	2	26,00,000
2		**Non-current liabilities**		
		Long-term borrowings	3	56,00,000
3		**Current liabilities**		
		Trade Payables(1,00,00,000 less 40,00,000)		60,00,000
		Total		3,06,00,000
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	200,00,000
	b	Investments	5	19,00,000
2		**Current assets**	6	87,00,000
		Total		3,06,00,000

Notes to accounts

		₹
1. Share Capital		
Equity share capital		
Issued, subscribed and paid up		

	2,60,000 equity shares of ₹ 40 each (of the above 60,000 shares have been issued for consideration other than cash)		1,04,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	1,00,000 6% Cumulative Preference shares of ₹ 60 each		60,00,000
	Total		1,64,00,000
2.	**Reserves and Surplus**		
	Capital Reserve		26,00,000
3.	**Long-term borrowings**		
	Secured		
	6% Debentures		56,00,000
4.	**Tangible assets**		
	Fixed Assets	2,50,00,000	
	Adjustment under scheme of reconstruction	(50,00,000)	2,00,00,000
5.	**Investments**	20,00,000	
	Adjustment under scheme of reconstruction	(1,00,000)	19,00,000
6.	**Current assets**		
	Adjustment under scheme of reconstruction	2,00,00,000 110,00,000	
	Taxation liability paid	90,00,000 (3,00,000)	87,00,000

Working Note:

Capital Reduction Account

To Liability for taxation A/c	1,00,000	By Equity share capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative preferences Share capital	40,00,000
To Fixed Assets	50,00,000		
To Current assets	110,00,000	By 5% Debentures	24,00,000
To Investment	1,00,000	By Sundry creditors	16,00,000
To Capital Reserve (Bal. fig.)	26,00,000		
	2,00,00,000		2,00,00,000

(b) Creditors Ledger Adjustment Account in the General Ledger for month of March, 2014

2014		₹	*2014*		₹
March 1	To Balance b/d (Advance to Akash)	4,500	March 1	By Balance b/d (Due to Mr. Dev)	2,500
March 31	To General Ledger Adjustment A/c (In Bought Ledger)		March 31	By General Ledger Adjustment A/c (in Bought Ledger)	
	Bank (WN 2)	16,440		Purchases (WN 1)	23,200
	Returns (Akash)	1,000			
	Discount (5% of 5,200)	260			
March 31	To Balance c/d (Due to Nathan)	3,500			——
		25,700			25,700

Note: The above answer is given on the basis that Mr. Prem will pay in cash as the sale was on cash basis and was not recorded in Creditors Ledger Adjustment account earlier.

Working Notes:

(1) Purchases:

1.3.2013	Akash	7,500
14.3.2013	Akash	6,200
26.3.2013	Giridhar	6,000
29.3.2013	Nathan	3,500
		23,200

(2) Payments:

3.3.2013	Akash	3,000
10.3.2013	Dev	2,500
12.3.2013	Giridhar	6,000
24.3.2013	Akash (95% of 5,200)	4,940
		16,440

Question 5

(a) *A fire occurred in the premises of M/s. Kailash & Co. on 30th September 2013. From the following particulars relating to the period from 1st April 2013 to 30th September 2013, you* *are required to ascertain the amount of claim to be filed with the Insurance Company for the loss of Stock. The company has taken an Insurance policy for ₹ 75,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 27,000. The average rate of Gross Profit was 20% throughout the period.*

	Particulars	*Amount in ₹*
(i)	*Opening Stock*	*1,20,000*
(ii)	*Purchase made*	*2,40,000*
(iii)	*Wages paid (including wages for the installation of a machine ₹ 5,000)*	*75,000*
(iv)	*Sales*	*3,10,000*
(v)	*Goods taken by the Proprietor (Sale Value)*	*25,000*
(vi)	*Cost of goods sent to Consignee on 20th September 2013, lying unsold with them*	*18,000*
(vii)	*Free Samples distributed -Cost*	*2,500*

(b) On 1st April 2014, Hasan has 20,000 equity shares of Vayu Ltd., at a book value of ₹ 20 per share (face value of ₹ 10 each). He provides the following information:

(i) On 10th June 2014, he purchased another 5,000 shares in Vayu Ltd., @ ₹ 15 per share.

(ii) On 1st August 2014 Vayu Ltd., issued one bonus share for every five shares held by the shareholders.

(iii) On 31st August 2014, the directors of Vayu Ltd. announced a rights issue which entitle the shareholders to subscribe two shares for every six shares held @ of ₹ 15 per share. The shareholders can transfer their rights in full or in part.

Hasan sold 1/4th of his right shares holding to Harsh for a consideration of ₹ 3 per share and subscribed the rest on 31st of October 2014.

Prepare Investment A/c in the books of Hasan as on 31st October. 2014.(8 + 8 = 16 Marks)

Answer

(a) Memorandum Trading Account for the period 1st April, 2013 to 30th Sept. 2013

		₹		₹
To Opening Stock		1,20,000	By Sales	3,10,000
To Purchases	2,40,000		By Consignment stock	18,000
*Less: Ad*vertisement	(2,500)		By Closing Stock (Bal. fig.)	1,41,500
Cost of goods taken by proprietor	(20,000)	2,17,500		
To Wages		70,000		

To Gross Profit [20% of Sales)	62,000		
	4,69,500		4,69,500

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	1,41,500
Less: Salvaged Stock	(27,000)
Insurance Claim	1,14,500

Note: Since policy amount is less than claim amount, average clause will apply. Therefore, claim amount will be computed by applying the formula

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

Claim amount = ₹ 60,689 (1,14,500 x 75,000/ 1,41,500)

(b) **Investment Account in the books of Hasan (Equity shares in Vayu Ltd.)**

Date	*Particulars*	*No. of Shares*	*Amount (₹)*	*Date*	*Particulars*	*No. of shares*	*Amount (₹)*
1.4.14	To Balance b/d	20,000	4,00,000	31.8.14	By Bank A/c (sale of rights) (W.N.3)	0	7,500
10.6.14	To Bank A/c	5,000	75,000				
1.8.14	To Bonus issue (W.N.1)	5,000	0	31.10.14	By Balance c/d (Bal. fig.)	37,500	5,80,000
31.10.14	To Bank A/c (Right shares) (W.N.4)	7,500	1,12,500				
		37,500	5,87,500			37,500	5,87,500

Working Notes:

(1) Bonus shares = 25,000/ 5 = 5,000 shares

(2) Right shares = $\frac{25{,}000 + 5{,}000}{6} \times 2 = 10{,}000$ shares

(3) Sale of rights = 10,000 shares x ¼ x ₹3 = ₹7,500

(4) Rights subscribed = $10{,}000 \times \frac{3}{4} \times$ ₹ 15 = ₹ 1,12,500

Question 6

Anuj Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3 .2014 is as follows:

Liabilities	₹	₹	*Assets*	₹
Capital account			*Fixed assets*	
Anuj	*3,75,000*		*Plant*	*7,87,000*
Ayush	*2,80,000*		*Current assets*	
Piyush	*2,25,000*	*8,80,000*	*Stock*	*1,03,000*
General Reserve		*1,88,000*	*Debtors*	*1,56,000*
Creditors		*2,16,000*	*Bank FD*	*2,25,000*
			Bank balance	*13,000*
	12,84,000			*12,84,000*

Anuj decided to retire with effect from 1.4.2014.

The remaining partners agreed to share profits and losses equally in future.

The following adjustments were agreed to be made upon retirement of Anuj.

(i) *Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.*

The average profits of the past 3 years were as follows:

Year ended	₹	
31.3.2014	*3,30,000*	*(as per draft accounts)*
31.3.2013	*2,32,000*	
31.3.2012	*2,20,900*	

The partners decided not to raise goodwill account in the books.

(ii) *The assets were revalued as follows:*

Plant to be depreciated by 10%

Creditors amounting to ₹ 10,000 were omitted to be recorded;

₹ 6,000 is to be written off from stock;

Provision for doubtful debts to be created @ 5% of the debtors;

Interest accrued on FD amounting to ₹ 9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3 .2014 before calculation of goodwill.

(iii) Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a loan, carrying interest of 8% p.a.

(iv) Ayush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of ₹ 1,50,000.

You are required to prepare

(I) Capital accounts of partners as on 1.4.2014 giving effect to the above adjustments.

(2) Balance Sheet as on 1.4.2014 after Anuj's retirement. (16 Marks)

Answer

Partners' Capital Accounts as on 1.4.2014

	Anuj	*Ayush*	*Piyush*		*Anuj*	*Ayush*	*Piyush*
To Anuj		22,950	68,850	By Balance b/d	3,75,000	2,80,000	2,25,000
To Revaluation Loss	37,400	37,400	18,700	By General Reserves	75,200	75,200	37,600
To Bank FD To 8% Loan	2,34,000 2,70,600			By Ayush and Piyush	91,800		
To Balance c/d*		3,03,450	3,03,450	By Cash (Bal. fig.)	-	8,600	1,28,400
	5,42,000	3,63,800	3,91,000		5,42,000	3,63,800	3,91,000

Balance Sheet as on 1.4.2014 after Anuj's retirement

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Anuj's Loan	2,70,600	Plant(90% of ₹ 7,87,000)	7,08,300
Creditors(2,16,000+10,000)	2,26,000	Stock (₹ 1,03,000 less ₹ 6,000)	97,000
Capital Accounts*:		Debtors(95% of ₹ 1,56,000	1,48,200
Anuj	3,03,450	Bank Balance	1,50,000
Piyush	3,03,450		
	11,03,500		11,03,500

*****_Total of capital balances should be ₹ 6,06,900 which should be proportioned to individual partners in their profit sharing ratio._

Working Notes:

1. Profit / Loss on revaluation

Revaluation Account

	Amount (₹)		*Amount (₹)*
To Plant	78,700	By Interest on FD	9,000
To Creditors	10,000	By Loss on revaluation	93,500
To Inventory	6,000		
To Provision for doubtful debts	7,800		-
	1,02,500		1,02,500

2. Calculation of Goodwill

Goodwill Valuation

Profit of year ended	₹
31.3.2014 (₹ 3,30,000 less ₹ 93,500)	2,36,500
31.3.2013	2,32,000
31.3.2012	2,20,000
Total Profits	6,88,500

Average Profit = 6,88,500/3 = 2,29,500

Goodwill valued at 1 year purchase amounting ₹ 2,29,500

3. Adjustment for goodwill among partners

Anuj's share of goodwill (2,29,500 x 2/5) = 91,800

Gaining ratio of Ayush and Piyush

Ayush	Piyush
$\frac{1}{2}-\frac{2}{5}$	$\frac{1}{2}-\frac{1}{5}$
$\frac{5-4}{10}=\frac{1}{10}$	$\frac{5-2}{10}=\frac{3}{10}$

Gaining Ratio = 1: 3

Entry for adjustment of goodwill

		₹	₹
Ayush's capital A/c	Dr.	22,950	
Piyush's capital A/c	Dr.	68,850	
To Anuj's capital A/c			91,800

Question 7

*Answer any **four** from the following:*

(a) *From the following information state the amount to be capitalized as per AS 10. Give the explanations for your answer.*

₹ 5 lakhs as routine repairs and ₹ 1 lakh on partial replacement of a part of a machine.

₹ 10 lakhs on replacement of part of a machinery which will improve the efficiency of a machine.

(b) *What are the advantages of customized accounting software?*

(c) *What are the differences between Hire Purchase and Installment System?*

(d) *From the following particulars prepare a current account*, as sent by Mr. Ram to Mr. Siva as on 31st October 2014 by means of product method charging interest @ 5% p.a.*

2014	Particulars	₹
1st July	Balance due from Siva	750
15th August	Sold goods to Siva	1250
20th August	Goods returned by Siva	200
22nd Sep	Siva paid by cheque	800
15th Oct	Received cash from Siva	500

(e) *Kishanlal has made the following sales to Babulal. He allows a credit period of 10 days beyond which he charges interest @ 12% per annum.*

Date of Sales	Amount (₹)
26.05.14	12,000
18.07.14	18,000
02.08.14	16,500
28.08.14	9,500
09.09.14	15,500
17.09.14	13,500

Babulal wants to settle his accounts on 30-9-2014. Calculate the interest payable by him using Average Due Date (ADD). If Babulal wants to save interest of ₹ 588, how many days before 30.9.2014 does he have to make payment? Also find the payment date in this case. *(4 x 4 = 16 Marks)*

* *Current Account' to be read as 'Account Current'*

Answer

(a) As per AS 10 "Accounting for Fixed Assets", only those expenditures that increase the future benefits from the existing assets, beyond its previously assessed standard of performance, is to be included in the gross book value.

Hence, in the given case, amount of ₹ 5 lakhs spent on routine repairs and ₹ 1 lakh on partial replacement of a part of the machinery should be charged to Profit and Loss Account as these amounts will help in maintaining the capacity but will not improve the efficiency of the machine.

However, ₹ 10 lakhs incurred on replacement of a part of the machinery, which will increase the efficiency of a machine, should be capitalized by inclusion in the gross book value of machinery.

(b) Following are the advantages of the customized accounting packages:

1. The input screens can be tailor made to match the input documents for ease of data entry.
2. The reports can be as per the specification of the organization. Many additional MIS reports can be included in the list of reports.
3. Bar-code scanners can be used as input devices suitable for the specific needs of an individual organization.
4. The system can suitably match with the organizational structure of the company.

(c) **Statement showing differences between Hire Purchase and Installment System**

	Basis of Distinction	*Hire Purchase Agreement*	*Installment Purchase Agreement*
1.	Governing Act	It is governed by Hire Purchase Act, 1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
6.	Right of Disposal	Hirer cannot hire out sell,	The buyer may dispose off

		pledge or assign entitling transferee to retain possession as against the hire vendor.	the goods and give good title to the bona fide purchaser.
7.	Responsibility for Risk of Loss.	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.
9.	Component other than cash price.	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

Note: *Any four differences may be given in the answer.*

(d) Siva in Account Current with Ram as on 31st Oct, 2014

Dr. *Cr.*

		₹	*Days*	*Product (₹)*			₹	*Days*	*Product (₹)*
01.07.14	To Bal. b/d	750	123	92,250	20.08.14	By Sales Returns	200	72	14,400
15.8.14	To Sales	1,250	77	96,250	22.09.14	By Bank	800	39	31,200
31.10.14	To Interest	18.48			15.10.14	By Cash	500	16	8,000
						By Balance of Products			1,34,900
					31.10.14	By Bal. c/d	518.48		
		2018.48		1,88,500			2018.48		1,88,500

Interest $= ₹\ 1,34,900 \times \frac{5}{100} \times \frac{1}{365} = ₹\ 18.48$

(e) Calculation of Average Due date (Taking 05th June as the base date)

Date	*Due Date*	*Amount ₹*	*No. of days from Base date*	*Product ₹*
26.05.2014	05.06.2014	12,000	0	0
18.07.2014	28.07.2014	18,000	53	9,54,000

02.08.2014	12.08.2014	16,500	68	11,22,000
280.8.2014	07.09.2014	9,500	94	8,93,000
09.09.2014	19.09.2014	15,500	106	16,43,000
17.09.2014	27.09.2014	13,500	114	15,39,000
		85,000		61,51,000

Average due date $= 5.6.14 + \frac{61,51,000}{85,000}$

$= 5.6.14 + 72$ days (app.) $= 16.08.2014$

Interest if settlement is done on 30.9.14

$$85,000 \times 12\% \times \frac{45}{365} = ₹\ 1,258 \text{ (approx.)}$$

If Babulal wants to save interest of ₹ 588, then the calculation of days before 30.09.2014 will be:

588/1258 X 45 days (16.08.2014 to 30.09.2014) = 21 days earlier

Payment date in the above case will be 09.09.2014.

PAPER – 1 : ACCOUNTING

Question No. ***1*** *is compulsory.*

Answer any ***five*** *questions from the remaining* ***six*** *questions.*

Wherever necessary suitable assumptions should be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing balance	*500 units*
	₹ per unit
Cost price including excise duty	*200*
Excise duty (Cenvat credit is receivable on the excise duty paid)	*10*
Freight inward	*20*
Unloading charges	*10*
Replacement cost	*150*
Finished goods Y	
Closing Balance	*1200 units*
	₹ per unit
Material consumed	*220*
Direct labour	*60*
Direct overhead	*40*

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units.

Calculate the value of the closing stock, when

(i) Net Realizable Value of the Finished Goods Y is ₹ 400.

(ii) Net Realizable Value of the Finished Goods Y is ₹ 300. *(5 Marks)*

(b) On 01.04.2010 a machine was acquired at ₹ 4,00,000. The machine was expected to have a useful life of 10 years. The residual value was estimated at 10% of the original cost. At the end of the 3rd year, an attachment was made to the machine at a cost of ₹ 1,80,000 to enhance its capacity. The attachment was expected to have a useful life of 10 years and zero terminal value. During the same time the original machine was revalued upwards by ₹ 90,000 and remaining useful life was reassessed at 9 years and residual value was reassessed at NIL.

Find depreciation for the year, if

(i) attachment retains its separate identity.

(ii) attachment becomes integral part of the machine *(5 Marks)*

(c) *Ascertain the value at which various items of Fixed Assets are to be shown in the Financial Statements of Velvet Ltd. and amount to be debited to the Profit and Loss Account in the context of the relevant Accounting Standard.*

Narrations for the adjustments made should form part of the answer:

(i) Goodwill was valued at ₹ 1,20,000 by independent valuers and no consideration was paid. The Company has not yet recorded the same.

(ii) Balance of Office Equipment as on 01.04.2013 is ₹ 1,20,000. On.1.04.2013, out of the above office equipment having book value ₹ 20,000 has been retired from use and held for disposal. The net realizable value of the same is ₹ 2,000. Rate of depreciation is 15% p.a. on WDV basis.

(iii) Book Value of Plant and Machinery as on 01.04.2013 was ₹ 7,20,000. On 01.08.2013 an item of machinery was purchased in exchange for 500 equity shares of face value ₹ 10. The Fair Market value of the equity shares on 01.08.2013 was ₹ 120. Rate of depreciation is 10% p.a. on WDV basis. *(5 Marks)*

(d) *M/s Highway .Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 2 years. The contract price was estimated at ₹ 150 crores. Up to 31.03.2014 the company incurred ₹ 120 crores on the construction. The engineers involved in the project estimated that a further ₹ 45 crores would be incurred for completing the work.*

What amount should be charged to revenue for the year 2013-14 as per the provisions of Accounting Standard 7 "Construction Contracts"? Show the extract of the Profit & Loss A/c in the books of M/s. Highway Constructions. *(5 Marks)*

Answer

(a) Working Notes:

Raw Material X	₹
Cost Price	200
Less: Cenvat Credit	(10)
	190
Add: Freight Inward	20
Unloading charges	10
Cost	220
Finished goods Y	₹
Materials consumed	220

Direct Labour	60
Direct overhead	40
Fixed overheads (₹ 2,00,000/20,000 units)	10
Cost	330

Situation (i)

When Net Realisable Value of the Finished Goods Y is ₹ 400

NRV is greater than the cost of Finished Goods Y i.e. ₹ 330

Hence, Raw Material and Finished Goods are to be valued at cost

Value of Closing Stock:

	Qty	Rate	Amount (₹)
Raw Material X	500	220	1,10,000
Finished Goods Y	1,200	330	3,96,000
Total Cost of Closing Stock			5,06,000

Situation (ii)

When Net Realisable Value of the Finished Goods Y is ₹ 300

NRV is less than the cost of Finished Goods Y i.e. ₹ 330

Hence, Raw Material is to be valued at replacement cost and

Finished Goods are to be valued at NRV since NRV is less than the cost

Value of Closing Stock:

	Qty	Rate	Amount (₹)
Raw Material X	500	150	75,000
Finished Goods Y	1,200	300	3,60,000
Total Cost of Closing Stock			4,35,000

Note: It has been considered that Raw Material X is used for the production of Finished Goods Y.

(b) 1. **Depreciation of Original Machine**

		₹
Original cost of Machine as on 01.04.2010		4,00,000
Less: Residual Value 10%		(40,000)
Depreciable Value		3,60,000
Useful life	10 Years	

Depreciation per year		36,000
Depreciation for 3 Years		1,08,000
Written down value at the end of 3rd year (as on 31.03.2013) (4,00,000 – 1,08,000)		2,92,000
Add: Revaluation		90,000
Total Book Value after revaluation		3,82,000
Reassessed remaining useful life	9 Years	
Depreciation per year from 2013-14		42,444

2. **Depreciation of Attachment**

		₹
Original cost of Attachment as on 01.04.2013		1,80,000
Useful life	10 Years	
Depreciation per year from 2013-14		18,000

Depreciation for the year 2013-14

(i) **If Attachment retains its separate identity:**

Depreciation of Original Machine	₹ 42,444
Depreciation of Attachment	₹ 18,000
Total Depreciation for 2013-14	₹ 60,444

(ii) **If Attachment becomes integral part of the Machine:**

Total value of Machine as on 01.04.2013	
Original Machine at revalued cost (W.N.1)	₹ 3,82,000
Cost of attachment	₹ 1,80,000
	₹ 5,62,000
Useful life	9 Years
Depreciation for 2013-14	₹ 62,444

Note:

1. Since, upward revaluation of the machine and reassessment of remaining useful life had been made at the end of the 3rd year, it is implied that depreciation for the 3rd year has been charged on the basis of old calculation & remaining useful life of 9 years is to be calculated from the beginning of the 4th year onwards.
2. Depreciation for the 4th year i.e. 2013-14 has been given in the solution.

(c) Statement showing treatment and value of various items of Fixed Assets

	Item of Fixed Assets	*Amount (₹)*	*Amount Debited to P& L in 2013-14*	*Narration*	*Book Value as on 31.3.2014 to be shown in the Financial Statements*
(i)	**Goodwill**				
	Book value as on 1.4.2013	0			
	Balance as on 31.3.2014 (See Note 1)				0
(ii)	**Office Equipment**				
	Balance as on 1.4.2013	1,20,000			
	Less: Retired from use (Book value on 1.4.2013)	20,000			
		1,00,000			
	Less: Depreciation for 2013-14 @ 15% WDV	15,000	15,000	Depreciation	
	Balance as on 31.3.2014	85,000			85,000
	Office Equipment (Retired from use)				
	Book Value as on 1.4.2013	20,000			
	Less: Book Value as on 31.3.2014 (at NRV)(See Note 2)	2,000			2,000
	Loss on retirement charged to P&L	18,000	18,000	Loss on retirement of asset	
(iii)	**Plant and Machinery**				
	Book Value as on 1.4.2013	7,20,000			
	Add: Machine purchased on 01.08.2013 (See Note 3)	60,000			
		7,80,000			
	Less: Depreciation				
	Original machine for				

	whole year 72,000				
	New machine for 8 months 4,000	76,000	76,000	Depreciation	
	Balance as on 31.3.2014	7,04,000			7,04,000
			1,09,000		7,91,000

Note:

1. As per para 16 of AS 10 'Accounting for Fixed Assets' goodwill is to be recorded only when some consideration in money or money's worth has been paid for it. Since the goodwill is self generated and no money or money's worth has been paid for the same, therefore, it is not to be recorded in the books.
2. Office equipment having book value of ₹ 20,000 as on 1.4.2013 has been retired from use. It has been recorded at Net Realisable Value (NRV) as the NRV is lower than the book value and shown separately in the financial statements. This is in consonance with the provisions stated in para 14 of AS 10.
3. As per para 11 of the standard, the new machine has been recorded at the Fair Market Value of the securities issued as it is more clearly evident.

(d) Statement showing the amount to be charged to Revenue as per AS 7

		₹ in crores
	Cost of construction incurred upto 31.03.2014	120
Add:	Estimated future cost	45
	Total estimated cost of construction	165
	Degree of completion (120/165 x 100)	72.73%
	Revenue recognized (72.73% of 150)	109 (approx)
	Total foreseeable loss (165 – 150)	15
Less:	Loss for the current year (120 – 109)	11
	Loss to be provided for	4

Profit and Loss Account (Extract)

	₹ in crores		₹ in crores
To Construction Costs	120	By Contract Price	109
To Provision for loss	4	By Net loss	15
	124		124

Question 2

(a) The Articles of Association of Samson Ltd. provide the following:

(i) That 25 % of the net profit of each year shall be transferred to reserve fund.

(ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied:

(1) in paying 15% on cumulative preference shares.

(2) in paying 20% dividend on equity shares.

(3) one-third of the balance available as additional dividend on preference shares and two-third as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 14% on preference shares after making provision (i), (ii) and (iii) mentioned above. The company has issued 12,000, 15% cumulative participating preference shares of ₹ 100 each fully paid and 75,000 equity shares of ₹ 100 each fully paid up.*

The profit for the year 2013-2014, was ₹ 10,00,000 and balance brought from previous year ₹ 1,50,000. Provide ₹ 37,500 for depreciation and ₹ 1,20,000 for taxation before making other appropriations. *(8 Marks)*

Show net balance of Profit and Loss Account after making above adjustments.

(b) Sneha Ltd. was incorporated on 1st July, 2013 to acquire a running business of Atul Sons with effect from 1st April, 2013. During the year 2013-14, the total sales were ₹ 24,00,000 of which ₹ 4,80,000 were for the first six months. The Gross profit of the company ₹ 3,90,800. The expenses debited to the Profit & Loss Account included:

(i) Director's fees ₹ 30,000

(ii) Bad debts ₹ 7,200

(iii) Advertising ₹ 24,000 (under a contract amounting to ₹ 2,000 per month)

(iv) Salaries and General Expenses ₹ 1,28,000

(v) Preliminary Expenses written off ₹ 10,000

(vi) Donation to a political party given by the company ₹ 10,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2014. *(8 Marks)*

Answer

(a) Statement of Profit and Loss for the year ended 31st March, 2014

	Particulars	*Amount ₹*
a	Profit	10,00,000
b	Expenses: Depreciation and amortization	(37,500)

* PS: Read ₹ 100 as ₹ 10.

	Total expenses	(37,500)
c	**Profit before tax (a-b)**	9,62,500
d	Provision for tax	(1,20,000)
e	**Profit (Loss) for the period**	8,42,500

Notes to Accounts

Profit (Loss) for the period	8,42,500
Balance of Profit and Loss account brought forward	1,50,000
Total	9,92,500
Appropriations (made in Notes to Accounts)	
Transfers to Reserves	(2,10,625)
Proposed preference dividend (1,80,000 + 84,023)	(2,64,023)
Proposed equity dividend (1,50,000 + 1,68,047)	(3,18,047)
Bonus to employees (15,000 + 16,805)	(31,805)
Total	8,24,500
Balance carried to Balance sheet (9,92,500 – 8,24,500)	1,68,000

Working Note:

Balance of amount available for Preference and Equity shareholders and Bonus for Employees	
Credit Side	9,92,500
Less: Dr. side (2,10,625 + 1,80,000 + 1,50,000 + 15,000 + 1,68,000 (i.e.12,000x100x14/100= 1,68,000)	(7,23,625)
	2,68,875

Suppose remaining balance will be = x

Preference shareholders will get share from remaining balance = $x \times \frac{1}{3} = \frac{1}{3}x$

Equity shareholders will get share from remaining balance = $x \times \frac{2}{3} = \frac{2}{3}x$

Bonus to Employees = $\frac{2}{3}x \times \frac{10}{100} = \frac{2}{30}x$

Now, $\frac{2}{3}x + \frac{1}{3}x + \frac{2}{30}x = 2,68,875$

32 x = 80,66,250 , than x = 2,52,070

Share of Preference Shareholders ₹ 2,52,070 x 1/3 = ₹84,023

Share of Equity Shareholders ₹ 2,52,070 x 2/3= ₹1,68,047

Bonus to employees ₹ 2,52,070 x 2/30 = ₹16,805

Note: Corporate dividend tax on dividend distributed has been ignored.

(b) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

For the year ended 31st March, 2014

Particulars	*Total Amount*	*Basis of Allocation*	*Pre-incorporation*	*Post-incorporation*
Gross Profit	3,90,800	Sales	39,080	3,51,720
Less: Directors' fee	30,000	Post		30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Time	6,000	18,000
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Donation to Political Party	10,000	Post		10,000
Net Profit	1,81,600			1,81,240
Pre-incorporation profit transfer to Capital Reserve			360	

Working Notes:

1. Sales ratio

Particulars	₹
Sales for period up to 30.06.2013 (4,80,000 * 3/6)	2,40,000
Sales for period from 01.07.2013 to 31.03.2014 (24,00,000 – 2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 2013 to 30 June, 2013: 1st July, 2013 to 31st March, 2014

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

Question 3

Following are the incomplete information of Moonlight Traders:

The following balances are available as on 31.03.2013 and 31.03.2014.

Balances	31.03.2013	31.03.2014
	₹	₹
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%.	1,25,000	1,00,000
Bank	25,000	?
Provision for tax (rate 30%)	35,000	30,000

Other Information	₹
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(i) On 01.10.13 they sold machine having Book Value ₹ 40,000 (as on 31.03.2013) at a loss of ₹ 15,000. New machine was purchased on 01.01.2014.

(ii) Office equipment was sold at its book value on 01.04.2013.

(iii) Loan was partly repaid on 31.03.14 together with interest for the year.

Prepare Trading P & L A/c and Balance Sheet as on 31.03.2014. *(16 Marks)*

Answer

In the Books of Moonlight Traders
Trading Account for the year ended 31.03.2014

	Particulars	₹		Particulars	₹
To	Opening Stock A/c (Bal. fig.)	1,65,000	By	Sales (W.N.1)	12,50,000
To	Purchases (W.N.2)	9,00,000	By	Closing Stock	65,000
To	Gross profit (12,50,000 x 25/125)	2,50,000			
		13,15,000			13,15,000

Profit and Loss Account for the year ended 31.03.2014

	Particulars		₹		Particulars	₹
To	Discount		5,500	By	Gross profit	2,50,000
To	Salaries Expenses		32,000	By	Discount	4,500
To	Office expenses (W.N.3)		37,000			
To	Selling expenses		15,000			
To	Interest on loan (12% on ₹ 1,25,000)		15,000			
To	Bad debts (2% of ₹ 2,25,000)		4,500			
To	Loss on sale of Machinery		15,000			
To	Depreciation:					
	Land & Building	25,000				
	Plant & Machinery(W.N 4b)	23,750				
	Office Equipment (W.N. 5)	12,750	61,500			
To	Tax Provision* (69,000 x 30%)		20,700			
To	Net profit after tax		48,300			
			2,54,500			2,54,500

* Alternatively, the entire provision for tax as on 31.3.2013 of ₹ 35,000 has been assumed to be paid during the year. In that case Working Note 10 will not be required and profit and loss account will show ₹ 30,000 as provision for 31.3.2014 instead of ₹ 20,700.

Balance sheet as on 31.3.2014

Liabilities	₹	₹	*Assets*	₹
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000 - 25,000)	4,75,000
Add: Net Profit	48,300	9,43,800	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
			Debtors less Bad debts (W.N. 7)	2,20,500
Outstanding expenses		15,000	Stock	65,000
Loan from SBI		1,00,000	Bank Balance (W.N. 9)	53,300
Tax Provision		30,000		
		11,94,300		11,94,300

Working Notes:

1. **Calculation of Total Sales**

	₹
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (2,50,000*100/20)	12,50,000
Credit Sales (12,50,000*80/100)	10,00,000

2. **Calculation of Total Purchases**

	₹
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases (9,00,000 x 40/100)	3,60,000

3. **Office Expenses Account**

	₹		₹
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

4. (a) **Plant and Machinery Account**

	₹		₹
To Opening balance	2,20,000	By Bank (Sale)	40,000
To Bank (Purchases)	1,50,000	By Closing Balance	3,30,000
	3,70,000		3,70,000

(b) **Calculation of Depreciation on Plant & Machinery**

		₹
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000* x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

* [3,30,000 - (2,20,000 – 40,000)]

(c) **Sale of Machinery Account**

	Amount (₹)		*Amount (₹)*
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank (bal.fig.) (Sale)	23,000
	40,000		40,000

5. **Calculation of Depreciation on Office Equipments**

	₹
Opening Balance	1,05,000
Less: Closing Balance	85,000
Sale of Office Equipments	20,000
Balance of Office Equipments after sale on 01.04.2013	85,000
Depreciation @15%	12,750

6. **Opening Balance Sheet as on 31.03.2013**

	₹		₹
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,25,000	Office Equipment	1,05,000
Provision for Tax	35,000	Debtors (W.N. 7)	1,55,500

Capital (Bal. fig.)	8,95,500	Stock (from Trading A/c)	1,65,000
		Bank	25,000
	11,70,500		11,70,500

7. **Sundry Debtors A/c**

	₹		₹
To Balance b/d (bal. fig.)	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		11,55,500

8. **Sundry Creditors A/c**

	₹		₹
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d (bal. fig.)	1,05,500		
	6,35,000		6,35,000

9. **Bank Account**

	₹		₹
To Balance b/d	25,000	By Creditors	5,25,000
To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest (W.N. 11)	40,000
		By Tax (W.N. 10)	25,700
		By Balance c/d (bal. fig.)	53,300
	12,43,000		12,43,000

10. Provision for Tax Account

	₹		₹
To Bank (bal. fig.)	25,700	By Balance b/d	35,000
To Balance c/d	30,000	By Profit and Loss A/c	20,700
	55,700		55,700

11. Repayment of Bank Loan and interest

	₹
Interest 1,25,000 x 12%	15,000
Loan (1,25,000 – 1,00,000)	25,000
	40,000

Note:

The above solution has been worked out on the basis of the following assumptions:-

(i) Tax profits are the same as accounting profits.

(ii) The figure of ₹ 2,25,000, being the closing balance of Sundry Debtors as given in the question is before providing for bad debts. Accordingly, the closing balance has been reduced by the amount of bad debts.

Question 4

The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2014 was as follows:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Equity Shares of ₹ 10 fully paid	*30,00,000*	*Goodwill*	*5,00,000*
Export Profit Reserves	*8,50,000*	*Tangible Fixed Assets*	*30,00,000*
General Reserves	*50,000*	*Stock*	*10,40,000*
Profit and loss Account	*5,50,000*	*Debtors*	*1,80,000*
9% Debentures	*5,00,000*	*Cash & Bank*	*2,80,000*
Trade Creditors	*1,00,000*	*Preliminary Expenses*	*50,000*
	50,50,000		*50,50,000*

ANU Ltd. agreed to absorb the business of SRISHTI Ltd. with effect from 1st April, 2014.

(a) The purchase consideration settled by ANU Ltd. as agreed:

(i) 4,50,000 equity Shares of ₹ 10 each issued by ANU Ltd. by valuing its share @ ₹ 15 per share.

(ii) Cash payment equivalent to ₹ 2.50 for every share in SRISHTI Ltd.

(b) The issue of such an amount of fully paid 8% Debentures in ANU Ltd. at 96% as is sufficient to discharge 9% Debentures in SRISHTI Ltd. at a premium of 20%.

(c) ANU Ltd. will take over the Tangible Fixed Assets at 100% more than the book value, Stock at ₹ 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.

(d) The actual cost of liquidation of SRISHTI Ltd. was ₹ 75,000. Liquidation cost of SRISHTI Ltd. is to be reimbursed by ANU Ltd. to the extent of ₹ 50,000.

(e) Statutory Reserves are to be maintained for 1 more year.

You are required to:

(i) Close the books of SRISHTI Ltd. by preparing Realisation Account, ANU Ltd. Account, Shareholders Account and Debenture Account, and

(ii) Pass Journal Entries in the books of ANU Ltd. regarding acquisition of business.

(16 Marks)

Answer

(i) Purchase consideration computation

	₹
Cash payment for (3,00,000 x ₹ 2.5)	7,50,000
Equity Shares (4,50,000 x ₹ 15)	67,50,000
	75,00,000

In the books of Srishti Ltd.

Realisation Account

		₹			₹
To	Goodwill	5,00,000	By	9% Debentures	5,00,000
To	Tangible Fixed Assets	30,00,000	By	Creditors	1,00,000
To	Stock	10,40,000	By	By Anu Ltd.	75,00,000
To	Debtors	1,80,000		(Purchase consideration)	
To	Cash & Bank A/c (2,80,000- 25,000)	2,55,000			
To	Cash & Bank A/c (Realization expenses)	25,000			
To	Profit on realization transfer to shareholders	31,00,000			
		81,00,000			81,00,000

Equity Shareholders A/c

		₹		₹
To	Preliminary expenses	50,000	By Equity Share Capital	30,00,000
To	Equity Shares in Anu Ltd.	67,50,000	By Export Profit Reserves	8,50,000
To	Cash & Bank A/c	7,50,000	By General Reserves	50,000
			By P & L A/c	5,50,000
			By Realization A/c	31,00,000
		75,50,000		75,50,000

9% Debentures Account

	₹		₹
To Realization A/c	5,00,000	By Balance b/d	5,00,000

Anu Ltd.

	₹		₹
To Realization A/c	75,00,000	By Share Capital	67,50,000
		By Bank A/c	7,50,000
	75,00,000		75,00,000

(ii) Journal Entries in the books of Anu Ltd.

			₹	₹
1	Business Purchase A/c	Dr.	75,00,000	
	To Liquidator of Srishti Ltd			75,00,000
	(Being business of Srishti Ltd. taken over)			
2	Tangible Fixed Assets	Dr	60,00,000	
	Stock	Dr	7,10,000	
	Debtors	Dr	1,80,000	
	Cash & Bank A/c	Dr	2,55,000	
	Goodwill A/c (Bal. fig.)	Dr	10,64,000	
	To Provision for doubtful debts			9,000
	To Liability for 9 % Debentures			6,00,000
	To Creditors			1,00,000
	To Business Purchase account			75,00,000
	(Being assets and liabilities taken over)			

3	Amalgamation Adjustment A/c To Export Profit Reserves (Being statutory Reserves taken over)	Dr.	8,50,000	 8,50,000
4	Goodwill To Bank A/c (Liquidation expenses reimbursed))	Dr.	50,000	 50,000
5	Liquidator of Shristi Ltd. To Equity Share Capital To Securities Premium To Bank A/c (Being purchase consideration discharged)	Dr.	75,00,000	 45,00,000 22,50,000 7,50,000
6	Liability for 9% Debentures (5,00,000 x 120/100) Discount on issue of debentures To 8% Debentures (6,00,000 x 100/96) (Being liability of debenture holders' discharged)	Dr.	6,00,000 25,000	 6,25,000

Question 5

(a) Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.2010 from Ganesh Enterprises. The terms were as follows:

Particulars	*Amount (₹)*
Hire Purchase Price	*1,80,000*
Down Payment	*30,000*
1st installment payable after 1 year	*50,000*
2nd installment after 2 years	*50,000*
3rd installment after 3 years	*30,000*
4th installment after 4 years	*20,000*

Cash price of van ₹ 1,50,000 and depreciation is charged at 10% WDV.

You are required to:

(i) Calculate Total Interest and Interest included in each installment

(ii) Prepare Van A/c., Ganesh Enterprises A/c. in the books of Happy Valley Florists Ltd. up to 31.03.2014. *(8 Marks)*

(b) Smart Investments made the following investments in the year 2013-14:

12% State Government Bonds having face value ₹ 100

Date	*Particulars*
01.04.2013	*Opening Balance (1200 bonds) book value of ₹ 126,000*
02.05.2013	*Purchased 2,000 bonds @ ₹ 100 cum interest*
30.09.2013	*Sold 1,500 bonds at ₹ 105 ex interest*

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd.	
15.04.2013	*Purchased 5,000 equity shares @ ₹ 200 on cum right basis* *Brokerage of 1% was paid in addition (Face Value of shares ₹ 10)*
03.06.2013	*The company announced a bonus issue of 2 shares for every 5 shares held.*
16.08.2013	*The company made a rights issue of 1 share for every 7 shares held at ₹ 250 per share.* *The entire money was payable by 31.08.2013.*
22.8.2013	*Rights to the extent of 20% was sold @ ₹ 60. The remaining rights were subscribed.*
02.09.2013	*Dividend @ 15% for the year ended 31.03.2013 was received on 16.09.2013*
15.12.2013	*Sold 3,000 shares @ ₹ 300. Brokerage of 1% was incurred extra.*
15.01.2014	*Received interim dividend @ 10% for the year 2013-14*
31.03.2014	*The shares were quoted in the stock exchange @ ₹ 220*

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed. *(8 Marks)*

Answer

(a) Calculation of total Interest and Interest included in each installment

Hire Purchase Price (HPP) = Down Payment + instalments

= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000

Total Interest = 1,80,000 – 1,50,000 = 30,000

Calculation of Ratio of HPP in beginning of each year

Year	*Outstanding HPP at beginning*	*Installment Paid*	*Outstanding balance at end*
1	1,50,000	50,000	1,00,000
2	1,00,000	50,000	50,000
3	50,000	30,000	20,000
4	20,000	20,000	-

1. Ratio of outstanding HPP at beginning for each year = 15:10:5: 2

   Total Interest is of ₹ 30,000

I st Year	$= 30,000 \times \frac{15}{32} = 14,062$
II nd year	$= 30,000 \times \frac{10}{32} = 9,375$
III rd year	$= 30,000 \times \frac{5}{32} = 4,688$
IV th year	$= 30,000 \times \frac{2}{32} = 1,875$

Ledger Accounts in the books of Happy Valley Florist Ltd.

Van Account

Date	*Particulars*	*₹*	*Date*	*Particulars*	*₹*
1.4.2010	To Ganesh Enterprises	1,50,000	31.03.2011	By Depreciation A/c	15,000
				By Balance c/d	1,35,000
		1,50,000			1,50,000
1.4.2011	To Balance b/d	1,35,000	31.03..2012	By Depreciation A/c	13,500
				By Balance c/d	1,21,500
		1,35,000			1,35,000
1.4.2012	To Balance b/d	1,21,500	31.03.2013	By Depreciation A/c	12,150
				By Balance c/d	1,09,350
		1,21,500			1,21,500

1.4.2013	To Balance b/d	1,09,350	31.03.2014	By Depreciation A/c	10,935
				By Balance c/d	98,415
		1,09,350			1,09,350

Ganesh Enterprises Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
1.4.2010	To Bank A/c	30,000	1.4.10	By Van A/c	1,50,000
31.03.2011	To Bank A/c	50,000	31.03.11	By Interest c/d	14,062
	To Balance c/d	84,062			
		1,64,062			1,64,062
31.03.2012	To Bank A/c	50,000	1.4.11	By Balance b/d	84,062
	To Balance c/d	43,437	31.03.12	By Interest A/c	9,375
		93,437			93,437
31.3.2013	To Bank A/c	30,000	1.4.12	By Balance b/d	43,437
	To Balance c/d	18,125	31.3.13	By Interest A/c	4,688
		48,125			48,125
31.3.2014	To Bank A/c	20,000	1.4.13	By Balance b/d	18,125
			31.3.14	By Interest A/c	1,875
		20,000			20,000

(b) **In the books of Smart Investments**

12% Govt. Bonds for the year ended 31st March, 2014

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
1.4.13	To Opening balance b/d	1,200	3,600	1,26,000	30.6.13	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.13	To Bank A/c	2,000	8,000	1,92,000	30.9.13	By Bank A/c	1,500	4,500	1,57,500
31.3.14	To P & L A/c (Interest)		27,400		31.12.13	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
	To P & L A/c (Profit on Sale)			8,437.50	31.3.14	By Bal. c/d	1,700	5,100	1,68,937.50
		3,200	39,000	3,26,437.50			3,200	39,000	3,26,437.50

Investments in Equity shares of X Ltd. for year ended 31.3.2014

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
15.4.13	To Bank A/c	5,000		10,10,000	22.8.13	By Bank (Sale of Rights)	-	-	12,000
3.6.13	To Bonus Issue	2,000	-	-	16.9.13	By Bank (Dividend)	-	-	7,500
31.8.13	To Bank A/c	800		2,00,000	15.12.13	By Bank (Sale)	3,000	-	8,91,000
31.3.14	To P & L A/c		4,800	4,33,115	15.1.14	By Bank (interim dividend)		4,800	
					31.3.14	By Bal. c/d	4,800		7,32,615
		7800	4,800	16,43,115			7800	4,800	16,43,115

Working Notes:

1. **Profit on sale of bonds on 30.9.13**

   = Sales proceeds – Average cost

   Sales proceeds = ₹ 1,57,500

   Average cost = ₹ [(1,26,000+1,92,000) × 1,500/3,200] = 1,49,062.50

   Profit = 1,57,500– ₹ 1,49,062.50=₹ 8,437.50

2. **Valuation of bonds on 31st March, 2014**

   Cost = ₹ 3,18,000/3,200 x1,700 = 1,68,937.50

3. **Cost of equity shares purchased on 15/4/2013**

   = Cost + Brokerage

   = (5,000 ×₹ 200) + 1% of (5,000 × ₹ 200) = ₹ 10,10,000

4. **Sale proceeds of equity shares on 15/12/2013**

   = Sale price – Brokerage

   = (3,000 ×₹ 300) – 1% of (3,000 × ₹ 300) = ₹ 8,91,000.

5. **Profit on sale of shares on 15/12/2013**

   = Sales proceeds – Average cost

   Sales proceeds = ₹ 8,91,000

   Average cost = ₹ [(10,10,000+2,00,000-12,000-7,500) × 3,000/7,800]

   = ₹ [11,90,500 × 3,000/7,800] = 4,57,885

   Profit = ₹ 8,91,000 – ₹ 4,57,885=₹ 4,33,115.

6. **Valuation of equity shares on 31st March, 2014**

   Cost =₹ [11,90,500 × 4,800/7,800] = ₹ 7,32,615

   Market Value = 4,800 shares ×₹ 220 =₹ 10,56,000

   Closing stock of equity shares has been valued at ₹ 7,32,615 i.e. cost being lower than the market value.

Note:

1. It is presumed that no dividend is received on bonus shares as bonus shares are declared on 3.6.2013 and dividend pertains to the year ended 31.03.2013.
2. The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

Question 6

The Balance Sheet of Amit, Bhushan and Charan, who share profits and losses as 3 : 2 : 1 respectively, as on 01.04.2013 is as follows:

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Accounts: Amit	1,80,000	Machinery		1,50,000
Bhushan	1,60,000	Furniture		1,50,000
Charan	1,40,000	Debtors	80,000	
Current Accounts: Bhushan	16,000	Less: Provision for doubtful Debts	4,000	76,000
Creditors	1,20,000	Stock		2,10,000
		Cash		20,000
	-	Current Account: Charan		10,000
	6,16,000			6,16,000

Dev is admitted as a partner on the above date for $\frac{1}{5}$th share in the profit and loss. Following are agreed upon:

(1) The profit and loss sharing ratio among the old partners will be equal.

(2) Dev brings in ₹ 1,50,000 as capital but is unable to bring the required amount of premium for goodwill.

(3) The goodwill of the firm is valued at ₹ 60,000.

(4) Assets and liabilities are to be valued as follows:

Machinery ₹ 2,06,000 : Furniture ₹ 1,28,000 : Provision for doubtful debts @ 10% on debtors.

(5) Necessary adjustments regarding goodwill and Profit / loss on revaluation are to made through the Partner's Current Accounts.

(6) It is decided that the revalued figures of assets and liabilities will not appear in the Balance Sheet of the new firm.

(7) Capital Accounts of the old partners in the new firm should be proportionate to the new profit and loss sharing ratio, taking Dev's Capital as base. The existing partners will not bring cash for further capital. The necessary adjustments are to be made through the partner's Current Account.

Prepare Partner's Capital & Current Account, and the Balance Sheet of the new firm after admission. *(16 Marks)*

Answer 6

In the books of Firm

Partners' Capital Accounts

	Amit	Bhushan	Charan	Dev		Amit	Bhushan	Charan	Dev
To Balance c/d (Working Note 1)	2,00,000	2,00,000	2,00,000	1,50,000	By Balance b/d	1,80,000	1,60,000	1,40,000	
					By Bank A/c	-	-	-	1,50,000
					By Partners' Current A/cs (bal. fig)	20,000	40,000	60,000	
	2,00,000	2,00,000	2,00,000	1,50,000		2,00,000	2,00,000	2,00,000	1,50,000

Partners' Current Accounts

	Amit	Bhushan	Charan	Dev		Amit	Bhushan	Charan	Dev
To Balance b/d	-	-	10,000	-	By Balance b/d	-	16,000	-	-
To Memorandum Revaluation A/c	8,000	8,000	8,000	6,000	By Memorandum Revaluation	15,000	10,000	5,000	-
To Amit and Bhushan (Goodwill adjustment)	-	-	6,000	12,000	By Dev and Charan (Goodwill adjustment)	14,000	4,000	-	-
To Partners Capital A/cs	20,000	40,000	60,000	-	By Balance c/d	-	18,000	79,000	18,000
To Balance c/d	1,000	-	-						
	29,000	48,000	84,000	18,000		29,000	48,000	84,000	18,000

Balance Sheet of new firm

After Dev's Admission

Liabilities		₹	Assets		₹
Capital Accounts: A/cs			Machinery		1,50,000
Amit	2,00,000		Furniture		1,50,000
Bhushan	2,00,000		Stock		2,10,000
Charan	2,00,000		Debtors	80,000	
Dev	1,50,000	7,50,000	*Less:* Provision for doubtful debts	4,000	76,000
Current Account: Amit		1,000	Cash		1,70,000
Creditors		1,20,000	Current Accounts:		
			Bhushan	18,000	
			Charan	79,000	
			Dev	18,000	
					1,15,000
		8,71,000			8,71,000

Working Notes:

1. Dev. joins the business for 1/5th share and brings ₹ 1,50,000 as capital. Thus, total capital of new firm will be ₹ 7,50,000 (1,50,000 × 5). Total capital of Amit, Bhushan & Charan will be ₹ 6,00,000 (7,50,000 – 1,50,000) which will be shared by them equally i.e. 2,00,000 each**.**

2. Calculation of New profit sharing ratio

Amit	Bhushan	Charan	Dev
$\frac{4}{5}\times\frac{1}{3}$	$\frac{4}{5}\times\frac{1}{3}$	$\frac{4}{5}\times\frac{1}{3}$	$\frac{1}{5}$
$\frac{4}{15}$	$\frac{4}{15}$	$\frac{4}{15}$	$\frac{3}{15}$
4:4:4:3			

3. **Adjustment of Goodwill**

Sacrificing/gaining ratios of old partners

Amit	Bhushan	Charan	Dev
$\frac{4}{15}-\frac{3}{6}$	$\frac{4}{15}-\frac{2}{6}$	$\frac{4}{15}-\frac{1}{6}$	$\frac{1}{5}$
$\frac{24-45}{90}$	$\frac{24-30}{90}$	$\frac{24-15}{90}$	

$\frac{21}{90}$ Sacrifice	$\frac{6}{90}$ Sacrifice	$\frac{9}{90}$ Gain	$\frac{18}{90}$ Gain

Entry for adjustment for goodwill of ₹ 60,000

Charan	Dr.	6,000	
Dev	Dr.	12,000	
To Amit			14,000
To Bhushan			4,000

(Being goodwill adjusted in partners sacrificing/gaining ratios)

4. **Memorandum Revaluation A/c**

	Amount ₹		*Amount* ₹
To Furniture	22,000	By Machinery	56,000
To Provision for doubtful debts	4,000		
To Partners' Current A/cs:			
Amit 15,000			
Bhushan 10,000			
Charan 5,000	30,000		
	56,000		56,000
To Machinery	56,000	By Furniture	22,000
		By Provision for doubtful debts	4,000
		By Partners' Current A/cs:	
		Amit 8,000	
		Bhushan 8,000	
		Charan 8,000	
		Dev 6,000	30,000
	56,000		56,000

Question 7

*Answer any **four** out of the following:*

(a) *From the following extract of Receipts and Payments Account and the additional information, you are required to calculate the Income from Subscription for the year ending March 31, 2014 and show them in the Income & Expenditure Account, and the Balance Sheet of a Club.*

An extract of Receipts and Payments Account
for the year ended 31st March, 2014

Receipts		₹	Payments	₹
To Subscription				
2012-13	*4,000*			
2013-14	*20,000*			
2014-15	*5,000*	*29,000*		

Information:

(i)	*Subscription outstanding on 31.03.2013*	*₹ 5,000*
(ii)	*Subscription outstanding on 31.03.2014*	*₹ 4,000*
(iii)	*Subscription received in advance on 31.03.2013 for 2013-14*	*₹ 5,000*

(4 Marks)

(b) *Intelligent Ltd., a non financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.*

(i) *Loans and Advances given to the following and interest earned on them:*

(1) *to suppliers*

(2) *to employees*

(3) *to its subsidiaries companies*

(ii) *Investment made in subsidiary Smart Ltd. and dividend received*

(iii) *Dividend paid for the year*

(iv) *TDS on interest income earned on investments made*

(v) *TDS on interest earned on advance given to suppliers*

(vi) *Insurance claim received against loss of fixed asset by fire*

Discuss in the context of AS 3 Cash Flow Statement *(4 Marks)*

(c) *Define Average Due Date. List out the various instances when Average Due Date can be used.* *(4 Marks)*

(d) *What are depreciable assets as per Accounting Standard-6? Explain why AS 6 does not apply to Land.* *(4 Marks)*

(e) *Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2014:*

Particulars	Amount
4,500 Equity Shares of ₹100 each	*4,50,000*
Capital Reserve (including ₹40,000 being profit on sale of Plant)	*90,000*

Securities Premium	*40,000*
Capital Redemption Reserve	*30,000*
General Reserve	*1,05,000*
Profit and Loss Account (Cr. Balance)	*65,000*

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd. *(4 Marks)*

Answer

(a) Income and Expenditure A/c for the year ending 31st March, 2014

	₹	₹
By subscription: Received	20,000	
Add: Outstanding 31.3.2014 (4,000 – 1,000) (See Note)	3,000	
Add: Received in advance last year for 2013-14	5,000	28,000

Balance Sheet as on 31st March, 2014 (Extract)

Liabilities	₹	*Assets*	₹
Subscription received in advance for year 2014-15	5,000	Subscription o/s:	
		2012-13 ₹ 1,000	
		2013-14 3,000	4,000

Note: Subscription outstanding on 31.03.2014 as given in the question is ₹ 4,000. It has been considered that last year outstanding ₹ 1,000 has also been included in this amount.

(b) (i) **Loans and advances given and interest earned**

(1) to suppliers — Operating Cash flow

(2) to employees — Operating Cash flow

(3) to its subsidiary companies — Investing Cash flow

(ii) **Investment made in subsidiary company and dividend received**

Investing Cash flow

(iii) **Dividend paid for the year**

Financing Cash Outflow

(iv) **TDS on interest income earned on investments made**

Investing Cash Outflow

(v) **TDS on interest earned on advance given to suppliers**

Operating Cash Outflow

(vi) **Insurance claim received of amount loss of fixed asset by fire**

Extraordinary item to be shown under a separate heading as 'Cash inflow from Operating activities'.

(c) In business enterprises, a large number of receipts and payments by and from a single party may occur at different points of time. To simplify the calculation of interest involved for such transactions, the idea of average due date has been developed. Average Due Date is a break-even date on which the net amount payable can be settled without causing loss of interest either to the borrower or the lender.

Few instances where average due date can be used:

(i) Calculation of interest on drawings made by the proprietors or partners of a business firm at several points of time.

(ii) Settlement of accounts between a principal and an agent.

(iii) Settlement of contra accounts, that is, A and B sell goods to each other on different dates.

Note: Any other instance where average due date is being used, may be given.

(d) As per AS 6 'Depreciation Accounting', depreciable assets are the assets which

(i) are expected to be used during more than one accounting period; and

(ii) have a limited useful life; and

(iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

AS 6 does not apply to 'land' as land is considered to have unlimited useful life. Therefore, it is not appropriate to charge depreciation on land.

(e)

Capital Redemption Reserve A/c	Dr.	30,000	
Securities Premium A/c	Dr.	40,000	
Capital Reserve (Realized in cash)	Dr	40,000	
General Reserve A/c	Dr.	40,000	
To Bonus to Shareholders			1,50,000
(Being issue of bonus shares by utilization of various			
Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	1,50,000	
To Equity Share Capital			1,50,000
(Being capitalization of Profit)			

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PAPER – 1 : ACCOUNTING

Question No. ***1*** *is compulsory.*

Answer any ***five*** *questions from the remaining* ***six*** *questions.*

Wherever necessary suitable assumptions should be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *Amna Ltd. contracted with a supplier to purchase a specific machinery to be installed in Department A in two months time. Special foundations were required for the plant, which were to be prepared within this supply lead time. The cost of site preparation and laying foundations were ₹ 47,290. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 15,000 per month. The Technician's services were given to Department A by Department B, which billed the services at ₹ 16,500 per month after adding 10% profit margin.*

The machine was purchased at ₹ 52,78,000. Sales Tax was charged at 4% on the invoice ₹ 18,590 transportation charges were incurred to bring the machine to the factory. An Architect was engaged at a fee of ₹ 10,000 to supervise machinery installation at the factory premises. Also, payment under the invoice was due in 3 months. However, the Company made the payment in 2nd month. The company operates on Bank Overdraft@ 11%.

Ascertain the amount at which the asset should be capitalized under AS 10.

(b) *Narmada Ltd. purchased an existing bottling unit from Kaveri Ltd. Kaveri Ltd. followed straight line method of charging depreciation on machinery of the sold unit whereas Narmada Ltd. followed written down value method in its other units. The directors of Narmada Ltd. want to continue to charge depreciation for the acquired unit in Straight Line Method which is not consistent with the WDV method followed in other units.*

Discuss the contention of the directors with reference to the Accounting Standard. Further during the year, Narmada Ltd. set up a new plant on coastal land. In view of the corrosive climate, the Company felt that its machine life is reducing faster. Can the Company charge a higher rate of depreciation?

(c) *A Ltd. entered into a contract with B Ltd. to despatch goods valuing ₹ 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of ₹ 1,00,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth ₹ 50,000 ready for despatch. A Ltd. accounted ₹ 50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.*

(d) *A Ltd. is amalgamating with B Ltd. They are undecided on the method of accounting to be followed. You are required to advice the management of B Ltd. on the method of accounting that can be adopted under AS-14.* *(4 x 5 = 20 Marks)*

Answer

(a) Calculation of Cost of Fixed Asset (i.e. Machine)

Particulars		₹
Purchase Price	Given	52,78,000
Add: Sales Tax at 4%	₹ 52,78,000 x 4%	2,11,120
Site Preparation Cost	Given	47,290
Technician's Salary	Specific/Attributable overheads for 2 months (See Note)	30,000
Initial Delivery Cost	Transportation	18,590
Professional Fees for Installation	Architect's Fees	10,000
Total Cost of Asset		55,95,000

Note:

(i) Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10. It may be noted that overdraft facility is generally used for working capital purpose.

(ii) Internally booked profits should be eliminated in arriving at the cost of Fixed Assets.

(iii) In the absence of information about excise, CENVAT credit has been ignored.

(iv) It has been assumed that the purchase price of ₹ 52,78,000 excludes amount of sales tax.

(b) According to para 12 of AS 6 'Deprecation Accounting', there are several methods of allocating depreciation over the useful life of the assets. The management of a business selects the most appropriate method(s) based on various important factors e.g., (i) type of asset, (ii) the nature of the use of such asset and (iii) circumstances prevailing in the business. A combination of more than one method is sometimes used. A company may adopt different methods of depreciation for different types of assets, provided the same methods are followed consistently. Thus Narmada Ltd. can continue to charge depreciation for the acquired unit as per straight line method.

The statute governing an enterprise may provide the basis for computation of the depreciation. For example, the Companies Act lays down the rates of depreciation in respect of various assets. Where the management's estimate of the useful life of an asset of the enterprise is shorter than that envisaged under the provisions of the relevant statute, the depreciation provision is appropriately computed by applying a higher rate.

Therefore, in the given case, the Company can charge higher rates of depreciation based on its estimate of the useful life of machinery, provided that such estimate is not less than the rate prescribed by the Companies Act, for that class of assets. However, such higher depreciation rates and/or the reduced useful lives of the assets should be disclosed by way of notes to the accounts in the Financial Statements.

(c) As per para 11 of AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. A Ltd. should recognize the entire sale of ₹ 1,00,000 (₹ 25,000 x 4) and no part of the same is to be treated as Advance Receipt against Sales.

(d) An amalgamation may be either – an amalgamation in the nature of merger, or an amalgamation in the nature of purchase. The selection of method of accounting for amalgamation (pooling of interests or purchase method) is to be judged after considering the intentions of the both the companies.

If genuine pooling of all assets, liabilities, shareholders' interest is intended; separate businesses of both the companies are continued and their amalgamation scheme satisfies all the conditions necessary for merger as specified in AS 14 Accounting for Amalgamations, pooling of interests method is adopted.

However, if B Ltd. or A Ltd. wants to acquire the other company, then purchase method needs to be adopted. In that case, the shareholders of the acquired company don't continue to have proportional share in equity of the combined company and the business of the acquired company is not intended to be continued. The object of the purchase method is to account for the amalgamation by applying the same principles as are applied in the normal purchase of assets.

Thus choice of accounting method depends on the fact whether B Ltd. wants to continue its business or not.

Question 2

Pathak, Quereshi and Ranjeet were partners sharing profits in the ratio of 7 : 5 : 3 respectively. On 31st March, 2013 Quereshi retired when the firm's Balance Sheet was as follows :

Liabilities	₹	Assets		₹
Capital Accounts :		Land and Building		10,00,000
Pathak	8,50,000	Plant and Machinery		4,65,000
Quereshi	6,20,000	Furniture, Fixture and Fittings		2,30,100
Ranjeet	3,70,000	Stock		1,82,200
General Reserve	2,25,000	Trade Debtors	2,00,000	
Trade Creditors	1,13,000	Less : Provision for Bad Debts	6,000	1,94,000
		Cash at Bank		1,06,700
Total	21,78,000	**Total**		21,78,000

It was agreed that :

(i) *Land & Building be appreciated by 20%.*

(ii) *Plant & Machinery be depreciated by 10%.*

(iii) *Provision for Bad Debts be made equal to 4% of Trade Debtors.*

(iv) *Outstanding repairs bill amounting to ₹1500 be recorded in the books of account.*

(v) *Goodwill of the firm be valued at ₹ 3,00,000 and Quereshi's capital account be credited with his share of goodwill without raising goodwill account.*

(vi) *Half of the amount due to Quereshi be immediately paid to him by means of a cheque and the balance be treated as a loan bearing interest @ 12% per annum.*

After Quereshi's retirement, Pathak and Ranjeet admitted Swamy as a new partner with effect from 1st April, 2013. Pathak, Ranjeet and Swamy agreed to share profits in the ratio of 2 : 1 : 1 respectively. Swamy brought patents valued at ₹ 20,000 and ₹ 3,80,000 in cash including payment for his share of goodwill as valued by the old firm. The entire amount of ₹ 4,00,000 was credited to Swamy's Capital Account. Adjustments were made in the capital account for Swamy's share of goodwill.

You are required to :

(a) *Pass journal entries for all the above transactions without any narration, and*

(b) *Prepare the capital account of all the partners.* *(16 Marks)*

Answer

(a) **Journal Entries**

31st March, 2013

			₹	₹
1	Land and Building	Dr.	2,00,000	
	To Revaluation A/c			2,00,000
2.	Revaluation A/c	Dr.	46,500	
	To Plants and Machinery			46,500
3	Revaluation A/c	Dr	3,500	
	To Provision for bad debts			2,000
	[(₹ 2,00,000 x 4%) - ₹ 6000]			
	To Provision for Outstanding repair bills			1,500
4	Pathak's Capital A/c	Dr.	70,000	
	Ranjeet's Capital A/c	Dr.	30,000	
	To Quereshi's Capital A/c			1,00,000
5	Revaluation A/c	Dr.	1,50,000	
	To Pathak's Capital A/c			70,000
	To Quereshi's Capital A/c			50,000
	To Ranjeet's Capital A/c			30,000
6	General reserve A/c	Dr.	2,25,000	
	To Pathak's Capital A/c			1,05,000
	To Quereshi's Capital A/c			75,000
	To Ranjeet's Capital A/c			45,000
7	Quereshi's Capital A/c	Dr.	8,45,000	
	To Bank A/c			4,22,500
	To Quereshi's Loan A/c			4,22,500
8	Patents	Dr.	20,000	
	Cash A/c	Dr.	3,80,000	
	To Swamy's Capital A/c			4,00,000
9	Swamy's Capital A/c (₹ 3,00,000/4)	Dr.	75,000	
	To Pathak's Capital A/c			60,000
	To Ranjeet's Capital A/c			15,000

(b) **Capital Accounts of partners**

	Amount					*Amount*			
	Pathak	*Quereshi*	*Ranjeet*	*Swamy*		*Pathak*	*Quereshi*	*Ranjeet*	*Swamy*
31.3.13					31.3.13				
To Quereshi	70,000		30,000		By Bal. b/d	8,50,000	6,20,000	3,70,000	
					By general reserve	1,05,000	75,000	45,000	
To Bank A/c		4,22,500			By Pathak & Ranjeet		1,00,000		
To Loan A/c		4,22,500			By Revaluation A/c	70,000	50,000	30,000	
To Bal. c/d	9,55,000		4,15,000						
	10,25,000	8,45,000	4,45,000			10,25,000	8,45,000	4,45,000	
1.4.13					1.4.13				
To Pathak				60,000	By Bal. b/d	9,55,000		4,15,000	
To Ranjeet				15,000	By Patents				20,000
To Bal. c/d	10,15,000		4,30,000	3,25,000	By Cash				3,80,000
					By Swamy	60,000		15,000	
	10,15,000		4,30,000	4,00,000		10,15,000		4,30,000	4,00,000

Working Notes:

1. Calculation of Gaining ratio after retirement of Quereshi on 31st March, 2013

	Pathak	Quereshi	Ranjeet		Pathak	Ranjeet
Old Ratio	7/15 :	5/15 :	3/15	New Ratio	7/10 :	3/10

Gain of Pathak New Ratio - Old Ratio

7/10 - 7 / 15

(105 – 70) / 150

35 / 150

Gain of Ranjeet 3/10 – 3/15 = (45 – 30)/150 = 15/150

Gaining Ratio = 35 : 15 = 7 : 3

2. Calculation of Sacrificing ratio of Pathak and Ranjeet at time of admission of Swamy

1st April, 2013 *7:3 (ratio between old partners)*

New ratio 2:1:1 $\frac{2}{4}-\frac{7}{10}$ $\frac{1}{4}-\frac{3}{10}$

$\frac{10-14}{20}$ $\frac{5-6}{20}$

$=\frac{4}{20}$ $\frac{1}{20}$

Sacrificing ratio 4 : 1

Question 3

(a) *The details of Assets and Liabilities of Mr. 'A' as on 31-3-2012 and 31-3-2013 are as follows:*

	31.3.2012	***31.3.2013***
	₹	₹
Assets:		
Furniture	*50,000*	
Building	*1,00,000*	
Stock	*1,00,000*	*2,50,000*
Sundry Debtors	*60,000*	*1,10,000*
Cash in hand	*11,200*	*13,200*

Cash at Bank	*60,000*	*75,000*
Liabilities :		
Loans	*90,000*	*70,000*
Sundry Creditors	*50,000*	*80,000*

Mr. 'A' decided to provide depreciation on building by 2.5% and furniture by 10% for the period ended on 31-3-2013. Mr. 'A' purchased jewellery for ₹ 24,000 for his daughter in December 2012. He sold his car on 30-3-2013 and the amount of ₹ 40,000 is retained in the business.

You are required to :

(i) Prepare statement of affairs as on 31-3-2012 and 31-3-2013.

(ii) Calculate the profit received by 'A' during the year ended 31-3-2013.

(b) Surya Ltd. has provided you the following particulars. Prepare Cash Flow from Operating Activities by Indirect Method in accordance with AS 3 :

Profit & Loss Account of Surya Ltd.
for the year ended 31st March, 2013

Particulars	*₹*	*Particulars*	*₹*
To Depreciation	*86,700*	*By Operating Profit before depreciation*	*11,01,600*
To Patents written off	*35,000*	*By Profit on Sale on Investments*	*10,000*
To Provision for Tax	*1,25,000*	*By Refund of Tax*	*3,000*
To Proposed dividend	*72,000*	*By Insurance Claim-Major Fire Settlement*	*1,00,000*
To Transfer to Reserve	*87,000*		
To Net Profit	*8,08,900*		
	12,14,600		*12,14,600*

Additional information :

in ₹

	31.3.2012	*31.3.2013*
Stock	*1,20,000*	*1,60,000*
Trade Debtors	*7,500*	*75,000*
Trade Creditors	*23,735*	*87,525*
Provision for Tax	*1,18,775*	*1,25,000*
Prepaid Expenses	*15,325*	*12,475*
Marketable Securities	*11,775*	*29,325*
Cash Balance	*25,325*	*35,340*

Answer

(a) (i) **Statement of Affairs**

Liablilities	*31.3.12*	*31.3.13*	*Assets*	*31.3.12*	*31.3.13*
	₹	₹		₹	₹
Loans	90,000	70,000	Furniture	50,000	45,000
Creditors	50,000	80,000	Building	1,00,000	97,500
Capital A/c	2,41,200	4,40,700	Stock	1,00,000	2,50,000
			Debtors	60,000	1,10,000
			Cash in hand	11,200	13,200
			Cash at Bank	60,000	75,000
	3,81,200	5,90,700		3,81,200	5,90,700

Working Note:

Dep. on Building ₹ 2,500 (2.5% of ₹ 1,00,000)

Dep. on Furniture ₹ 5,000 (10% of ₹ 50,000)

(ii) Calculation of Profit earned by A during the year ended 31st March, 2013.

Capital Account

	₹		₹
		By bal. b/d	2,41,200
To Drawings	24,000	By Additional Capital (Car sale proceeds)	40,000
To bal. c/d	4,40,700	By P&L A/c. (Bal. figure)	1,83,500
	4,64,700		4,64,700

Note: Interest on drawings and capital has been ignored in the absence of information.

(b) **Indirect Method**

Cash flow from Operating activities for the year ended 31st March, 2013

		₹
Net Profit as per Profit & Loss A/c		8,08,900
Add: Proposed dividend		72,000
Add: Transfer to reserve		87,000
Add: Provision for Tax made during the Current Year		1,25,000

Less: Refund of tax		(3,000)
Less: Extraordinary items (i.e. Insurance Claim – Major Fire Settlement)		(1,00,000)
Net Profit before taxation, and extraordinary items		9,89,900
Add: Depreciation		86,700
Add: Patents written off		35,000
Less: Profit on sale of investments		(10,000)
Operating profit before working capital changes		11,01,600
Increase in stock	(40,000)	
Increase in trade debtors	(67,500)	
Increase in trade creditors	63,790	
Decrease in prepaid expenses	2,850	(40,860)
Cash generated from operations		10,60,740
Income taxes paid (net of refund)		1,15,775
Cash flow before extraordinary item		9,44,965
Insurance claim recovery (major fire settlement)		1,00,000
Net cash from operating activities		10,44,965

Question 4

Highend Club appointed a new accountant for maintaining books of account. He prepared following Receipts and Payments A/c for the year ended as on 31st March, 2013.

Receipts and Payments Account

Receipts	*Amount (₹)*		*Payments*	*Amount (₹)*
To Balance b/d		*9,000*	*By Printing & Stationery*	*21,000*
To Annual subscription for current year	*9,18,000*		*By Telephone Expenses*	*45,000*
Add : Outstanding of last year received this year	*36,000* *9,54,000*		*By Repair & Maintenance Expenses (including payment for sports material ₹ 54,000)*	*1,26,000*
Less Subscription recd. in			*By Garden Upkeep*	*55,000*
Advance as on 31-03-2012	*18,000*	*9,36,000*	*By Electricity Charged*	*36,000*
To Sale of Old Newspaper		*36,000*	*By Loss on sale of furniture (Cost as per books ₹ 90,000)*	*36,000*
To 5% Interest on Investments		*27,000*	*By Balance c/d*	*25,57,000*

To Entrance Fees		*68,000*		
To Donation for building		*18,00,000*		
		28,76,000		***28,76,000***

Additional information :

Highend Club had following balances:

	01-04-2012 ***₹***	***01-04-2013*** ***₹***
Furniture	*3,60,000*	
Stock of Sports material	*1,33,200*	*36,000*
Subscription receivable		*54,000*
Subscription received in advance		*18,000*
Outstanding Printing & Stationery Exp.	*1,500*	*2,500*
Outstanding Electricity Charges		*3,200*

50% Entrance Fees is to be capitalized.

Do you agree with above Receipts and Payments Account ? If not, prepare correct Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2013 and Balance Sheet as on that date. *(16 Marks)*

Answer

Corrected Receipts and Payments Account of Highend Club

for the year ended 31st March, 2013

Receipts		*Amount* ₹	*Payments*	*Amount* ₹
To bal. b/d		9,000	By Printing & Stationery	21,000
To annual subscription	9,18,000		By Telephone expenses	45,000
Less: Receivable on 31.3.2013	(54,000)		By Garden upkeep	55,000
Add: Advance received for year 2013-14	18,000		By Electricity charges	36,000
Add: Receivable as on 31.3.2012	36,000		By Repairs and maintenance	72,000
Less: Advance received on 31.3.2012	<u>(18,000)</u>	9,00,000	(1,26,000 - 54,000)	
To sale of furniture (90,000 - 36,000)		54,000	By Sports material	54,000
To Sale of old newspaper		36,000	By bal. c/d	26,11,000
To Entrance fee		68,000		
To Donation for building		18,00,000		
To Interest on investments		27,000		
		28,94,000		28,94,000

Income & Expenditure Account of Highend Club for the year ended 31st March, 2013

Expenditure	*Amount*	*Income*	*Amount*
	₹		₹
To Printing and Stationery expenses (W.N.1)	22,000	By subscription	9,18,000
To Repairs and Maintenance		By Entrance fee	
(1,26,000 -54,000)	72,000	(50% of 68,000)	34,000
To Telephone expenses	45,000	By Sale of old newspapers	36,000
To Sports material (W.N. 2)	1,51,200	By Interest on investments	27,000
To Garden upkeep	55,000		
To Electricity charges (W.N. 3)	39,200		
To Loss on sale of furniture	36,000		
To Excess of surplus over expenditure	5,94,600		
	10,15,000		10,15,000

Balance sheet of Highed Club as on 31st March, 2013

Liabilities		*Amount*	*Assets*		*Amount*
		₹			₹
Capital Fund (W.N. 4)	10,58,700		Furniture	3,60,000	
Add: Entrance fee capitalized*	34,000		*Less:* sale	90,000	2,70,000
Add: Surplus	5,94,600	16,87,300	Sports material		36,000
Building fund		18,00,000	5% investments		5,40,000
Outstanding Electricity charges		3,200	Cash in hand		26,11,000
Outstanding printing and stationary exp.		2,500	Subscription receivable		54,000
Subscription received in advance		18,000			
		35,11,000			35,11,000

* Alternatively, Entrance fees may be shown separately as liability without being added to Capital Fund.

Working Notes:

1. Printing and Stationary expenses for the year

	₹
Amount paid	21,000
Add: Outstanding as on 31.3.2013	2,500
	23,500
Less: Outstanding as on 31.3.2012	(1,500)
	22,000

2. Depreciation on Sports material

Stock as on 1.4.2012	1,33,200
Add: Purchases	54,000
	1,87,200
Less: Stock as on 31.3.2013	36,000
	1,51,200

3. Electricity charges for the year

Amount paid	36,000
Add: Outstanding as on 31.3.2013	3,200
	39,200

4. Calculation of value of investments

Interest on 5% investments = ₹ 27,000

Value of Investment = ₹ 27,000 x 100 /5 = ₹ 5,40,000

5. Balance Sheet as on 1st April, 2012

Liabilities	₹	*Assets*	₹
		Furniture	3,60,000
Capital fund (balancing fig.)	10,58,700	Sports material	1,33,200
Subscription received in advance	18,000	Subscription receivables	36,000
Outstanding printing and stationary charges	1,500	Investments	5,40,000
		Cash in hand	9,000
	10,78,200		10,78,200

Note:

The above solution is prepared on the basis of the assumption that club is not registered under the Companies Act, 1956.

Question 5

On 31st March, 2013 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2013:

Credit Balances :

	₹
Equity shares capital, fully paid shares of ₹ 10 each	70,00,000
General Reserve	15,49,100
Loan from State Finance Corporation	10,50,000
Secured by hypothecation of Plant & Machinery	
(Repayable within one year ₹ 2,00,000)	
Loans: Unsecured (Long term)	8,47,000
Sundry Creditors for goods & expenses	14,00,000
(Payable within 6 months)	
Profit & Loss Account	7,00,000
Provision for Taxation	3,25,500
Proposed Dividend	4,20,000
Provision for Dividend Distribution Tax	71,400
	1,33,63,000

Debit Balances :

	₹
Calls in arrear	7,000
Land	14,00,000
Buildings	20,50,000
Plant and Machinery	36,75,000
Furniture & Fixture	3,50,000
Stocks : Finished goods	14,00,000
Raw Materials	3,50,000
Sundry Debtors	14,00,000
Advances: Short-term	2,98,900
Cash in hand	2,10,000
Balances with banks	17,29,000
Preliminary Expenses	93,100
Patents & Trade marks	4,00,000
	1,33,63,000

The following additional information is also provided :

(i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building ₹ 28,00,000

Cost of Plant & Machinery ₹ 49,00,000

Cost of Furniture & Fixture ₹ 4,37,500

(iii) Sundry Debtors for ₹ 3,80,000 are due for more than 6 months.

(iv) The amount of Balances with Bank includes ₹ 18,000 with a bank which is not a scheduled Bank and the deposits of ₹ 5 lakhs are for a period of 9 months.

(v) Unsecured loan includes ₹ 2,00,000 from a Bank and ₹ 1,00,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2013 as required under Revised Schedule VI of the Companies Act, 1956. *(16 Marks)*

Answer

Bose and Sen Ltd.

Balance Sheet as on 31st March, 2013

		Particulars	**Notes**	**Figures at the end of current reporting period ₹**
Equity and Liabilities				
1		Shareholders' funds		
	a	Share capital	1	69,93,000
	b	Reserves and Surplus	2	21,56,000
2		Non-current liabilities		
	a	Long-term borrowings	3	16,97,000
3		Current liabilities		
	a	Trade Payables		14,00,000
	b	Other current liabilities	4	2,00,000
	c	Short-term provisions	5	8,16,900
		Total		1,32,62,900
Assets				
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	6	74,75,000

		Intangible assets (Patents & Trade Marks)		4,00,000
2		Current assets		
	a	Inventories	7	17,50,000
	b	Trade receivables	8	14,00,000
	c	Cash and cash equivalents	9	19,39,000
	d	Short-term loans and advances		2,98,900
		Total		1,32,62,900

Notes to accounts

			₹.
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and called up		
	7,00,000 Equity Shares of ₹ 10 each (Out of the above 4,20,000 shares have been issued for consideration other than cash)	70,00,000	
	Less: Calls in arrears	7,000	69,93,000
	Total		69,93,000
2	**Reserves and Surplus**		
	General Reserve		15,49,100
	Surplus (Profit & Loss A/c)	7,00,000	
	Less: Preliminary expenses	(93,100)*	6,06,900
	Total		21,56,000
3	**Long-term borrowings**		
	Secured		
	Term Loans		
	Loan from State Finance Corporation (₹ 10,50,000 - ₹ 2,00,000) (Secured by hypothecation of Plant and Machinery)		8,50,000
	Unsecured		
	Bank Loan	2,00,000	

* Preliminary expenses have been written off in line with Accounting Standards.

	Loan from related parties	1,00,000	
	Others	5,47,000	8,47,000
	Total		16,97,000
4	**Other current liabilities**		
	Loan Instalment repayable within one year		2,00,000
5	**Short-term provisions**		
	Provision for taxation		3,25,500
	Proposed Dividend		4,20,000
	Provision for Dividend Distribution Tax		71,400
	Total		8,16,900
6	**Tangible assets**		
	Land		14,00,000
	Buildings	28,00,000	
	Less: Depreciation	7,50,000	20,50,000
	Plant & Machinery	49,00,000	
	Less: Depreciation	12,25,000	36,75,000
	Furniture & Fittings	4,37,500	
	Less: Depreciation	87,500	3,50,000
	Total		74,75,000
7	**Inventories**		
	Raw Material		3,50,000
	Finished goods		14,00,000
			17,50,000
8	**Trade receivables**		
	Debts outstanding for a period exceeding six months		3,80,000
	Other Debts		10,20,000
	Total		14,00,000

9	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting ₹ 5,00,000	17,11,000	
	with others	18,000	17,29,000
	Cash in hand		2,10,000
	Total		**19,39,000**

Question 6

Monalisa & Co. runs plastic goods shop. Following details are available from quarterly sales tax return filed.

Sales	*2009*	*2010*	*2011*	*2012*
	₹	*₹*	*₹*	*₹*
From 1st January to 31st March	*1,80,000*	*1,70,000*	*2,05,950*	*1,62,000*
From 1st April to 30th June	*1,28,000*	*1,86,000*	*1,93,000*	*2,21,000*
From 1st July to 30th September	*1,53,000*	*2,10,000*	*2,31,000*	*1,75,000*
From 1st October to 31st December	*1,59,000*	*1,47,000*	*1,90,000*	*1,48,000*
Total	***6,20,000***	***7,13,000***	***8,19,950***	***7,06,000***

Period	***₹***
Sales from 16-09-2011 to 30-09-2011	*34,000*
Sales from 16-09-2012 to 30-09-2012	*Nil*
Sales from 16-12-2011 to 31-12-2011	*60,000*
Sales from 16-12-2012 to 31-12-2012	*20,000*

A loss of profit policy was taken for ₹ 1,00,000. Fire occurred on 15th September, 2012. Indemnity period was for 3 months. Net Profit was ₹ 1,20,000 and standing charges (all insured) amounted to ₹ 43,990 for year ending 2011.

Determine the Insurance Claim. *(16 Marks)*

Answer

		₹
(1)	**Gross profit ratio**	
	Net profit in year 2011	1,20,000
	Insured standing charges	43,990
	Gross profit	1,63,990

Ratio of gross profit $= \frac{1,63,990}{8,19,950} = 20\%$

(2) **Calculation of Short sales**

Indemnity period: 16.9.2012 to 15.12.12

Standard sales to be calculated on basis of corresponding period of year 2011

	₹
Sales for period 16.9.2011 to 30.9.11	34,000
Sales for period 1.10.2011 to 15.12.2011 (Note 1)	1,30,000
Sales for period 16.9.2011 to 15.12.2011	1,64,000
Add: upward trend in sales (15%) (Note 2)	24,600
Standard Sales (adjusted)	1,88,600
Actual sales of disorganized period	
Calculation of sales from 16.9.12 to 15.12.12	
Sales for period 16.9.12 to 30.9.12	Nil
Sales for 1.10.12 to 15.12.12 (₹ 1,48,000 – ₹ 20,000)	1,28,000
Actual Sales	1,28,000
Short Sales (₹ 1,88,600 - ₹ 1,28,000)	60,600

(3) **Loss of gross profit**

Short sales x gross profit ratio = 60,600 x 20% 12,120

(4) **Application of average clause**

$$\text{Net claim} = \text{Gross claim} \times \frac{\text{policy value}}{\text{gross profit on annual turnover}}$$

$$= 12,120 \times \frac{1,00,000}{1,79,860\ (\text{Note 3})}$$

Amount of claim = 6,738.57 (approx.) i.e. ₹. 6,739 (round off)

Working Notes:

1. **Sales for period 1.10.11 to 15.12.11**

Sales for 1.10.11 to 31.12.11 (given)	1,90,000
Sales for 16.12.11 to 31.12.11 (given)	60,000
Sales for period 1.10.11 to 15.12.11	1,30,000

2. **Calculation of upward trend in sales**

Total sales in year 2009	=	6,20,000
Increase in sales in year 2010 as compared to 2009	=	93,000

$$\% \text{ increase} = \frac{93{,}000\,(7{,}13{,}000 - 6{,}20{,}000)}{6{,}20{,}000} = 15\%$$

Increase in sales in year 2011 as compared to year 2010

$$\% \text{ increase} = \frac{1{,}06{,}950\,(8{,}19{,}950 - 7{,}13{,}000)}{7{,}13{,}000} = 15\%$$

Thus annual percentage increase trend is of 15%.

3. **Gross profit on annual turnover**

Sales from 16.9.11 to 30.9.11	34,000
1.10.11 to 31.12.11	1,90,000
1.1.12 to 31.3.12	1,62,000
1.4.12 to 30.6.12	2,21,000
1.7.2012 to 15.9.2012 (1,75,000 – Nil)	1,75,000
Sales for 12 months just before date of fire	7,82,000
Add: 15% upward trend	1,17,300
Adjusted sales of 12 months just before the date of fire	8,99,300
Gross profit on adjusted annual sales @ 20%	1,79,860

Question 7

*Answer any **four** out of the following:*

(a) *On 01-05-2012, Mr. Mishra purchased 800 equity shares of 10 each in Fillco Ltd. @ ₹ 50 each from a broker who charged 5%. He incurred 20 paisa per 100 as cost of shares transfer stamps. On 31-10-2012, bonus was declared in the ratio 1 : 4. The shares were quoted at ₹ 110 and ₹ 60 per share before and after the record date of bonus shares respectively. On 30-11-2012, Mr. Mishra sold the bonus shares to a broker who charged 5%. You are required to prepare Investment Account in the books of Mr. Mishra for the year ending 31-12-2012 and closing value of Investment shall be made at cost or market value whichever is lower.*

(b) *Pass journal entries for the following transactions :*

(i) *Conversion of 2 lakh fully paid equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance has 12% fully convertible Debenture.*

(ii) *Consolidation of 40 lakh fully paid equity shares of ₹ 2.50 each into 10 lakh fully paid equity share of ₹ 10 each.*

(iii) Sub-division of 10 lakh fully paid 11% preference shares of ₹ 50 each into 50 lakh fully paid 11% preference shares of ₹ 10 each.

(iv) *Conversion of 12% preference shares of ₹ 5,00,000 into 14% preference shares ₹ 3,00,000 and remaining balance as 12% Non-cumulative preference shares.*

(c) *Roshan has a current account with partnership firm. It has debit balance of ₹ 75,000 as on 01-07-2012. He has further deposited the following amounts:*

Date	***Amount (₹)***
14-07-2012	*1,38,000*
18-08-2012	*22,000*

He withdrew the following amounts :

Date	***Amount (₹)***
29-07-2012	*97,000*
09-09-2012	*11,000*

Show Roshan's A/c in the ledger of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2012.

(d) *The following transactions took place between Thick and Thin. They desire to settle their account on average due date.*

Purchases by Thick from Thin	***(₹)***
9th July, 2013	*7,200*
14th August, 2013	*12,200*

Sales by Thick to Thin	***(₹)***
15th July, 2013	*18,000*
31st August, 2013	*16,500*

Calculate Average Due Date and the amount to be paid or received by Thick.

(e) *Explain the reasons due to which the manual accounting system was replaced by the computerized accounting system in modem time.* *(4 x 4 = 16 Marks)*

Answer

(a) **In the books of Mr. Mishra**

Investment Account for the year ended 31st Dec. 2012
(Scrip: Equity Shares of Fillco Ltd.)

Date		*Particulars*	*Nominal Value (₹)*	*Cost (₹)*	*Date*		*Particulars*	*Nominal Value (₹)*	*Cost (₹)*
1.5.2012	To	Bank A/c	8,000	42,080	30.11.12	By	Bank A/c	2,000	11,400
31.10.2012	To	Bonus shares	2,000	–	31.12.12	By	Balance c/d	8,000	33,664
31.12.2012	To	Profit & loss A/c	–	2,984					
			10,000	45,064				10,000	45,064

Working Notes:

(i) Cost of equity shares purchased on 1.5.2012 = 800 × ₹ 50 + 5% of ₹ 40,000 + .002 of ₹ 40,000 = ₹ 42,080.

(ii) Sale proceeds of equity shares sold on 30.11.2012 = 200 × ₹ 60 – 5% of ₹ 12,000 = ₹ 11,400

(iii) Profit on sale of bonus shares on 30.11.12

= Sales proceeds – Average cost

Sales proceeds = ₹ 11,400

Average cost = ₹ $\frac{42,080}{10,000}$ x 2,000

= ₹ 8,416

Profit = ₹ 11,400 – ₹ 8,416 = ₹ 2,984

(iv) Valuation of equity shares on 31st Dec., 2012

Cost = (₹ 42,080/10,000 x 8,000) = ₹ 33,664

Market Value = 800 × ₹ 60 = 48,000

Closing balance has been valued at ₹ 33,664 being lower than the market value

(b) Journal Entries

		₹	₹
(i) Equity share Capital A/c.	Dr.	20,00,000	
To Equity Stock			1,00,000
To 12% Fully Convertible Debentures			19,00,000
(Being conversion of 2 lakh equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance as fully convertible debentures as per resolution)			
(ii) Equity Share Capital A/c (₹ 2.50)	Dr.	100,00,000	
To Equity Share Capital A/c (₹ 10)			100,00,000
(Being consolidation of 40 lakh shares of ₹ 2.50 each into 10 lakh shares of ₹ 10 each as per resolution)			
(iii) 11% Preference Shares Capital A/c (₹ 50)	Dr.	500,00,000	
To 11% Preference Share Capital A/c (₹ 10)			500,00,000
(Being subdivision of 10 lakh preference shares of ₹ 50 each into 50 lakh shares of ₹ 10 each as per resolution)			
(iv) 12% Preference Share Capital A/c	Dr.	5,00,000	
To 14% Preference Share Capital			3,00,000
To 12% Non-cumulative Preference Share Capital			2,00,000
(Being conversion of preference shares as per resolution)			

(c) Roshan's Current Account with Partnership firm (as on 30.9.2012)

Date	Particulars	Dr (₹)	Cr (₹)	Balance (₹)	Dr. or Cr.	Days	Dr Product (₹)	Cr Product (₹)
01.07.12	To Bal b/d	75,000		75,000	Dr.	13	9,75,000	
14.07.12	By Cash A/c		1,38,000	63,000	Cr.	15		9,45,000
29.07.12	To Self	97,000		34,000	Dr.	20	6,80,000	
18.08.12	By Cash A/c		22,000	12,000	Dr.	22	2,64,000	
09.09.12	To Self	11,000		23,000	Dr.	22	5,06,000	
30.09.12	To Interest A/c	457		23,457	Dr.			
30.09.12	By Bal. c/d		23,457					
		1,83,457	1,83,457				24,25,000	9,45,000

Interest Calculation:

On ₹ 24,25,000x 10% x 1/365 = ₹ 664

On ₹ 9,45,000 x 8% x 1/365 = ₹ 207

Net interest to be debited = ₹ 457

Note: The above current account has been prepared by means of product of balances method.

(d) **Calculation of Average Due Date**

Computation of products for Thick's payments

(Taking 9.7.13 as base date)

Due Date	*Amount*	*No. of days from base date to due date*	*Product*
	₹		₹
9.7.13	7,200	0	0
14.8.13	12,200	36	4,39,200
	19,400		4,39,200

Computation of products for Thin's payments (Base date = 9.7.13)

Due Date	*Amount*	*No. of days from base date to due date*	*Product*
	₹		₹
15.7.13	18,000	6	1,08,000
31.8.13	16,500	53	8,74,500
	34,500		9,82,500

Excess of Thin's products over Thick [9,82,500-4,39,200] 5,43,300

Excess of Thin's amounts over Thick [34,500-19,400] 15,100

Number of days from base date to date of settlement is = $\frac{5,43,300}{15,100}$ = 36 days (approx.)

Hence, the date of settlement of the balance amount is 36 days after 9th July, i.e. 14th August.

Thus, on 14th August, 2013, Thin has to pay ₹ 15,100 to Thick.

(e) In modern time, computerized accounting system has replaced the manual accounting system due to the following reasons:

(1) Speed, accuracy and security - In computerized accounting system, the speed with which accounts can be maintained is several folds higher. Besides speed, level of accuracy is also high in computerized accounting system.

(2) Reduced errors - In computerized accounting, the possibilities of errors are also very less unless some mistake is made while recording the data.

(3) Immediate information - In this system, with an entry of a transaction, corresponding ledger posting is done automatically. Hence, trial balance will also be automatically tallied and the user will get the information immediately.

(4) Avoidance of duplication of work - Computerized accounting systems also remove the chances for duplication of the work.

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PAPER – 1 : ACCOUNTING

*Question No. **1** is compulsory*

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumption(s) may be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *MIs. Zed Laptop Co. has a hire-purchase department and goods are sold on hire-purchase adding 25% to cost. From the following information (all figures are at hire-purchase price), prepare Hire-Purchase Trading Account for the year ending March 31, 2013 :*

	₹
April 01, 2012 goods with customers (Instalments not yet due)	*80,000*
Goods sold on Hire-purchase during the year	*4,00,000*
Cash received during the year from customers	*3,00,000*
Instalments due but not yet received at the end of the year, customers paying	*10,000*

(b) *M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month.*

On 3rd January, 2013 the accountant of the company located the following errors in the books of account:

(i) *An amount of ₹ 8,700 received from customer Mehra was credited to Mehta, another customer.*

(ii) *The sales book for December, 2012 was undercast by ₹ 1,000.*

(iii) *Goods invoiced at ₹ 15,600 were returned to supplier, M/s Mega Ltd., but no entry was made in the books for this return made on 28th December, 2012.*

Pass the necessary Journal Entries to rectify the above mentioned errors.

(c) *On 15th December, 2012, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of stock salvaged being ₹ 1,40,000. From the books of account, the following particulars were available:*

(i) *Stock at the close of account on 31st March, 2012 was valued at ₹ 9,40,000.*

(ii) *Purchases from 01-04-2012 to 15-12-2012 amounted to ₹ 13,20,000 and the sales during that period amounted to ₹ 20,25,000.*

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, if the stock were insured for ₹ 4,00,000.

(d) In 2011, M/s. Wye Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2012, M/s. Bull & Bear purchased 10,000 of these debentures at ₹ 101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 2013 the firm sold all of these debentures at ₹ 106 cum-interest price, again paying brokerage @ 1 % of cum-interest amount.

Prepare Investment Account in the books of M/s. Bull & Bear for the period 1st December, 2012 to 1st March, 2013. *(4 x 5 = 20 Marks)*

Answer

(a) Hire-Purchase Trading Account (On the basis of Hire-Purchase Price) for the year ending 31st March, 2013

Particulars	₹	Particulars	₹
To Balance b/d : H.P stock as on 1.4.2012	80,000	By Bank	3,00,000
To Goods sold on hire purchase A/c	4,00,000	By Goods sold on hire purchase A/c (loading) (1/5 of 4,00,000)	80,000
To Stock reserve (Closing) (1/5 of 1,70,000)	34,000	By Stock reserve (Opening) (1/5 of 80,000)	16,000
To Profit & Loss A/c	62,000	By Balance c/d:	
		H.P Debtors (Instalment due)	10,000
		H.P Stock as on 31.03.2013 (Working Note)	1,70,000
	5,76,000		5,76,000

Working Note:

H.P Stock on 31.03.2013		₹
Stock with customers (Instalment not due) on 1.04.2012		80,000
Goods sold on hire purchase during the year		4,00,000
		4,80,000
Less : Cash received during the year	3,00,000	
Instalments due but not received	10,000	(3,10,000)
H.P Stock on 31.03.2013		1,70,000

(b) **Journal Entries**

In the books of M/s Big. Systematic Ltd.

			₹	₹
(i)	Mehta (In Sales/ Debtors Ledger)	Dr.	8,700	
	To Mehra (In Sales/ Debtors Ledger)			8,700
	(Being amount received from Mehra was wrongly credited to Mehta, now rectified)			
(ii)	(a) Suspense Account (In Sales / Debtors Ledger)	Dr.	1,000	
	To Sales Account (In General Ledger)			1,000
	(b) Sales/Debtors Ledger Adjustment Account (In General Ledger)	Dr.	1,000	
	To General Ledger Adjustment Account (In Sales/ Debtors Ledger)			1,000
	(Being rectification of the error resulting from under casting of the Sales Book)			
(iii)	(a) M/s. Mega Ltd. A/c (In Creditors/Bought Ledger)	Dr.	15,600	
	To Purchase Returns A/c (In General Ledger)			15,600
	(b) Creditors/Bought Ledger Adjustment A/c (In General Ledger)	Dr.	15,600	
	To General Ledger Adjustment A/c (In Creditors/Bought Ledger)			15,600
	(Being goods returned to supplier not recorded earlier, now recorded)			

(c) **Memorandum Trading Account**

For the period 01.04.2012 to 15.12.2012

Particulars	₹	*Particulars*	₹
To Opening stock	9,40,000	By Sales	20,25,000
To Purchases	13,20,000	By Closing Stock	6,40,000
To Gross Profit @20%	4,05,000	(Bal. figure)	
	26,65,000		26,65,000

Statement of Claim

	₹
Estimated value of Stock as at date of fire	6,40,000

Less: Value of Salvaged Stock	1,40,000
Estimated Value of Stock lost by fire	5,00,000

As the value of stock is more than insured value, amount of claim would be subject to average clause.

$$\text{Amount of Claim} = \frac{\text{Amount of Policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$$

$$\text{Amount of Claim} = \frac{4,00,000}{6,40,000} \times 5,00,000 = ₹\ 3,12,500$$

(d) **In the books of M/s Bull & Bear**

Investment Account

for the period from 1st December 2012 to 1st March, 2013

(Scrip: 12% Debentures of M/s. Wye Ltd.)

Date	*Particulars*	*Nominal Value (₹)*	*Interest*	*Cost (₹)*	*Date*	*Particulars*	*Nominal Value (₹)*	*Interest*	*Cost (₹)*
1.12.2012	To Bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.03.2013	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.3.2013	To Profit & loss A/c	-	30,000		1.3.2013	By Profit & loss A/c			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

Working Notes:

(i) Cost of 12% debentures purchased on 1.12.2012 **₹**

Cost Value (10,000 × ₹ 101)	=	10,10,000
Add: Brokerage (1% of ₹ 10,10,000)	=	10,100
Less: Cum Interest (10,000 x 100 x12% x 2/12)	=	(20,000)
Total	=	10,00,100

(ii) Sale proceeds of 12% debentures sold on 31st March, 2013 **₹**

Sales Price (10,000 × ₹ 106)	=	10,60,000
Less: Brokerage (1% of ₹ 10,60,000)	=	(10,600)
Less: Cum Interest (10,000 x 100 x12% x 5/12)	=	(50,000)
Total	=	9,99,400

Question 2

P, Q and R were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of ₹ 3,60,000 for the accounting year ended 31st March, 2012 on which date the firm's Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2012

Liabilities	₹	Assets	₹
P's Capital	7,00,000	Freehold Land and Building	8,00,000
Q's Capital	5,70,000	Machinery	3,50,000
R's Capital	4,30,000	Furniture & Fixtures	1,02,000
Creditors	79,400	Stock	2,98,800
Outstanding Expenses	4,900	Debtors	1,60,000
		Cash at Bank	73,500
Total	17,84,300	Total	17,84,300

P died on 31st August, 2012. According to firm's partnership deed, in case of death of a partner:-

(i) Assets and Liabilities have to be revalued by an independent valuer.

(ii) Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.

(iii) The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of P, Q & R will share profit in the ratio of 3 : 2.

Profits for the accounting years 2009-2010 and 2010-2011 were as follows :-

	₹
For the year ended 31st March, 2010	2,90,000
For the year ended 31st March, 2011	3,40,000

Drawings by P from 1st April, 2012 to the date of his death totalled ₹ 46,000.

On revaluation, Freehold Land and Building was appreciated by ₹ 1,00,000; Machinery was depreciated by ₹ 10,000 and a Provision for Bad Debts was created @ 5% on Debtors as on 31st March, 2012. P's sole heir was given ₹ 5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2013.

Prepare Revaluation Account, P's Capital Account and P's Heir Account, giving important working notes. *(16 Marks)*

Answer

Revaluation Account

Particulars	₹	₹	*Particulars*	₹
To Machinery		10,000	By Freehold Land & Building	1,00,000
To Provision for doubtful debts(5% of 1,60,000)		8,000		
To Capital accounts:				
P	41,000			
Q	24,600			
R (Profit transferred)	16,400	82,000		
		1,00,000		1,00,000

P's Capital Account

Particulars	₹	*Particulars*	₹
To Drawings	46,000	By Balance b/d	7,00,000
To P's heir (Balance transferred)	11,00,000	By Q's capital A/c	1,98,000
		By R's capital A/c	1,32,000
		By Profit and Loss Suspense A/c	75,000
		By Revaluation A/c	41,000
	11,46,000		11,46,000

P's Heir Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
31.08.2012	To Bank A/c	5,00,000	31.08.2012	By P's Capital A/c	11,00,000
31.03.2013	To Bank A/c	6,42,000	31.03.2013	By Interest A/c $\left(6,00,000 \times 12\% \times \frac{7}{12}\right)$	42,000
		11,42,000			11,42,000

Working Notes:

1. Calculation of gaining ratio of Partners Q and R

	New share	*Old share*	*Gaining share*	*Sacrificing share*
P		5/10		5/10
Q	3/5	3/10	$\frac{3}{5} - \frac{3}{10} = \frac{6-3}{10} = \frac{3}{10}$	
R	2/5	2/10	$\frac{2}{5} - \frac{2}{10} = \frac{4-2}{10} = \frac{2}{10}$	

2. Calculation of Goodwill

	₹
2009-10	2,90,000
2010-11	3,40,000
2011-12	3,60,000
	9,90,000

Average Profit = 9,90,000/3 = ₹ 3,30,000

Goodwill = 3,30,000 x 2 = ₹ 6,60,000

Share of P in goodwill = $6,60,000 \times \frac{5}{10}$ = ₹ 3,30,000

Adjustment for P's share of goodwill through Q's and R's capital accounts (in their gaining ratio 3:2) :

Q's capital A/c (3,30,000 x 3/5)	₹ 1,98,000
R' s capital A/c (3,30,000 x 2/5)	₹ 1,32,000

3. Share of P in Profits for the period between 1.4.2012 to 31.8.2012 i.e. till the date of death

1st April, 2012 to 31st August, 2012 = 5 months

Profit for year 2011-12 = ₹ 3,60,000

Estimated profit for 5 months = $3,60,000 \times \frac{5}{12}$ =₹ 150,000

Share of P = $1,50,000 \times \frac{5}{10}$ =₹ 75,000

Question 3

The Balance Sheet of M/s. Cube Limited as on 31-03-2013 is given below:

Particulars	*Note No.*	*Amount (₹ in lakh)*
Equity & Liabilities		
Shareholders' Funds		
Shares' Capital	*1*	*700*
Reserves & Surplus	*2*	*(261)*

Non-Current Liabilities		
Long term Borrowings	3	350
Current Liabilities		
Trade Payables	4	51
Other Liabilities	5	12
Total		852
Assets		
Non-Current Assets		
Fixed Assets		
Tangible Assets	6	375
Current Assets		
Current Investments	7	100
Inventories	8	150
Trade Receivables	9	225
Cash & Cash Equivalents	10	2
Total		852

Notes to Accounts:

	₹ in Lakhs
(1) *Share Capital*	
Authorised :	
100 lakh shares of ₹ 10 each	1,000
4 lakh, 8% Preference Shares of ₹ 100 each	400
	1,400
Issued, Subscribed and paid up:	
50 lakh Equity Shares of ₹ 10 each, full paid up	500
2 lakh 8% Preference Shares of ₹ 100 each, fully paid up	200
Total	700
(2) *Reserves and Surplus*	
Debit balance of Profit & Loss A/c	(261)

(3)	*Long Term Borrowings*	
	6% Debentures (Secured by Freehold Property)	200
	Directors' Loan	150
		350
(4)	*Trade Payables*	
	Sundry Creditors for Goods	51
(5)	*Other Current Liabilities*	
	Interest Accrued and Due on 6% Debentures	12
(6)	*Tangible Assets*	
	Freehold Property	275
	Plant & Machinery	100
		375
(7)	*Current Investment*	
	Investment in Equity Instruments	100
(8)	*Inventories*	
	Finished Goods	150
(9)	*Trade Receivables*	
	Sundry Debtors for Goods	225
(10)	*Cash and Cash Equivalents*	
	Balance with Bank	2

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

1. *Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.*
2. *Preference Shares Dividend in arrears for 3 years to be waived by $2/3^{rd}$ and for balance 1/3 rd, Equity Shares of ₹ 2 each to be allotted.*
3. *Debenture holders agreed to take one Freehold Property at its book value of ₹ 150 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.*
4. *Interest accrued and due on Debentures to be paid in cash.*

(5) Remaining Freehold Property to be valued at ₹ 200 lakh.

(6) All investments sold out for ₹ 125 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.

(8) 40% of Sundry Debtors and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 300 lakh have been settled by paying 5% penalty of contract value.

You are required to :

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Reconstruction Accoun; and

(c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction. *(16 Marks)*

Answer

(a) Journal Entries in the books of M/s. Cube Ltd.

	Particulars		*Debit (₹ in lakhs)*	*Credit (₹ in lakhs)*
(i)	8% Preference share capital A/c (₹ 100 each)	Dr.	200	
	To 8% Preference share capital A/c (₹ 80 each)			160
	To Reconstruction A/c			40
	(Being the preference shares of ₹ 100 each reduced to ₹ 80 each as per the approved scheme)			
(ii)	Equity share capital A/c (₹ 10 each)	Dr.	500	
	To Equity share capital A/c (₹ 2 each)			100
	To Reconstruction A/c			400
	(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			
(iii)	Reconstruction A/c	Dr.	16	
	To Equity share capital A/c (₹ 2 each)			16
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of ₹ 2 each)			

(iv)	6% Debentures A/c	Dr.	150	
	To Freehold property A/c			150
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	12	
	To Bank A/c			12
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	75	
	To Reconstruction A/c			75
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	125	
	To Investments A/c			100
	To Reconstruction A/c			25
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	150	
	To Equity share capital A/c (₹ 2 each)			45
	To Reconstruction A/c			105
	(Being director's loan waived by 70% and balance being discharged by issue of 22.5 lakhs equity shares of ₹ 2 each)			
(ix)	Reconstruction A/c	Dr.	629	
	To Profit and loss A/c			261
	To Sundry debtors A/c (225 x 40%)			90
	To Stock-in-trade A/c (150 x 80%)			120
	To Bank A/c (300 x 5%)			15
	To Capital reserve A/c			143
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off, and balance transferred to capital reserve account as per the scheme)			

(b) Reconstruction Account

Dr. *Cr.*

	(₹ in lakhs)		*(₹ in lakhs)*
To Equity Share Capital	16	By Preference Share Capital	40

To	Sundry Debtors	90	By	Equity Share Capital	400
To	Finished Goods	120	By	Freehold Property	75
To	Profit & Loss A/c	261	By	Bank	25
To	Bank A/c	15	By	Director's Loan	105
To	Capital Reserve	143			
		645			645

(c) Notes to Balance Sheet

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Authorised:		
	100 lakhs Equity shares of ₹ 2 each		200
	4 lakhs 8% Preference shares of ₹ 80 each		320
			520
	Issued:		
	80.5 lakhs equity shares of ₹ 2 each		161
	2 lakhs Preference Shares of ₹ 80 each		160
			321
2.	Tangible Assets		
	Freehold Property	275	
	Less: Utilized to pay Debenture holders	(150)	
		125	
	Add: Appreciation	75	200
	Plant and Machinery		100
			300

Question 4

A sole trader requests you to prepare his Trading and Profit & Loss Account for the year ended 31st March, 2013 and Balance Sheet as at that date. He provides you the following information:

Statement of Affairs as at 31st March, 2012

Liabilities	*₹*	*Assets*	*₹*
Bank Overdraft	*4,270*	*Furniture*	*96,000*

Outstanding Expenses			*Computer*	*24,300*
Salaries	*8,000*		*Mobile Phone*	*8,000*
Rent	*6,000*	*14,000*	*Stock*	*89,500*
Bills Payable		*22,500*	*Trade Debtors*	*55,000*
Trade Creditors		*52,500*	*Bills Receivable*	*15,000*
Capital			*Unexpired Insurance*	*2,400*
(balancing figure)		*1,97,430*	*Stock of Stationery*	*200*
			Cash in Hand	*300*
Total		*2,90,700*	*Total*	*2,90,700*

He informs you that there has been no addition to or sale of Furniture, Computer and Mobile Phone during the accounting year 2012-13. The other assets and liabilities on 31st March, 2013 are as follows:

	₹
Stock	*95,400*
Trade Debtors	*65,000*
Bills Receivable	*20,000*
Unexpired Insurance	*2,500*
Stock of Stationery	*250*
Cash at Bank	*18,000*
Cash at Hand	*7,230*
Salaries Outstanding	*8,300*
Rent Outstanding	*6,000*
Bills Payable	*26,500*
Trade Creditors	*76,000*

He also provides you the following summary of his cash transactions:

Receipts	₹	*Payments*	₹
Cash Sales	*5,09,800*	*Trade Creditors*	*3,06,000*
Trade Debtors	*1,51,900*	*Bills Payable*	*80,000*
Bills Receivable	*65,000*	*Salaries*	*99,000*
		Rent	*72,000*
		Insurance Premium	*10,000*
		Stationery	*1,500*

		Mobile Phone Expenses	*9,000*
		Drawings	*1,20,000*

It is found prudent to depreciate Furniture @ 5%, Computer @ 10% and Mobile Phone @ 25%. A provision for bad debts @ 5% on Trade Debtors is also considered desirable. *(16 Marks)*

Answer

Trading and Profit and Loss Account

for the year ended 31st March, 2013

	Particulars		₹		*Particulars*	₹	₹
To	Opening Stock		89,500	By	Sales:		
To	Purchases (W. N. 3)		4,13,500		Credit (W.N. 1)	2,31,900	
To	Gross profit c/d (Bal. Fig.)		3,34,100		Cash	5,09,800	7,41,700
				By	Closing stock		95,400
			8,37,100				8,37,100
To	Insurance (W.N. 5)		9,900	By	Gross profit b/d		3,34,100
To	Salaries (W. N. 6)		99,300				
To	Rent (W.N. 7)		72,000				
To	Stationery (W.N. 8)		1,450				
To	Mobile Phone expenses		9,000				
To	Provision for doubtful debts (5% of 65,000)		3,250				
To	Depreciation:						
	Furniture	4,800					
	Computer	2,430					
	Mobile Phone	2,000	9,230				
To	Net Profit		1,29,970				
			3,34,100				3,34,100

Balance Sheet as on 31st March, 2013

Liabilities	₹	₹	*Asset*	₹	₹
Capital A/c:			Furniture	96,000	
Opening Balance	1,97,430		*Less*: Depreciation	(4,800)	91,200
Less :Drawings	(1,20,000)		Computer	24,300	
	77,430		*Less*: Depreciation	(2,430)	21,870

Add: Net Profit	1,29,970	2,07,400	Mobile Phone	8,000	
Bills Payable		26,500	*Less*: Depreciation	(2,000)	6,000
Trade Creditors		76,000	Trade Debtors	65,000	
Outstanding expenses:			*Less*: Provision for doubtful debts	(3,250)	61,750
Salaries		8,300	Bills Receivable		20,000
Rent		6,000	Closing Stock		95,400
			Unexpired Insurance		2,500
			Stock of Stationery		250
			Cash at bank		18,000
			Cash in hand		7,230
		3,24,200			3,24,200

Working Notes:

1. Trade Debtors Account

	₹		₹
To Balance b/d	55,000	By Cash /Bank	1,51,900
To Credit Sales (bal. fig.)	2,31,900	By Bills Receivable A/c (W.N.2)	70,000
		By Balance c/d (given)	65,000
	2,86,900		2,86,900

2. Bills Receivable Account

	₹		₹
To Balance b/d	15,000	By Cash/Bank	65,000
To Sundry Debtors (bal. fig.)	70,000	By Bal. c/d (given)	20,000
	85,000		85,000

3. Trade Creditors Account

	₹		₹
To Bank/Cash	3,06,000	By Bal. b/d	52,500
To Bills payable A/c (W.N.4)	84,000	By Credit Purchases (bal. fig)	4,13,500
To Bal. c/d(given)	76,000		
	4,66,000		4,66,000

4. **Bills Payable Account**

	₹		₹
To Cash/Bank A/c	80,000	By Bal. b/d	22,500
To Bal. c/d (given)	26,500	By Sundry Creditors (bal. fig.)	84,000
	1,06,500		1,06,500

5. **Insurance expenses for the year 2012-2013**

	₹
Insurance paid during the year	10,000
Add: Unexpired Insurance as on 1.4.2012	2,400
Less: Unexpired insurance as on 31.3.2013	(2,500)
	9,900

6. **Salaries for the year 2012-2013**

	₹
Salaries paid during the year	99,000
Add: Salaries outstanding as on 31.03.2013	8,300
	1,07,300
Less: Salaries outstanding as on 1.4.2012	(8,000)
	99,300

7. **Rent expenses for the year 2012-2013**

	₹
Rent paid during the year	72,000
Add: Rent outstanding as on 31.03.2013	6,000
	78,000
Less: Rent outstanding as on 1.04.2012	(6,000)
	72,000

8. **Stationery expenses for the year 2012-2013**

	₹
Stock of stationery as on 1.4.2012	200
Add: Stationery purchased during the year	1,500
	1,700
Less: Stock of stationery as on 31.3.2013	(250)
	1,450

Question 5

(a) *The Receipts and Payments Account, the Income and Expenditure Account and additional information of a sports club for the year ended 31st March, 2013 were as follows:*

Receipts & Payments Account

For the year ending on 31st March, 2013

Receipts	₹	Payments	₹
To Balance b/d	42,000	By Secretary's Salary	10,000
To Entrance Fees 2011-12	10,000	By Printing & Stationary	26,000
To Entrance Fees 2012-13	1,00,000	By Advertising	16,000
To Subscription 2011-12	6,000	By Fire Insurance	12,000
To Subscription 2012-13	1,50,000	By 12% Investments	
To Subscription 2013-14	4,000	(Purchased on 01-10-2012)	2,00,000
To Rent Received	24,000	By Furniture	20,000
To Interest Received	6,000	By Balance c/d	58,000
	3,42,000		3,42,000

Income & Expenditure Account

For the year ending on 31st March, 2013

Expenditure	₹	Income	₹
To Secretary Salary	15,000	By Entrance Fees	1,05,000
To Printing & Stationery	22,000	By Subscription	1,56,000
To Advertising	16,000	By Rent	28,000
To Audit Fees	5,000	By Interest on Investments	12,000
To Fire Insurance	10,000		
To Depreciation:			
Sports Equipments	90,000		
Furniture	5,000		
To Surplus	1,38,000		
	3,01,000		3,01,000

Additional Information:

The assets and liabilities as on 31st March, 2012 include Club Grounds & Pavilion ₹ 4,40,000, Sports Equipments ₹ 2,50,000, Furniture & Fixtures ₹ 40,000, Subscription in Arrear ₹ 8,000, Subscription received in advance ₹ 2,000 and Creditors for Printing & Stationery ₹ 5,000.

You are required to prepare the Balance Sheet of the Club as on 31st March, 2013. (10 Marks)

(b) *On 1st April, 2012, M/s. Power Motors sold on hire purchase basis a truck whose cash price was ₹ 9,00,000 to M/s. Singh & Singh, a transport firm. The terms of the contract were that the transporters were to pay ₹ 3,00,000 down and six four-monthly instalments of ₹ 1,00,000 plus interest on outstanding amount of cash price for the intervening four months. The instalments were payable on 31st July, 30th November and 31st March in each one of the two accounting years. Interest was calculated @ 12% per annum.*

M/s. Singh & Singh duly paid the instalment on 31st July, 2012 but failed to pay the instalment on 30th November, 2012. M/s. Power Motors, after legal formalities, repossessed the truck valuing it at ₹ 7,00,000.

M/s. Power Motors spent ₹ 80,000 on repairs and repainting of the truck and on 7th January, 2013 sold it for ₹ 7,50,000 cash.

You are required to prepare M/s. Singh & Singh's A/c and Goods Repossessed Account in the books of M/s. Power Motors. (6 Marks)

Answer

(a) Balance Sheet of Sports Club*

As at 31st March 2013

Liabilities	₹	₹	Assets	₹	₹
			Fixed Assets:		
Capital Fund:			Club, Grounds & Pavilion		4,40,000
Opening Balance (W.N.)	7,83,000		Furniture & Fixtures	40,000	
Add: Surplus	1,38,000	9,21,000	*Add*: Additions	20,000	
Current Liabilities:				60,000	
Outstanding Salary (15,000-10,000)		5,000	*Less* : Depreciation	(5,000)	55,000
Outstanding Audit Fees		5,000	Sports Equipments	2,50,000	
Creditors for Printing & Stationery			*Less*: Depreciation	(90,000)	1,60,000

* *It is assumed that the club is not registered under the Companies Act, 1956.*

{22,000-(26,000– 5,000)}		1,000			
Subscription received in advance		4,000	Investments : Investment (at cost)		2,00,000
			Accrued Interest [₹ 12,000 - ₹ 6,000]		6,000
			Current Assets:		
			Accrued rent (28,000 - 24,000)		4,000
			Subscription receivable		
			For 2011-12 (8,000-6,000)		2,000
			For 2012-13 {(1,56,000-(1,50,000 + 2,000)}		4,000
			Entrance Fees receivables (1,05,000-1,00,000)		5,000
			Prepaid Insurance (12,000-10,000)		2,000
			Cash and bank		58,000
		9,36,000			9,36,000

Working Note:

Calculation of Capital Fund as on 1st April, 2012

Balance Sheet of Sports Club
As at 31st March 2012

Liabilities	₹	*Assets*	₹
Capital Fund (bal.fig.)	7,83,000	Fixed Assets :	
Current Liabilities:		Club, Grounds & Pavilion	4,40,000
Subscription received in advance	2,000	Furniture & Fixtures	40,000
Creditors for Printing and Stationary	5,000	Sports Equipments	2,50,000
		Current Assets:	
		Entrance Fees receivables	10,000
		Subscription receivables	8,000
		Cash and Bank	42,000
	7,90,000		7,90,000

(b) **In the books of M/s. Power Motors**

M/s. Singh & Singh's Account

Date	Particulars	₹	Date	Particulars	₹
1.04.2012	To Hire Purchase Sales A/c (Cash Price)	9,00,000	1.04.2012	By Bank (Down payment)	3,00,000
31.07.2012	To Interest A/c $(6,00,000 \times .12 \times \frac{4}{12})$	24,000	31.07.2012	By Bank (1,00,000+24,000)	1,24,000
30.11.2012	To Interest A/c $(5,00,000 \times .12 \times \frac{4}{12})$	20,000	30.11.2012	By Goods Repossessed A/c	7,00,000
30.11.2012	To Profit & Loss Account (Bal. fig.)	1,80,000			
		11,24,000			11,24,000

Goods Repossessed Account

Date	Particulars	₹	Date	Particulars	₹
30.11.2012	To Singh & Singh's A/c	7,00,000	7.1.2013	By Bank A/c	7,50,000
7.1.2013	To Bank A/c (Repairs)	80,000	7.1.2013	By By Profit & Loss A/c -loss	30,000
		7,80,000			7,80,000

Question 6

(a) The promoters of Glorious Ltd. took over on behalf of the company a running business with effect from 1st April, 2012. The company got incorporated on 1st August, 2012. The annual accounts were made up to 31st March, 2013 which revealed that the sales for the whole year totalled ₹ 1,600 lakhs out of which sales till 31st July, 20l2 were for ₹ 400 lakhs. Gross profit ratio was 25%.

The expenses from 1st April 2012, till 31st March, 2013 were as follows:

	(₹ in lakhs)
Salaries	69
Rent, Rates and Insurance	24
Sundry Office Expenses	66
Travellers' Commission	16
Discount Allowed	12

Bad Debts	*4*
Directors' Fee	*25*
Audit Fee	*9*
Depreciation on Tangible Assets	*12*
Debenture Interest	*11*

Prepare a statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods. *(8 Marks)*

(b) On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2013:

(i) Total sales for the year were ₹ 199 crore out of which cash sales amounted to ₹ 131 crore.

(ii) Cash collections from credit customers during the year, totalled ₹ 67 crore.

(iii) Cash paid to suppliers of goods and services and to the employees of the enterprise amounted to ₹ 159 crore.

(iv) Fully paid preference shares of the face value of ₹ 16 crore were redeemed and equity shares of the face value of ₹ 16 crore were allotted as fully paid up at a premium of 25%.

(v) ₹ 13 crore were paid by way of income tax.

(vi) Machine of the book value of ₹ 21 crore was sold at a loss of ₹ 30 lakhs and a new machine was installed at a total cost of ₹ 40 crore.

(vii) Debenture interest amounting ₹ 1 crore was paid.

(viii) Dividends totalling ₹ 10 crore was paid on equity and preference shares. Corporate dividend tax @ 17% was also paid.

(ix) On 31st March, 2012 balance with bank and cash on hand totalled ₹ 9 crore. *(8 Marks)*

Answer

(a) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	*Total Amount*	*Basis of Allocation*	*Pre-incorporation*	*Post-incorporation*
	(₹ in lakhs)		*(₹ in lakhs)*	*(₹ in lakhs)*
Gross Profit (25% of ₹ 1,600)	400	Sales	100	300
Less: Salaries	69	Time	23	46

Rent, rates and Insurance	24	Time	8	16
Sundry office expenses	66	Time	22	44
Travellers' commission	16	Sales	4	12
Discount allowed	12	Sales	3	9
Bad debts	4	Sales	1	3
Directors' fee	25	Post	-	25
Audit Fees	9	Sales*	2.25	6.75
Depreciation on tangible assets	12	Time	4	8
Debenture interest	11	Post	-	11
Net profit	152		32.75	119.25

Working Notes:

1. Sales ratio

	(₹ in lakh)
Sales for the whole year	1,600
Sales upto 31st July, 2012	400
Therefore, sales for the period from 1st August, 2012 to 31st March, 2013	1,200

Thus, sale ratio = 400:1200

= 1:3

2. Time ratio

1st April, 2012 to 31st July, 2012 : 1st August, 2012 to 31st March, 2013

= 4 months: 8 months = 1:2

Thus, time ratio is 1:2.

* *Audit fee has been assumed to be related with tax audit and therefore apportioned into pre and post-incorporation periods on the basis of turnover.*

(b) **Cash flow statement**

for the year ended 31st March, 2013

	(₹ in crores)	*(₹ in crores)*
Cash flow from operating activities		
Cash sales	131	
Cash collected from credit customers	67	
Less: Cash paid to suppliers for goods & services and to employees	(159)	
Cash from operations	39	
Less: Income tax paid	(13)	
Net cash generated from operating activities		26.00
Cash flow from investing activities		
Payment for purchase of Machine	(40.00)	
Proceeds from sale of Machine	20.70	
Net cash used in investing activities		(19.30)
Cash flow from financing activities		
Redemption of Preference shares	(16.00)	
Proceeds from issue of Equity shares	20.00	
Debenture interest paid	(1.00)	
Dividend Paid	(11.70)	
Net cash used in financing activities		(8.70)
Net decrease in cash and cash equivalent		(2.00)
***Add:* Cash and cash equivalents as on 1.04.2012**		9.00
Cash and cash equivalents as on 31.3.2013		7.00

Question 7

Answer any **four** *out of the following:*

(a) What is an Enterprise Resource Planning (ERP) software? What are the factors which you will take into consideration while choosing an ERP software?

(b) What are the three fundamental accounting assumptions recognised by Accounting Standard (AS) 1? Briefly describe each one of them.

(c) On 31st March 2013 a business firm finds that cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2013-14 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 4% brokerage on selling price. The firm seeks your advice regarding:-

(i) the amount at which the unfinished unit should be valued as at 31st March, 2013 for preparation of final accounts and

(ii) the desirability or otherwise of producing the finished unit.

(d) M/s. Moon Ltd. sold goods worth ₹ 6,50,000 to Mr. Star. Mr. Star asked for a trade discount amounting to ₹ 53,000 and same was agreed to by M/s. Moon Ltd. The sale was effected and goods were dispatched. On receipt of goods, Mr. Star has found that goods worth ₹ 67,000 are defective. Mr. Star returned defective goods to M/s. Moon Ltd. and made payment due amounting to ₹ 5,30,000. The accountant of M/s. Moon Ltd. booked the sale for ₹ 5,30,000. Discuss the contention of the accountant with reference to Accounting Standard (AS) 9.

(e) What are the issues, with which Accounting Standards deal? (4 x 4 = 16 Marks)

Answer

(a) An Enterprise Resource Planning (ERP) is an integrated software package that manages the business process across the entire enterprise by integrating informations created by different functional groups of the organisation.

Choice of ERP software depends upon the following factors:

1. ***Functional requirement of the organisation*:** The ERP that matches most of the requirements of an organisation is preferred over the others.

2. ***Reports available in the ERP*:** The organisation visualises the reporting requirements and chooses a vendor which fulfils its reporting requirements.

3. ***Background of the vendors*:** The service and deliverable record of a vendor is extremely important in choosing the vendor.

4. ***Cost comparisons*:** The budget constraints and fund position of an enterprise often becomes the deciding factor for choosing a particular package.

(b) Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

(i) Going Concern: The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.

(ii) Consistency: The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the change is required (i) by a statute, (ii) by an accounting standard or (iii) for more appropriate presentation of financial statements.

(iii) Accrual basis of accounting: Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

(c) Valuation of unfinished unit

	₹
Net selling price	750
Less: Estimated cost of completion	(310)
	440
Less: Brokerage (4% of 750)	30
Net Realisable Value	410
Cost of inventory	530
Value of inventory (Lower of cost and net realisable value)	410

Incremental cost ₹ 310 (cost to complete) is less than incremental revenue ₹ 720 (₹ 750- ₹ 30). The enterprise will therefore decide to finish the unit for sale at ₹ 750.

Note: The above answer is given on the assumption that partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.

(d) As per AS 9 'Revenue Recognition', revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods. However, trade discounts and volume rebates given in the ordinary course of business should be deducted in determining revenue. Revenue from sales should be recognized at the time of transfer of significant risks and rewards. If the delivery of the sales is not subject to approval from customers, then the transfer of significant risks and rewards would take place when the sale is affected and goods are dispatched.

In the given case, if trade discounts allowed by M/s. Moon Ltd. are given in the ordinary course of business, M/s. Moon Ltd. should record the sales at ₹ 5,97,000 (i.e. ₹ 6,50,000 – ₹ 53,000) and goods returned worth ₹ 67,000 are to be recorded in the form of sales return. However, when trade discount allowed by M/s. Moon Ltd. is not in the ordinary course of business, M/s. Moon Ltd. should record the sales at gross value of ₹ 6,50,000. Discount of ₹ 53,000 in price and return of goods worth ₹ 67,000 are to be adjusted by suitable provisions. M/s Moon Ltd. might have sent the credit note of ₹ 1,20,000 to Mr. Star to account for these adjustments. In both the cases, the contention of the accountant to book the sales for ₹ 5,30,000 is not correct.

(e) Accounting Standards deal with the issues of

(i) **Recognition** of events and transactions in the financial statements,

(ii) **Measurement** of these transactions and events,

(iii) **Presentation** of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

(iv) **Disclosure** requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.