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Solved Ans. Acc. Ipcc_Nov.10

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(No.1 Institute of Jharkhand)

C.A. CPT, PCC, IPCC & FINAL

*Solved Ans Prepared by : C.A Arvind Kumar Jain
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(Disclaimer : Questions asked in the exam may have wrong/inadequate information and/or ambiguous language. In that case the answers provided by institute may differ from this Ideal Answers. If you find any errors, please email the same.)

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Roll No.
Total No. of Questions - 7
Time Allowed : 3 Hours

Total No. of Printed Pages - 16
Maximum Marks : 100

Accounts_1 IPCC

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi medium, his answers in Hindi will not be valued.

Q. No. **1** is compulsory.

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

Wherever necessary suitable assumption may be made by the candidates.

Working notes should form part of the answer.

1 (a) Following two problems are regarding issues in Partnership Accounts, kindly solve both : [4 x 5 = 20 marks]

- (ii) Anil and Mukesh are partners sharing profit and losses in the ratio of 3 : 2. Govind is admitted for $\frac{1}{4}$ th share of firm. Thereafter Madan enters for 20 paisa in a rupee. Compute new profit sharing ratios under both the admission of partners.
- (iii) The following Goodwill Account was opened by the partners of R and S, on the admission of H as a new partner into firm Om and Sons. Calculate the share of profit agreed to be given to "H".

Goodwill A/c.

Dr.			Cr.
	Rs.		Rs.
1-4-2010 To R's Capital A/c	24,800	1-4-2010 By R's Capital A/c	12,400
1-4-2010 To S's Capital A/c	18,600	1-4-2010 By S's Capital A/c	12,400
		1-4-2010 By H's Capital A/c	18,600
	43,400		43,400

(b) HP is leading distributor of petrol. A detail inventory of petrol in hand is taken when the books are closed at the end of each month. At the end of month following information is available :

Sales	Rs.	47,25,000
General overheads cost	Rs.	1,25,000
Inventory at beginning		1,00,000 litres @ 15/- per litre

Purchases

June 1 two lakh litres @ 14.25

June 30 one lakh litres @ 15.15

Closing inventory 1.30 lakh litres

Compute the following by the FIFO as per AS-2 :

- (i) Value of Inventory on June 30.
(ii) Amount of cost of goods sold for June,
(iii) Profit/Loss for the month of June.

(c) A and B decide to amalgamate themselves into Sharp Limited. The following are their Balance Sheets as on 31st December, 2009.

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Face value and paid up capital			Investments		
Share capital Rs. 100 each	5,00,000	4,00,000	1000 shares in B Ltd.	1,30,000	-
General Reserves	2,00,000	1,00,000	2000 shares in A Ltd	-	2,10,000
10% Debentures	2,00,000	1,50,000	Sundry Assets	7,70,000	4,40,000
	9,00,000	6,50,000		9,00,000	6,50,000

Compute the amount of purchase consideration each of these companies under purchase method as per AS-14.

(d) H purchased 500 equity shares of Rs. 100 each in the ABC Company Limited for Rs. 62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalise its profit and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares of ABC

Company Limited were quoted at Rs.175 per share. After the capitalization, the shares were quoted at Rs. 92.50 per share H sold the Bonus shares and received Rs. 90 per share. Show Investment A/c in H's books on average cost basis as per AS-13.

Qn 2. The Young Trust runs a Charitable Hospital and a Dispensary. The following information is available for the year ended 31st March, 2009 from the books of accounts : [16 marks]

	Dr. Rs.	Cr. Rs.
Capital Fund		9,00,000
Donations received during the year		6,00,000
Recovery of the Rent		2,75,000
Fees received from patients		3,00,000
Recovery of Food Supplies		1,40,000
Surgical Equipments	4,55,000	
Building & Operation Theatres	3,20,000	
Consumption in the Hospital of:		
Medicines	1,20,000	
Food Stuff	90,000	
Chemicals	30,000	
Closing Stock of Hospital		
Medicines	20,000	
Food Stuff	4,000	
Chemicals	1,000	
Sales of Medicines (Dispensary)		3,10,000
Opening Stock of Medicines (Dispensary)	55,000	
Purchase of Medicines (Dispensary)	3,00,000	
Salaries :		
Administrative Staff	30,000	
Doctors/Nurses	1,50,000	
Assistant at the Dispensary	15,000	
Electricity & Power Charges :		
Hospital	1,05,000	
Dispensary	2,000	
Furniture & Equipments	80,000	
Ambulance	30,000	
Postage & Telephone Expenses less recovery	26,000	
Subscription to Medical Journals	21,000	
Ambulance Maintenance Charges less recovery		800
Consumption of Bed Sheets	90,000	
Fixed Deposits made on 01-04-2008 for three years at interest @ 11 % p.a.	5,00,000	
Cash & Bank Balances	41,300	
Sundry Debtors (Dispensary)	60,500	
Sundry Creditors (Dispensary)		41,000
Remuneration to Trustees, Trust Office Expenses etc.	21,000	

Additional Information :

- The dispensary supplied medicines to the hospital worth Rs.60,000, for which no adjustment was made in the books.
- The closing stock of the medicines was Rs. 40,000 at the dispensary.
- The stock of medicines on 31st March, 2009 at the hospital included Rs. 4,000 worth of medicines belonging to the patients, which has not been considered while arriving at the figure of consumption of medicines.
- The donations were received towards Corpus of the Trust.
- On 15th August, 2008, surgical equipments were donated having market value of Rs.40,000.
- The hospital is to receive the grant of 25% of the amount spent on treatment of the poor patients from the Red Cross Society. Such expenditure was Rs. 50,000.
- Out of the fees recovered from the patients, 10% is to be given to the Specialist retained by the Hospital.

(h) Depreciation on the assets on the closing balances :

Surgical Equipments @ 20%

Building @ 5%

Furniture & Equipments @ 10%

Ambulance @ 30%

You are required to prepare :

(i) Income and Expenditure Account of the Hospital, Dispensary and Trust,

(ii) Statement of Affairs of the Trust for the year ended 31st March, 2009.

Qn 3. From the following information, prepare a Cash Flow Statement as per AS-3 for Banjara Ltd., using direct method :

[16 Marks]

Balance Sheet as on March 31, 2010 (Rs.000)

	2010	2009
Assets :		
Cash on hand and balances with bank	200	25
Marketable securities (having one month Maturity)	670	135
Sundry Debtors	1,700	1,200
Interest Receivable	100	--
Inventories	900	1,950
Investments	2,500	2,500
Fixed Assets at Cost	2,180	1,910
Accumulated Depreciation	(1,450)	(1,060)
Fixed Assets (net)	<u>730</u>	<u>850</u>
Total Assets	<u>6800</u>	<u>6660</u>
Liabilities :		
Sundry Creditors	150	1,890
Interest Payable	230	100
Income tax Payable	400	1,000
Long term Debt	<u>1,110</u>	<u>1,040</u>
Total Liabilities	<u>1,890</u>	<u>4,030</u>
Shareholder's Fund :		
Share Capital	1,500	1,250
Reserves	<u>3,410</u>	<u>1,380</u>
	<u>4,910</u>	<u>2,630</u>
Total Liabilities and Shareholders' Fund	<u>6,800</u>	<u>6,660</u>

Statement of Profit or Loss for the year ended 31-3-10

	(Rs.'000)
Sales	30,650
Cost of sales	<u>(26,000)</u>
Gross profit	4,650
Depreciation	(450)
Administrative and Selling expenses	(910)
Interest expenses	(400)
Interest income	300
Dividend income	<u>200</u>
Net profit before taxation and extraordinary items	3,390
Extraordinary items :	
Insurance proceeds from earthquake disaster settlement	<u>140</u>
Net profit after extraordinary items	3,530
Income tax	<u>(300)</u>
Net Profit	<u>3,230</u>

Additional Information :

(Rs. '000)

- (i) An amount of Rs. 250 was raised from the issue of share capital and a further Rs. 250 was raised from long-term borrowings.
- (ii) Interest expense was Rs. 400 of which Rs. 170 was paid during the period Rs. 100 relating to interest expense of the prior period was also paid during the period.
- (iii) Dividends paid were Rs.1,200.
- (iv) Tax deducted at source on dividends received (included in the tax expense of Rs. 300 for the year) amounted to Rs. 40.
- (v) During the period the enterprise acquired Fixed Assets for Rs. 350. The payment was made in cash,
- (vi) Plant with original cost of Rs. 80 and accumulated Depreciation of Rs. 60 was sold for Rs. 20.
- (vii) Sundry debtors and Sundry creditors include amounts relating to credit sales and credit purchase only.

Qn 4. Ramu, Shamu and Raju were partners sharing profits and losses in the ratio of 3:2:2. Their Balance Sheet as on 01-01-2009 was as follows : [16 marks]

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Fixed Assets	80,000
Ramu 30,000		Stock	15,000
Shamu 20,000		Debtors	12,000
Raiu <u>20,000</u>	70,000	Cash & Bank	1,951
Reserves	14,000		
Creditors	24,951		
	1,08,951		1,08,951

On 1st October, 2009 Ramu died. His heirs agreed that:

- (i) Goodwill of the firm be valued at 2 years' purchase of average profit of past three years. Profits for the year 2006, 2007 and 2008 were Rs. 30,000, Rs. 40,000 and Rs. 47,600 respectively.
- (ii) Fixed Assets be revalued at Rs. 1,01,000.
- (iii) Profit to be shared, earned in subsequent period after death of Ramu till settlement of his executors' claim.

Ramu's heirs account was settled on 31-12-2009 by bringing in required cash by remaining partners in equal proportion leaving cash balance of Rs.1,234. Each partner had drawn @ Rs. 1,000 per month for personal use.

Profit for the current year after charging depreciation of Rs. 9,000 Rs 6,000 for first three quarters and Rs. 3,000 for last quarter) was Rs. 46,600 earned evenly through-out the year.

You are requested to prepare Profit & Loss Appropriation A/c, Cash & Bank A/c, Ramu's Executor's A/c and Partners' Capital Accounts for the year ended on 31-12-2009 assuming remaining partners' decided not to retain goodwill in the books.

Qn 5. The following is the Balance Sheet of Bumbum Limited as at 31st March, 2009 :

[12 marks]

Sources of Funds	Rs.
Authorized Capital	
50,000 Equity shares of Rs. 10 each	5,00,000
10,000 Preference shares of Rs. 100 each	10,00,000
<u>Issued subscribed and paid up</u>	<u>15,00,000</u>
30,000 Equity shares of Rs. 10 each	
	3,00,000
5,000 Redeemable 8% Preference shares of Rs. 100 each	5,00,000
<u>Reserves & Surplus</u>	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	1,80,000

2500, 9% Debentures of Rs. 100 each	2,50,000
Sundry Creditors	1,70,000
	26,50,000
Application of Funds	
Fixed Assets (net)	7,80,000
Investments (market value Rs. 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Sundry Debtors	6,20,000
Cash & Bank balance	2,80,000
Preliminary expenses	1,40,000
	26,50,000

In Annual General Meeting held on 20th June, 2009 the company passed the following resolutions :

- To split equity share of Rs. 10 each into 5 equity shares of Rs. 2 each from 1st July, 09.
- To redeem 8% preference shares at a premium of 5%.
- To redeem 9% Debentures by making offer to debentureholders to convert their holdings into equity shares at Rs. 10 per share or accept cash on redemption.
- To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2009 investments were sold for Rs. 5,55,000 and preference shares were redeemed.

40% of Debentureholders exercised their option to accept cash and their claims were settled on 1st August, 2009.

The company fixed 5th September, 2009 as record date and bonus issue was concluded by 12th September, 2009.

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2009. All working notes should form part of your answer.

(b) Ujju Enterprise furnishes you the following information for the period October to December, 2009. You are requested to draw up Debtors Ledger Adjustment Account in the General Ledger : [4 marks]

- Total sales amounted to Rs. 2,20,000 including sale of old motor car for Rs. 10,000 (book value Rs. 5,000). Total credit sales were 80% higher than the cash sales.
- Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to Rs. 40,000 and credit sales for the period. Debtors were allowed discount of Rs. 10,000.
- Bills receivables drawn during the period totaled Rs. 20,000 of which one bill of Rs. 5,000 was dishonoured for non-payment as the party became insolvent, his estate realized 50 paise in a rupee.
- A sum of Rs. 3,000 was written off as bad debts, Rs. 7,000 was realized against bad debts written off in earlier years and provision of Rs. 6,000 was made for doubtful debts.

Qn 6 (a) The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2008. However, company could be incorporated only on 1st June, 2008. The business was continued on behalf of the company and the consideration of Rs. 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of Rs. 9,00,000 @ 10% per annum on 1st June, 2008 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2009 and presents you the following summarized profit and loss account :

	Rs.	Rs.
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	

Office expenses	1,05,000	
Sales promotion expenses	33,000	
Preliminary expenses		
(to be written off in first year itself)	15,000	18,07,200
Profit		1,72,800

Sales from June, 2008 to December, 2008 were 2 ½ times of the average sales which further increased to 3 ½ times in January to March quarter, 2009. The company recruited additional work force to expand the business. The salaries from July, 2008 doubled. The company also acquired additional showroom at monthly rent of Rs. 10,000 from July, 2008.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods. Also suggest how the pre-incorporation profits/losses are to be dealt with.

(b) Sonam Corporation sells goods on hire purchase basis. The hire purchase price is cost plus 50%. [6 marks]

From the following particulars prepare Hire Purchase Trading Account for the year ended 31st March, 2010 :

Instalments not yet due on 01-04-09	3,00,000
Instalments due on 01-04-09	1,50,000
Goods sold on hire purchase during the year	9,00,000
Instalments collected from HP debtors	6,80,000
Stock with customers at hire purchase price	4,50,000
Goods re-possessed during the year	60,000
On 31-03-2010 Goods repossessed were valued at	Cost less 40%

Qn 7. Answer any **four** of the following :

[4 x 4 = 16 marks]

- (a)** A company installed a plant at a cost of Rs. 20 lacs with estimated useful life of 10 years and decided to depreciate on straight line method. In the fifth year company decided to switch over from straight line method to written down value method. Compute the resultant surplus/deficiency if any, and state how will you treat the same in the accounts.
- (b)** A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor ?
- (c)** An amount of Rs. 9,90,000 was incurred on a contract work upto 31-3-2010. Certificates have been received to date to the value of Rs. 12,00,000 against which Rs. 10,80,000 has been received in cash. The cost of work done but not certified amounted to Rs. 22,500. It is estimated that by spending an additional amount of Rs. 60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is Rs. 12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS-7.
- (d)** 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 :

	Rs.
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000
Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.	
Increase in turnover expected 25%	
To achieve additional sales, trader has to incur additional expenditure of Rs. 31,250.	

(e) From the following details find out the average due date :

Date of Bill	Amount (Rs.)	Usance of Bill
29 th January, 2009	5,000	1 month
20 th March, 2009	4,000	2 months
12 th July, 2009	7,000	1 month
10 th August, 2009	6,000	2 months

Answers

Ans. 1 (a) (i) Old profit sharing ratio

Anil	3
Mukesh	2
	1
Govind Share	---
	4

$$\text{Balance Share} = 1 - \frac{1}{4} = \frac{3}{4}$$

New P.S. ratio

$$\text{Anil} = \frac{2}{5} \times \frac{3}{4} = \frac{9}{20}$$

$$\text{Mukesh} = \frac{2}{5} \times \frac{3}{4} = \frac{6}{20}$$

$$\text{Govind} = \frac{1}{4} \times \frac{5}{5} = \frac{5}{20}$$

$$\therefore 9 : 6 : 5$$

$$\text{Madan Share} = \frac{2}{10}$$

$$\text{Balance Share} = \frac{8}{10}$$

New P.S. ratio

$$\text{Anil} = \frac{9}{20} \times \frac{8}{10} = \frac{18}{50}$$

$$\text{Mukesh} = \frac{6}{20} \times \frac{8}{10} = \frac{12}{50}$$

$$\text{Govind} = \frac{5}{20} \times \frac{8}{10} = \frac{10}{50}$$

$$\text{Madan} = \frac{2}{10} \times \frac{5}{5} = \frac{10}{50}$$

$$\therefore 18 : 12 : 10 : 10$$

$$\text{Or } 9 : 6 : 5 : 5$$

Ans.1 (a) (ii) Goodwill is raised between old partners in old profit sharing ratio and written off between all partners in new profit sharing ratio.

In this question goodwill is written off between R, S & H.

\therefore New profit sharing ratio is 12400 : 12400 : 18600

$$\therefore \text{H profit sharing ratio} = \frac{3}{7}$$

Ans 1 (b) Inventory Ledger

Date	Particulars	Receipt			Issue			Balance		
		Qty.	Rate	Amt.	Qty.	Rate	Amt.	Qty.	Rate	Amt.
June 1	Op. Stock	-	-	-	-	-	-	100000	15	1500000
June 1	Purchases	200000	14.25	2850000	-	-	-	100000	15	1500000
June 30	Purchases	100000	15.15	1515000	-	-	-	200000	14.25	2850000
								100000	15	1500000
								200000	14.25	2850000
								100000	15.15	1515000
June 30	Issue	-	-	-	100000	15	1500000	30000	14.25	427500
					170000	14.25	2422500	100000	15.15	1515000
		300000		4365000	270000		3922500			1942500

$$\begin{aligned} \text{Consumption} &= \text{Opening Stock} + \text{Purchases} + \text{Closing Stock} \\ (\text{in Liters}) &= 100000 + 300000 - 130000 = 270000 \text{ Liters} \end{aligned}$$

- (i) Value of inventory (FIFO) = 1942500/-
(ii) Cost of Goods Sold = Opening Stock + Purchase – Closing Stock
= 1500000 + 4365000 – 1942500 = 3922500 /-
(iii) Profit / Loss = Sales – COGS – General Overhead Cost
= 4725000 – 3922500 – 125000 = 677500/-

Ans. 1 (c)

	A Ltd.	B Ltd.
Investment in Shares of B Ltd.	.25 B	--
Investment in Shares of A Ltd.	--	0.40 A
Sundry Assets	770000	440000
- 10% Debentures	770000 + .25 B	440000 + .40 A
Net Assets taken over	200000	150000
	570000 + .25 B	290000 + .40 A

Let total intrinsic value of shares of A Ltd. = A

Let total intrinsic value of shares of B Ltd. = B

$$\therefore A = 570000 + .25 B \quad \text{-----} \quad (i)$$

$$B = 290000 + .40 A \quad \text{-----} \quad (ii)$$

By taking value of B in equation (i), we get

$$A = 570000 + .25 [290000 + .40 A]$$

$$\therefore 0.90 A = 642500 \text{ /-}$$

$$\therefore A = 713889 \text{ /-}$$

$$B = 290000 + .40 A$$

$$= 290000 + (.40 \times 713888)$$

$$= 575556 \text{ /-}$$

Calculation of Purchase Consideration

	A Ltd.	B Ltd.
Total I.V. of shares	713888	575555
Less : I.V. of shares of A Ltd. held by B Ltd. [713889 x .40]	285556	--
Less : I.V. of shares of B Ltd. held by A Ltd. [575555 x .25]		143889
Purchase Consideration	<u>Rs. 428333</u>	<u>Rs. 431667</u>

Ans. 1 (d)
Investment a/c in the books of H

Particulars	Face Value Rs.	Amount Rs.	Particulars	Face Value Rs.	Amount Rs.
To Bank A/c	50000	62500	By Bank A/c	50000	45000
" Bonus Issue	50000	--	By Balance c/d	50000	31250
" P & L A/c (Profit on sale)		13750 (B/f)			(w.n.1)
	<u>100000</u>	<u>76250</u>		<u>100000</u>	<u>76250</u>

Working Notes : (1) Calculation of Cost per share after bonus issue as per Avg. Cost Method

$$= \frac{62500 + 0}{500 + 500} = 62.50 \text{ /-}$$

W. N. (2) Valuation of Investment

(a) Cost per share = 62.50 /-

(b) Fair value per share = 92.50 /-

Whichever is lower i.e. 62.50 /-

∴ Total value = 62.50/- x 500 share = 31250 /-

Qn 2. Income & Expenditure a/c of Young Trust For the year ended on 31.3.2009

Expenditure	Hospital	Dispensary	Trust	Income	Hospital	Dispensary	Trust
To <u>Medicines Consumed</u>				By Sales of			
To Opening Stock		55000		Medicines		310000	--
To + Purchases		<u>300000</u>		By Transfer of			
		355000		Medicines		60000	--
To - Closing Stock		<u>40000</u>		By Grant			
		315000		receivable	12500	--	--
To <u>Stock Consumed</u>				By Recovery of			
To Medicines *184000				Rent		--	275000
To Food Stuff 90000				By Fees received			
To Chemicals 30000				From Patients	300000	--	--
To Specialist Fees 30000				By Recovery of			
(300000 x 10%)				Food Supplies	140000	--	--
To Salary 150000		15000	30000	By Recovery from			
To Electricity &				Ambulance	800	--	--
Power Charges 105000		2000		By Interest			
To Postage &			26000	accrued on			
Telephone				11% FD		--	55000
To Subscription 21000				By Donation of			
To Bed Sheets				Surgical			
consumed 90000				Equipments	40000	--	--
To Remuneration							
of trustees			21000				
To <u>Depreciation</u>							
Surgical							
equipments 99000							
Building & OT 16000							
Furniture			8000				
Ambulance 9000							
To Surplus (330700)		<u>38000</u>	<u>245000</u>		<u>493300</u>	<u>370000</u>	<u>330000</u>
<u>493300</u>		<u>370000</u>	<u>330000</u>				

* 120000 + 4000 + 60000 = 184000

Solved Ans. Accounts CA IPCC Nov. 2010
Balance Sheet of Young Trust as on 31.3.2009

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<u>Capital Fund</u>		<u>Fixed Assets</u>	
Opening Balance	900000	Surgical Equipments	455000
+ Donations Received	600000	Add : Donation received	<u>40000</u>
+ <u>Surplus</u>			495000
Hospital	(330700)	Less : Depreciation @ 20%	<u>99000</u>
Dispensary	38000		
Trust	<u>245000</u>	Building & Operation theaters	320000
	1452300	Less : Depreciation @ 5%	<u>16000</u>
		Furniture & Equipments	80000
		Less : Depreciation @ 10%	<u>8000</u>
		Ambulance	30000
		Less : Depreciation @ 30%	<u>9000</u>
		<u>Investments</u>	
		11% Fixed Deposits	500000
<u>Current Liabilities</u>		<u>Current Assets</u>	
O/s Specialist Fees	30000	<u>Closing Stock of Hospital</u>	
Sundry Creditors		Medicines	20000
(Dispensary)	41000	- Belongs to Patients	<u>4000</u>
		Foodstuff	4000
		Chemicals	1000
		Closing Stock of Medicines	
		at Dispensary	40000
		Cash & Bank Balance	41300
		Sundry Debtors (Dispensary)	60500
		Interest accrued on 11% F.D.	55000
		Grant receivable from Red Cross	<u>12500</u>
	<u>1523300</u>		<u>1523300</u>

Ans. 3 Working Note 1

Fixed Assets A/c

To Balance B/d	1910	By Bank A/c	20
To Cash A/c	350	By Accumulated Depreciation A/c	60
		By Balance c/d	<u>2180</u>
	<u>2260</u>		2260
	-----		-----

Working Note 2

Accumulated Depreciation A/c

To Fixed Assets a/c	60	By Balance b/d	1060
To Balance c/d	<u>1450</u>	" P & L A/c	<u>450</u>
	1510		1510

Working Note 3

Debtors A/c

To Balance B/d	1200	By Cash a/c (B/f)	30150
To Sales A/c	30650	By Balance c/d	1700
	<u>31850</u>		<u>31850</u>
	-----		-----

Working Note 4

Creditors a/c

To Cash a/c (B/f)	26690	By Balance b/d	1890
To Balance c/d	<u>150</u>	" Purchases *	<u>24950</u>
	26840		26840
	-----		-----

* Purchases = Cost of sales + Closing Stock – Closing Stock
= 26000 + 900 – 1950 = 24950

Working Note 5
Income Tax Payable A/c

To Cash a/c	860	By Balance b/d	1000
To Balance c/d	<u>400</u>	By P & L a/c	<u>260</u>
	1260		<u>1260</u>
	-----		-----

Working Note 6
Interest Payable a/c

To Cash a/c (170 + 100)	270	By Balance b/d	100
To Balance c/d	<u>230</u>	By P & L a/c	<u>400</u>
	500		500
	-----		-----

Working Note 7
Interest Receivable a/c

To Balance b/d	---	By Cash a/c	200
To P & L a/c	<u>300</u>	By Balance c/d	<u>100</u>
	300		<u>300</u>
	-----		-----

Working Note 8: Calculation of Cash & Cash Equivalents

	2010	2009
Cash on hand & bank balance	200	25
Marketable Securities	<u>670</u>	<u>135</u>
Total	870	160

CASH FLOW STATEMENT OF BANJARA LTD. FOR THE YEAR ENDED ON 31.3.2010 BY USING DIRECT METHOD

Cash flow from operating activities	Rs.	Amount (Rs.)
Cash received from Debtors W.N. 3	30150	
Less : Cash paid to creditors W.N. 4	26690	
Less : Administration & selling expenses	<u>910</u>	
Cash generated from operations	2550	
Less : Taxes paid W.N. 5	<u>860</u>	
Cash Flow before extra ordinary items	1690	
Add : <u>Extra ordinary item</u>		
Insurance proceeds from earthquake disaster settlement	<u>140</u>	
Cash flow from operating activities		1830
<u>Cash flow from investing activities</u>		
Sale of Fixed Assets W.N. 1	20	
Purchase of Fixed Assets W.N. 1	(350)	
Interest received W.N. 7	200	
Dividend Income Less TDS	<u>160</u>	
Cash flow from Investing activities		30
<u>Cash flow from financing activities</u>		
Issue of share capital	250	
Issue of long term debt	250	
Dividend paid	(1200)	
Interest paid W.N. 6	(270)	
Repayment of long term debt	<u>(180)</u>	
Cash flow from financing activities		(1150)
Net Increase in cash & cash equivalents		710
Add : Opening cash & cash equivalents W.N. 7		<u>160</u>
Closing cash & cash equivalents W.N. 7		<u>870</u>

Ans. 4 Working Note (1) Valuation of Goodwill

$$\begin{aligned}
 & 30000 + 40000 + 47600 \\
 \text{Average Profit of Past 3 years} &= \frac{\quad}{3} \\
 &= 39200 \text{ /-} \\
 \text{Goodwill} &= \text{Avg. Profit} \times \text{No. of years of purchase}
 \end{aligned}$$

$$= 39200 \times 2 = 78400 \text{ /-}$$

Working Note (2)

Profit after Depreciation	=	46600
+ Depreciation		<u>9000</u>
Profit before depreciation		55600/-

It is assumed that profit has been earned on time proportion basis

$$\therefore \text{Profit for the first 9 months} = 55600 \times \frac{9}{12} = 41700$$

$$\text{Profit for the next 3 months} = 55600 \times \frac{3}{12} = 13900$$

Working Note (3) Revaluation a/c

To Capital a/c		By Fixed Assets a/c	
Ramu	9000	[101000 – 80000]	21000
Shamu	6000		
Raju	<u>6000</u>		-----
	21000		21000
	-----		-----

Working Note (4) APPLICATION OF SEC. 32 OF PARTNERSHIP ACT ON DEATH OF RAMU

Ramu Legal heir will get

Either

6% Interest on capital as on 1.10.2009

$$84900 \times 6\% \times \frac{3}{12} = 1274$$

Or

Share of profit in capital ratio

$$\begin{aligned} &\text{Net profit for the Last quarter} \times \frac{\text{Capital of Ramu as on 1.10.2009}}{\text{Total capital as on 1.10.2009}} \\ &= 10900 \times \frac{84900}{(84900 + 53600 + 53600)} \\ &= 4817 \text{ /-} \\ &\text{Whichever is higher i.e. 4817 /-} \end{aligned}$$

Profit & Loss Appropriation a/c

Particulars	First 9 months	Next 3 months	Particulars	First 9 months	Next 3 months
To Depreciation	6000	3000	By Profit (W.N. 2)	41700	13900
<u>To Capital A/c</u>					
Ramu	15300	4817			
		W.N 4			
Shamu	10200	3041			
Raju	10200	3042			
	<u>41700</u>	<u>13900</u>		<u>41700</u>	<u>13900</u>

CAPITAL A/C AS ON 1.10.2009

	Ramu	Shamu	Raju		Ramu	Shamu	Raju
To Drawings	9000	9000	9000	By Balance b/d	30000	20000	20000
" Balance c/d	84900	53600	53600	By Reserves	6000	4000	4000
				By Goodwill (W.N.1)	33600	22400	22400
				By Share of profit	15300	10200	10200
				By Revaluation (W.N. 3)	9000	6000	6000
	<u>93900</u>	<u>62600</u>	<u>62600</u>		<u>93900</u>	<u>62600</u>	<u>62600</u>

Capital a/c as on 31.12.2009

	Shamu	Raju		Shamu	Raju
To Drawings	3000	3000	By Balance b/d	3600	53600
To Goodwill	39200	39200	By Share of Profit	3041	3042
To Balance c/d	<u>47641</u>	<u>47642</u>	By Cash a/c	<u>33200</u>	<u>33200</u>
	<u>89841</u>	<u>89842</u>		<u>89841</u>	<u>89842</u>

Ramu's Executor's a/c

To Cash a/c	89717	By Ramu Capital a/c	84900
		By Share of Profit	<u>4817</u>
	<u>89717</u>		<u>89717</u>

Cash & Bank A/c

To Balance b/d	1951	By Drawings (12000 + 12000 + 9000)	33000
To Net Profit before depreciation	55600	By Ramu's Executor a/c	89717
To Capital a/c		By Balance c/d	1234
Shamu 33200			
Raju 33200	66400		
	(B/f)		
	<u>123951</u>		<u>123951</u>

Balance Sheet of Shamu & Raju as on 31.12.2009

<u>Capital a/c</u>		Fixed Assets	101000	
Shamu	47641	Less : Depreciation	<u>9000</u>	92000
Raju	47642	Stock		15000
Creditors	24951	Debtors		12000
		Cash & Bank		<u>1234</u>
	<u>120234</u>			<u>120234</u>

Ans. 5 (a) Journal Entries in the books of Bumbum Limited

Date	Particulars	L F	Amount	Amount
1.7.2009	ESC (Rs. 10 each) ----- Dr. To ESC (Rs. 2 each) (Being subdivision of 30000 equity shares of Rs. 10 each into 150000 equity shares of Rs.2 each)		300000	300000
1.7.2009	8% PSC (Rs.100 each) ----- Dr. Premium on redemption of Preference Share ----- Dr. To Preference Share holders a/c (Amount payable to preference shares holders)		500000 25000	525000
1.7.2009	9% Debentures ----- Dr.		250000	

	To Debenture holders (Amount payable to Debenture holders)			250000
10.7.2009	Cash a/c ----- Dr. To Investments To P & L a/c (Being Investment sold at a profit of Rs. 65000 for the purpose of redemption of preference shares)		555000	490000 65000
10.7.2009	General Reserve ----- Dr. To Capital Redemption Reserve a/c (Being CRR a/c created for the purpose of redemption of pref. shares)		500000	500000
10.7.2009	Security premium a/c ----- Dr. To Premium on redemption of pref. shares (Being premium on redemption of preference shares written off from security premium a/c)		25000	25000
10.7.2009	Preference share holders ----- Dr. To Cash a/c (Being payment made to preference share holders)		525000	525000
1.08.2009	Debenture holders a/c ----- Dr. To Cash a/c To Equity shares capital a/c " Security premium a/c (Being payment made to 40% debenture holders in cash & 15000 equity shares of Rs.2 each issued at Rs.8 premium to rest of the debenture holders)		250000	100000 30000 120000
5.09.2009	Capital Redemption Reserve ----- Dr. To Bonus to shareholders a/c (Being a/c for issue of bonus shares in the ratio of 1:3 vide general body's resolution dated)		110000	110000
12.09.2009	Bonus to Shareholders a/c ----- Dr. To Equity Share Capital a/c (Being 55000 bonus Shares of Rs. 2 each issued vide board's resolution dated.....)		110000	110000

BALANCE SHEET OF BUMBUM LTD. AS ON 30.9.2009
Sources of fund
Authorized Capital

250000 Equity Shares of Rs. 2 each	500000
10000 Preference shares of Rs. 100 each	<u>1000000</u>
	<u>1500000</u>

Issued Subscribed & paid up

220000 Equity shares of Rs.2 each (out of which 70000 shares of Rs.2 each were issued for consideration other than cash)	440000
---	--------

Reserve & Surplus

Securities Premium a/c	695000
General Reserve	150000
P & L a/c	245000
CRR a/c	390000
Sundry Creditors	<u>170000</u>
	<u>20,90,000</u>

Application of Funds

Fixed Assets (Net)	780000
Deferred tax Asset	340000
Sundry Debtors	620000
Cash & Bank Balance W.N. (1)	210000
Preliminary Expenses	140000

20,90,000

W.N. (1)

Cash A/c

To Balance b/d	280000	By Preference Shareholders	525000
" Investments	490000	" Debenture holders a/c	100000
" P & L a/c	65000	" Balance c/d	210000
	<u>835000</u>		<u>835000</u>

Ans. 5 (b)

**In the General Ledger of Ujju Enterprises
Debtors Ledger Adjustments a/c**

Particulars	Amount	Particulars	Amount
To Balance b/d	40000	By <u>General Ledger Adj a/c</u>	
To <u>General Ledger Adj. a/c</u>		Cash collected from Debtor	105000
Credit sales W.N. (1)	135000	(40000 + 135000) x 60%	
B/R Dishonoured	5000	Discount allowed	10000
		Bills Receivable drawn	20000
		Bad debts [2500 + 3000]	5500
	<u>180000</u>	" Balance c/d (BAL. FIGURE)	39500
			<u>180000</u>

W.N. Calculation of Credit Sales

Total Sales	220000
Less : Sale of old motor car	<u>10000</u>
Cash & Credit Sales	<u>210000</u>
Let Cash sales be	x/-
∴ Credit Sales be	1.80 x/-
$x + 1.80x = 210000$	
$2.80x = 210000$	
$x = \frac{210000}{2.80} = 75000$ /- = Cash Sales	

∴ Credit Sales = 75000 x 1.80 = 135000 /-

Ans. 6 (a)

Note 1 – Pre – Incorporation period is 5 months i.e. from Jan 1, 2008 to June 1st 2008. 9 months period i.e. from June 1st 2008 to 31.3.2009 is post incorporation period.

Note 2 : Calculation of Ratio of Sales

Let Average Monthly sales be	x /-
∴ Sales from Jan 2008 to May 2008 =	5 x
Sales from June 2008 to Dec 2008 =	7x X 2.5 = 17.5 x
Sales from Jan 2009 to Mar 2009 =	3x X 3.5 = 10.5 x
∴ Ratio of Sales between pre & post incorporation period : -	
	5x : 28x
Or	5 : 28

Note 3 : Calculation of Ratio of Salary

Let Monthly salary be	X
∴ Jan – June Salary =	6X
July – Mar Salary =	9X x 2 = 18 x
Ratio of Salary =	5x : 19 x OR 5:19

Note (4) COGS, Discount to dealers & Sales promotion expenses have been allocated in the ratio of sales.

Note (5) Rent, Depreciation & office expenses have been allocated in the ratio of time.

Note (6) Interest on 10% loan & Preliminary expenses are allocated in post acquisition period.

PROFIT & LOSS ACCOUNT OF SHREYA (P) LTD. FOR THE PERIOD ENDED 31.3.2009

Particulars	Pre	Post	Particulars	Pre	Post
To Cost of Goods sold (5:28)	180000	1008000	By Sales (Note 2)	300000	1680000
" Discount of dealers (5:28)	7000	39200			
" Directors Remuneration	--	60000			
" Salaries (5:19) [Note 3]	18750	71250			
" Rent [Note 5]					
Normal (5:10)	15000	30000			
Additional show room (10000/- p.m. x 9 months)	--	90000			
" Interest	30000	75000			
	5	10			
(600000x12%x $\frac{5}{12}$)		(900000x10%x $\frac{10}{12}$)			
	12	12			
" Depreciation (5 : 10)	10000	20000			
" Office Expenses (5:10)	35000	70000			
" Sales promotion Exps. (5:28)	5000	28000			
" Preliminary Exps.	--	15000			
" Net Profit	(750)	173550			
	<u>300000</u>	<u>1680000</u>		<u>300000</u>	<u>1680000</u>

Note on Treatment : Pre-Incorporation loss is a capital loss, therefore will be transferred to Goodwill a/c.

Ans. 6 (b) **In the books of Sonam Corporation**

Hire Purchase Trading a/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By cash a/c	680000
* Instalment not due		By Goods repossessed a/c	
100		100	
(300000 x -----)	200000	(60000 x ----- x 60%)	24000
150		150	
To Instalment due but not received	150000	By Balance c/d	
To Cost of goods sold on hire Purchase	600000	Instalment not due	
100		100	
(900000 x -----)		(450000 x -----)	300000
150		150	
To Profit & Loss a/c (B/f)	214000	Instalment due but not received	
		W.N. (1)	160000
			<u>1164000</u>

W.N (1) Calculation of instalment due but not received

Opening Instalment not due at H.P. price	300000
Add : Goods sold on H.P.	<u>900000</u>
	1200000
Less : Closing Instalment not due	<u>450000</u>
Instalment due during the year	750000
Add : Opening Instalment due but not received	150000
Less : Instalments collected from customers	680000
Less : Goods repossessed	<u>60000</u>
Closing Instalment due but not received	<u>160000</u>

* Assumption : Opening Instalment not yet due is given at Hire Purchase Price.

Ans. 7 (a) Calculation of book value of plant at the end of 4th year as per SLM as well as WDV method :-

Particulars	SLM	WDV
Original cost of plant	20 Lacs	20 Lacs
Less : Depreciation @ 10% p.a.	<u>2 Lacs</u>	<u>2 Lacs</u>
Book value at the end of year 1	18 Lacs	18 Lacs
Less : Depreciation @ 10% p.a.	<u>2 Lacs</u>	<u>1.80 Lacs</u>
Book value at the end of year 2	16 Lacs	16.20 Lacs
Less : Depreciation @ 10% p.a.	<u>2 Lacs</u>	<u>1.62 Lacs</u>
Book value at the end of year 3	14 Lacs	14.58 Lacs
Less : Depreciation @ 10% p.a.	<u>2 Lacs</u>	<u>1.458 Lacs</u>
Book value at the end of year 4	12 Lacs	13.122 Lacs

Calculation of Surplus / Deficiency

Book value at the end of year 4

As per WDV Method

13.122 Lacs

As per SLM

12.000 Lacs

Surplus

=

1.122 Lacs

The resultant surplus will be credited to P & L account of year 5.

Note : It is assumed that the company will provide 10% p.a. depreciation incase of WDV method also.

Ans. 7 (b) The selection of vendor can be done on the basis of following criteria :-

1. The amount of services provided and whether the same matches with the requirements;
2. The reputation & back ground of the vendor;
3. The comparative costs of the various propositions;
4. The assurance of quality.

Ans. 7 (c) Calculation of profit to be taken to the p & l a/c

Contract Revenue

1178571 /-

[Contract price x % of completion]

i.e. 1250000 x 94.2857%, **[W.N. (1)]**

Less : Contract Cost

990000 /-

Profit to be taken to P & L a/c

188571 /-

$$\begin{aligned}
 \text{W.N. (1) \% of completion} &= \left(\frac{\text{Cost incurred till date}}{\text{Cost incurred till date} + \text{cost to be incurred}} \right) \times 100 \\
 &= \left(\frac{990000}{990000 + 60000} \right) \times 100 \\
 &= 94.2857 \%
 \end{aligned}$$

Ans. 7 (d) In case of Loss of Profit policy, if we take policy amount equal to the amount of gross profit then we can say that we are 100% covered.

Gross profit = Standing charges **(w.n. 1)** + Net Profit **(w.n. 2)**

= Rs. 121250 + Rs. 78750

= Rs. 200000

Therefore Loss of profit policy to be taken = Rs. 2,00,000

(w.n. 1) Standing charges (next year)

Last year expenses

90000

+ Expected Increase

31250

Rs. 121250

(w.n. 2) Net Profit (next year)

Last year gross Profit

45000

+ Expected Increase in G/P **(w.n. 4)**

33750

Rs. 78750

W.N. 3

$$\begin{aligned} \text{Gross Profit ratio} &= \frac{\text{Net Profit} + \text{Standing charges}}{\text{Turnover}} \times 100 \\ &= \left(\frac{45000 + 90000}{450000} \right) \times 100 \\ &= 30\% \end{aligned}$$

$$\begin{aligned} \text{W.N. 4 Expected increase in Gross Profit} &= \text{Increase in sales} \times \text{G.P. Ratio} \\ &= (450000 \times 25\%) \times 30\% \text{ (w.n.3)} \\ &= \text{Rs. 33750} \end{aligned}$$

Ans. 7 (e) Calculation of Average due date

Sl. No.	Date of Bill	Due date of Maturity	Amount of Rs.	No. of days starting from 3.3.2009 W.N. (1)	Product
1	29.1.2009	3.3.2009	5000	0	0
2	20.3.2009	23.5.2009	4000	81	324000
3	12.7.2009	14.8.2009	7000	164	1148000
4	10.8.2009	13.10.2009	<u>6000</u>	224	1344000
			<u>22000</u>	Total	<u>2648000</u>

$$\begin{aligned} \text{Average No. of days} &= \frac{\text{Product Total}}{\text{Amount Total}} = \frac{2648000}{22000} \\ &= 128 \text{ days} \end{aligned}$$

$$\begin{aligned} \text{Average due date} &= \text{Base date} + \text{Average No. of days} \\ &= 3.3.2009 + 128 \text{ days} \\ &= 9.7.2009 \end{aligned}$$

W.N (1)
Calculation of No. of days

Maturity date	No. of Days								Total
	March	April	May	June	July	August	Sep	Oct	
3.3.2009	0	--	--	--	--	--	--	--	0
23.5.2009	28	30	23	--	--	--	--	--	81
14.8.2009	28	30	31	30	31	14	--	--	164
13.10.2009	28	30	31	30	31	31	30	13	224