

Roll No.....

Total No. of Questions— 6]

[Total No. of Printed Pages—5

Time Allowed : 3 Hours

Maximum Marks : 100

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

Answer **all** Questions.

Working notes should form part of the answer.

Marks

1. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2003. Initially both of them contributed Rs.1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2007 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2003. 20

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

| Year ended 31st March                             | 2004<br>Rs. | 2005<br>Rs. | 2006<br>Rs. | 2007<br>Rs. |
|---------------------------------------------------|-------------|-------------|-------------|-------------|
| Profit as per accounts prepared and finalized     | 1,40,000    | 2,60,000    | 3,20,000    | 3,60,000    |
| Expenses not provided for (as at 31st March)      | 30,000      | 20,000      | 36,000      | 24,000      |
| Incomes not taken into account (as at 31st March) | 18,000      | 15,000      | 12,000      | 21,000      |

The partners decided to admit Chaplin as a partner with effect from 1.4.2007. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2007 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH &amp; Co. as at 31.3.2007

| Liabilities      | Rs.             | Assets              | Rs.             |
|------------------|-----------------|---------------------|-----------------|
| Capital Accounts |                 | Plant and Machinery | 60,000          |
| Laurel           | 2,11,500        | Cash on hand        | 10,000          |
| Hardy            | 1,51,500        | Cash at bank        | 5,000           |
| Sundry Creditors | 2,27,000        | Stock in trade      | 3,10,000        |
|                  |                 | Sundry debtors      | 2,05,000        |
|                  | <u>5,90,000</u> |                     | <u>5,90,000</u> |

You are required to

- Profit and Loss Adjustment account;
- Capital accounts of the partners; and
- Balance Sheet of the firm after the admission of Chaplin.

P.T.O.

2. P and Q have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called PQ Ltd.

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Following is the Balance Sheet of P and Q as at 31.3.2007:

| Liabilities         | P<br>Rs.         | Q<br>Rs.         | Assets            | P<br>Rs.         | Q<br>Rs.         |
|---------------------|------------------|------------------|-------------------|------------------|------------------|
| Capital             | 7,75,000         | 8,55,000         | Plant & Machinery | 4,85,000         | 6,14,000         |
| Current liabilities | 6,23,500         | 5,57,600         | Building          | 7,50,000         | 6,40,000         |
|                     |                  |                  | Current assets    | 1,63,500         | 1,58,600         |
|                     | <u>13,98,500</u> | <u>14,12,600</u> |                   | <u>13,98,500</u> | <u>14,12,600</u> |

Following are the additional information:

- The authorised capital of the new company will be Rs.25,00,000 divided into 1,00,000 equity shares of Rs.25 each.
- Liabilities of P includes Rs.50,000 due to Q for the purchases made. Q made a profit of 20% on sale to P.
- P has goods purchased from Q, cost to him Rs.10,000. This is included in the Current asset of P as at 31st March, 2007.
- The assets of P and Q are to be revalued as under:

|                     | P<br>Rs. | Q<br>Rs. |
|---------------------|----------|----------|
| Plant and machinery | 5,25,000 | 6,75,000 |
| Building            | 7,75,000 | 6,48,000 |

- The purchase consideration is to be discharged as under:

- Issue 24,000 equity shares of Rs. 25 each fully paid up in the proportion of their profitability in the preceding 2 years.
- Profits for the preceding 2 years are given below:

|                       | P<br>Rs.        | Q<br>Rs.        |
|-----------------------|-----------------|-----------------|
| I <sup>st</sup> year  | 2,62,800        | 2,75,125        |
| II <sup>nd</sup> year | 2,12,200        | 2,49,875        |
| Total                 | <u>4,75,000</u> | <u>5,25,000</u> |

- Issue 12% preference shares of Rs.10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2007 after revaluation of assets of P and Q respectively.

You are required to:

- Compute the amount of equity and preference shares issued to P and Q.
- Prepare the Balance Sheet of P & Q Ltd. immediately after amalgamation.

Contind...

( 3 )

Marks

3. (a) S Ltd. has a Hire-purchase department. Goods are sold on hire-purchase at cost plus 60%.

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From the following particulars draft Hire-purchase trading account and compute profit or loss for the year ended 31st March, 2007:

|                                                                                   | Rs.       |
|-----------------------------------------------------------------------------------|-----------|
| Goods with customers on 1.4.2006 (instalments are not due)                        | 3,20,000  |
| Instalments due on 1.4.2006 (customers are paying)                                | 20,000    |
| Goods sold on hire-purchase during the year<br>(i.e., from 1.4.2006 to 31.3.2007) | 16,00,000 |
| Cash received from customers                                                      | 11,20,000 |

|                                                               |          |
|---------------------------------------------------------------|----------|
| Goods re-possessed from customers valued at 40%               | 16,000   |
| Unpaid instalments in respect of re-possessed goods           | 40,000   |
| Goods with customers as on 31.3.2007 (at hire-purchase price) | 7,20,000 |

- (b) On 2.6.2007 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved: 8

|                                        | Rs.      |
|----------------------------------------|----------|
| Stock at cost on 1.4.2006              | 1,35,000 |
| Stock at 90% of cost on 31.3.2007      | 1,62,000 |
| Purchases for the year ended 31.3.2007 | 6,45,000 |
| Sales for the year ended 31.3.2007     | 9,00,000 |
| Purchases from 1.4.2007 to 2.6.2007    | 2,25,000 |
| Sales from 1.4.2007 to 2.6.2007        | 4,80,000 |

Sales upto 2.6.2007 includes Rs.75,000 being the goods not dispatched to the customers. The sales invoice price is Rs.75,000.

Purchases upto 2.6.2007 includes a machinery acquired for Rs.15,000.

Purchases upto 2.6.2007 does not include goods worth Rs.30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire.

Value of stock salvaged from fire Rs.22,500 and this has been handed over to the insurance company.

The insurance policy is for Rs.1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

P.T.O.

( 4 )

Marks

4. Mr. Y keeps his books under single entry system. On 31st March, 2006 his Balance Sheet was as follows: 16

Balance Sheet of LH & Co. as at 31.3.2007

| Liabilities          | Rs.              | Assets            | Rs.              |
|----------------------|------------------|-------------------|------------------|
| Capital of Mr. Y     | 4,50,000         | Fixed assets      | 2,25,000         |
| Creditors            | 8,70,000         | Stock             | 9,15,000         |
| Bills payable        | 1,87,500         | Debtors           | 2,22,000         |
| Expenses outstanding | 67,500           | Bills receivable  | 90,000           |
|                      |                  | Prepaid insurance | 3,000            |
|                      |                  | Cash/Bank balance | 1,20,000         |
|                      | <u>15,75,000</u> |                   | <u>15,75,000</u> |

- (i) Following are the summary of cash and bank transactions for the year ended 31st March, 2007:

|                                         | Rs.         |
|-----------------------------------------|-------------|
| Cash sales                              | 1,10,70,000 |
| Collection from debtors                 | 22,65,000   |
| Payments to creditors                   | 1,12,60,500 |
| Paid for bills payable                  | 12,22,500   |
| Sundry expenses paid                    | 9,31,050    |
| Drawings for domestic expenses by Mr. Y | 3,60,000    |
| Cash and bank balance as on 31.3.2007   | 1,90,950    |

- (ii) Following further details are furnished:

|                                               |          |
|-----------------------------------------------|----------|
| Gross profit on sales @ 10%                   |          |
| Bills receivable from debtors during the year | 6,52,500 |
| Discount allowed to debtors                   | 54,000   |
| Discount received from creditors              | 42,000   |

|                                                                               |        |
|-------------------------------------------------------------------------------|--------|
| Bills receivable endorsed to creditors                                        | 22,500 |
| Annual fire insurance premium paid<br>(This is paid on 1st August every year) | 9,000  |
| Depreciate fixed assets @ 10%                                                 |        |

(iii) Balances as on 31.3.2007 are given below:

|                      |          |
|----------------------|----------|
|                      | Rs.      |
| Stock in hand        | 9,75,000 |
| Debtors              | 2,28,000 |
| Bills receivable     | 2,10,000 |
| Bills payable        | 2,10,000 |
| Outstanding expenses | 7,500    |

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2007 and Balance Sheet on that date.

Contind...

( 5 )

Marks

5. Answer any **eight** of the following:

8x2=16

- (i) In X Co. Ltd., theft of cash of Rs.5 lakhs by the cashier in January, 2007 was detected only in May, 2007. The accounts of the company were not yet approved by the Board of Directors of the company.

Whether the theft of cash has to be adjusted in the accounts of the company for the year ended 31.3.2007. Decide.

- (ii) A machinery costing Rs.10 lakhs has useful life of 5 years. After the end of 5 years, its scrap value would be Rs.1 lakh. How much depreciation is to be charged in the books of the company as per Accounting Standard-6?
- (iii) In X Bank Ltd., the doubtful assets (more than 3 years) as on 31.3.2007 is Rs.1,000 lakhs. The value of security (including DICGC 100% cover of Rs.100 lakhs) is ascertained at Rs.500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?
- (iv) A and B are equal partners. They admit C and D as partners with 1/5 and 1/6 share respectively. What is the profit sharing ratio of all the partners?
- (v) A promissory note executed by Mr. X is due on 12.8.2007. What is the maturity date of the promissory note including grace days?
- (vi) X, Y and Z are partners. X became insolvent on 15.4.2007. The Capital account balance of partner Y is on the debit side. Partner Y is solvent. Should partner Y bear the loss arising on account of the insolvency of partner X?
- (vii) Alphs & Co., having head office in Mumbai has a branch in Nagpur. The branch at Nagpur is an independent branch maintaining separate books of account. On 31.3.2007, it was found that the goods dispatched by head office for Rs.2,00,000 was received by the branch only to the extent of Rs.1,50,000. The balance goods are in transit. What is the accounting entry to be passed by the branch for recording the goods in transit, in its books?
- (viii) Garden Ltd. acquired fixed assets viz. plant and machinery for Rs.20 lakhs. During the same year it sold its furniture and fixtures for Rs.5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS-3?
- (ix) ABC Ltd. gave 50,000 equity shares of Rs.10 each (fully paid up) in consideration for supply of certain machinery by X & Co. The shares exchanged for machinery are quoted on Bombay Stock Exchange (BSE) at Rs.15 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, how the value of machinery would be recorded in the books of the company?
- (x) A company took a construction contract for Rs.100 lakhs in January, 2006. It was found that 80% of the contract was completed at a cost of Rs.92 lakhs on the closing date i.e. on 31.3.2007. The company estimates further expenditure of Rs.23 lakhs for completing the contract. The expected loss would be Rs.15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2007?

6. Answer any four out of the following:

4x4=16

- (a) What are the qualitative characteristics of the financial statements which improve the usefulness of the

information furnished therein?

- (b) What are the advantages and disadvantages of ERP package?
- (c) How Government grant relating to specific fixed asset is treated in the books as per AS – 12?
- (d) Explain the accounting treatment of donation received for specific purpose in the case of charitable society.
- (e) What is meant by 'Cash' and 'Cash equivalents' as per AS-3?
- (f) When can a company change its accounting policy?



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