

Solved by: CA Arvind Jain, Jain Classes, Jamsedpur

 **Solved Answer Accounts CA PCC June 2009 1**

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 who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Wherever applicable appropriate, suitable assumptions should be made by the candidate.
Working notes should form part of the answer.

Qn 1. Following is the Receipts and Payments Account of Nanoo Club for the year ended 31st March, 2009 :

[20 Marks]

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Opening Balance :		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and Stationery	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephone and Fax	52,000
Interest received	58,000	Repairs and Maintenance	48,000
Sale of Fixed assets	8,000	Glass and Table linen	12,000
Miscellaneous Income	9,000	Crockery and Cutlery	14,000
Receipts at coffee room	10,70,000	Garden upkeep	8,000
Wines and Spirits	5,10,000	Membership fees	4,000
Swimming Pool	80,000	Insurance	5,000
Tennis court	1,02,000	Electricity	28,000
		Closing Balance :	
		Cash	8,000
		Bank	2,24,600
	<u>21,53,600</u>		<u>21,53,600</u>

Following additional information is provided to you :

(i) Assets and liabilities as on 1.4.2008 were as follows :

	Rs.
Fixed assets (Net)	5,00,000
Stock	3,80,000
Investment in 12% government securities	5,00,000
Outstanding subscription	12,000
Gratuity fund	1,50,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000

(ii) Subscription received in advance as on 31.3.09 was Rs. 18,000.

(iii) Outstanding subscription as on 31.3.09 was Rs. 7,000.

(iv) Outstanding expenses as on 31.3.09 are :

Salaries : Rs. 8,000

Electricity : Rs. 15,000

(v) 50% of the entrance donation was to be capitalised. There was no pending membership as on 31.3.09.

(vi) The cost of assets sold as on 1.4.08 was Rs. 10,000.

(vii) Depreciation was provided @ 10% p. a. on fixed assets on written down value basis.

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- (viii) A sum of Rs. 20,000 received in October, 2008 as entrance donation from an applicant was to be refunded, as he has not fulfilled the requisite membership qualification. The refund was made on 3.6.09.
- (ix) Purchases made during the year 2008-09 amounted to Rs. 15,00,000.
- (x) The value of closing stock as on 31.3.09 was Rs. 2,10,000.
- (xi) The Club as a matter of policy charges off to Income and Expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare :

- (i) Income and Expenditure account for the year ended 31st March, 2009.
- (ii) Balance Sheet as on 31st March, 2009.

Ans.

Opening Balance Sheet

Capital fund	1029850	Fixed assets	500000
		Stock	380000
Creditors	112000	Investment (12%)	500000
Subscription in advance	15000	o/s subscription	12000
Advance Entrance Fees	100000	Repaid insurance	1000
Gratuity fund	150000	Cash	10000
		Bank	3850
	<u>1406850</u>		<u>1406850</u>

Closing Balance Sheet

Capital fund	1029850	Fixed assets	500000	
Less: Net loss	<u>30250</u>	Less: sold	10000	
	999600	Less: Dep.	<u>49000</u>	441000
Add: Entrance fees	<u>90000</u>			
	1089600	Stock		210000
Creditors	92000	Investment (12%)		500000
Subscription in advance	18000	Intt. accrued		2000
O/s salary	8000	O/s subscription		7000
O/s Electricity	15000	Cash		8000
Advance Entrance fees	20000	Bank		224600
Gratuity fund	<u>150000</u>			
	<u>1392600</u>			<u>1392600</u>

Income & Expenditure A/c

Expenditure	Amount	Income	Amount
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To Opening stock	380000	By Subs. Received	202750	
To salary	120000	- Op. subs. o/s	12000	
+ O/s salary	<u>8000</u>	+ op. subs. Adv	15000	
To Printing & Stationery	70000	- clo subs. Adv.	18000	
To Postages	40000	+ op. subs. o/s	<u>7000</u>	194750
To Telephone	52000	By Entrance donation		
To Repairs & Maintenance	48000	(50%)	100000	
To Crokery	14000	+ op. adv.	100000	
To Garden upkeep	8000	- clo. Adv.	<u>20000</u>	
To Membership fees	4000	180000X1/2		90000
To Insurance	5000	By Interest Received	58000	
+ Opening prepaid	<u>1000</u>	+ clo. Receivable	<u>2000</u>	60000
To Electricity	28000	By Miscellaneous Income		9000
+ Closing O/s	<u>15000</u>	By Receipt from coffee room		1070000
To Loss on sale of assets	2000	By Wines and spirits		510000
To Purchases	1500000	By swimming pool		80000
To Glass & table linen	12000	By Tennis court		102000
To Depreciation	49000	By Closing Stock		210000
		By Net loss		30250
	<u>2356000</u>			<u>2356000</u>

Creditors A/c

To Cash	1520000	By Bal. b/d	112000
To Bal. C/d	<u>92000</u>	By Purchases	<u>1500000</u>
	1612000		<u>1612000</u>

2. (a) Following is the Balance sheet of Mr. Ram, a small trader, as on 31st March, 2008 :

Liabilities	Rs.	Assets	Rs.
Creditors	1,00,000	Cash	10,000
Capital	4,00,000	Bank	20,000
		Stock	80,000
		Debtors	1,00,000
		Fixed Assets	2,90,000
	<u>5,00,000</u>		<u>5,00,000</u>

A fire occurred on the night of 31st March, 2009, destroying the accounting records as well as the closing cash of the trader. However, the following information was available :

- (i) Debtors and creditors as on 31st March, 2009 showed an increase of 20% as compared to 31st March, 2008.
- (ii) Credit period :
Debtors : 1 month
Creditors : 2 months
- (iii) Stock was maintained at the same level throughout the year,
- (iv) Cash sales constituted at 20% of the total sales.
- (v) All purchases were on credit basis only.
- (vi) Current ratio on 31st March, 2009 was exactly 2.
- (vii) Total expenses excluding depreciation for the year amounted to Rs. 5,00,000.
- (viii) Depreciation was provided @ 10% on the closing book value of fixed assets,
- (ix) Bank and cash transactions for the financial year 2008-09 were as under :
(a) Payment to creditors included Rs. 1,00,000 by cash.
(b) Received from debtors included Rs. 11,80,000 by way of cheques.
(c) Cash deposited into the Bank Rs. 2,40,000.

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- (d) Personal drawings from Bank Rs. 1,00,000.
 (e) Fixed assets purchased and paid by cheques Rs. 4,50,000.
 (x) Assume that cash destroyed by fire is written off in the Profit and Loss account.

You are required to prepare :

- (i) Trading and Profit and Loss account of Shri Ram for the year ended 31st March, 2009.
 (ii) A Balance Sheet as at that date.

[8 marks]

Ans.

Trading and profit & loss A/c

Particulars	Amount	Particulars	Amount
To Opening stock	80,000	By Sales	
To Purchases	1,20,000	Credit sales	12,00,000
To Gross Profit	13,80,000	Cash sales{1200000X20/80}	<u>3,00,000</u>
		By Closing stock	80,000
	<u>1580000</u>		<u>1580000</u>
To Expenses	5,00,000	By Gross Profit	13,80,000
To Depreciation	74,000		
[2,90,000+4,50,000]X10%			
To Cash loss in fire	3,20,000		
To Net Profit	<u>4,86,000</u>		
	<u>13,80,000</u>		<u>13,80,000</u>

Balance Sheet of Mr. Ram As on 31.3.2009

Liabilities	Amount Rs.	Assets	Amount Rs.
Creditors	1,20,000	Cash	Nil
<u>Capital</u>		Bank	40,000
Opening bal.	4,00,000	Stock	80,000
Add: N/P	4,86,000	Debtors	1,20,000
Less: Drawing	<u>1,00,000</u>	Fixed assets	<u>6,66,000</u>
	<u>7,86,000</u>		<u>9,06,000</u>
	<u>9,06,000</u>		

Working Notes.

- 1 Month debtors = 1,00,000
 12 Month debtors as on 31.3.08 = 12,00,000
 12 Debtors as on 31.3.2009
 $12,00,000 \times 120/100 = 14,40,000$
 2 Month Creditors 1,00,000
 12 Month Creditor $1,00,000 \times 12/2 = 6,00,000$
 12 Month creditor as on 31.3.2009
 $6,00,000 \times 120/100 = 7,20,000$

Creditors Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Cash A/c	1,00,000	By Balance b/d	1,00,000
To Balance c/d {7,20,000X2/12}	<u>1,20,000</u>	By Purchases	<u>1,20,000</u>

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	2,20,000	2,20,000
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Debtors Account

To Balance b/d	1,00,000	By Cash A/c	1,80,000
To Sales	12,00,000	By Balance c/d	1,20,000
	13,00,000	{14,40,000X1/12}	13,00,000

Cash Account

To Balance b/d	10,000	By Sundry Creditors	1,00,000
To sales	3,00,000	By Bank A/c	2,40,000
To Bank A/c	8,50,000	By Exp.	5,00,000
	11,60,000	By Bal. c/d	3,20,000
			11,00,000

Bank Account

To Balance b/d	20,000	By Drawings	1,00,000
To Sundry debtors	11,80,000	By Fixed Assets	4,50,000
To Cash A/c	2,40,000	By Cash A/c	40,000
	1440000	By Balance c/d	8,50,000
			1440000

(b) From the following summarised Cash account of S Ltd., prepare cash flow statement for the year ended 31st March, 2009 in accordance with AS-3 (revised) using direct method. The company does not have any cash requirement : **[8 marks]**

Summarised Cash Account

		(Rs. 000)	
Opening Balance	50	Payment to suppliers	2,000
Issue of Share capital	300	Purchase of Fixed assets	200
Received from customers	2,800	Overhead expenses	200
Sale of Fixed assets	100	Wages and salaries	100
		Tax paid	250
		Dividend paid	50
		Bank Loan	300
		Closing Balance	150
	3,250		3,250

Ans.

Direct Method Cash flow statement of S Ltd.
For the year ended 31.3.2009

	Rs. 000	Rs. 000
I Cash flow from opening activities		
Cash receipts from customer	2800	
Cash paid to supplier & employee.		
Supplier	2000	
Overhead	200	
Wages & salaries	100	
	(2300)	
Cash generated from operation	500	
Less:- Income tax paid	250	
Cash flow from operating activities		250

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II	Cash flow from investing activities	
	purchase of fixed Assets	200
	Sale of fixed Assets	(100)
	Net cash from investing activities	(100)
III	Cash flows from financing activities	
	proceeds from issuance of	300
	Share capital	
	Bank loan paid	(300)
	Dividend paid	(50)
	Net cash used in financing activities	(50)
	Net increase in cash and cash equivalents	100
	(I + II + III)	
	Cash and cash equivalents at beginning Period	50

	Cash and cash equivalents at end of period	150

Qn 3. (a) The partnership of Sakshi Agencies decided to convert the partnership into Private Limited Company named Rameshwar Company Pvt. Ltd. with effect from 1st January, 2008. The consideration was agreed at Rs. 2,34,00,000 based on firm's Balance Sheet as on 31st December, 2007. However, due to some procedural difficulties, the company could be incorporated only on 1st April, 2008. Meanwhile, the business was continued on behalf of the company and the consideration was settled on that day with interest at 12% p.a. The same books of accounts were continued by the company, which closed its accounts for the first time on 31st March, 2009 and prepared the following summarised Profit and Loss account :

	Rs.		Rs.
To Cost of goods sold	3,27,60,000	By sales	4,68,00,000
To Salaries	23,40,000		
To Depreciation	3,60,000		
To Advertisement	14,04,000		
To Discount	23,40,000		
To Managing Director's remuneration	1,80,000		
To Miscellaneous office expenses	2,40,000		
To Office cum showroom rent	14,40,000		
To Interest	19,02,000		
To Profit	38,34,000		
	4,68,00,000		4,68,00,000

The company's only borrowing was a loan of Rs. 1,00,00,000 at 12% p.a. to pay the purchase consideration due to the firm and for working capital requirements. The company was able to double the monthly average sales of the firm from 1st April, 2008, but the salaries trebled from the date. It had to occupy additional space from 1st July, 2008 for which rent was Rs. 60,000 per month.

Prepare a Profit and Loss account in columnar form apportioning costs and revenue between pre-incorporation and post-incorporation periods. [8 marks]

Ans. Profit and loss A/c for 15 month ended 31/3/2009.

Particulars	Pre-incorporation Rs.	Post Incorporation	Particulars	Pre-incorporation Rs.	Post- incorporation
To Cost of goods sold	36,40,000	291,20,000	By Sale	52,00,000	416,00,000

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To salaries	1,80,000	21,60,000	By Net loss	38,000	
To Depreciation (Time)	72,000	2,88,000			
To Advertisement(sale)	1,56,000	12,48,000			
To Discount(sale)	2,60,000	20,80,000			
To M D Remuneration (post)	----	1,80,000			
To Misc. office expenses (time)	48,000	1,92,000			
To Rent	1,80,000	12,60,000			
To Interest	7,02,000	12,00,000			
To Net Profit		38,72,000			
	<u>52,38,000</u>	<u>416,00,000</u>		<u>52,38,000</u>	<u>416,00,000</u>

W. Note

i) Calculation of Ratio of Sale :

let the average sale per month in Pre. Incorporation period be, X . Then the average sale in Post-incorporation period are 2X. This total sale are (3 Xx) + (12 x 2x) or 27x. Ratio of sale of sale will be 3x : 24x or 1:8

2) Time ratio is 3 month : 12 month : 12 month or 1:4

3) Expenses apportioned are turnover ratio basis are cost of goods sold, advertisement, discount.

4) Expenses apportioned, on time ratio basis are depreciation and miscellaneous office expenses.

5) Ratio for apportionment of salaries.

If Pre-incorporation months average is x , for 3 month 3x Average for 12 month 36x.

Hence, ratio for division 1:12

6) Apportionment of Rent

Total Rent	<u>Rs.</u>
	14,40,000
Additional Rent for 9 month (from 1 st July to 31 st march 2005)	<u>5,40,000</u>
Rent for old premises for 15 th month or Rs. 60,000 p.m.	<u>9,00,000</u>

	<u>Pre-incorporation</u>	<u>Post-incorporation</u>
O/d Premises.	1,80,000	7,20,000
Additional	<u>-----</u>	<u>5,40,000</u>
	<u>1,80,000</u>	<u>12,60,000</u>

Note on treatment

Since the profit prior to incorporation are in the, negative they would,

- Either be Considered or a reduction from any Capital reserve accruing in relation to the transaction or
- Be treated as goodwill.

(b) On 1st April, 2008, Mr. Neel purchased 5,000 equity shares of Rs. 100 each in X Ltd. @ Rs. 120 each from a Broker, who charged 2% brokerage. He incurred 1/2% as cost of shares transfer stamps. On 31st January, 2009, Bonus was declared in the ratio of 1:2. Before and after the record date of bonus shares, the shares were quoted at Rs. 175 per share and Rs. 90 per share respectively. On 31st March, 2009, Mr. Neel sold bonus shares to a broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Neel, who held the shares as current assets and closing value of investments shall be made at cost or Market value, whichever is lower. [8 marks]

Ans.

Investment Accounts In the books of Mr. Neal

Date	F.V.	Income	Cost	Date	F.V.	Income	Cost
1.4.2008				31.3.2009			
To Bank	5,00,000	-----	6,15,000	By Bank	2,50,000	-----	2,20,500
31.1.2009			(W.N.1)				(W.N.2)

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To Bonus share 31.3.2009	2,50,000	-----	-----	31.3.2009 By Balance c/d	5,00,000	-----	4,10,000 (W.N.3)
To Profit & Loss	-----		15,500				
	<u>7,50,000</u>		<u>6,70,500</u>		<u>7,50,000</u>		<u>6,70,000</u>

Working notes. 1.

Calculation of cost of Purchase as on 1.4.2008

Purchase Cost	5000 X 120	=	6,00,000
Add: Brokerage 2%			<u>12,000</u>
			6,12,000
Add: Share transfer stamp 0.5%			<u>3,000</u>
			6,15,000

(W.N. 2)

Calculation of sale proceed of Bonus Share.

Sale Proceeds.	2500X90	=	2,25,000
Less: Brokerage 2%		=	<u>4,500</u>
			<u>2,20,500</u>

(W.N.3)

Profit on sale of bonus shares on 31.3.2009

Sale proceeds – Average cost

	6,15,000	
2,20,500 -	-----	x 2,50,000
	7,50,000	

$$2,20,500 - 2,05,000 = \text{Rs. } 15,500$$

(W.N.4) Valuation of equity shares on 31.3.2009

	6,15,000	
Cost =	-----	x 5,00,000 = 4,10,000
	7,50,000	

$$\text{Market value} = 5000 \text{ shares} \times 10 = 4,50,000$$

Cost or market value whichever is less

Qn 4. (a) An electricity company decided to replace some parts of its plant by an improved plant. The plant to be replaced was built in 1995 for Rs. 35,00,000. It is estimated that it would cost Rs. 65,00,000 to build a new plant of the same size and capacity. The cost of the new plant as per the improved design was Rs. 1,05,00,000 and in addition, material belonging to the old plant valued at Rs. 3,80,000 was used in the construction of the new plant. The balance of the plant was sold for Rs. 3,00,000. [8 marks]

Compute the amount to be written off to revenue and the amount to be capitalised. Also prepare Plant account and Replacement account.

Ans.

Old cost = Rs. 35,00,000

Current cost = Rs. 65,00,000

Old material sold = Rs. 3,00,000

W.N. 1 Calculation of Total cost.

Cash	Cost	105,00,000
Add:-	Old material used	<u>3,80,000</u>
	Total cost	108,80,000

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W.N.2 Calculation of current cost

Current cost = Rs. 65,00,000 (given)

W.N.3 Calculation of Amount to be capitalised.

Total cost	108,80,000
(-) Current cost	<u>65,00,000</u>
Amount to be capitalized	43,80,000

W.N.4 Calculation of Amount to be charged to revenue amount.

Current cost	65,00,000
(-) Old material used	3,80,000
(-) Old material sold	<u>3,00,000</u>
Amount charged to revenue amount =	58,20,000

Plant Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d	35,00,000		
To Cash A/c	105,00,000		
To Replacement A/c	3,80,000	By Balance c/d	143,00,000
	<u>143,00,000</u>		<u>143,00,000</u>

Reploment Account.

Particulars	Amount Rs.	Particulars	Amount Rs.
To Cash A/c	65,00,000	By Cash A/c	3,00,000
		By Plant A/c	3,80,000
		By Revenue A/c	<u>58,20,000</u>
	<u>65,00,000</u>		<u>65,00,000</u>

(b) From the data relating to a company which went into voluntary liquidation, you are required to prepare the liquidator's Final Statement of Account. **[8 marks]**

- Cash with liquidators (after all assets are realised and secured creditors and debenture holders are paid) is Rs. 7,50,000.
- Preferential creditors to be paid Rs. 35,000.
- Other unsecured creditors Rs. 2,30,000.
- 5,000, 10% preference shares of Rs. 100 each fully paid.
- 3,000 equity shares of Rs. 100 each, Rs. 75 per share paid up.
- 7,000 equity shares of Rs. 100 each, Rs. 60 per share paid up.
- Liquidator's remuneration is 2% on payments to preferential and other unsecured creditors.

Ans. Liquidator' final Statement of Account

Particulars	Amount Rs.	Particulars	Amount Rs.
Cash	7,50,000	Liquidator remuneration (W.N.Z.)	5300
Equity share holder [7000 X (66.53-60)] (W.N.I)	45,710	Preferential creditors	35000
		Other unsecured creditors	230000
		Preference share holder	500000

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		Equity share holder 3000 X {75-66.53} (W. N.I)	25410
	<u>795710</u>		<u>795710</u>

W.N. 1 Calculation of deficiency per share

Deficiency as regards preference shareholders	20,300
3000 equity shares of Rs 100 each Rs, 75 per share paid up	2,25,000
7000 equity shares of Rs. 100 each, Rs 60 per share paid up	<u>4,20,000</u>
Total Deficiency	6,65,300
Deficiency per share = $\frac{6,65,300}{10,000}$	= Rs. 66.53
Payable to 3000 Equity share holder	
3000 X (75 – 66.53)	= 25410/-
Receivable from 7000 equity Shareholder	= 7000 X (66.53 – 60) = 45710

W.N.2 Calculation of Liquidator's remuneration

Preferential creditors	35000
Other unsecured creditors	<u>2,30,000</u>
	2,65,000

Liquidators remuneration = 2% of payment to preferential and other unsecured creditors.

Liquidator's remuneration = $\frac{2}{100} \times 2,65,000$
= Rs. 5300/-

Qn 5. Answer any **eight** out of the following : **[8 x 2=16]**

- Amount of Life Assurance Fund is Rs. 5,000 lacs and net liabilities were Rs. 4,800 lacs. Calculate profit under Valuation Balance Sheet.
- What is "average clause" under insurance claim ?
- Give the journal entry to be passed for accounting unrealised profit on stock, under amalgamation.
- A and M are partners, sharing profit and losses in the ratio of 3 : 2. G is admitted for 1/4th share. Thereafter, N enters the partnership for 20 Paise in a Rupee. Compute new profit sharing ratio.
- A company entered into an underwriting agreement with Mr. B for 60% of the issue of Rs. 50,00,000, 15% debentures, with a firm underwriting of Rs. 5,00,000. Marked applications were in respect of debentures worth Rs. 35,00,000. Compute liability of Mr. B and commission payable to him.
- Enumerate two points which the financial statements should disclose in respect of Borrowing costs as per AS-16.
- Mr. X purchased a machine on hire-purchase system, Rs. 30,000 being paid on delivery and the balance in five instalments of Rs. 60,000 each, payable annually on 31st December. The cash price of the machine was Rs. 3,00,000. Compute the amount of interest for each year.
- Mr. T purchased 1,000 nos. 10% debentures of Rs. 100 each on 1st April, 2009 at Rs. 96 cum-interest, the previous interest date being 31st December, 2008. Compute cost of investment.
- Name two methods of accounting for amalgamations as contemplated by AS-14.
- The Managing Director of A Ltd. is entitled to 5% of the annual net profits, as his remuneration, subject to a minimum of Rs. 25,000 per month. The net profits, for this purpose, are to be taken without charging income-tax and his remuneration itself. During the year, A Ltd. made net profit of Rs. 43,00,000 before charging MD's remuneration, but after charging provision for taxation of Rs. 17,20,000. Compute remuneration payable to the Managing Director.

Ans. (i)

(i) Valuation Balance Sheet			
Particulars	Amount Rs	Particulars	Amount Rs.
To Net liability as valuation certificate	4,800	By Life Assurance fund A/c	5,000

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To Net profit	200		
	5,000		5,000

(ii) The objective of average clause is discouraging the insured to under insurance. It is not necessary to include average clause in fire insurance policy. It is applicable only in those areas where the insured has under insured. Under insurance implies that insurance made for the lesser value of stock. If the amount of policy is less than the estimated value of stock destroyed, then the insurance company will settle the claim proportionately by applying the average clause.

On applying average clause, actual claim can be determined as :-

$$\text{Claim} = \text{Loss suffered} \times \frac{\text{Insurance Policy Value}}{\text{Actual Insurable Value}}$$

Note :- In case the account insured is more than actual stock value, average clause is not applicable.

(iii) Journal entry will be :-

Goodwill / Capital Reserve A/c ----- Dr.
To Stock / Current Assets A/c

(iv) Computation of new profit sharing ratio

	A	M	G	N
Profit Sharing ratio of A & M	3 ----	2 ---		
	5	5		
G is admitted for $\frac{1}{4}$ share				
Total Share 1				
Less : G's share - 1 ----- 4				
3 ----- 4				
A's Share $\frac{3}{4} \times \frac{3}{5} = \frac{9}{20}$				
M's Share $= \frac{2}{5} \times \frac{3}{5} = \frac{6}{20}$				

$$\text{Profit sharing ratio of } \frac{9}{20} : \frac{6}{20} : \frac{1}{4} \times \frac{5}{5} = 9 : 6 : 5$$

N enter for partnership

1
for ----- share
5

Total share = 1

Less : N's Share = 1

5

4

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$$\begin{aligned} \text{A's share} &= \frac{9}{20} \times \frac{4}{5} = \frac{9}{25} \\ \text{M's Share} &= \frac{6}{20} \times \frac{4}{5} = \frac{6}{25} \\ \text{G's Share} &= \frac{5}{20} \times \frac{4}{5} = \frac{5}{25} \end{aligned}$$

New Profit sharing ratio	A	M	G	N
	$\frac{9}{25}$	$\frac{6}{25}$	$\frac{5}{25}$	$\frac{1}{5} \times \frac{5}{5} = \frac{5}{25}$

Ratio = 9 : 6 : 5 : 5

(v) Total Liability of under writer (50,00,000 x 60%) =	30,00,000
Add : Firm under writing	5,00,000

Gross liabilities	35,00,000
Less : Firm under writing	5,00,000

	30,00,000
Less : Marked Application	35,00,000
Surplus given to other underwriter or company	5,00,000

Therefore net liability = 5,00,000 i.e. firm underwriter

Under writing Commission = 35,00,000 x 2.5% = 87500 /-

(Note : - Nothing is given in question therefore we assume that maximum permission in law is contain)

(vi) The financial statement should disclosure : -

- # The accounting policy adopted for borrowing cost.
- # The amount of borrowing cost capitalized during the period.

(vii) Calculation of Hire Purchase Price

- Cash down payment	30,000
- Instalment payment 60,000 x 5	3,00,000

Hire purchase price	3,30,000

Calculation of total interest

= Hire purchase price – cash price
= 3,30,000 – 3,00,000 = 30,000

Total interest will be divided in time ratio
i.e. 5 : 4 : 3 : 2 : 1.

Therefore interest amount year wise will be

<u>Year</u>	<u>Interest</u>
-------------	-----------------

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$$\begin{array}{rcl}
 1 & 10,000 = 30,000 \times & \frac{4}{15} \\
 2 & 8,000 = 30,000 \times & \frac{2}{15} \\
 3 & 6,000 = 30,000 \times & \frac{2}{15} \\
 4 & 4,000 = 30,000 \times & \frac{1}{15} \\
 5 & 2,000 = 30,000 \times & \frac{1}{15}
 \end{array}$$

(viii) Cost of investment = Purchase cost – Interest
 Cost of investment = (1000 x 96) – 2500 = 93500

$$\begin{aligned}
 \text{Interest} &= \text{F.V.} \times \frac{3 \text{ Month}}{12} \times 10 \% \\
 &= 1,00,000 \times \frac{3}{12} \times 10 \% \\
 &= 2500 \text{ /-}
 \end{aligned}$$

(ix) Two method of accounting for amalgamation as under : -

- # Amalgamation in the nature of merger
- # Amalgamation in the nature of purchase.

(x) Calculation of profit for managerial remuneration

$$\begin{aligned}
 \text{Profit for managerial remuneration} &= 43,00,000 + 17,20,000 \\
 &= 60,20,000 \text{ /-}
 \end{aligned}$$

Remuneration will be given as under : -

1. 5% of net profit i.e. 60,20,000 x 5% = 3,01,000
2. minimum higher 25,000 x 12 = 3,00,000
 which ever is lower i.e. 3,01,000 /- **Ans.**

Qn 6. Answer any **four** of the following : **[4 x 4=16]**

- (b) Sony Pharma ordered 12,000 kg. of certain material at Rs. 80 per unit. The purchase price includes excise duty Rs. 4 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to Rs. 77,400. Normal transit loss is 3%. The company actually received 11,600 kg. and consumed 10,100 kg. of material. Compute cost of inventory under AS-2 and abnormal loss.
- (c) Explain the provisions of AS-5 regarding accounting treatment of prior period items.
- (d) Mention, four advantages and four disadvantages of pre-packaged accounting software.
- (e) From the following information relating to X Ltd., calculate Diluted earning per share as per AS-20 :

Net profit for the current year	Rs. 2,00,00,000
Number of equity shares outstanding	40,00,000
Basic earning per share	Rs. 5.00
Number of 11% convertible debentures of Rs. 100 each	50,000
Each debenture is convertible into 8 equity shares.	
Interest expense for the current year	Rs. 5,50,000
Tax saving relating to interest expense (30%)	Rs. 1,65,000

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- (f) The Revenue Account of a Life Insurance Company shows the Life Assurance Fund on 31st March, 2009 at Rs. 62,21,310 before taking into account the following items :
- (i) Claims recovered under re-insurance Rs. 12,000
 - (ii) Bonus utilised in reduction of Life Insurance premium of Rs. 4,500.
 - (iii) Interest accrued on securities Rs. 8,260.
 - (iv) Outstanding premium Rs. 5,410.
 - (v) Claims intimated but not admitted Rs. 26,500.

Compute the Life Assurance Fund on 31st March, 2009, after taking into account the above omission.

- (f) What is the difference between the Sectional and Self-balancing system ?

Ans. (a)

Calculation of cost of material purchases.

Purchases Cost 12000 kg. @ 80 per kg	=	9,60,000
Add: Freight incurred		77,400
Less: Excise duty @ 4 per kg.		<u>(48,000)</u>
		9,89,400

Less: Normal loss in transit 3%	<u>360. kg.</u>
	11640 kg.
Less: Abnormal loss.	<u>40 kg.</u>
	11600 kg.

$$\text{Cost per kg. of material} = \frac{9894400}{11640} = 85 \text{ per kg.}$$

$$\begin{aligned} \text{Closing stock of inventory} &= 1500 \text{ kg. @ 85 per kg.} \\ (11600 - 10100) \text{ kg} &= 1,27,500/- \end{aligned}$$

$$\begin{aligned} \text{Value of Abnormal loss} &= 40 \times 85/- \\ &= 3400/- \end{aligned}$$

(Note :- Cost per good unit is used for valuation of closing stock.)

(b) These are income or expenses, which arise, in the current period as a result of errors or omissions in the preparation of financial statements of one or more prior periods.

The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period, e.g. arrears payable to workers in current period as a result of retrospective revision of wages.

The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on current profit or loss can be perceived.

The prior period items are normally included in determination of net profit or loss for the current period. Alternatively, where the prior period items are not taken in computation of current profit, they can be added (or deducted as the case may be) from the current profit. In either case, the disclosure should be such as to clearly show the effects of such items.

(c) Advantages of pre-packaged Accounting software

1. Easy to install: The CD or floppy disk is to be inserted and the setup file should be run to complete the installation. Certain old DOS based accounting softwares required some settings to be added in the system configuration file and the system batch file. These instructions are generally provided in the user manuals.
2. Relatively inexpensive: These packages are sold at very cheap prices nowadays.
3. Easy to use: Mostly menu driven with help options. Further the user manual provides most of the solutions to problems that the user may face while using the software.
4. Backup procedure is simple: Housekeeping section provides a menu for backup. The backup can be taken on floppy disk or CD or harddisk.
5. Certain flexibility of report formats provided by some of the softwares: This allows the user to make the invoice, challan, GRNs look the way they want.

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6. Very effective for small and medium size businesses: Most of their functional areas are covered by these standardised packages.

DISADVANTAGE OF PRE-PACKAGED ACCOUNTING SOFTWARE :

1. Does not cover peculiarities of specific business: Business today are becoming more and more complex. A standard package may not be able to take care of these complexities.
2. Does not cover all functional area: For example production process may not be covered by most pre-packaged accounting software.
3. Customisation may not be possible in most such softwares: The vendors for these softwares believe in mass sale of an existing source. The expertise for customisation may not have been retained by the vendor.
4. Reports generated is not sufficient or serve the purpose: The demands for modern day business may make the management desire for several other reports for exercising management control. These reports may not be available in a standard package.
5. Lack of security: Any person can view data of all companies with common access password. Levels of access control as we find in many customised accounting software packages are generally missing in a pre-packaged accounting package.
6. Bugs in the software: Certain bugs may remain in the software which takes long to be rectified by the vendor and is common in the initial years of the software. .

(d)

Calculation of Net Profit:-

Net Profit for the Current year	200,00,000
Add: Interest after tax	<u>3,85,000</u>
	<u>203,85,000</u>

Calculation of No. of Equity Share.

Number of Equity Share Outstanding	40,00,000
Add: Potential Equity Share (50,000 X 8)	<u>4,00,000</u>
	<u>44,00,000</u>

$$\text{Diluted E P S} = \frac{203,85,000}{44,00,000} = 4.63/-$$

(e)

Revenue account of life Insurance Company

For the year ended 31.3.2009.

Particulars	Amount Rs.	Particulars	Amount Rs.
To Bonus utilized in reduction of Premium.	4,500	By Life fund on 1.4.09	62,21,310
To Life fund as on (31.3.2009)	62,42,480	By Claim recovered Under re-insurance	12,000
		By Interest accrued on securities.	8,260
		By Outstanding Premium	<u>5,410</u>
	<u>62,46,980</u>		<u>62,46,980</u>

(Note :- Claim intimated but not paid is a contingent liabilities).

(f) Self-Balancing Ledger is a system to abbreviate (shorten) the trial balance. It helps to eliminate the problem of locating errors and also helps in finding out the area where the errors lie under this method, the main ledger is divided into sales ledger, purchase ledger, and general ledger. There is a separate proving of the accuracy of each ledger. All the creditors and debtors are represented in one account. Under this system, each ledger is self-balancing.

Sectional-Balancing System:

Sectional-Balancing Ledger is a system of self-balancing of a section of the group or ledgers. Under this method, the main ledger i.e. the general ledger is designed for the self-balancing. For this purpose, two personal accounts are opened in the main ledger :-

- (i) Total debtors accounts: It is the sum total of all the debtors accounts in the debtor ledger.

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- (ii) Total creditors accounts: It is the sum total of all the creditor accounts in the creditor ledger. In the sectional balancing system, only a section of the total system is made self-balancing.