

# **SCANNER**

## **SECTION-I**

**Compiles Question asked in the Intermediate  
Examination of ICWAI under Syllabus 2002  
from June '04 onwards.**

**[GROUP - I]**

# FINANCIAL ACCOUNTING

## BASIC CONCEPTS

### Objective -Type Questions :

- Q1. Can a company change the method of providing depreciation? [Ref : Q1. (i), Dec '06 / Paper-10]
- Q2. What are the three major considerations governing the selection and application of Accounting Policies? [Ref : Q1. (a), Dec '08 / Paper-10]
- Q3. Distinguish between proprietary theory and entity theory. [Ref : Q1. (j), Dec '07 / Paper-10]
- Q4. (a) List out any four of accounting concepts.  
(b) State the components of financial statement.  
(c) State with reasons whether the following statements are True or False :-  
(i) Accounting principle is general rule followed in preparation of financial statements. [Ref : Q1. (a), (c), (e)(i), June '07 / Paper-10]
- Q5. Accounting involves communication. — Comment. [Ref : Q1. (a), Dec '06 / Paper-10]
- Q6. (a) What according to ICAI conceptual framework, are the qualitative characteristics that financial statements should observe and maintain in order to improve the usefulness of financial information?  
(b) What is negative net worth?  
(c) What is meant by 'general purpose financial statement'?  
(d) Briefly state the three major characteristics which should be considered for the purpose of selection and application of accounting policies. [Ref : Q1. (b), (c), (d), (e) June '06 / Paper-10]
- Q7. (a) A company has incurred a net loss during an accounting period, but its net worth (assets – liabilities) has increased. How could this happen?  
(b) What is the implication of a high price earning (P/E) ratio?  
(c) Indicate any three areas in respect of which different accounting policies may be adopted by different enterprises. [Ref : Q1. (b), (c), (e) Dec '05 / Paper-10]
- Q8. (a) What is the primary consideration in the selection of accounting policies by an enterprise?  
(b) Which of the following is not a satisfactory balance sheet equation?  
(i) Assets – liabilities = owners' equity;  
(ii) Assets = liabilities + owners' equity;  
(iii) Assets = liabilities – owners' equity;  
(iv) Assets – owners' equity = liabilities.  
(c) State any two ways to create a Secret Reserve. [Ref : Q1. (a), (g), (h) June '04 / Paper-10]

**Descriptive & Practical Questions :**

Q1. Write short notes of the following :

- (a) Phases of Accounting process.
- (b) Accrual basis of Accounting.

[Ref : Q8. (a) , (b) Dec '07 / Paper-10]

Q2. (a) Conceptual Framework of Accounting.

[Ref : Q8. (a) June '04 / Paper-10]

Q3. The following is the Balance Sheet of the retail business of Sri Lahiri as at 31st December, 2007 :

| Liabilities           | Rs.      | Assets       | Rs.      |
|-----------------------|----------|--------------|----------|
| Sri Lahiri's Capital  | 2,00,000 | Furniture    | 20,000   |
| Liabilities for Goods | 41,000   | Stock        | 1,40,000 |
| Rent                  | 2,000    | Debtors      | 50,000   |
|                       |          | Cash at Bank | 29,000   |
|                       |          | Cash in hand | 4,000    |
|                       | 2,43,000 |              | 2,43,000 |

You are finished with the following information :

- (1) Sri Lahiri sells his goods at a profit of 20% on sales.
- (2) Goods are sold for cash and credit. Credit customers pay by cheques only.
- (3) Payments for purchases are always made by cheques.
- (4) It is practice of Sri Lahiri to send to the Bank every weekend the collections of the week after paying every week salary of Rs. 900 to the clerk, Sundry expenses of Rs. 150 and personal expenses Rs. 300.

Analysis of the Bank Pass Book for the 13 weeks period ending 31st March, 2008 disclosed the following :

|                                                         | Rs.      |
|---------------------------------------------------------|----------|
| Payments to creditors                                   | 1,50,000 |
| Payments of rent upto 31.3.2008 by cheque               | 8,000    |
| Amounts deposited into the bank                         | 2,50,000 |
| (including Rs. 60,000 received from debtors by cheques) |          |

| The following are the balances on 31st March, 2008 : | Rs.    |
|------------------------------------------------------|--------|
| Stock                                                | 80,000 |
| Debtors                                              | 60,000 |
| Creditors for goods                                  | 73,000 |

On the evening of 31st March, 2008 the Cashier absconded with the available cash in the cash book. There was no cash deposit in the weekend on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also working notes on (1) Purchases (2) Total Sales (3) Credit Sales (4) Cash Sales for the 13 weeks upto 31.3.2008 and Bank Balance as on that date. [Ref : Q4. Dec '08 / Paper-10]

## HIRE PURCHASE

### Objective -Type Questions :

Q1. State the function of “interest suspense account” under the Instalment purchase system.

[Ref: Q1. (e) June '04 / Paper-10]

### Descriptive & Practical Questions :

Q1. A machinery is sold on hire purchase. The terms of payment is four annual instalments of Rs. 6,000 at the end of each year commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of Rs. 6,000.

Show machinery account and hire vendor account in the books of the purchaser who defaulted in the payment of the third yearly payment whereupon the vendor repossessed the machinery. The purchaser provides depreciation on the machinery @ 10% per annum on written down value basis.

All workings should form part of your answer.

[Ref: Q7. Dec '08 / Paper-10]

Q2. Kamala Agencies started business on 1st April, 2005. During the year ended 31st March, 2006 they sold under mentioned durables under two schemes – Cash Price Scheme (C.P.S) and Hire Purchase Scheme (H.P.S).

Under the C.P.S they priced the goods at cost plus 25% and collected it on delivery.

Under the H.P.S the buyers were required to sign a Hire Purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 installments, the value being calculated at cash price plus 50%.

The following are the details available at the end of 31st March, 2006 with regard to the products :

| Product          | Nos. purchased | Nos. sold under C.P.S | Nos. sold under Rs H.P.S | Cost per unit due during | No. of installments received the year | No. of installments during the year |
|------------------|----------------|-----------------------|--------------------------|--------------------------|---------------------------------------|-------------------------------------|
| T.V. Sets        | 90             | 20                    | 60                       | 16,000                   | 1080                                  | 1000                                |
| Washing Machines | 70             | 20                    | 40                       | 12,000                   | 840                                   | 800                                 |

The following were the expenses during the year :

Rs.

|                        |          |
|------------------------|----------|
| Rent                   | 1,08,000 |
| Salaries               | 1,50,000 |
| Commission to Salesmen | 12,000   |
| Office Expenses        | 1,26,000 |

From the above information, you are required to prepare :

- (a) Hire Purchase Trading Accounts, and
- (b) Trading and Profit & Loss Account.

[Ref: Q3. June '06 / Paper-10]

- Q3. Mr. Glostar commenced business on 1st April 2003. He sells washing machines of a standard type and size on hire purchase terms. The total amount, including interest payable for each washing machine is Rs. 4,500. Customers are required to pay an initial deposit of Rs. 900, followed by eight quarterly instalments of Rs. 450 each. The following trial balance is extracted from Mr. Glostar's books as on 31.3.2004 :

**Trial Balance**

| Particulars                   | Debit<br>Rs. | Credit<br>Rs. |
|-------------------------------|--------------|---------------|
| Capital                       | —            | 15,00,000     |
| Furniture                     | 1,50,000     | —             |
| Purchases                     | 27,00,000    | —             |
| Cash collected from customers | —            | 11,47,500     |
| Salaries and wages            | 1,92,000     | —             |
| Office expenses               | 82,500       | —             |
| Creditors                     | —            | 2,49,000      |
| Bank overdraft                | —            | 2,94,000      |
| Bank interest                 | 6,000        | —             |
| Drawings                      | 60,000       | —             |
|                               | 31,90,500    | 31,90,500     |

850 machine were sold during the year on hire purchase terms. Mr. Glostar has decided to take credit of profits and interest in proportion to cash collections. He purchases at a cost of Rs. 3,000 each.

You are required to prepare the hire purchase Trading A/c, Profit & Loss A/c and Balance Sheet as on that date. All workings are to be shown. [Ref: Q5. June '04 / Paper-10]

## ROYALTY

### Descriptive & Practical Questions :

- Q1. Tile Company leased land in 2002 at a royalty of 10 paise per ton on all the clay raised. Dead Rent was Rs. 10,000. Short working was to be recouped during the first 4 years. The clay raised in the first four years was as follows :

|      | Tons   |      | Tons     |                       |
|------|--------|------|----------|-----------------------|
| 2002 | 75,000 | 2004 | 60,000   | (Strike for 3 months) |
| 2003 | 90,000 | 2005 | 1,20,000 |                       |

There was a provision for proportionate reduction in dead rent in case of stoppage of work by strike, lockout, accident etc.

Show Ledger accounts in the books of the Tile Company. [Ref : Q5. Dec '06 / Paper-10]

- Q2. Nabipur Ltd., owns certain patent rights. It has granted a licence to Ashoke Ltd. to use such rights on royalty basis. The royalty is payable at Rs. 50 per unit produced. Asoke Ltd. has issued a sub-license to Kaniska Ltd. on the basis of a royalty of Rs. 60 per unit sold. The minimum royalty payable by Kaniska Ltd. is fixed at Rs. 75,000 per annum. Short workings can be recouped within one year from the last date of the year in which they occur.

The following particulars are available for the three years of working :

| Ashoke Ltd. |                  |                          | Kaniska Ltd.          |                          |
|-------------|------------------|--------------------------|-----------------------|--------------------------|
| Year        | Sales<br>(units) | Closing stock<br>(units) | Production<br>(units) | Closing stock<br>(units) |
| 1           | 6,000            | 1,500                    | 600                   | 300                      |
| 2           | 7,500            | 3,000                    | 3,000                 | 600                      |
| 3           | 13,500           | 4,500                    | 4,500                 | 1,350                    |

You are required to :

- prepare in the books of Ashoke Ltd., a statement showing analysis of royalties receivable and royalties payable, and
- show royalty receivable account and royalty payable account in the books Asoke Ltd.

[Ref : Q7. June '05 / Paper-10]

## RECEIPTS & PAYMENT ACCOUNTS

### Objective -Type Questions :

- Q1. In case of membership fees of club, how to treat the same in the Income and Expenditure A/c and Balance Sheet? [Ref: Q.1 (a), June '07 / Paper-10]

### Descriptive & Practical Questions :

- Q1. The following informations were obtained from the books of Dignity Foundation Recreation Club as on 31.03.2007. At the end of the first year of the club you are asked to prepare Receipts and Payments Account, Income and Expenditure Account for the year ended 31.03.2007 and the Balance Sheet as at 31.03.2007 on mercantile basis :

- i) Donation received for building and library room Rs. 1,00,000  
 ii) Other revenue income and actual receipts :

|                     | Revenue Income | Actual Receipts |
|---------------------|----------------|-----------------|
|                     | Rs.            | Rs.             |
| Entrance Fees       | 20,000         | 20,000          |
| Subscription        | 17,000         | 16,000          |
| Locker rent         | 800            | 800             |
| Sundry Income       | 1,400          | 860             |
| Refreshment account | —              | 20,000          |

- ii) Other revenue expenditure and actual payments :

|                               | Revenue Income | Actual Receipts |
|-------------------------------|----------------|-----------------|
|                               | Rs.            | Rs.             |
| Land (Cost Rs. 10,000)        | —              | 10,000          |
| Furniture (Cost Rs. 1,46,000) | —              | 1,30,000        |
| Salaries                      | 6,000          | 5,800           |
| Maintenance of club           | 3,000          | 2,000           |
| Rent                          | 6,000          | 6,000           |
| Refreshment account           | —              | 12,000          |

Donations to the extent of Rs. 12,500 were utilized for the purchase of library books, balance was still unutilized. In order to keep it safe, 9% Govt. bonds of Rs. 80,000 were purchased on 31.03.2007. Remaining amount was put in the bank on 31.03.2007 under the term deposit. Depreciation at 10% P.A. was to be provided for the whole year on Furniture and Library books. [Ref: Q.3, Dec. '07 / Paper-10]



Q2. (a) Rangakarmi, an amateur theatre organization, charges its members an annual subscription of Rs. 200 per member. It accrues for subscription owing at the end of each year and also adjusts for subscriptions received in advance. The organization closes its accounts every year at 31st December. The following particulars are available :

- (1) On 1st January, 2005, 20 members owed Rs. 4,000 for the year 2004.
- (2) In December, 2004, 5 members paid Rs. 1,000 for the year 2005.
- (3) During the year 2005, the organization received cash subscriptions of Rs. 85,000.

The details are :

|          |                   |
|----------|-------------------|
| For 2004 | Rs. 4,000         |
| For 2005 | Rs. 79,000        |
| For 2006 | Rs. 2,000         |
|          | <u>Rs. 85,000</u> |

- (4) At close of 31st December, 2005, 15 members had not paid their 2005 subscriptions. Prepare the subscriptions account. [Ref: Q.5. (a), June. '06 / Paper-10]

Q3. Modern City School is a privately run educational institution. Its Balance Sheet as on 31st March, 2004 was as follows :

|                                  | Rs.              |                                | Rs.              |
|----------------------------------|------------------|--------------------------------|------------------|
| Capital Fund                     | 20,00,000        | Land                           | 8,00,000         |
| Development Fund                 | 10,00,000        | School Buildings               | 15,00,000        |
| Special Donation Fund            | 6,00,000         | School Bus                     | 8,00,000         |
| General Fund                     | 6,50,000         | Furniture                      | 2,00,000         |
| Employee super annuation fund    | 5,00,000         | Laboratory equipment           |                  |
| Outstanding salaries (March, 05) |                  | Science Lab.                   | 2,00,000         |
| Teaching Staff                   | 1,50,000         | Computer Lab.                  | 50,000           |
| Non-teaching staff               | 80,000           | Library books                  | 2,50,000         |
| Outstanding electricity bill     | 20,000           | Investment in Govt. Securities | 8,00,000         |
|                                  |                  | Tuition fee outstanding        | 60,000           |
|                                  |                  | Cash and Bank                  | 3,40,000         |
|                                  | <u>50,00,000</u> |                                | <u>50,00,000</u> |

**Receipts and payments account for the year ended 31st March, 2005**

|                                                           | Rs.       |                                                 | Rs.       |
|-----------------------------------------------------------|-----------|-------------------------------------------------|-----------|
| Opening Balance                                           | 3,40,000  | Salaries                                        |           |
| Admission Fee                                             | 9,00,000  | Teaching staff                                  | 58,00,000 |
| Tuition Fee                                               | 80,00,000 | Non-teaching staff                              | 10,00,000 |
| Contribution to special donation funds (from ex-students) | 3,00,000  | Purchase of library books                       | 1,00,000  |
| Interest on investments                                   | 75,000    | Purchase of science lab equipment               | 50,000    |
|                                                           |           | Purchase of computers                           | 60,000    |
|                                                           |           | Construction of new school buildings            | 4,00,000  |
|                                                           |           | Purchase of school bus                          | 6,00,000  |
|                                                           |           | Purchase of Govt. Securities                    | 5,00,000  |
|                                                           |           | Education tour expenses                         | 1,50,000  |
|                                                           |           | Annual function                                 | 1,00,000  |
|                                                           |           | Building maintenance exp.                       | 1,50,000  |
|                                                           |           | Purchase of new furniture                       | 60,000    |
|                                                           |           | Electricity                                     | 80,000    |
|                                                           |           | Printing, postage stationery and other expenses | 1,40,000  |
|                                                           |           | Closing balance                                 | 4,25,000  |
|                                                           | 96,15,000 |                                                 | 96,15,000 |

The following further information is available :

- (1) Interest accrued but not received Rs. 10,000
- (2) The school has decided to charge depreciation as follows :
 

|                                                               |     |
|---------------------------------------------------------------|-----|
| School buildings (excluding new construction)                 | 5%  |
| School furniture (excluding new additions)                    | 10% |
| Lab equipment                                                 |     |
| Science lab (old & new)                                       | 8%  |
| Computer lab (old & new)                                      | 20% |
| School bus (excluding the one newly acquired during the year) | 15% |
| Library books (old & new)                                     | 10% |
- (3) Amount to be contributed to employee superannuation fund during the year Rs. 1,50,000
- (4) Outstanding expenses at the end of the year :
 

|                    |            |
|--------------------|------------|
| Staff salaries     |            |
| Teaching staff     | Rs. 80,000 |
| Non-teaching staff | Rs. 20,000 |
| Telephone bill     | Rs. 2,000  |

- (5) Building contractor's bill outstanding as on 31st March, 2005 Rs. 70,000  
 (6) Tuition fee receivable as on 31st March, 2005 Rs. 50,000  
 (7) Admission fee includes Rs. 2,50,000 representing collection towards development fund.

You are required to prepare an income and expenditure account for the year ended 31st March, 2005 and a Balance Sheet as on that date. [Ref: Q.4, Dec. '05 / Paper-10]

Q4. The Balance Sheet of New City College as at 31st March 2003 was as follows :

|                            | Rs.       |                      | Rs.       |
|----------------------------|-----------|----------------------|-----------|
| Capital Fund               | 21,00,000 | Land & Buildings     | 20,00,000 |
| Building Construction Fund | 8,00,000  | Furniture            | 3,00,000  |
| General Fund Outstanding   | 6,40,000  | Laboratory Equipment | 2,50,000  |
| Salary (teachers)          | 1,60,000  | Library Books        | 3,60,000  |
|                            |           | Investments          | 6,50,000  |
|                            |           | Accrued Tuition Fee  | 10,000    |
|                            |           | Cash & Bank          | 1,30,000  |
|                            | 37,00,000 |                      | 37,00,000 |

The receipts and Payments account for the year ended 31st March 2004 was drawn as under :

|                                          | Rs.       |                                             | Rs.       |
|------------------------------------------|-----------|---------------------------------------------|-----------|
| To Opening balance (1.4.2003)            | 1,30,000  | By Salaries & Allowances-<br>Teaching Staff | 42,00,000 |
| To Govt. Grants (revnue)                 | 50,00,000 | By Non-Teaching Staff                       | 20,00,000 |
| To Donation for Building<br>Construction | 2,00,000  | By Printing & Stationary                    | 80,000    |
| To Tuition Fees & Session Charges        | 18,20,000 | By Laboratory Exp.                          | 60,000    |
| To Investment Income                     | 70,000    | By Laboratory Equipment                     | 1,20,000  |
| To Rental Income (College Hall)          | 40,000    | By Library Books                            | 2,50,000  |
|                                          |           | By Office Exp.                              | 60,000    |
|                                          |           | By Electricity & Telephone                  | 75,000    |
|                                          |           | By Audit fees                               | 2,000     |
|                                          |           | By Municipal Taxes                          | 1,000     |
|                                          |           | By Building Repairs                         | 40,000    |
|                                          |           | By Purchase of Furniture                    | 80,000    |
|                                          |           | By Games & Sports                           | 20,000    |
|                                          |           | By Welfare Exp.                             | 30,000    |
|                                          |           | By New Investments                          | 1,50,000  |
|                                          |           | By Closing Balance (31.3.2004)              | 92,000    |
|                                          | 72,60,000 |                                             | 72,60,000 |

Other Information :

- (i) Tuition fee outstanding as on 31.3.2004 – Rs. 40,000.
- (ii) Salary of teaching staff outstanding for March 2004 – Rs. 2,50,000.
- (iii) Books received as donations from various parties – Rs. 30,000 (valued).
- (iv) Outstanding building repair expenses as on 31.3.2004 – Rs. 15,000.
- (v) Applicable depreciation rates :

|                      |     |
|----------------------|-----|
| Land & Buildings     | 2%  |
| Furniture            | 8%  |
| Laboratory Equipment | 10% |
| Library Books        | 20% |

You are required to prepare the Income and Expenditure account for the year ended 31st March 2004 and a Balance Sheet as on that date. [Ref: Q.6, June. '04 / Paper-10]

Q5. The following information were obtained from the books of Young Bengal Club as on 31.3.2007 at the end of first year of the club. You are required to prepare Receipt and Payments Account, Income and Expenditure Account for the year ended 31.3.2007 and a Balance Sheet as at 31.3.2007 on mercantile basis :

- (i) Donations received for Building and Library Books - Rs. 2,00,000.
- (ii) Other revenue incomes and actual receipts :

|                     | Rev. Income (Rs.) | Actual Receipts (Rs.) |
|---------------------|-------------------|-----------------------|
| Entrance Fees       | 17,000            | 17,000                |
| Subscription        | 20,000            | 19,000                |
| Locker Rents        | 600               | 600                   |
| Sundry Income       | 1,600             | 1,060                 |
| Refreshment Account | —                 | 16,000                |

- (iii) Other revenue expenditure and actual payments :

|                               | Rev. Expenditure (Rs.) | Actual Payments (Rs.) |
|-------------------------------|------------------------|-----------------------|
| Land (Cost Rs. 10,000)        | —                      | 10,000                |
| Furniture (Cost Rs. 1,46,000) | —                      | 1,30,000              |
| Salaries                      | 5,000                  | 4,800                 |
| Maintenance of Play Grounds   | 2,000                  | 1,000                 |
| Rent                          | 8,000                  | 8,000                 |
| Refreshment Account           | —                      | 8,000                 |

Donations to the extent of Rs. 25,000 was utilized for the purchase of Library Books, balance was utilized. In order to keep it safe, 9% Govt. Bonds of Rs. 1,60,000 were purchased on 31.3.2007. Remaining amount was put in the Bank on 31.3.2007 under term deposit. Depreciation at 10% p.a. was to be provided for the whole year on Furniture and Library Books.

[Ref: Q4. June. '07 / Paper-2]

Q6. SMS Recreation Club provides you with the following details and requests you to prepare.

- (1) Income and Expenditure A/c for the year ended 31.3.2006 &
- (2) Balance Sheet as on 31.03.2006.

Detailed submitted :

1. Receipts and Payments A/c for the year ended 31.03.2006.

| <b>Receipts</b>        | <b>Amount<br/>Rs.</b> | <b>Amount<br/>Rs.</b> |
|------------------------|-----------------------|-----------------------|
| Cash on Hand b/d       |                       | 490.00                |
| Bank Balance — SBI b/d |                       | 42,000.00             |
| Subscription           |                       |                       |
| 2003-2004              | 11,000.00             |                       |
| 2004-2005              | 5,500.00              |                       |
| 2005-2006              | 1,10,000.00           |                       |
| 2006-2007              | 16,500.00             | 1,43,000.00           |
| Hall Rent              |                       | 2,00,000.00           |
| Chair Hire Charges     |                       | 12,000.00             |
| Parking Charges        |                       | 11,000.00             |
| Sale of Scrap          |                       | 720.00                |
| Other Income           |                       | 10,000.00             |
|                        |                       | <u>4,19,210.00</u>    |

| <b>Payments</b>             | <b>Amount<br/>Rs.</b> | <b>Amount<br/>Rs.</b> |
|-----------------------------|-----------------------|-----------------------|
| Books                       |                       | 12,000.00             |
| Computer (Depreciate @ 60%) |                       | 42,000.00             |
| Electricity                 |                       | 13,500.00             |
| Telephone                   |                       | 12,500.00             |
| Salary                      |                       | 24,000.00             |
| Party Expenses              |                       | 90,000.00             |
| Gift to Children            |                       | 55,000.00             |
| Repairs and maintenance     |                       | 8,500.00              |
| FD                          |                       | 1,50,000.00           |
| Cash on Hand c/d            |                       | 2,550.00              |
| Bank Balance — SBI c/d      |                       | 9,160.00              |
|                             |                       | <u>4,19,210.00</u>    |

2.

## List of balances

|                              | 31.03.2005  | 31.03.2006 |
|------------------------------|-------------|------------|
| Car (Depreciated @ 20%)      | 52,000.00   | ?          |
| Sports items                 | 58,000.00   | 49,000.00  |
| Building (Depreciate @ 10%)  | 3,00,000.00 | ?          |
| Furniture (Depreciate @ 15%) | 1,60,000.00 | ?          |
| Crockery (Depreciate @ 15%)  | 56,000.00   | ?          |
| Salary o/s                   | 4,000.00    | ?          |
| Creditors                    | 5,000.00    | 10,000.00  |

3. Club has 220 members and Rs. 550/- was collected as yearly subscription.
4. There was no payment to creditors during the year and the increase in creditors is due to purchase of some sports items.
5. Club has an accountant who was paid Rs. 2,000/- per month up to Jan '06 and there was an increment of Rs. 500/- from Feb '06.
6. FD made on 31.03.2006. [Ref: Q3. June. '06 / Paper-2]

Q7. From the following information given about Victory Always Education Society for the year ending 31.03.2003 :

Prepare :

- (a) Income and Expenditure A/c and
- (b) Balance Sheet

## Trial Balance as on 31.03.2003

| Particulars                            | Dr.<br>Amount<br>Rs. | Cr.<br>Amount<br>Rs. |
|----------------------------------------|----------------------|----------------------|
| Library Books                          | 2,30,000             |                      |
| Books purchased during the year        | 52,200               |                      |
| Furniture and Fixtures                 | 1,59,500             |                      |
| Addition to Furnitures during the year | 35,500               |                      |
| Buildings                              | 37,89,000            |                      |
| Investment                             | 21,25,000            |                      |
| Investment Reserve Fund                |                      | 1,85,000             |
| Creditors                              |                      | 1,77,900             |
| Debtors                                | 59,700               |                      |
| Entrance fee                           |                      | 2,02,600             |
| Examination fee                        |                      | 32,500               |

|                                     |                  |                  |
|-------------------------------------|------------------|------------------|
| Certificate fee                     |                  | 7,800            |
| Subscription Received               |                  | 2,75,800         |
| Hire Charges                        |                  | 95,500           |
| Interest                            |                  | 85,000           |
| Other receipts                      |                  | 4,400            |
| Salary                              | 1,55,900         |                  |
| Printing and stationery             | 8,500            |                  |
| Postage and Telephone               | 2,500            |                  |
| Insurance                           | 10,400           |                  |
| Examination Expenses                | 24,000           |                  |
| Periodicals                         | 15,600           |                  |
| Awards and Prizes Fund              |                  | 2,15,000         |
| Awards and Prizes Investments       | 2,10,400         |                  |
| Awards and Prizes Income            |                  | 10,200           |
| Awards and Prizes Fund Bank Balance | 2,450            |                  |
| Donations (Capital)                 |                  | 1,99,000         |
| General Expenses                    | 5,250            |                  |
| Capital Fund                        |                  | 5,471,720        |
| Bank Balance                        | 65,500           |                  |
| Cash on Hand                        | 1,520            |                  |
|                                     | <u>69,62,420</u> | <u>69,62,420</u> |

The following information is also given :

|                                                        |        |
|--------------------------------------------------------|--------|
|                                                        | Rs.    |
| Subscription Receivable as on 31.03.2003               | 22,500 |
| Subscription for FY 2003-04                            | 7,850  |
| Interest accrued on Investment                         | 6,250  |
| O/s Salary as on 31.03.2004                            | 12,500 |
| Prepaid Insurance as on 31.03.2004                     | 4,500  |
| Depreciation is to be provided at the following rate : |        |
| Library Books                                          | 15% PA |
| Building                                               | 1% PA  |
| Furniture and Fixture                                  | 10% PA |
| (50% Depreciation to be provided on additions)         |        |

[Ref: Q3. June. '04 / Paper-2]

## PARTNERSHIP ACCOUNTING

### Descriptive & Practical Questions :

- Q1. Pradip and Parimal are equal partners. Pradip, by agreement, retires and Gopal joins the firm on the basis of one-third share of profits on 1.4.2007. The balances of the books as on 31st March, 2007 were :

|                            | Dr.<br>Rs. | Cr.<br>Rs. |
|----------------------------|------------|------------|
| Goodwill                   | 10,000     | —          |
| Fixed Assets at Cost       | 1,20,000   | —          |
| Current Assets :           |            |            |
| Stock                      | 60,000     | —          |
| Debtors                    | 40,000     | —          |
| Bank Balance               | 8,000      | —          |
| Creditors                  | —          | 20,000     |
| Provision for Depreciation | —          | 12,000     |
| Capital Accounts :         |            |            |
| Pradip                     | —          | 1,04,000   |
| Parimal                    | —          | 1,02,000   |
|                            | 2,38,000   | 2,38,000   |

Goodwill and Fixed Assets valued at Rs. 30,000 and Rs. 1,40,000 respectively and it was agreed to be written up accordingly before admission of Gopal as partner. Sufficient money is to be introduced so as to enable Pradip to be paid off and leave Rs. 5,000 Cash at Bank; Parimal and Gopal are to provide such sum as to make their Capitals proportionate to their share of profits. Assuming the agreement was carried out, show the Journal entries required and prepare the Balance Sheet after admission of Gopal.

All workings should form part of your answer.

[Ref: Q.6, June. '07 / Paper-2]

- Q2. A, B, and C are partners sharing profits and losses in the ratio of 3 : 2 : 1. D is admitted as a new partner on 31.12.2005 for an equal share and is to pay Rs. 25,000 as capital. Following is the balance sheet on the date of admission :

| Liabilities      | Rs.      | Assets                | Rs.      |
|------------------|----------|-----------------------|----------|
| Capital :      A | 30,000   | Land and Building     | 25,000   |
| B                | 30,000   | Plant and Machinery   | 20,000   |
| C                | 20,000   | Furniture and fixture | 15,000   |
| Creditors        | 15,000   | Stock                 | 10,000   |
| Bills Payable    | 5,000    | Debtors               | 15,000   |
|                  |          | Bills Receivable      | 10,000   |
|                  |          | Bank                  | 5,000    |
|                  | 1,00,000 |                       | 1,00,000 |



Following are the required adjustment on D's admission :

- (i) Out of the creditors, a sum of Rs. 5,000 is owing to D.
- (ii) Bills worth Rs. 8,000 were discounted with the bankers, out of which, a bill of Rs. 2,000 was dishonoured on 31.12.2005, but no entry has been passed for that. Due dates of the other discounted bills fall in January, 2006.
- (iii) Unexpired insurance premium Rs. 600.
- (iv) Expenses debited to the Profit and Loss A/c includes a sum of Rs. 1,000 paid for B's personal life insurance policy.
- (v) A provision for bad debt @ 5% is to be created against Debtors.
- (vi) Expenses on revaluation amounting to Rs. 1,010 are paid by A.
- (vii) During 2005, part of the furniture was sold for Rs. 2,500, the book value of the furniture sold was Rs. 4,000 and the written down value on the date of sale is Rs. 3,500, the proceeds was wrongly credited to the Sales Account.

You are required to prepare the Revaluation A/c and the Balance Sheet after D's admission.

[Ref : Q.4, Dec. '06 / Paper-2]

Q3. The following is the Balance Sheet of A and B, who share profits and losses as 3 : 2 respectively, as at 31.12.04 :

| Liabilities | Rs.             | Assets                          | Rs.             |
|-------------|-----------------|---------------------------------|-----------------|
| Capital A   | 35,000          | Land and Building               | 30,000          |
| B           | 30,000          | Plant and Machinery             | 20,000          |
| Reserve     | 10,000          | Stock                           | 10,000          |
| Creditors   | 25,000          | Debtors 20,000                  |                 |
|             |                 | Less : Provision                |                 |
|             |                 | For doubtful debts <u>1,000</u> | 19,000          |
|             |                 | Bank                            | 11,000          |
|             |                 | Cash                            | 10,000          |
|             | <u>1,00,000</u> |                                 | <u>1,00,000</u> |

On 1.1.2005, C joins the firm and brings in the following assets :

Stock Rs. 21,000 ; Investments Rs. 12,000 ; Cash Rs. 15,000 ; Debtors Rs. 10,000.

Following were agreed Upon :

- (i) The new profit sharing ratio among A, B and C will be equal.
- (ii) The Capitals of the partners should also be equal taking C's capital as base.
- (iii) The reserve of the new firm will be Rs. 15,000.
- (iv) Provision for doubtful debts is to be created @ 10% of total debtors.
- (v) An investment provision of Rs. 2,000 is to be created.

You are required to prepare the Balance Sheet of the new firm.

[Ref : Q.4, Dec. '05 / Paper-2]

Q4. A and B are partners sharing profits and losses in the ratio 3 : 2. Their Balance sheet stood as under on 1.1.2003 :

| Liabilities          | Rs.           | Assets            | Rs.           |
|----------------------|---------------|-------------------|---------------|
| Capital Accounts     |               | Buildings         | 35,000        |
| A                    | 29,000        | Machinery         | 19,000        |
| B                    | 15,000        | Furniture         | 5,000         |
| Reserve              | 10,000        | Stock             | 15,000        |
| Creditors            | 28,500        | Debtors           | 9,400         |
| Outstanding Expenses | 4,000         | Less : Provisions |               |
|                      |               | for Bad Debts     | <u>400</u>    |
|                      |               | Prepaid Insurance | 1,500         |
|                      |               | Cash              | 2,000         |
|                      | <b>86,500</b> |                   | <b>86,500</b> |

C is admitted as a new partner introducing a capital of Rs. 21,000. The capitals of the partners are to be adjusted in the new profit-sharing ratio, which is 5 : 3 : 2 taking C's capital as base. C is to bring premium for goodwill in cash. Goodwill amount being calculated on the basis of C's share in the profits and capital contributed by him. Following revaluations are made : (i) Stock to be depreciated by 5%; (ii) Provisions for bad debts is to be raised to Rs. 500 ; (iii) Furniture to be depreciated by 10%; (iv) Buildings are revalued at Rs. 41,350.

Prepare necessary Ledger Accounts and the Balance Sheet of the new firm.

[Ref : Q.7, Dec. '04 / Paper-2]

Q5. (b) R & S are in partnership sharing profit and losses at the ratio 3 : 2. They take T as a new partner. Calculate the new profit sharing ratio if :

- T purchase  $\frac{1}{10}$ th share from R.
- R & S agree to sacrifice  $\frac{1}{10}$ th share to T in the ratio of 2 : 3.
- Simply gets  $\frac{1}{10}$ th share of profit.

[Ref : Q.7. (b), June '04 / Paper-2]

Q6. The Balance Sheet of P & R, a Partnership Firm, as at 31st March, 2003, is as follows :

| Liabilities         | Rs.           | Assets            | Rs.           |
|---------------------|---------------|-------------------|---------------|
| Capital Account :   |               | Goodwill          | 14,000        |
| P                   | 26,400        | Land and Building | 14,400        |
| R                   | <u>33,600</u> | Furniture         | 2,200         |
| Contingency Reserve | 6,000         | Stock             | 26,000        |
| Sundry Creditors    | 9,000         | Cash at Bank      | 12,000        |
|                     | <b>75,000</b> |                   | <b>75,000</b> |

P & R share Profits and Losses as 1 : 2. They agree to admit S (who is also in business of his own) as a third partner from 1.4.2003.

The Assets are revalued as under :

Goodwill Rs. 18,000, Land and Building Rs. 30,000, Furniture Rs. 6,000.

S brings the following Assets into Partnership — Goodwill Rs. 6,000, Furniture Rs. 2,800, Stock Rs. 13,600.

Profits in the new firm are to be shared equally by the three Partners and the Capital Accounts are to be so adjusted as to be equal.

Prepare Revaluation Account, Partners Capital Account and Balance Sheet after the admission of S.

[Ref: Q.3, June '03 / Paper-2]

- Q7. Morning, Day and Night Carry on business in partnership sharing the Profits and Losses in the proportion of 25%, 25% and 50% respectively. Their Balance Sheet as on 31.03.2005 was as under :

| Liabilities      |                  | Rs.                | Assets                       | Rs.                |
|------------------|------------------|--------------------|------------------------------|--------------------|
| Sundry Creditors |                  | 1,20,000           | Cash/Bank                    | 1,00,000           |
| General Reserves |                  | 80,000             | Sundry Debtors               | 75,00,000          |
| Capitals         |                  | —                  | Inventories                  | 10,00,000          |
| Morning          | 24,00,000        |                    | Fixed Assets W.D.V           | 4,00,000           |
| Day              | 24,00,000        |                    | Investment (At cost)         |                    |
| Night            | <u>50,00,000</u> | <u>98,00,000</u>   | (Market Value Rs. 15,00,000) | <u>10,00,000</u>   |
|                  |                  | <b>1,00,00,000</b> |                              | <b>1,00,00,000</b> |

On 1st April, 2005 Morning and Day retired and Night continued the business. Night paid Rs. 36,00,000 to Morning and Rs. 36,00,000 to Day in full and final discharge of their claim in the partnership. This amount was brought in by Night for the purpose of payment to the retiring partners. None of the assets and liabilities are to be revalued.

You are asked to :

- Pass accounting entries in relation to the above in the books of business Unit.
- Prepare the Balance Sheet of the business unit after the above transactions are recorded.

[Ref: Q3. (a), June '05 / Paper-2]

- Q8. ASHA, REKHA and ASHOK are partners sharing Profits and Losses in the ratio of 5 : 3 : 2 respectively. On March 31, 2007 they decided to dissolve the partnership firm and on that date their Balance Sheet was as follows :

**Balance Sheet as on March 31, 2007**

| Liabilities                 | Rs.             | Assets                        | Rs.             |
|-----------------------------|-----------------|-------------------------------|-----------------|
| Capital :                   |                 | Cash at Bank                  | 12,000          |
| Asha 96,000                 |                 | Debtors 50,400                |                 |
| Ashok <u>84,000</u>         | 1,80,000        | Less : Provision <u>2,400</u> | 48,000          |
| General Reserve             | 24,000          | Rekha's Capital               | 12,000          |
| Creditors                   | 72,000          | Land & Building               | 96,000          |
| Bills Payable               | 24,000          | Stock                         | 54,000          |
| Mrs. Ashok's Loan           | 12,000          | Furniture                     | 36,000          |
| Investment Fluctuation Fund | 6,000           | Bills Receivable              | 30,000          |
|                             |                 | Investments                   | 30,000          |
|                             | <b>3,18,000</b> |                               | <b>3,18,000</b> |

The terms of dissolution are as follows :

- Rs. 22,800 were paid to a Creditor as against only Rs. 15,600 provided for in the books of Accounts.
- There was bad debts of Rs. 8,400 and discount of 10% was allowed to Debtors.
- Bills payable were due on an average after 3 months were paid immediately at a discount of 12% p.a.
- Investment realized Rs. 26,400 ; Land and Building was sold for Rs. 1,20,000, Stock realized 20% less.
- Ashok agreed to pay Mrs. Ashok's loan and took over furniture at Rs. 33,600.
- A rebate of 1,200 was given to Bills Receivable and Expenses of dissolution were Rs. 3,600 which were paid by Rekha.

Prepare Realisation Account, Bank Account and Partners' Capital Accounts to close the books of firm.  
[Ref: Q3., Dec. '07 / Paper-2]

- Q9. A, B, C and D are partners in a garage comprising (i) petrol sales, (ii) repairs and servicing, and (iii) second-hand car dealing. A is responsible for petrol sales, B for repairs and servicing, and C for second-hand car dealing, while D acts purely in an advisory capacity.

The partnership agreement provides for the following :

- Each partner is to receive commission of the net profit of the partner's own department as under : A – 10%, B – 15% and C – 20%.

- (b) A total salary of Rs. 11,000 is payable to D which is to be allocated among the above three departments in the ratio of 3 : 4 : 4 respectively.
- (c) 50% of the net profit of each department after charging commission and salary will be distributed to A, B and C as under :

|                         |                       |
|-------------------------|-----------------------|
| Petrol sales            | A, B and C – Equally  |
| Repairs and Servicing   | A : B : C = 2 : 2 : 1 |
| Second-hand Car Dealing | A : B : C = 3 : 2 : 1 |

- (d) The balance of the profit of the firm will be shared equally by all partners after charging interest on capital @ 10% p.a.

The net profits of the departments for the year ended 31.12.2002 were as under :

Petrol Sales — Rs. 20,000 ; Repairs and Servicing — Rs. 40,000 ; Second-hand car dealing— Rs. 50,000.

The partners' capitals are :

A — Rs. 40,000 ; B — Rs. 30,000 ; C — Rs. 25,000 ; D — Rs. 10,000.

You are required to prepare the Profit and Loss Appropriation Account for the year ended 31.12.2002. [Ref: Q6. Dec. '03 / Paper-2]

- Q10. Black, Red and White were partners sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The Trial Balance of the firm as on 31st March, 2008 was as follows :

|                                            | Rs.      | Rs.      |
|--------------------------------------------|----------|----------|
| Machinery at Cost                          | 1,20,000 |          |
| Depreciation on Machinery                  |          | 60,000   |
| Capital A/c :                              |          |          |
| Black                                      |          | 68,000   |
| Red                                        |          | 45,000   |
| White                                      |          | 23,000   |
| Drawings A/c :                             |          |          |
| Black                                      | 25,000   |          |
| Red                                        | 23,000   |          |
| White                                      | 17,000   |          |
| Stock in Trade                             | 65,000   |          |
| Sundry Debtors                             | 65,300   |          |
| Sundry Creditors                           |          | 60,500   |
| Bills Payable                              |          | 24,200   |
| Profit for the year ended 31st March, 2008 |          | 1,24,300 |
| Cash at Bank                               | 89,300   |          |
|                                            | 4,05,000 | 4,05,000 |

Interest on capital accounts at 10% p.a. on the amount standing to the credit of partners' capital account at the beginning of the year, was not provided before preparing the above Trial Balance.

On 1st April, 2008 they formed a Private Limited Company with an authorised share capital of Rs. 2,00,000 in shares of Rs. 10 each to be divided in different classes to take over the business of partnership.

You are informed as under :

- (i) Machinery is to be transferred at Rs. 70,000.
- (ii) Shares in the company are to be issued to the partners, at par, in such numbers, and in such classes as will give the partners, by reason of their share holding alone, the same rights as regards interest on capital and the sharing of profit and losses as they had in the partnership.
- (iii) Before transferring the business, the partners wish to draw from the partnership profits to such an extent that the bank balance is reduced to Rs. 50,000. For this purpose sufficient profit of the year are to be retained in profit sharing ratio.
- (iv) All assets and liabilities except machinery and the bank are to be transferred at their book value as on 31st March, 2008.

You are required to prepare :

- (a) Capital Accounts showing all adjustments required to dissolve the partnership.
- (b) Statement showing the workings of the number of shares of each class to be issued by the company to each of the partners and a statement of additional drawings in cash.
- (c) The Balance Sheet of the company immediately after acquiring the business of the partnership and issuing of shares.

[Ref: Q.6, Dec. '08 / Paper-10]

Q11. Amalesh and Kamalesh are two partners sharing Profits and Losses in the ratio of 3 : 2. On 30th September, 2005, they admit Bimalesh as a partner and the new profit sharing ratio as 2 : 2 : 1. Bimalesh brought in fixture Rs. 3,000 and cash Rs. 12,000, the goodwill being (i) Amalesh and Kamalesh Rs. 20,000 and (ii) Bimalesh Rs. 10,000 but neither figure is to be brought into the books.

On 31st March, 2006, the partnership is dissolved, Amalesh retiring and the other two partners forming a company called Bomex Ltd. with equal capitals, taking over all remaining assets and liabilities, goodwill being agreed at Rs. 40,000 and brought into books of the company. Amalesh agrees to take over the business car at Rs. 3,700 plant was sold for Rs. 3,000 being in excess of requirements. The profits of the two preceding years were Rs. 16,200 and Rs. 20,000 respectively and it was agreed that for the half year ended 30th September, 2005, the net profit was to be taken as equal to the average of the two preceding years and the current year.

No entries had been made when Bimalesh entered, except cash. No new book being opened by Bomex Ltd., Amalesh agreed to have Rs. 45,000 as loan to the company, secured by 12% Debentures.

The following is the Trial Balance as on 31.3.2006 :

|                                            | Dr.<br>Rs. | Cr.<br>Rs. |
|--------------------------------------------|------------|------------|
| Capital Accounts :                         |            |            |
| Amalesh                                    | —          | 40,000     |
| Kamalesh                                   | —          | 25,000     |
| Bimaresh                                   | —          | 12,000     |
| Drawing Account :                          |            |            |
| Amalesh                                    | 11,000     |            |
| Kamalesh                                   | 10,000     |            |
| Bimaresh                                   | 4,800      |            |
| Sundry Debtors                             | 35,000     |            |
| Sundry Creditors                           | —          | 16,000     |
| Plant (Book Value of Plant sold Rs. 4,000) | 23,000     |            |
| Fixtures                                   | 7,000      |            |
| Stock on 31.3.2006                         | 12,000     |            |
| Motor Car                                  | 2,700      |            |
| Cash at Bank                               | 17,300     |            |
| Profit and Loss Account for the year       | —          | 29,800     |
|                                            | 1,22,800   | 1,22,800   |

**Prepare :**

- (i) Goodwill Adjustment Account,
- (ii) Capital Account of Partners,
- (iii) Profit and Loss Appropriation Account,
- (iv) Balance Sheet of Bomex Ltd. as on 31st March, 2006.

[Ref : Q.4, June '06 / Paper-10]

## BRANCH AND DEPARTMENT

### Objectives -Type Questions :

- Q1. In respect of dependent branch, the Head Office (under Branch Accounting method) follows certain methods of accounting. List them out clearly. [Ref: Q1. (h), Dec. '04 / Paper-10]

### Descriptive & Practical Questions :

- Q1. Shewag & Co., with headquarters at Chennai, maintains a branch at Kochi. Goods are invoiced to the Kochi branch at cost plus 25%. In respect of the Kochi branch, the following information pertaining to the year ended 31.3.2008 are made available to you :

|                                            | Rs.      |
|--------------------------------------------|----------|
| Goods sent to branch at invoice price      | 6,25,000 |
| Cash sales effected by branch              | 1,76,000 |
| Goods returned by customers to branch      | 10,000   |
| Bad Debts                                  | 5,000    |
| Discount allowed to customers              | 2,000    |
| Amount received from branch debtors        | 3,40,000 |
| Cheques of customers which got dishonoured | 8,000    |
| Branch expenses met in cash                | 72,900   |

|                                    | As on 31.3.2007<br>Rs. | As on 31.3.2008<br>Rs. |
|------------------------------------|------------------------|------------------------|
| Stock at branch (at invoice price) | 1,25,000               | 1,75,000               |
| Branch Debtors                     | 40,000                 | 95,000                 |

Adopting the Stock and Debtors system, you are required to prepare the following Ledger Accounts, as appearing in the books of the Head Office :

- (a) Kochi Branch Debtors Accounts ;
- (b) Kochi Branch Stock Account ; and
- (c) Kochi Branch Adjustments Account.

[Ref: Q6., June '08 / Paper-10]



Q2. Puskar Enterprise has its head office in Ranchi and branch in Imphal. The following trial balance has been extracted from the books of account as at 31st March 2005 :

The following is the Trial Balance as on 31.3.2006 :

|                                       | Head Office      |                  | Branch           |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | Dr.<br>Rs.       | Cr.<br>Rs.       | Dr.<br>Rs.       | Cr.<br>Rs.       |
| Capital                               |                  | 16,50,000        |                  |                  |
| Debtors                               | 3,00,000         |                  | 1,80,000         |                  |
| Creditors                             |                  | 1,50,000         |                  |                  |
| Purchases                             | 27,42,000        |                  |                  |                  |
| Sales                                 |                  | 25,50,000        |                  | 13,11,000        |
| Goods sent to branch at Invoice price |                  | 11,40,000        | 11,25,000        |                  |
| Fixed assets (net)                    | 10,50,000        |                  | 2,00,000         |                  |
| Stock (1 April 2004)                  | 24,000           |                  | 60,000           |                  |
| Stock adjustment (unrealised profit)  |                  | 12,000           |                  |                  |
| Head office/branch current a/c        | 5,25,000         |                  |                  | 3,60,000         |
| Administrative and selling expenses   | 8,41,500         |                  | 74,500           |                  |
| Cash and Bank                         | 46,500           |                  | 39,000           |                  |
| Provision for bad debts               |                  | 27,000           |                  | 7,500            |
|                                       | <u>55,29,000</u> | <u>55,29,000</u> | <u>16,78,500</u> | <u>16,78,500</u> |

**Other relevant information :**

- (1) All goods are purchased by the head office. Goods are sent to branch at cost plus 25 per cent.
- (2) Stocks at 31 March 2005 were valued at :

|        |                            |
|--------|----------------------------|
| H.O.   | Rs. 36,000                 |
| Branch | Rs. 45,000 (invoice price) |

- (3) Depreciation is to be provided on fixed assets at 10% on book value.
- (4) Bad debt provision is to be maintained at 5% on debtors as at the end of the year.
- (5) Cash in transit from branch to head office at 31, March 2005 was Rs. 1,50,000.
- (6) Goods in transit from head office to branch at 31 March 2005 at invoice price was Rs. 15,000.

Prepare, in columnar form, the branch and head office trading and profit and loss accounts for the year ended 31 March 2005 and a combined balance sheet for Puskar Enterprise as on that date.

[Ref : Q5., June '05 / Paper-10]

- Q3. M/s Star & Co. has two departments which maintain separate records. Prepare Trading and Profit & Loss A/c for each department and Balance Sheet for the company for the year ended 31.3.2003. Provide depreciation on Plant and Machinery @ 33 %. Building by 5%, Furniture @ 10%, other un-allocated expenses to be allocated on the basis of net sales of each department.

|                         | Dept. I   | Dept. II  |
|-------------------------|-----------|-----------|
|                         | Rs.       | Rs.       |
| Opening Stock (1.4.02)  | 1,00,000  | 80,000    |
| Purchases               | 9,20,000  | 7,60,000  |
| Purchase Returns        | 8,000     | 4,000     |
| Sales                   | 25,32,000 | 19,68,000 |
| Sales Return            | 12,000    | 8,000     |
| Wages & Salaries        | 7,20,000  | 6,40,000  |
| Misc. expenses          | 1,40,000  | 1,28,000  |
| Closing Stock (31.3.03) | 1,04,000  | 96,000    |

General balances for the year :

|                         | Rs.       |
|-------------------------|-----------|
| Debtors                 | 7,60,000  |
| Creditors               | 6,92,000  |
| Plant & Machinery       | 9,60,000  |
| Land                    | 3,20,000  |
| Building                | 4,80,000  |
| Furniture               | 1,92,000  |
| Sales overheads         | 5,12,000  |
| Cash on 31.3.03         | 32,000    |
| Bank balance on 31.3.03 | 4,40,000  |
| Capital                 | 20,00,000 |

[Ref: Q3. June '04 / Paper-10]

**ACCOUNTING STANDARD****Objective -Type Questions :**

- Q1. (a) Define a cash and cash equivalents as suggested in accounting standard 3 to be used for preparing a cash flow statement.
- (b) What is the objective of Accounting Standard?
- (c) State whether each of the following statement is true or false.
- (i) Going concern means that business has entered into a process of liquidation.
  - (ii) The principle of consistency requires that all business enterprises should follow the same method of accounting.
- (d) When parties are considered 'Related' as per A.S. 18?

[Ref: Q1. (d) - (f), (i), (j), Dec '08 / Paper-10]

- Q2. (a) Under which Accounting Standard cash flow statement is prepared "How do you treat Profit & Loss on sale of Fixed Assets for calculating cash flows from operating activities?
- (b) State the disclosure requirement in case of accounting for the effects of change in foreign exchange rates.
- (c) State with reasons whether the following is *True* or *False* :
- Hema Pvt. Ltd. adopts the practice of disclosing the significant policies pertaining to each relevant item in the appropriate schedule (wherein the said item forms a part) to the Income Statement or Balance Sheet. This is a perfectly valid disclosure.
- (d) State whether the following statements/facts are *True* or *False* :
- (i) Super profit basis of goodwill valuation does not account for normal and Extra-Profit.
  - (ii) Intrinsic value is EPS XPE Ratio.
- (e) How are Government grants in the form of non-monetary grants accounted for?

[Ref: Q1. (d), (e), (f), (g), (j), June '08 / Paper-10]

- Q3. (a) An intangible asset is an identifiable monetary asset.
- (b) What are the disclosure requirements pertaining to events occurring after the Balance Sheet date under the Accounting standards?
- (c) When can an item qualify to be a prior period item?
- (d) What is the objective of Accounting standards?
- (e) Can a company change the method of providing depreciation?

[Ref: Q1. (a), (c), (d), (f), (h), Dec. '07 / Paper-10]

- Q4. The inventory under AS 2 is valued on the basis of cost price or current replacement cost whichever is lower.

[Ref: Q1. (e)(ii), June '07 / Paper-10]

- Q5. (a) Define cash and cash equivalent as suggested in accounting standard 3 to be used for preparing a cash flow statement.  
(b) Distinguish between prior period items and accounting estimates.  
(c) State the disclosure requirement in a case where the Profit and Loss Account and Balance Sheet of a company do not comply with the accounting standard.  
[Ref: Q1. (c), (d), (g), Dec. '06 / Paper-10]
- Q6. (a) How should rentals repayable under operating leases be accounted for in accordance with AS 19?  
(b) State four items which are not to be included in determining the cost of inventories in accordance with paragraph 6 of AS 2 (Revised). [Ref: Q1. (a), (h), June '06 / Paper-10]
- Q7. (a) Define financing activities as suggested in accounting standard 3, to be used for preparing a cash flow statement.  
(b) What is the objective of 'Accounting Standards'? [Ref: Q1. (f), (g), Dec. '05 / Paper-10]
- Q8. (a) What is the legal status of accounting standards issued by the Institute of Chartered Accountants of India?  
(b) What do you mean by "fundamental accounting assumptions"?  
[Ref: Q1. (f), (h), June '05 / Paper-10]
- Q9. Can proceeds from sale of Fixed Assets in excess of original cost be directly credited to Capital Reserve?  
[Ref: Q1. (f), Dec. '04 / Paper-10]
- Q10. (a) When is an asset judged to have suffered an impairment loss?  
(b) How should basic earnings per share be calculated under AS-20?  
[Ref: Q1. (b), (c), June '04 / Paper-10]

### **Descriptive & Practical Questions :**

- Q1. Contingencies and events occurring after balance sheet date (AS 4 revised).  
[Ref: Q8. (b), June '08 / Paper-10]
- Q2. Advantages of setting Accounting standards. [Ref: Q8. (d), Dec. '07 / Paper-10]
- Q3. What is meant by global convergence of accounting standards? Discuss the benefits of convergence. What are the impediments to convergence? [Ref: Q7. June '06 / Paper-10]
- Q4. Discontinuing operations. [Ref: Q8. (d), June '04 / Paper-10]

## JOINT STOCK COMPANIES

### Objective -Type Questions :

- Q1. What is the legal status of accounting standards issued by the Institute of Chartered Accountants of India? [Ref: Q1. (f), June '05 / Paper-10]
- Q2. Bonus issue can be made out of profits to make partly paid-up shares as fully paid-up shares. [Ref: Q1. (a)(i), Dec. '07 / Paper-10]
- Q3. Mention the funds out of which a company can purchase its own shares. [Ref: Q1. (d), Dec. '04 / Paper-10]
- Q4. State the cases where the creation of Debenture Redemption Reserve is not mandatory as per SEBI guidelines. [Ref: Q1. (h), Dec. '08 / Paper-10]

### Descriptive & Practical Questions :

- Q1. The Balance Sheet of AB Ltd. as at 31st March, 2006 was as follows :

| Sources of Funds                                        | Rs.       |
|---------------------------------------------------------|-----------|
| 8000 'A' Class Equity Shares of Rs. 100 each fully paid | 8,00,000  |
| 2000 'B' Class Equity Shares of Rs. 100 each fully paid | 2,00,000  |
| Security premium                                        | 1,00,000  |
| General reserve                                         | 4,00,000  |
| 10% Debentures of Rs. 100 each                          | 14,00,000 |
| Secured loans                                           | 6,00,000  |
|                                                         | 35,00,000 |
| Employment of funds                                     |           |
| Fixed Assets Net of Depreciation                        | 28,00,000 |
| Working Capital                                         | 7,00,000  |
|                                                         | 35,00,000 |

You are given the following information :

- (a) 'B' Class Equity Shares are with differential rights as to dividends, voting or otherwise.
- (b) On 1st April, 2006 company in terms of its articles and through its special resolution decided to buy-back the 'B' Class equity shares at a premium of Rs. 50 per share. Necessary approvals were obtained in due course and the buy-back arrangement was completed by 30th June, 2006.
- (c) On 30th September, 2006 company declared the issue of fully paid bonus shares ('A' Class) to 'A' Class equity shareholders in the ratio of one share for every four shares held and the issue was successfully completed by 31st December, 2006.

Journalise the transactions in the books of AB Ltd.

[Ref: Q6. Dec. '07 / Paper-10]

Q2. (a) Explain the meaning of “free reserves” in the context of buy back of shares. State the adjustments that should be made to arrive at the net amount available for the purpose for the buy back.

(b) The Balance Sheet of BXT Ltd. as on 31st March, 2005 was as follows :

|                                             | Rs./Lakh     |                      | Rs./Lakh     |
|---------------------------------------------|--------------|----------------------|--------------|
| <b>Share Capital</b>                        |              | <b>Fixed Assets</b>  |              |
| Equity shares of Rs. 10 each,<br>fully paid | 20.00        | Land and buildings   | 15.50        |
| Reserves and surplus :                      |              | Plant and machinery  | 9.00         |
| General Reserve                             | 7.00         | Investments          |              |
| Securities premium                          | 5.00         | Corporate securities | 4.00         |
| Profit and Loss account                     | 8.00         | Current assets       |              |
| Secured loan                                |              | Stock                | 7.00         |
| 10% debentures                              | 6.00         | Debtors              | 10.00        |
| Unsecured loan                              |              | Cash and Bank        | 12.00        |
| Term loan                                   | 4.00         |                      |              |
| Current liabilities and provision           |              |                      |              |
| Trade creditors                             | 5.00         |                      |              |
| Accruals                                    | 2.50         |                      |              |
|                                             | <u>57.50</u> |                      | <u>57.50</u> |

The company has decided to buy back the maximum number of equity shares permissible under the law and has completed the necessary formalities in this respect. The buy back is to take place at a price of Rs. 20 per share.

Pass the necessary journal entries and prepare the post buy back Balance Sheet.

[Ref : Q3. (a), (b) Dec. '05 / Paper-10]

## PREPARATION OF FINAL ACCOUNTS

### Objective -Type Questions :

- Q1. Under what headings will you show the following item in the Balance Sheet of a company?  
Sinking Fund. [Ref: Q1. (c), June '08 / Paper-10]
- Q2. State with reasons whether the following statements are true or false :  
(a) The debit balance in the Profit & Loss A/c is treated as surplus.  
(b) Goodwill is a fictitious Assets. [Ref: Q1. (e), Dec. '07 / Paper-10]
- Q3. (a) Define accounting regulations. State in this context the present framework of corporate accounting in India.  
(b) Accounting to sec. 79 of the Companies Act, 1956, what are the two provisions when companies cannot issue share at a discount.  
(c) When can revenue be recognized in the case of a transaction of sale of goods?  
[Ref: Q1. (b), (e), (h), Dec. '06 / Paper-10]
- Q4. Can dividend be declared out of profit on re-issue of forfeited shares?  
[Ref: Q1. (g), June '06 / Paper-10]
- Q5. In accordance with the provisions of the Companies Act it is necessary to group the items appearing in the company's balance sheet under certain headings :  
What are these headings? [Ref: Q1. (h), Dec. '05 / Paper-10]

### Descriptive & Practical Questions :

- Q1. Disclosure requirements as per Companies Act, 1956 in case of non-compliance of accounting standards. [Ref: Q8. (a), Dec. '08 / Paper-10]
- Q2. Due to paucity of profits a company proposes to declare dividends out of its general reserves. From the under mentioned data you are asked to ascertain the amount which can be drawn from general reserves as per Declaration of Dividend and Reserve Rules 1775 :

|                                                         | Rs.       |
|---------------------------------------------------------|-----------|
| 10,000 10% preference shares of Rs. 100 each fully paid | 10,00,000 |
| 30,000 equity shares of Rs. 100 each fully paid         | 30,00,000 |
| General reserve                                         | 8,00,000  |
| Securities Premium                                      | 2,00,000  |
| Credit balance of profit and loss account               | 20,000    |
| Net profit for the year (after tax)                     | 1,80,000  |
| Average dividend during last five years                 | 15%       |

[Ref: Q7. Dec. '07 / Paper-10]

- Q3. From the following particulars furnished by OPTEX Ltd., prepare the Balance Sheet as at 31st March, 2006 as required by Part I, Schedule VI of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary :

|                                           | Debit (Rs.)      | Credit (Rs.)     |
|-------------------------------------------|------------------|------------------|
| Equity Capital (face value of Rs. 100)    | —                | 10,00,000        |
| Land                                      | 2,00,000         | —                |
| Building                                  | 3,50,000         | —                |
| Plant and Machinery                       | 5,25,000         | —                |
| Furniture                                 | 50,000           | —                |
| Calls in Arrears                          | 1,000            | —                |
| General Reserve                           | —                | 2,10,000         |
| Loan from State Financial Corporation     | —                | 1,50,000         |
| Stock :                                   |                  |                  |
| Finished                                  | 2,00,000         |                  |
| Raw Materials                             | 50,000           |                  |
| Sundry Creditors (for goods and expenses) | —                | 2,00,000         |
| Loans (unsecured)                         | —                | 1,21,000         |
| Preliminary expenses                      | 13,300           | —                |
| Cash at Bank                              | 2,47,000         | —                |
| Cash Balance                              | 30,000           | —                |
| Profit & Loss Account                     | —                | 1,00,000         |
| Proposed Dividend                         | —                | 60,000           |
| Advances                                  | 42,700           | —                |
| Sundry Debtors                            | 2,00,000         | —                |
| Provision for Taxation                    | —                | 68,000           |
|                                           | <u>19,09,000</u> | <u>19,09,000</u> |

The following additional information is also provided :

- Miscellaneous expenses included Rs. 5,000 audit fees and Rs. 700 for out of pocket expenses paid to the auditors.
- 2000 Equity Shares were issued for consideration other than cash.
- Debtors of Rs. 52,000 are due for more than six months.
- The Cost of Assets :
 

|                     |              |
|---------------------|--------------|
| Building            | Rs. 4,00,000 |
| Plant and Machinery | Rs. 7,00,00  |
| Furniture           | Rs. 62,500   |
- The balance of Rs. 1,50,000 in the loan account with State Finance Corporation is inclusive of Rs. 7,500 for interest accrued but not due. The Loan is secured by hypothecation of the Plant & Machinery.
- Balance at Bank includes Rs. 2,000 with Simplex Bank Ltd., which is not a scheduled Bank.
- Bills Receivable for Rs. 2,75,000 maturing on 30th June, 2006 have been discounted.
- The company had contract for the erection of machinery at Rs. 2,50,000 which still incomplete.

[Ref: Q7. Dec. '06 / Paper-10]



Q4. P. K. Daga furnishes you with following data and request you to draw up his Trading and Profit & Loss Account for the year ended 31.3.2008 and Balance Sheet as on that date :

|                  | 31.3.2007<br>Rs. | 31.3.2008<br>Rs. |
|------------------|------------------|------------------|
| Building         | 40,000           | 40,000           |
| Machinery        | 30,000           | 31,000           |
| Furniture        | 8,000            | 7,000            |
| Stock            | 6,000            | 7,500            |
| Debtors          | 4,500            | ?                |
| Bills Receivable | 1,500            | Nil              |
| Cash and Bank    | 4,000            | 5,000            |
| Creditors        | ?                | 3,500            |
| Bills Payable    | 3,000            | 2,000            |

Additional Information :

- (1) Closing Cash in hand amounted to Rs. 700.00
- (2) Proceeds of B/R received
 

|                               |            |
|-------------------------------|------------|
| in cash                       | Rs. 12,000 |
| from Bank on discounting @ 5% | Rs. 1,900  |
|                               | Rs. 13,900 |
- (3) Collection from Debtors in cash Rs. 15,000 and by cheque Rs. 45,000.
- (4) B/R endorsed to Creditors Rs. 1,000.
- (5) Bad Debt Rs. 400.
- (6) Total Sale Rs. 1,00,000 (including Rs. 23,200 in cash)
- (7) Cash Purchase Rs. 20,500.
- (8) Paid against B/P by cheque Rs. 10,000.
- (9) Payment to Creditors Rs. 15,000 in cash and Rs. 41,000 by cheque.
- (10) On 1.4.2007, a machine having book value Rs. 6,000 was sold at a profit of Rs. 500. On the same day, Furniture having a book value Rs. 3,000 was sold at a loss of Rs. 200. Both the proceeds were received by cheque.
- (11) Assets bought during the year were paid for by cheque.
- (12) Daga draws Rs. 500 every month in cash.
- (13) General Expenses amounted to Rs. 5,000 during the year. All such expenses were paid in cash.
- (14) An amount was borrowed during the year in cash.
- (15) Amount deposited and withdrawn from Bank were Rs. 24,500 and Rs. 20,000 respectively.
- (16) Daga maintains a constant margin of 20% on sale.

[Ref: Q4. June '08 / Paper-10]

Q5. The following is the Balance sheet of Shri Raman as on 30th June, 2005 :

| Liabilities     | Rs.             | Assets       | Rs.             |
|-----------------|-----------------|--------------|-----------------|
| Capital Account | 96,000          | Building     | 65,000          |
| Loan            | 30,000          | Furniture    | 10,000          |
| Creditors       | 62,000          | Motor Car    | 18,000          |
|                 |                 | Stock        | 40,000          |
|                 |                 | Debtors      | 34,000          |
|                 |                 | Cash in hand | 4,000           |
|                 |                 | Cash at Bank | 17,000          |
|                 | <u>1,88,000</u> |              | <u>1,88,000</u> |

A riot occurred on the night of 30th June, 2006 in which all books and records were lost. The Cashier had absconded with the available cash. Shri Raman gives you the following information :

- His sales for the year ended 30th June, 2006 were 20% higher than the previous year's. He always sells his goods at cost plus 25%, 20% of the total sales for the year ended 30th June, 2006 were for cash. There were no cash purchases.
- On 1st July 2005, the stock level was raised to Rs. 60,000 and stock was maintained at this new level all throughout the year.
- Collections from debtors amounted to Rs. 2,80,000 of which Rs. 70,000 was received in cash. Business expenses amounted to Rs. 40,000 of which Rs. 10,000 was outstanding on 30th June, 2006 and Rs. 12,000 was paid by cheques.
- Analysis of the pass book revealed the following :

|                          | Rs.      |
|--------------------------|----------|
| Payment to Creditors     | 2,75,000 |
| Personal Drawings        | 15,000   |
| Cash deposited in Bank   | 1,43,000 |
| Cash withdrawn from Bank | 24,000   |

- Gross Profit as per last year's audited accounts was Rs. 60,000.
- Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.
- The amount defalcated by the cashier may be treated as recoverable from him.

Prepare the Trading and Profit & Loss Account for the year ended 30th June, 2006 and the Balance Sheet as on that date.

[Ref: Q4. June. '07 / Paper-10]

Q6. The following particulars have been furnished in respect of Mr. Bright's business. From these you are required to prepare Trading A/c, Profit & Loss A/c and Balance Sheet6 as on 31.3.2003 :

|              | 1.4.2002  | 31.3.2003 |
|--------------|-----------|-----------|
|              | Rs.       | Rs.       |
| Cash         | 3,750     | —         |
| Bank balance | 7,50,000  | 5,25,000  |
| Debtors      | 25,00,00  | 31,25,000 |
| Creditors    | 22,50,000 | 25,00,000 |
| Stock        | 3,75,000  | 6,25,000  |

Analysis of the bank pass book the following have been revealed :

- Withdrawal for petty cash expenses @ Rs. 37,500 per month.
- Collection from debtors Rs. 33,75,000.
- Sales price being cost +  $33\frac{1}{3}\%$ .
- Any difference in Cash A/c and Bank A/c to be treated as personal drawings of Mr. Bright.
- Petty cash expenses during the year Rs. 4,46,250.
- All purchases were made on credit and paid by cheques.
- All sales were made on credit and dues collected by cheques.

[Ref: Q4. June. '04 / Paper-10]

## ACCOUNTING - SERVICE SECTOR

### Objective -Type Questions :

- Q1. State the disclosure requirements in the financial statements of a contractor.  
[Ref: Q1. (b), June '07 / Paper-10]
- Q2. When is a banking company allowed to form subsidiary companies?  
[Ref: Q1. (d), June '04 / Paper-10]
- Q3. For what purposes Contingency Reserve may be utilized by an electricity undertaking?  
[Ref: Q1. (g), Dec. '08 / Paper-10]
- Q4. Tariff and Dividend Control Reserves of an Electricity undertaking can never be utilized.  
[Ref: Q1. (b)(i), June '08 / Paper-10]
- Q5. What is meant by "non-banking assets"?  
[Ref: Q1. (g), June '05 / Paper-10]
- Q6. For what purposes contingency reserve may be utilized by an electricity under taking ?  
[Ref: Q1. (j), Dec. '05 / Paper-10]
- Q7. State how 'fixed assets' when discarded and sold are recognized in the Accounts of Electricity Companies.  
[Ref: Q1. (c), June '05 / Paper-10]
- Q8. What do you mean by "clear profit"?  
[Ref: Q1. (j), June '04 / Paper-10]
- Q9. Statutory Liquidity Ratio (SLR) of Banking Companies? [Ref: Q1. (a), June '08 / Paper-10]

### Descriptive & Practical Questions :

- Q1. Y Ltd. undertook a contract No. 80 for Rs. 7,50,000. The contract account showed the following particulars :
- 2005 :  
Materials Rs. 1,00,000, Wages Rs. 60,000, Overheads Rs. 15,000, Materials returned Rs. 8,000.  
The Plant at its depreciated value was transferred to contract No. 88. Uncertified work Rs. 15,000.
- 2007 :  
Materials Rs. 1,60,000, Wages Rs. 1,00,000, Overheads Rs. 28,000 and Materials Sold Rs. 4,000.
- The amount of work certified at the end of the first year was Rs. 1,00,000. The work certified upto the end of the second year was Rs. 4,00,000 and the work certified in the third year was Rs. 3,50,000. 80 percent of the certified work was received in cash.
- Profit to be taken credit for are one-third and one-half on cash basis in each of the two years respectively. Depreciate plant by 10 percent on balance at the beginning of each year.
- Prepare accounts in respect of the contract at the end of each year.  
[Ref: Q5. Dec. '08 / Paper-10]

Q2. Y Ltd. undertook a contract No. 80 for Rs. 7,50,000. The contract account showed the following particulars :

**2003 :**

Materials Rs. 30,000, Wages Rs. 25,000, Overheads Rs. 10,000, Plant Rs. 1,00,000 and Materials at site at close Rs. 3,000.

**2004 :**

Materials Rs. 1,00,000, Wages Rs. 60,000, Overheads Rs. 15,000, Materials returned Rs. 8,000. The Plant at its depreciated value was transferred to contract No. 88. Uncertified work Rs. 15,000.

**2005 :**

Materials Rs. 1,60,000, Wages Rs. 1,00,000, Overheads Rs. 28,000 and Materials Sold Rs. 4,000.

The amount of work certified at the end of the first year was Rs. 1,00,000. The work certified upto the end of the second year was Rs. 4,00,000 and the work certified in the third year was Rs. 3,50,000. 80 percent of the certified work was received in cash.

Profit to be taken credit for are one-third and one-half on cash basis in each of the two years respectively. Depreciate plant by 10 percent on balance at the beginning of each year.

Prepare accounts in respect of the contract at the end of each year.

[Ref: Q6. Dec. '06 / Paper-10]

Q3. Statutory reserve in case of accounting of banking companies.

[Ref: Q8. (b), Dec. '08 / Paper-10]

Q4. Calculate the amount of provision to be made by a nationalized bank in respect of doubtful debts on the following information :

|                                                                           | Rs. in crores |
|---------------------------------------------------------------------------|---------------|
| Some advances not exceeding Rs. 25,000 in each case                       | 10            |
| Advances over due for more than 30 months (of which 50% is fully secured) | 50            |
| Advances over due for 15 months                                           | 60            |
| Fully secured advances repayments being regular                           | 40            |
| Non-recoverable unsecured advances                                        | 20            |
| Total of loans and advances                                               | 180           |

[Ref: Q5. (a), (b), June '08 / Paper-10]

Q5. Restriction of dividends in case of banking company.

[Ref: Q8. (a), June '08 / Paper-10]

- Q6. Clear profits of Karikal Electricity Corporation Ltd. is Rs. 70,000 for the year ended 31st March, 2006. Other details are as follows :

|                                                   | Rs.      |
|---------------------------------------------------|----------|
| Development Reserve                               | 2,00,000 |
| Loan by Electricity Board                         | 4,00,000 |
| Depreciation Provision                            | 60,000   |
| Tariff and Dividend Control Reserve               | 50,000   |
| Cost of Fixed Assets                              | 8,00,000 |
| Compulsory Investment against Contingency Reserve | 2,00,000 |
| Working Capital                                   | 2,00,000 |

Rate of interest on investment against contingency reserve is 5% p.a. Reserve Bank rate is 9%.

From the data given above find out :

- (a) The Capital base;
- (b) Reasonable Return;
- (c) Disposal of surplus;
- (d) Distribution of clear profits.

[Ref: Q6. June '07 / Paper-10]

- Q7. Wind Mill Ltd. Supplying electricity maintains its accounts on double account basis. It incurred an expenditure of Rs. 25,00,000 to renovate its works. The relevant part of old works had costed Rs. 10,00,000. The capacity of new works will be double the capacity of old works. A sum of Rs. 5,00,000 is realized by the sale of old materials. Old materials of the value of Rs. 2,00,000 are used in the new works. Cost escalation (since old works were built) is as follows :

Materials 20%

Labour 25%

The cost constitutes  $\frac{3}{5}$ th for materials and  $\frac{2}{5}$ th for labour.

Show

- (a) the amount of improvement to be capitalized,
- (b) the amount to be written off to revenue,
- (c) Journal Entries to record the transactions.

[Ref: Q2. June '05 / Paper-10]

Q8. The following information is obtained from the books of Paragon Insurance Co. in respect of fire insurance as on 31.12.2003. Prepare the Fire Insurance Revenue account for the year ended 31.12.2003 :

Increase the additional reserve by 10% of the net premium.

|                                                        | Rs.       |
|--------------------------------------------------------|-----------|
| Reserve for unexpired risk on 1.1.03                   | 8,75,000  |
| Additional reserve on 1.1.03                           | 1,75,000  |
| Claims paid                                            | 5,95,000  |
| Estimated liability in respect of outstanding claims — |           |
| On 1.1.03                                              | 1,13,750  |
| On 31.12.03                                            | 1,57,500  |
| Managerial Exp. (including Rs. 52,500                  |           |
| Legal Expenses in connection with claims)              | 4,90,000  |
| Re-insurance premium                                   | 1,31,250  |
| Claims covered by re-insurance                         | 35,000    |
| Premiums                                               | 19,68,750 |
| Interests & dividends (less Income Tax)                | 1,01,500  |
| Profit on sale of investments                          | 19,250    |
| Commission                                             | 2,66,000  |

[Ref: Q7. June '04 / Paper-10]