

1. (i) On 1st April, 2008, Chhotu started business with an initial Capital of Rs. 70,000. On 1st October, 2008, he introduced additional capital of Rs. 40,000. On 7th of every month, he withdraw Rs. 5,000 for household expenses. On 31st March, 2009 his Assets and Liabilities were Rs. 2,00,000 and Rs. 70,000 respectively.

Ascertain the Profit earned by Chhotu during the year ended 31st March, 2009.

[10 x 2 = 20 Marks]

Ans.

Mem. Statement of Affairs as on 31.3.2009

Particulars	Rs.	Particulars	Rs.
Capital (B/F)	1,30,000	Assets	2,00,000
Liabilities	70,000		
	<u>2,00,000</u>		<u>2,00,000</u>

Statement showing profit for the year ended 31.3.2009

Particulars	Rs.
Closing Capital	1,30,000
Add: Drawing (5,000 x 12)	60,000
	<u>1,90,000</u>
Less: Opening Capital	70,000
Additional Capital	<u>40,000</u>
Profit	<u>80,000</u>

(ii) Year to year results of a company were not found comparable on the basis of gross profit margin. List out the probable reasons.

Ans. The results of a company where not found comparable year to year on the basis of gross profit margin because -

- The sales in not uniform through out the year,
- In the profit & Loss a/c of a company there may be non operating incomes / expenses. In that case the effect of those should be considered.
- There may be no relationship between indirect expenses and sales.
- Due to indirect expenses, the profitability of the two companies may differ.

(iii) MY Ltd. had acquired 200 equity shares of YZ Ltd. at Rs. 105 per share on 01.01.2009 and paid Rs. 200 towards brokerage, stamp duty and STT. On 31st March, 2009 Shares of YZ Ltd, were traded at Rs. 110 per share. At what value investment is to be shown in the Balance Sheet of MY Ltd. as at 31st March, 2009.

Ans. As per AS-13 "Accounting for investment" investment are classified are two category

- Permanent investment
- Current investment

Valuation method.

- Permanent investment :- Valued at cost (Historical cost) and market value are quote in the Balance Sheet.
- Current investment :- Valued at cost or NRV which ever is lower.

Conclusion:

- if investment are permanent investment then value = $21200[(105 \times 200) + 200]$
- if investment are current investment then value =
Cost = Rs. 21200 or Fair value $(200 \times 110) = 22,000/-$ whichever is lower that is Rs.21200

(iv) On 1st April, 2008, X, Y and Z enter into partnership introducing Capital of Rs. 80,000, Rs. 50,000 and Rs. 50,000 respectively. They agree to share Profits and Losses equally. At the end of the accounting year on 31st March, 2009, X claims that he be paid interest on his additional Capital of Rs. 30,000 @ 10% per annum, while Z demands salary of Rs. 600 per month for the extra hours devoted by him daily at the shop. The partnership deed is silent on these matters.

Decide the matters with reasons.

Ans. In the partnership firm Salary, Interest, Banker, Commission are Payable each Partner as per Partnership deed. If partnership deed are silent then no salary, Bonus, Commission, Interest are Payable. In the given case partnership deed is silent the refore no Salary and Interest are payable.

(v) What are the basic characteristics of a Pvt. Ltd. Company ?

Ans. The basic characteristics of Pvt. Ltd. company are :-

- Restricts the right to transfer its share
- Limit the number of its member to fifty
- Prohibits only invitation to the public to subscribe for only shares in or debentures of company
- Prohibits only invitation or acceptance of from persons other than its member, directors or their relations.

(vi) Sumo Ltd. has a profit of Rs. 25 lakhs before charging depreciation for Financial year 2008-09. Depreciation in the books was Rs. 11 lakhs and depreciation chargeable under Section 205 comes to Rs. 17 lakhs. Compute divisible profit for the year.

Ans. Calculation of divisible profit

Net profit before charging dep.	25 lakh.
Less: depreciation u/s 205	<u>17 lakh</u>
divisible profit	8 lakh

(vii) From the following data, find out value of inventory as on 30.04.2009 using (a) LIFO method, and (b) FIFO method :

(1) 01.04.2009 Purchased	10 units @ Rs. 70 per unit
(2) 06.04.2009 Sold	6 units @ Rs. 90 per unit
(3) 09.04.2009 Purchased	20 units @ Rs. 75 per unit
(4) 18.04.2009 Sold	14 units @ Rs. 100 per unit.

Ans. Calculation of value of inventory

a) LIFO Method

Date	Purchase	Issue	Balance
1.4.2009	10 unit @ 70/- = 700/-		10 unit @ 70/-
6.4.2009		6 unit @ 70/- = 420/-	4 unit @ 70/-
9.4.2009	20 unit @ 75/- = 1500/-		4 unit @ 70/- 20 unit @ 75/-
18.4.2009		14 unit @ 75/- = 1050/-	4 unit @ 70/- 6 unit @ 75/-

Value of closing stock = 4 x 70 = 280/-
 6 x 75 = 450/-
730/-

b) FIFO Method

Date	Purchase	Issue	Balance
1.4.2009	10 unit @ 70/- = 700/-		10 unit @ 70/-
6.4.2009		6 unit @ 70/- = 420/-	4 unit @ 70/-
9.4.2009	20 unit @ 75/- = 1500/-		4 unit @ 70/- 20 unit @ 75/-
18.4.2009		4 unit @ 70/- = 280/- 10 unit @ 75/- = 750/-	4 unit @ 70/- 6 unit @ 75/-

Value of closing stock = 10 x 75 = 750/-

(viii) Explain contract costs as per Accounting Standard-7 related to 'Construction Contracts'.

Ans. As per AS 7 – “Construction contracts” Contract Cost Consist of the following : -

- Site Labour cost including supervision
- Cost of material used in construction
- Depreciation of plant & equipments used on the contract.
- Cost of moving plant, equipments and materials from contract site,
- Cost of hiring plant,
- Cost of design & technical assistance,

- g) Estimated cost of rectification & guarantee work including expected warranty cost and
h) Claim from third parties.

(ix) Omshanti Club has 500 members with annual fee of Rs. 1,000 per member. At the end of the accounting year, accountant noticed that 40 members have not paid annual fee and 70 members had paid fee in advance. Help the accountant to compute Cash receipts of annual fee for the year.

Ans. Calculation of cash received for the year

500 member @ 1000/- per member	= 5,00,000
(-) outstanding (40 x 1000)	= <u>40,000</u>
	4,60,000
(+) fees received in Advance (70 x 1000)	<u>70,000</u>
Cash in hand	<u>5,30,000</u>

(x) The Companies Act. 1956 limits the payment of managerial remuneration. What is the maximum managerial remuneration, which can be paid in case of a company consistently earning profits and has more than one managerial persons.

Ans. As per Companies Act 1956 managerial remuneration paid on the basis of profit are as follows:-

- over all = 11%
 - if one MD or WTD = 5%
 - if more the one MD or WTD = 10%
- In the given case managerial remuneration will be 10%

Qn. 2. The following are the Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2009 :

[16 Marks]
(Rs. in lakhs)

Liabilities	M Ltd.	N Ltd.
Fully paid equity shares of Rs. 10 each	3,600	900
10% preference Shares of Rs. 10 each, fully paid up	1,200	--
Capital Reserve	600	--
General Reserve	2,100	--
Profit and Loss Account	780	--
8% Redeemable debentures of Rs. 1,000 each	--	300
Trade Creditors	2,421	369
Provisions	870	93
	<u>11,571</u>	<u>1,662</u>
	=====	=====
Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	--	51
Stock	2,370	444
Sundry Debtors	1,044	237
Cash at Bank	1,542	240
Preliminary Expenses	--	33
Discount on Issue of Debentures	--	6
	<u>11,571</u>	<u>1,662</u>
	=====	=====

A new Company MN Ltd. was got incorporated with an authorised capital of Rs. 15,000 lakhs divided into shares of Rs. 10 each. For the purpose of amalgamation in the nature of merger. M Ltd and N Ltd, were merged into MN Ltd. on the following terms :

- Purchase consideration for M Ltd.'s business is to be discharged by issue of 120 lakhs fully paid 11% preference shares and 720 lakhs fully paid equity shares of MN Ltd. to the preference and equity shareholders of M Ltd. in full satisfaction of their claims.
- To discharge purchase consideration for N Ltd.'s business, MN Ltd. to allot 90 lakhs fully paid up equity shares to shareholders of N Ltd. in full satisfaction of their claims.
- Expenses on the liquidation of M Ltd. and N Ltd. amounting to Rs. 6 lakhs are to be borne by MN Ltd.
- 8% redeemable debentures of N Ltd. to be converted into 8.5% redeemable debenture's of MN Ltd.

(v) Expenses on in corporation of MN Ltd. were Rs. 15 lakhs.

You are requested to :

- (a) Pass necessary Journal Entries in the books of MN Ltd. to record above transactions, and
 (b) Prepare Balance Sheet of MN Ltd. after merger.

Ans2. Working notes.

(1) Calculation of purchase consideration for M Ltd.

11% Preference share capital @ 10% each.	1200 lakh.
720 lakh Equity share @ 10 each	<u>7200 lakh</u>
	<u>8400 lakh</u>

For N Ltd.

90 lakh Eq. share @ 10 each.	900 lakh.
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Balance Sheet MN Ltd. (after margar)

Liabilities	Rs.	Assets	Rs.
Authorised share capital 1500 lakh share @ 10 each		Plant & Machinery	4683
Issued capital	15,000	Furniture & Fixture	2583
810 Equity share @ 10 each	8100	Motor Vehicle	51
11% Preference share capital @ 10 each	1200	<u>Current Assets</u>	
Capital Reserve	600	Stock	2814
General Reserve	NIL	Sundry debtors	1281
Profit & Loss A/c	NIL	Cash at bank	1761
8.5% Redeemable Debenture @ 1000 each.	300	<u>Misc. Exp.</u>	
Trade Creditors	2790	Preliminary Exp.	33
Provision	963	Discount on Issue of share	6
		Expenses of liquidation	6
		Incorporation Exp.	15
		P/L A/c debit balance	720
	<u>13,953</u>		<u>13,953</u>

Journal entries in the Books of mn Ltd.

Particulars	Dr.(Rs.)	Cr.(Rs.)
Plant & Machinery A/c Dr.	4215	
Furniture & Fixture A/c Dr.	2400	
Stock A/c Dr.	2370	
Sundry Debtors A/c Dr.	1044	
Cash at Bank A/c Dr.	1542	
P/L A/c Dr.	720	
To Provision A/c		870
To Trade Creditor A/c		2421
To Capital Reserve		600
To Liquidator of M Ltd.		8400
(Assets & Liabilities taken over of m Ltd.)		
Plant & Machinery A/c Dr.	468	
Furniture & Fixture A/c Dr.	183	
Motor vehicles A/c Dr.	51	
Stock A/c Dr.	444	
Sundry Debtors A/c Dr.	237	
Cash at Bank A/c Dr.	240	
Prel. Expenses A/c Dr.	33	
Discount on issue of Debenture A/c Dr.	6	
To 8% Redeemable debenture A/c		300
To Trade Creditors A/c		369
To Provision A/c		93

CA IPCC Solved Answer of Accounts (gr-1) Nov. 2009

5

To Liquidator of N Ltd. (Asset & Liabilities taken over of N Ltd.)		900
Liquidator of M Ltd. A/c Dr. To 11% preference share Capital A/c To Equity Share capital (Being purchase Consideration discharge)	8400	1200 7200
Liquidator of N Ltd. A/c Dr. To Eq. share capital A/c (Being purchase consideration discharge)	900	900
8% Redeemable Debenture A/c Dr. To 8.5% Redeemable Debenture A/c	300	300
Expenses of Liquidation A/c Dr. Expenses of incorporation A/c Dr. To Cash at Bank	6 15	21

Qn. 3. E, F and G were partners Sharing Profits and Losses in the ratio of 5 : 3 : 2 respectively. On 31st March, 2009 Balance Sheet of the firm stood as follows : **[16 Marks]**

Liabilities	Rs.	Assets	Rs.
Capital A/cs		Buildings	55,000
E 50,000		Furniture	25,000
F 40,000		Stock	42,000
G <u>28,000</u>	1,18,000	Debtors	20,000
Creditors	33,500	Cash at Bank	11,200
Outstanding Expenses	<u>1,700</u>		
	1,53,200		<u>1,53,200</u>
	=====		=====

On 31st March, 2009, E decided to retire and F and G decided to continue as equal partners. Other terms of retirement were as follows :

- (i) Building be appreciated by 20%.
- (ii) Furniture be depreciated by 10%.
- (iii) A provision of 5% be created for bad debts on debtors.
- (iv) Goodwill be valued at two years' purchase of profit for the latest accounting year. The firm's Profit for the year ended 31st March, 2009 was Rs. 25,000. No goodwill account is to be raised in the books of accounts.
- (v) Fresh capital be introduced by F and G to the extent of Rs. 10,000 and Rs. 35,000 respectively.
- (vi) Out of sum payable to retiring partner E, a sum of Rs. 45,000 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% per annum. The loan is to be paid off by 31st March, 2011.

One month after E's retirement, F and G agreed to admit E's son H as a partner with one-fourth share in Profits/Losses. E agreed that the balance in his loan account be converted into H's Capital. E also agreed to forgo one month's interest on his loan.

It was also agreed that H will bring in his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.

You are requested to Pass necessary Journal Entries to give effect to above transactions and prepare Partners' Capital Accounts.

Ans. W.N.1

Calculation of Goodwill

Goodwill to be valued at two year

$$\begin{aligned} \text{Purchase of profit for last year} &= 25000 \times 2 \\ &= 50000 \end{aligned}$$

Partner's Capital Account

Particulars	E	F	G	Particulars	E	F	G
To Cash	45000			By Balance b/d	50000	40000	28000
To E's Capital		10000	15000	By Revaluation	3750	2250	1500
To E's Loan	33750			By F's Capital	10000		

To Balance c/d		42250	49500	By G's Capital	15000		
				By Cash		10000	35000
	78750	52250	64500		78750	52250	64500
	F	G	H		F	G	H
To F's Capital			6250	By Balance c/d	42250	49500	
To G's Capital			6250	By E's loan a/c			33750
To Balance c/d	48500	55750	33750	By H's capital	6250	6250	
				By Cash			12500
	48500	55750	46250		48500	55750	46250

Journal Entries

- (i) Building A/c ----- Dr. 11000
 To Revaluation A/c 11000
 (Being the value of building appreciated)
- (ii) Revaluation A/c ----- Dr. 3500
 To Furniture A/c 2500
 To Provision for bad debts a/c 1000
 (Being furniture depreciated and prov. For bad debts created)
- (iii) Revaluation A/c ----- Dr. 7500
 To E's Capital A/c 3750
 To F's Capital A/c 2250
 To G's Capital A/c 1500
 (Being profit on revaluation transfer to partner capital account)
- (iv) F's capital A/c ----- Dr. 10000
 G's Capital A/c ----- Dr. 15000
 To E's Capital 25000
 (Being amount of goodwill adjusted in the partner capital a/c)
- (v) Cash A/c ----- Dr. 45000
 To F's capital A/c 10000
 To G's capital A/c 35000
 (Being brought by continuing partner cash)
- (vi) E's capital A/c ----- Dr. 45000
 To Cash A/c 45000
 (Being cash paid to retiring partner)
- (vii) E's capital a/c ----- Dr. 33750
 To E's loan a/c 33750
 (Being balance of capital a/c transfer to his loan a/c)
- (viii) E's Loan A/c ----- Dr. 33750
 To H's capital a/c 33750
 (Being E's loan amount transfer to his son as capital a/c)
- (ix) H's capital a/c ----- Dr. 12500
 To F's Capital A/c 6250
 To G's Capital A/c 6250
 (Being goodwill adjusted after admission)
- (x) Cash A/c ----- Dr. 12500
 To H's capital 12500
 (Being share of goodwill brought in cash by new partner)

W.N. 2 Adjustment of Goodwill at retirement

	E	F	G
Goodwill raised in old P.S.R i.e. 5.3.2	25000	15000	10000
Goodwill write off is N.P.S.R i.e. 1:1		25000	25000
	-----	-----	-----
Cr.	25000	Dr.10000	Dr. 15000

W.N. 3 Calculation of New profit sharing ratio

Let total shares = 1

$$\begin{aligned} \text{Share of H (New partner)} &= \frac{1}{4} \\ \text{Balance of shares of F \& G} &= 1 - \frac{1}{4} = \frac{3}{4} \end{aligned}$$

$$\text{Share of F} = \frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$$

$$\text{Share of G} = \frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$$

$$\text{Share of H} = \frac{1}{4} \times \frac{2}{2} = \frac{2}{8}$$

∴ N. P. S. R = 3 : 3 : 2

W.N. 4 Adjustment of goodwill after admission

	F	G	H
Goodwill raised in old P.S.R i.e. 1:1	25000	25000	
Goodwill write off in new P.S.R. i.e. 3 : 3 : 2	18750	18750	12500
	-----	-----	-----
Cr.	6250	Cr. 6250	Dr. 12500

Qn 4. (a) A fire broke out in the godown of a business house on 8th July, 2009. Goods costing Rs. 2,03,000 in a small sub-godown remain un-affected by fire. The goods retrieved in a damaged condition from the main godown were valued at Rs. 1,97,000.

The following particulars were available from the books of accounts :

Stock on the last Balance Sheet date at 31st March, 2009 was Rs. 15,72,000. Purchases for the period from 1st April, 2009 to 8th July, 2009 were Rs. 37,10,000 and sales during the same period amounted to Rs. 52,60,000. The average gross profit margin was 30% on sales.

The business house has a fire insurance policy for Rs. 10,00,000 in respect of its entire stock. Assist accountant of the business house in computing amount of claim of loss by fire.

[8 Marks]**Ans. (a)** Mem. Trading a/c of the business for the period 1.4.09 to 8.7.09

Particulars	Amount	Particulars	Amount
To Opening Stock	1572000	By Sales	32,60,000
" Purchases	3710000	" Clo. Stock	16,00,000
" Gross Profit	1578000	(Balancing Figure)	

W.N. (1) Calculation of Loss of Stock by fire :-

C/o. Stock as on 8.7.09

16,00,000

Less : Goods lying in a small sub- godown	2,03,000
Closing Stock at main godown	13,97,000
Less : Value of salvage stock	1,97,000

Loss of stock	12,00,000

Since the policy amount (Rs.10,00,000) is less than loss of stock by fire (13,97,000) therefore overage clause will apply-

$$\begin{aligned}
 \text{Insurance Claim} &= \frac{\text{Policy Amount} \times \text{Loss of Stock}}{\text{Closing stock}} \\
 &= \frac{10,00,000 \times 12,00,000}{16,00,000} \\
 &= 7,50,000
 \end{aligned}$$

Qn. 4 (b) A trader allows his customers credit for one week only beyond which he charges interest @ 12% per annum. Anil, a customer buys goods as follows : **[8 Marks]**

Date of Sale/Purchase	Amount (Rs.)
January 2, 2009	6,000
January 28, 2009	5,500
February 17, 2009	7,000
March 3, 2009	4,700

Anil settles his account on 31st March, 2009. Calculate the amount of interest payable by Anil using average due date method.

Ans (b) Base Date = 9.1.09

Date of Sale	Due date	Amount	No. of days (W.N.1)	Amount x No. of days
2.1.09	9.1.09	6000	0	0
28.1.09	4.2.09	5500	26	143000
17.2.09	24.2.09	7000	46	322000
3.3.09	10.3.09	4700	60	282000
		$\Sigma \text{ Amount} = 23200/-$		$\Sigma \text{ Amt.} \times \text{No. of days} = 747000/-$

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

Due Date	Month (No. of days)				Total
	Jan.	Feb.	Mar.		
9.1.09	0	--	--		0
4.2.09	22	4	--		26
24.2.09	22	24	--		46
10.3.09	22	28	10		60

$$\begin{aligned}
 \text{Average No. of days} &= \frac{\Sigma \text{ Amount} \times \text{No. of days}}{\Sigma \text{ Amount}} \\
 &= \frac{747000}{23200} = 32.198 \text{ or } 32 \text{ days}
 \end{aligned}$$

ADD = Base date + Avg. No. of days
 = 9.1.09 to 32 days
 = 10.2.2009

Interest will be calculated for the period from Add to the date of settlement of Accounts.

Therefore period of interest = 10.2.2009 to 31.3.2009
 = 49 days

Amount of Interest = Amount x Interest rate x No. of days

$$= 23200 \times \frac{12}{100} \times \frac{49}{365}$$

$$= 373.74/- \text{ or } 374/-$$

Qn. 5 (a) The Income and Expenditure Account of City Sports Club for the year ended 31st March, 2009 was as follows :

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries	1,20,000	By Subscriptions	1,60,000
To Printing and Stationery	6,000	By Entrance Fees	10,000
To Rent	12,000	By Contribution for Annual dinner	20,000
To Repairs	10,000	By Profit on Annual Sports meet	20,000
To Sundry Expenses	8,000		
To Annual Dinner Expenses	30,000		
To Interest to Bank	6,000		
To Depreciation on Sports equipment	6,000		
To Excess of Income over Expenditure	12,000		
Total	2,10,000	Total	2,10,000
	=====		=====

The above account had been prepared after the following adjustments :

	Rs.
Subscriptions outstanding on 31.03.2008	12,000
Subscriptions received in advance on 31.03.2008	9,000
Subscriptions received in advance on 31.03.2009	5,400
Subscriptions outstanding on 31.03.2009	15,000

Salaries outstanding at the beginning and at the end of the financial year were Rs. 8,000 and Rs. 10,000 respectively. Sundry expenses included prepaid insurance expenses of Rs. 1,200.

The Club owned a freehold ground valued Rs. 2,00,000. The Club has sports equipment on 01.04.2008 valued at Rs. 52,000. At the end of the year after depreciation the sports equipment amounted to Rs. 54,000. The Club raised a loan of Rs. 40,000 from a bank on 01.01. 2008, which was unpaid till 31.03.2009. On 31.03.2009 Cash in hand was Rs. 32,000.

Prepare Receipts and Payments account of the Club for the year ended 31st March, 2009 and Balance Sheet as on that date. **[8 Marks]**

Ans. 5 (a) Receipts & Payment A/c of City Sports Club for the year ended 31.03.2009

Particulars	Rs.	Particulars	Rs.
To Balance b/d (B/F)	27,800	By Salaries 1,20,000	
To Subscription 1,60,000		(-) clo. o/s 10,000	
(-) Clo. O/S 15,000		(+) op. o/s <u>8,000</u>	1,18,000
(+) Op. O/S 12,000		By Printing & Stationery	6,000
(+) Clo. Adv. 5400		By Rent	12,000
(-) op. Adv. <u>9000</u>	1,53,400	By Repair	10,000
To Entrance fees.	10,000	By Sundry Expenses 8000	
To Cont. for Annual dinner	20,000	(+) Prepaid Exp. <u>1200</u>	9200
To Profit on annual Sports meet	20,000	By Annual dinner Exp.	30,000
		By Intt. to Bank	6,000
		By Sports equipments purchased (W.N. – 2)	8,000
		By Balance c/d	<u>32,000</u>
	<u>2,23,200</u>		<u>2,23,200</u>

Balance Sheet of City Sports Club as on 31.3.2009

Liabilities	Rs.	Assets	Rs.
Capital A/c 2,14,800 (W.N.1)		Freehold ground	2,00,000
Add: Surplus <u>12,000</u>	2,46,800	Sports Equipment	54,000
Bank Loan	40,000	o/s subscription	15,000
Salary o/s	10,000	cash in hand	32,000
Subscription received in Advance	5400	Prepaid sundry exp.	1200
	<u>3,02,200</u>		<u>3,02,200</u>

Opening Balance Sheet as on 31.3.2008

Liabilities	Rs.	Assets	Rs.
Capital A/c	2,34,800	o/s subscription	12,000
Bank Loan	40,000	Sports Equipment	52,000
Subscription received in Advance	9,000	Freehold ground	2,00,000
Salary o/s	8,000	cash in hand	27,800
	<u>2,91,800</u>		<u>2,91,800</u>

Sports Equipment

Particulars	Rs.	Particulars	Rs.
To Balance b/d	52,000	By Depreciation	6,000
To Receipt and payment a/c	8,000	By Balance c/d	54,000
	<u>60,000</u>		<u>60,000</u>

5. (b) Rama Udyog Limited was incorporated on August 1, 2008. It had acquired a running business of Rama & Co. with effect from April 1, 2008. During the year 2008-09, the total Sales were Rs. 36,00,000. The Sales per month in the first half year were one-half of what they were in the later half year. The net Profit of the company, Rs. 2,00,000 was worked out after charging the following expenses (i) Depreciation Rs. 1,08,000, (ii) Audit fees Rs. 15,000, (iii) Directors' fees Rs. 50,000, (iv) Preliminary expenses Rs. 12,000, (v) Office expenses Rs. 78,000, (vi) Selling expenses Rs. 72,000 and (vii) Interest to vendors upto August 31, 2008 Rs. 5,000.

Please ascertain pre-incorporation and post-incorporation profit for the year ended 31st March, 2009. **[6 Marks]**

Ans.(b) Pre incorporation period 1.4.2008 to 1.8.2008 = 4 month.

Post incorporation period 1.8.2008 to 31.3.2009 = 8 month.

Statement showing ascertainment of pre-incorporation and post incorporation profit

Particulars	Ratio	Pre incorporation	Post incorporation
Sale (W.N.1)		10,00,000	26,00,000
Less: All Expenses			
Cost of goods sold (W.N.2)	(10:26)	8,50,000	22,10,000
Deprecation	(4:8)	36,000	72,000
Audit fees	(4:8)	5,000	10,000
Directors fees	(post)	-	50,000
Preliminary Exp.	(post)	-	12,000
Office Expenses	(4:8)	26,000	52,000
Selling Expenses	(4:8)	20,000	48,000
Interest to vender		4,000	1,000
Net Profit		<u>59,000</u>	<u>1,41,000</u>

Working Notes (1)

Calculation of sale ratio

Let sale of the letter $\frac{1}{2}$ year (per month) = x/- $\therefore$ " " " " first $\frac{1}{2}$ " " " = $\frac{1}{2}$ x/- or 0.5 x /- $\therefore$ Total Sale = $(.5x \times 6) + (X \times 6) = 36,00,000$ = $3x + 6x = 36,00,000$

X = 4,00,000

First $\frac{1}{2}$ year sale = $12,00,000 / 6 = 2,00,000$ per month" $\frac{1}{2}$ " " = $24,00,000 / 6 = 4,00,000$ " "

	Pre Incorporation	Post Incorporation
Sales		
1.4.2008 to 30.6.2008	600000	-----
	(200000 x 3)	
July 2008	400000	-----
Aug 2008 to Dec. 2008	----	20,00,000
		(400000 x 5)
Jan. 2009 to Mar. 2009	-----	6,00,000
		(200000 x 3)
	-----	-----
	10,00,000	26,00,000

W.N.2**Trading P/L A/c**

To Cost of goods sold	30,60,000	By Sale	36,00,000
To Depreciation	1,08,000		
To Audit fees	15,000		
To Directors fees	50,000		
To Preliminary Exp.	12,000		
To Office Expenses	78,000		
To Selling Expenses	72,000		
To Interest to Vendor	5,000		
To Net Profit	2,00,000		
	<u>36,00,000</u>		<u>36,00,000</u>

Cost of Goods sold Rs.30,60,000 will be divided in the ratio of sales i.e. 10:26 between pre and post incorporation period.

Qn. 6. Answer any **four** of the following :

[4 x 4 = 16 Marks]

(i) Market is full of ready-made accounting softwares. What factors will you consider to choose one of them for your enterprise ?

Ans. CONSIDERATION FOR SELECTION OF PRE-PACKAGED ACCOUNTING SOFTWARE

There are many accounting softwares available in the market. To choose the accounting software appropriate to the need of the organisation is a difficult task. Some of the criteria for selection could be the following:

1. Fulfilment of business requirements: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
2. Completeness of reports: Some packages might provide extra reports or the reports matches the requirement more than the others.
3. Ease of use : Some packages could be very detailed and cumbersome compare to the others,
4. Cost : The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
5. Reputation of the vendor: Vendor support is essential for any software. A stable vendor with reputation and good track records will always be preferred.
6. Regular updates : Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

(ii) As per Accounting Standard-14, what are the conditions which must be satisfied for an amalgamation in the nature of merger ?

Ans. Following conditions must be satisfied for an amalgamation in the nature of merger company

1. All assets and liability of transferor be comes assets and liabilities of transferee company.
2. Share holder holding not less than 90% of the face value of equity shares of transferor company be comes shareholder of transferee company.
3. Consider action to the equity share holders of transferor company is satisfied by issue of equity shares of transferee company but cash can be paid for fraction shares.
4. Business of transferor Company is intended to be carried out by the transferee company.
5. No adjustment is to be made in the book value of assets and liabilities of transferor company except that adjustments can be made so that same accounting policy are insured by transferor as well as transferee company.

(iii) What do you mean by Customised Accounting Software ?

Ans. CUSTOMISED ACCOUNTING SOFTWARE

A customised accounting software is one where the software is developed on the basis of requirement specifications provided by the organisation. The choice of customised accounting software could be because-of the typical nature of the business or else the functionality desired to be computerised is not available in any of the pre-packaged accounting software. An organisation desiring to have an integrated software package covering most of the functional area may have the financial module as part of the entire customised system.

A feasibility study is first made before the decision to develop a software is made. The life cycle of a customised accounting software begins with the organisation providing the user requirements. Based on these user requirement the system analyst prepares a requirement specification which is given for approval by the user management. Once the requirement specification is approved, the designing process begins. Development, testing and implementation are the other components of the system development life cycle.

(iv) Rose Ltd. had made an investment of Rs. 500 lakhs in the equity shares of Nose Ltd. on 10.01.2009. The realisable value of such investment on 31.03.2009 became Rs 200 lakhs as Nose Ltd, lost a case of patent rights. Rose Ltd follows financial year as accounting year. How will you recognize this reduction in Financial statements for the year 2008-09.

Ans. As per AS-13 "Accounting for investment" Valuation for long term investment is as follows :

- (i) It is usually carried/valued at cost
- (ii) If there is a decline in value of investment and, if such decline is not temporary, then carrying amount of investment is reduce by the amount of such decline.
- (iii) The resultant reduction in carrying amount is charged to the profit and loss a/c. This reduction amount is reversed when there is a rise in the value of investment but such rise in value should not be temporary.

If the investments held pose Ltd. is long term investment the cost price of this investment is Rs.500/- lakh. as on 10.01.2009. Realisable value of such investment on 31.3.2009 become 200/- lakhs. It seems that the decrease is long term in nature. Therefore Value of investments shall be Rs. 200 lacs.

If the investments held by rose Ltd. is other investment. In that case as per AS-13 "Accounting for Investment" the valuation of such Investment will be at "cost" or fair value whichever is lower.

Cost of shares of Nose Ltd. = 500 Lacs

Fair Value of Shares of Ltd. = 200 Lacs

∴ Value of Investments as on 31.3.09 = 200 Lacs.

(v) A company provided Rs. 10,00,000 for dividend payment. Is the Corporate Dividend Tax payable in this case? If yes, please compute corporate Dividend Tax assuming rate of 15% plus surcharge of 10% and disclose as it would appear in profit and Loss Account of the Company.

Ans. It is assumed that the total amount available for paying dividend is Rs. 10,00,000. It includes CDT also.

The rate of corporate Dividend tax is	15.00
Add : Surcharge 10%	<u>1.50</u>
	16.50
Add : Education cess. 3%	<u>0.495</u>
Dividend tax rate	16.995

∴ Amount of corporate dividend tax = 10,00,000 x 16.995%

116.995%

Tax = 145263/- therefore Rs.854737/- is available for dividend.

Profit and Loss appropriate a/c

To Dividend	8,54,737
To Corporate dividend tax	1,69,950

(vi) SAD Enterprises, a partnership firm had purchased business of SWAD enterprises on 01.04.2008 and paid Rs. 50,000 towards goodwill. On 01.04.2009, SAD enterprises decided to admit W as partner and the goodwill was valued at Rs. 1,00,000 for the purpose.

Please explain with reasons, at what price goodwill can be shown in the books of Accounts.

Ans. SAD enterprises purchase a partnership firm as on 1.4.2008 and paid goodwill 50000/-

The above goodwill is purchased goodwill and hence should be write off within a period of 3 - 5 years from the date of purchase.

Therefore value as on 1.4.2009 is 50,000/- subject to amortization should be shown in the balance sheet.

In the case of admission of partner goodwill will be valued Rs.1,00,000. As per AS 10 & AS 26 goodwill can be shown in the B/s only when same consideration is paid for it in money or money's worth. Therefore this goodwill should not be shown in the Balance Sheet.