Gurukripa Guideline Answers for November 2010 CA IPCC Question Paper

Q.No. 1 is Compulsory. Answer any Five Questions from the remaining Six Questions

1(a)(i) – Partnership – Computation of New Profit Sharing Ratio 2.5 Marks

The following two problems are regarding issues in Partnership Accounts, kindly solve both –

Anil and Mukhesh are Partners sharing profit and losses in the ratio of 3 : 2. Govind is admitted for 1/4th share of Firm. Thereafter, Madan enters for 20 paisa in a rupee. Compute new profit sharing ratios under both the admission of Partners.

Particulars	Anil	Mukesh	Govind	Madan
1. Old Ratio	3	2		
Govind admitted at ¼th Share. Balance 1 – ¼ = ¾	3/5 x 3/4 = 9/20	2/5 x 3/4 = 6/20	1/4 x 5/5 = 5/20	
2. New Ratio after Govind's admission	9	6	5	
3. Madan admitted at 20 Paise in a Rupee, i.e., 1/5th share. Balance 1 – 1/5 = 4/5	9/20 x 4/5 = 9/25	6/20 x 4/5 = 6/25	5/20 x 4/5 = 5/25	1/5 x 5/5 = 5/25
4. New Ratio after Madan's admission	**9**	**6**	**5**	**5**

Note: In both cases, it is assumed that the balance is shared in old proportion itself.

1(a)(ii) – Partnership – Computation of New Profit Sharing Ratio 2.5 Marks

The following Goodwill Account was opened by the partners of R and S, on the admission of H as a New Partner into firm Om and Sons. Calculate the share of profit agreed to be given to "H".

Dr. Goodwill A/c Cr.

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

Particulars	R	S	H
1. Old Profit Sharing Ratio	248/434 = 4/7	186/434 = 3/7	–
2. New Ratio Profit Sharing Ratio	124/434 = 2/7	124/434 = 2/7	186/434 = 3/7

Therefore, the share of profit given to **"H" is 3/7**.

1(b) – Valuation of Inventory – AS 2 5 Marks

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

Sales – Rs.47,25,000; General Overheads Cost – Rs. 1,25,000; Inventory at beginning –1,00,000 litres @ 15/– per litre.

Purchases: (a) June 1 two lakh litres @ 14.25; (b) June 30 one lakh litres @ 15.15; (c) Closing Inventory 1.30 lakh litres

Compute the following by the FIFO as per AS 2:

- Value of Inventory on June 30.
- Amount of Cost of goods sold for June.
- Profit / Loss for the month of June.

Value of Inventory as on June 30

Particulars	Rs.
0.30 Lakh Litres from June 1 Purchase Lot (0.30 Lakh Litres x Rs. 14.25 / Litre)	4,27,500
1 Lakh Litres from June 30 Purchase Lot (1 Lakh Litres x Rs. 15.15 / Litre)	15,15,000
Value of Inventory as on June 30	**19,42,500**

Amount of Cost of Goods Sold

Particulars	Rs.
Opening Stock (1 Lakh Litres x Rs.15)	15,00,000
Add: Purchases [(2 Lakh Litres x Rs.14.25) + (1 Lakh Litres x Rs.15.15)]	43,65,000
Less: Closing Stock	19,42,500
Cost of Goods Sold	**39,22,500**

Profit/Loss for the Month of June

Sales (Rs.47,25,000) – Cost of Goods Sold (Rs.39,22,500) – General Overheads Cost (Rs.1,25,000) = **Profit Rs.6,77,500**

1(c) – Purchase Consideration – AS 14 5 Marks

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

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

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

Computation of Net Assets

Particulars	A Ltd.	B Ltd.
Investment in Equity Shares of B Ltd (1000 / 4000) – ¼th	¼ × B	–
Investment in Equity Shares of A Ltd (2000 / 5000) – 2/5th		2/5×A
Sundry Assets	7,70,000	4,40,000
Less: 10 % Debentures	(2,00,000)	(1,50,000)
Net Assets (Let Intrinsic Value of A Ltd be "A" and B Ltd be "B")	**A**	**B**

Therefore from the above table we have two equations

A = 5,70,000 + 1/4 B .... Equation – 1

B = 2,90,000 + 2/5 A .... Equation – 2

Upon substituting value of A, Equation **1** in **2**, we get B = Rs.5,75,555 (Approx)

Upon substituting value of B in Equation **1**, we get A = Rs.7,13,889 (Approx)

1(d) – Investment Accounting and AS 13 5 Marks

H purchased 500 Equity Shares of Rs.100 each in the ABC Company Limited for Rs.62,500 inclusive of brokerage and Stamp Duty. Some Years later the Company decided to capitalize its profit and to issue to the holders of Equity Shares One Equity Share as Bonus for every Equity Share held by them. Prior to capitalization, the Shares of ABC Company Limited were quoted at Rs.175 per Share. After the capitalization, the Shares were quoted at Rs 92.50 per share. H sold the Bonus Shares and received Rs. 90 per Share. Show Investment A/c in H's books on average cost basis as per AS 13.

Same as Question No. 3; Page No. 3.9

Investment (in Equity Shares of ABC Company Ltd) Account

Particulars	NV	Cost	Particulars	NV	Cost
To Bank – Purchase of Shares	50,000	62,500	By Bank – Sale of Shares	50,000	45,000 (500 × 90)
To Bonus Shares (1:1 ratio)	50,000	–	By balance c/d **(WN 2)**	50,000	31,250
To P & L A/c **(Profit WN 1)**		13,750			
Total	**1,00,000**	**76,250**	Total	**1,00,000**	**76,250**
To balance b/d	50,000	31,250			

1. Bonus shares do not have any cost. However, the nominal value of Bonus Shares has to be shown.
2. Profit on sale of shares = [45,000 – (62,500 × 50,000 ÷ 1,00,000)] = 13,750 or Rs.62.50 per share.
3. Total Cost of 1,000 shares (incl.bonus) is 62,500. Cost of Closing Balance 500 Shares (prorata) is Rs.31,250. Cost being lower than the market price of Rs.175, Shares are carried forward at cost.

(2) – Non Profit Association – Income & Expenditure and Balance Sheet 16 Marks

The Young Trust runs a Charitable Hospital and a Dispensary. The following information is available for the year ended 31st March 2009 from the books of accounts:

Additional Information:

(a) The Dispensary supplied medicines to the Hospital worth Rs.60,000, for which no adjustment was made in the books.

(b) The Closing Stock of the medicines was Rs.40,000 at the dispensary.

(c) The stock of medicines on 31st March 2009 at the Hospital included Rs.4,000 worth of medicines belonging to the patients, which has not been considered while arriving at the figure of consumption of medicines.

(d) Donations were received towards Corpus of the Trust.

(e) On 15th August 2008, Surgical Equipments were donated having market value of Rs.40,000.

(f) The hospital is to receive the grant of 25% of the amount spent on treatment of the poor patients from the Red Cross Society. Such expenditure was Rs.50,000.

(g) Out of the fees recovered from the Patients, 10% is to be given to the Specialist retained by the Hospital.

(h) Depreciation on the assets on the closing balances: Surgical Equipments @ 20%; Building @ 5%; Furniture and Equipments @ 10%; Ambulance @ 30%

Trail Balance from the Books

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

You are required to prepare –

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

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

Income and Expenditure Account of Hospital, Dispensary for the year ended 31.03.2009

Particulars	Hospital (Rs.)	Dispensary (Rs.)	Particulars	Hospital (Rs.)	Dispensary (Rs.)
To Salaries	1,50,000	15,000	By Rent (Net)	2,75,000	
To Electricity Charges	1,05,000	2,000	By Fees from patients	3,00,000	
To Postage and Telephone			By Profit from Food Supplies (140000 – 90000)	50,000	
To Subscription to Journals	21,000		By Profit from Dispensary		55,000
To Consumption of Bed Sheets	90,000		By Ambulance Charges (Net)	800	
To Remuneration to Trustees			By Interest Accrued on FD		
To Consumption of Medicines (1,20,000 + 60,000 + 4,000)	1,84,000		By Revenue Grant from Red Cross Society (50,000 × 25%)	12,500	
To Consumption of Chemicals	30,000		By Deficit from Hospitals	**95,700**	
To Specialist Fees (3,00,000 × 10%)	30,000				
To Depreciation (as per FA Sch)	1,24,000				
To Surplus from Dispensary		**38,000**			
Total	**7,34,000**	**55,000**	**Total**	**7,34,000**	**55,000**

Income and Expenditure Account of Young Trust for the year ended 31.03.2009

Particulars	Rs.	Particulars	Rs.
To Deficit from Hospitals Activity	95,700	By Interest Accrued on FD	55,000
To Salaries	30,000	By Surplus from Dispensary Activity	38,000
To Postage and Telephone	26,000	By Deficit (trnsd to Corpus Fund) (Bal.Fig)	**79,700**
To Remuneration to Trustees	21,000		
Total	**1,72,700**	**Total**	**1,72,700**

Statement of Fixed Assets and Depreciation (Rs.)

Particulars	Building & Oprn Theatres	Surgical Equipments	Furniture & Fittings	Ambulance
Rate of Depreciation	5%	20%	10%	30%
Opening WDV	3,20,000	4,55,000	80,000	30,000
Add: Donations Received	–	1.00	–	–
Total	**3,20,000**	**4,55,001**	**80,000**	**30,000**
Less: Depreciation	16,000	91,000	8,000	9,000
Total (For I & E A/c)		**Rs.1,24,000**		
Closing WDV	3,04,000	3,64,001	72,000	21,000
Total (For Balance Sheet)		**Rs.7,61,001**		

Balance Sheet of Young Trust as at 31.03.2009

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund – Opening	9,00,000		**Fixed Assets (as per Sch)**		7,61,001
Add: Corpus Donations	6,00,000				
Add: Surgical Instruments Donations	1.00		**Current Assets:**		
			11% Fixed Deposits		5,00,000
Less: Deficit during the year	(79,700)	14,20,301	Interest Accrued on FD (5,00,000 × 11%)		55,000
			Government Grant Receivable		12,500
			Closing Stock:		
Current Liabilities:			Hospital [(20000 – 4000)+ 4000+ 1000]	21,000	
Sundry Creditors		41,000			
Specialist Fees Payable		30,000	Dispensary	40,000	61,000
			Sundry Debtors		60,500
			Cash and Bank Balance		41,300
Total		**14,91,301**	**Total**		**14,91,301**

Working Note –

1. Trading Account of Dispensary for the year ended 31st March, 2009

Particulars	**Rs.**	**Particulars**	**Rs.**
To Opening Stock	55,000	By Sales	3,10,000
To Purchases (3,00,000 – 60,000 transfer)	2,40,000	By Closing Stock	40,000
To Gross Profit (Bal.Fig)	**55,000**		
Total	**3,50,000**	**Total**	**3,50,000**

2. Surgical Instruments received free of Cost is accounted at a Nominal Value of Re.1 for Control Purpose.

(3) – Cash Flow Statement – Direct Method – AS 3 16 Marks

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

Balance Sheet as on 31st March 2010 (Rs in '000)

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

Statement of Profit or Loss for year ended 31-3-2010

	Particulars	Rs.
	Sales	30,650
	Cost of Sales	(26,000)
	Gross Profit	4,650
Less:	Depreciation	(450)
	Administrative and Selling expenses	(910)
	Interest Expenses	(400)
	Interest Income	300
	Dividend Income	200
	Net Profit Before Taxation and Extraordinary Items	3,390
Less:	Extraordinary Items – Insurance Proceeds from Earthquake Disaster Settlement	140
	Net Profit after Extraordinary Items	3,530
	Income Tax	(300)
	Net Profit	3,230

Additional Information (Rs.000's)

- An amount of Rs.250 was raised from the issue of Share Capital and a further Rs.250 was raised from Long Term Borrowings
- Interest Expense was Rs.400 of which Rs.170 was paid during the period Rs.100 relating to Interest Expense of the prior period was also paid during the period.
- Dividends paid were Rs.1,200
- Tax Deducted at Source on Dividends Received (included in the Tax Expense of Rs.300 for the year) amounted to Rs.40.
- During the period the enterprise acquired Fixed Assets for Rs.350. The payment was made in cash.
- Plant with Original Cost of Rs.80 and Accumulated Depreciation of Rs.60 was sold for Rs.20.
- Sundry Debtors and Sundry Creditors include amounts relating to Credit Sales and Credit Purchase only.

Cash Flow Statement of Banjara Ltd for the year ended 31.03.2010

	Particulars		Rs. (In '000)	Rs. (In '000)
	Cash Flow from Operating Activities:			
	Cash Received from Debtors	[WN – 1]	30,150	
Less:	Cash payment to Suppliers	[WN – 3]	(26,690)	
	Administrative and Selling Expenses		(910)	
	Cash generated from operations before Tax and Extraordinary items		2,550	
Less:	Taxes paid	[WN – 4]	(860)	
	Cash Flow before Extraordinary items		1,690	
Add:	Insurance proceeds from earthquake disaster settlement		140	
	Net Cash Flow from Operations	**[A]**		**1,830**
	Cash Flow from Investing Activities:			
	Dividend Income	(200 – TDS Rs.40)	160	
	Interest Income	(300 – Receivable Rs.100)	200	
	Purchase of Fixed Assets	[WN – 5]	(350)	
	Proceeds from Sale of Fixed Assets	(Given)	20	
	Net Cash Flow from Investing Activities	**[B]**		**30**
	Cash Flow from Financing Activities:			
	Proceeds from Issue of Shares	(Given)	250	
	Proceeds from Issue of Debentures	(Given)	250	
	Repayment of Long Term Debt	[WN – 6]	(180)	
	Interest Paid	(170 + 100)	(270)	
	Dividends Paid		(1,200)	
	Net Cash Flow from Financing Activities	**[C]**		**(1150)**
	Net Increase in Cash and Cash Equivalents	**[A + B + C]**		**710**
Add:	Opening Cash and Cash Equivalents (25 + 135)			160
	Closing Cash and Cash Equivalents (200 + 670)			**870**

Working Notes:

1. Assumed Sales are for Credit. So, collections from debtor is Opening Debtors Rs.1,200 + Credit Sales Rs.30,650– Closing Debtors Rs. 1,700 = Rs.30,150

2. Cost of Sales (Rs.26,000) = Opg. Stock (Rs.1,950) + Purchases (X) – Closing Stock (Rs.900). Therefore X = Rs.24,950

3. Assumed Purchases are for Credit. So, Cash Payment to Suppliers = Opening Creditors Rs.1,890 + Purchases Rs. 24,950 – Closing Creditors Rs.150 = Rs.26,690

4. Income Tax Paid during the Year – Provision for Taxation Account

Particulars	Rs. (000's)	Particulars	Rs. (000's)
To Cash – **Bal Fig.**	860	By Balance b/d	1,000
To TDS	40	By P&L – Provision for the year	300
To Balance c/d	400		
Total	**1,300**	**Total**	**1,300**

5. Purchase of Asset during the year – Fixed Assets Account (At Gross Block)

Particulars	Rs. (000's)	Particulars	Rs. (000's)
To Balance b/d – Given	1,910	By Asset Disposal (Cost)	80
To Cash – Purchase of FA **(Bal. Fig)**	350	By Balance c/d (Given)	2,180
Total	**2,260**	**Total**	**2,260**

6. Borrowing repaid during the year – Long Term Debt Account

Particulars	Rs. (000's)	Particulars	Rs. (000's)
To Cash – Loans Repaid (**Bal Fig.)**	180	By Balance b/d (Given)	1,040
To Balance c/d (Given)	1,110	By Cash – Fresh loans raised (Given)	250
Total	**1,290**	**Total**	**1,290**

(4) – Partnership Accounting 16 Marks

Ramu, Shamu and Raju were partners sharing P & L in the ratio of 3:2:2. Their Balance Sheet as on 01.01.2009 was as follows –

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Fixed Assets	80,000
Ramu – Rs.30,000		Stock	15,000
Shamu – Rs.20,000		Debtors	12,000
Raju – Rs.20,000	70,000	Cash & Bank	1,951
Reserves	14,000		
Creditors	24,951		
Total	1,08,951	Total	1,08,951

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

(a) Goodwill of the Firm be valued at 2 years' purchase of average profit of past three years. Profits for the year 2006, 2007 and 2008 were Rs.30,000, Rs.40,000 and Rs.47,600 respectively.

(b) Fixed Assets be revalued at Rs.1,01,000.

(c) Profit to be shared, earned in subsequent period after death of Ramu till settlement of his executors' claim.

Ramu's heirs account was settled on 31-3-2009 by bringing in required cash by remaining partners in equal proportion leaving cash balance of Rs.1,234. Each Partner had drawn @ Rs.1,000 per month for personal use.

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

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

1. Profit & Loss Appropriation A/c

Particulars	Rs.	Particulars	Rs.
To Ramu's Capital (WN 2)	15,300	By Profit & Loss A/c (Given)	46,600
To Shamu's Capital (Rs.10,200 + Rs. 1,380) (WN 4)	11,580		
To Raju's Capital (Rs.10,200 + Rs. 1,381) (WN 4)	11,581		
To Ramu's Executor's A/c (WN 3)	8,139		
Total	**46,600**	**Total**	**46,600**

2. Partners' Capital A/c from 01.01.2009 to 01.10.2009 (9 Months)

Particulars	Ramu	Shamu	Raju	Particulars	Ramu	Shamu	Raju
To Drawings (9 Months)	9,000	9,000	9,000	By Balance b/d	30,000	20,000	20,000
To Goodwill (1:1)	-	39,200	39,200	By Reserves (3:2:2)	6,000	4,000	4,000
To Ramu's Executor's A/c	84,900	–	–	By Revaluation Gain (1,01,000 – 80,000) (3:2:2)	9,000	6,000	6,000
				By Goodwill (3:2:2)	33,600	22,400	22,400
To balance c/d	-	14,400	14,400	By P&L Appropriation	15,300	10,200	10,200
Total	**93,900**	**62,600**	**62,600**	**Total**	**93,900**	**62,600**	**62,600**

3. Ramu's Executor A/c

Particulars	Rs.	Particulars	Rs.
To Bank	93,039	By Ramu's Capital	84,900
		By P&L Appropriation (WN 3)	8,139
Total	**93,039**	**Total**	**93,039**

4. Cash and Bank A/c

Particulars		Rs.	Particulars	Rs.
To Balance b/d		1,951	By Ramu's Executor	93,039
To Shamu's Capital	62,661		By Drawings (12,000 + 12,000 + 9,000)	33,000
To Raju's Capital	62,661	1,25,322		
			By balance c/d (Given)	1,234
Total		**1,27,273**	**Total**	**1,27,273**

5. Partners' Capital A/c from 01.10.2009 to 31.12.2009 (3 Months)

Particulars	Shamu	Raju	Particulars	Shamu	Raju
To Drawings	3,000	3,000	By Balance b/d	14,400	14,400
			By P&L Appropriation	1,380	1,381
To Balance c/d	75,441	75,441	By Cash and Bank	62,661	62,661
	78,441	78,441		78,441	78,441

Working Notes:

1. Computation of Goodwill

Particulars		Rs.
Total Profits for 3 Years	(2006 Rs.30,000 + 2007 Rs.40,000 + 2008 Rs.47,600)	1,17,600
Average Profits	(Rs.1,17,600 ÷ 3)	39,200
Goodwill at 2 Years' Purchase	(Rs.39,200 x 2)	78,400

2. Computation and Distribution of Profit upto 30.09.2009

Particulars	Rs.
Profit for the year before Depreciation (Rs.46,600 + Rs.9,000)	55,600
Profit after Deprecation up to 30.09.2009 (55,600 × ¾) – 6,000	35,700
Share of Profit (in the ratio of 3:2:2) Ramu = Rs.15,300; Shamu = Rs.10,200; Raju = Rs.10,200	
Profit for the last 3 months (from 01.10.2009 to 31.12.2009) = (Rs.46,600 – 35,700)	10,900

3. Right of Claim u/s 37 (Higher of the following)

a) 6% on unsettled Capital = 84,900 x 6% x 3/12 = Rs. 1,274

b) Profit earned on unsettled capital = 10,900 x [84,900 / (84,900 + 14,400 + 14,400)]

Higher of the above = Rs.8,139

4. Computation and Distribution of Profit from 01.10.2009 to 31.12.2009

Particulars	Rs.
Profit for the last 3 months (from 01.10.2009 to 31.12.2009) = (Rs.46,600 – 35,700)	10,900
Share of Profit for Executor of Ramu u/s 37 **(as per WN 3)**	8,139
Balance Profit for distribution to Shamu and Raju in 1:1 (Shamu – Rs.1,380; Raju – Rs.1,381)	2,761

5 (a) – Company Accounts – Shares / Debenture Issue and Redemption 12 Marks

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

Sources of Funds	Rs.
Authorized Capital:	
50,000 Equity shares of Rs.10 each	5,00,000
10,000 Preference shares of Rs.100 each	10,00,000
Issued Subscribed and Paid Up:	15,00,000
30,000 Equity shares of Rs.10 each	3,00,000
5,000 Redeemable 8% Preference shares of Rs.100 each	5,00,000
Reserves & Surplus:	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	1,80,000
2,500 9% Debentures of Rs.100 each	2,50,000
Sundry Creditors	1,70,000
Total	26,50,000
Application of Funds:	
Fixed Assets (Net)	7,80,000
Investments (Market Value Rs.5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Sundry Debtors	6,20,000
Cash & Bank balances	2,80,000
Preliminary expenses	1,40,000
Total	26,50,000

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

a) To split Equity Share of Rs.10 each into 5 Equity Shares of Rs.2 each from 1st July 2009.
b) To redeem 8% Preference Shares at a Premium of 5%.
c) To redeem 9% Debentures by making offer to Debentureholders to convert their holdings into Equity Shares at Rs.10 per Share or accept cash on redemption.
d) To issue fully paid Bonus Shares in the ratio of one Equity Share for every 3 Shares held on record date.

On 10th July 2009 investments were sold for Rs.5,55,000 and Preference Shares were redeemed. 40% of Debentureholders exercised their option to accept cash and their claims were settled on 1st August 2009. The company fixed 5th September 2009 as record date and Bonus Issue was concluded by 12th September 2009. You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September 2009. All working notes should form part of your answer.

Journal Entries in the Books of Bumbum Limited

Date	Particulars	Debit (Rs.)	Credit (Rs.)
01/07/2009	Equity Share Capital A/c (Rs.10) Dr	3,00,000	
	To Equity Share Capital A/c (Rs.2)		3,00,000
	(Being existing 30,000 Equity Shares of Rs. 10 each split into 30,000 × 5 = 1,50,000 Equity Shares of Rs. 2 each)		
10/07/2009	Cash and Bank A/c Dr	5,55,000	
	To Investment A/c		4,90,000
	To Profit on sale of Investment A/c		65,000
	(Being Investment sold at a profit)		
10/07/2009	Redeemable 8% Preference Share Capital A/c Dr	5,00,000	
	Premium on Redemption of Preference Shares A/c Dr	25,000	
	To Preference Shareholders A/c		5,25,000
	(Being Share Value and premium on redemption transferred to Shareholders)		

Date	Particulars	Debit (Rs.)	Credit (Rs.)
10/07/2009	Preference Shareholders A/c Dr	5,25,000	
	To Bank A/c		5,25,000
	(Being Preference shareholders paid)		
10/07/2009	Profit and Loss A/c Dr	1,80,000	
	General Reserve A/c Dr	3,20,000	
	To Capital Redemption Reserve A/c		5,00,000
	(Being transfer out of profits, an amount equal to the Nominal Value of Preference Shares redeemed)		
10/07/2009	Securities Premium A/c Dr	25,000	
	To Premium on Redemption of Preference Shares A/c		25,000
	(Being premium on redemption provided out of Securities Premium A/c)		
01/08/2009	9% Debentures A/c Dr	2,50,000	
	To Debenture holders A/c		2,50,000
	(Being the amount payable is transferred to Debenture holders)		
01/08/2009	Debenture Holders A/c Dr	2,50,000	
	To Cash and Bank A/c (Rs.2,50,000 × 40%)		1,00,000
	To Equity Share Capital A/c (Rs.2) (Rs.2,50,000 × 60%)		1,50,000
	(Being settlement made to debenture holders by way of cash 40% and allotment of Equity Shares for balance 60%)		
	[No. of Shares Allotted = Rs.1,50,000 / Rs.2 per share = 75,000 Shares.		
	The Split of Equity Shares is applicable for all the Potential Equity Shares]		
12/09/2009	Capital Redemption Reserve A/c Dr	1,50,000	
	To Bonus to Equity Shareholders A/c		1,50,000
	(Being amount appropriated for issue of Bonus Shares)		
12/09/2009	Bonus to Equity Shareholders A/c (75,000 × Rs.2) Dr	1,50,000	
	To Equity Share Capital A/c (Rs.2)		1,50,000
	(Being 75,000 Bonus Shares allotted in the ratio of 1:3) (2,25,000 Shares ÷ 3)		

Balance Sheet of Bumbum Ltd. as at 30.09.2009

Liabilities	Rs.	Assets	Rs.
Authorized Share Capital:		Fixed Assets (Net)	7,80,000
50,000 Equity Shares of Rs. 10 each	5,00,000	**Current Assets:**	
10,000 Preference Shares of Rs. 100 each	10,00,000	Sundry Debtors	6,20,000
Issued, Subscribed & Paid Up:		Cash and Bank Balance (Rs.2,80,000 + Rs. 5,55,000 – Rs. 5,25,000 – Rs. 1,00,000)	2,10,000
3,00,000 Equity Shares of Rs. 2 each fully paid	6,00,000		
(of the above 75,000 shares of Rs.10 each are issued as Bonus Shares)		**Other Current Assets:**	
		Deferred Tax Assets	3,40,000
Reserves & Surplus:			
Capital Redemption Reserve (Rs. 5,00,000 – Rs. 1,50,000)	3,50,000	**Misc. Expn. (to the extent not written off)**	
Securities Premium (Rs. 6,00,000 – Rs. 25,000)	5,75,000	Preliminary Expenses	1,40,000
General Reserve (Rs. 6,50,000 – Rs. 3,20,000)	3,30,000		
Profit & Loss A/c (Profit on Sale of Invests.)	65,000		
Current Liabilities:			
Sundry Creditors	1,70,000		
Total	**20,90,000**	**Total**	**20,90,000**

5(b) – Self Balancing Ledger – Preparation of Debtors Ledger Adjustment Account 4 Marks

Ujju Enterprise furnishes you the following information for the period October to December, 2009. You are requested to draw up Debtors Ledger Adjustment Account in the General Ledger –

a) Total sales amounted to Rs.2,20,000 including sale of old Motor Car for Rs.10,000 (Book Value Rs.5,000). Total Credit Sales were 80% higher than the Cash Sales.

b) Cash collection from Debtors amounted to 60% of the aggregate of the Opening Debtors amounting to Rs.40,000 and Credit Sales for the period. Debtors were allowed discount of Rs.10,000.

c) Bills Receivables drawn during the period totalled Rs.20,000 of which one bill of Rs.5,000 dishonoured for non-payment as the party became Insolvent, his estate realized 50 paise in a Rupee.

d) A sum of Rs.3,000 was written off as bad debts, Rs.7,000 was realized against bad debts written off in earlier years and provision of Rs.6,000 was made for doubtful debts.

In the General Ledger

Dr. Debtors Ledger Adjustment Account Cr.

Particulars	Rs.	Particulars	Rs.
To balance b/d	40,000	By General Ledger Adjt A/c	
To General Ledger Adjt A/c		– Cash Collection	
– Sales [WN 1]	1,35,000	60% of (40,000 + 1,35,000)	1,05,000
– B/R dishonoured	5,000	– Discount Allowed	10,000
		– Bills Receivable	20,000
		– Estate Realisation – Cash (50% of 5,000)	2,500
		– Bad Debts (2,500 (Insolvent) + 3,000)	5,500
		By balance c/d **(bal. fig.)**	**37,000**
Total	**1,80,000**	Total	**1,80,000**

Note:

1. Net Sales for the period = Rs.2,20,000 – Rs.10,000 = Rs.2,10,000. If Cash Sales is 100%, then Credit Sales = 100% + 80% = 180%. So, Credit Sales and Cash Sales are in the ratio 9 : 5. Therefore, Credit Sales = Rs.2,10,000 × 9/14th = 1,35,000.

2. Old Bad Debts written off and now recovered and Provision for Bad Debts will not affect Debtors Ledger Adjustment A/c or General Ledger Adjustment A/c.

6 (a) – Pre Vs Post Incorporation 10 Marks

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

	Particulars	Rs.	Rs.
	Sales		19,80,000
Less:	Cost of Goods Sold	11,88,000	
	Discount to dealers	46,200	
	Directors' Remuneration	60,000	
	Salaries	90,000	
	Rent	1,35,000	
	Interest	1,05,000	
	Depreciation	30,000	
	Office Expenses	1,05,000	
	Sales Promotion Expenses	33,000	
	Preliminary Expenses (to be written off in first year itself)	15,000	18,07,200
	Profit		1,72,800

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

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

1. Calculation of Ratios for apportionment purposes

Particulars	Pre- Incorpn.	Post-Incorpn.
(a) Period in Months	1st Jan – 31st May = 5 months	1st June – 31st Mar next = 10 months
So, Time Ratio is –	**1**	**2**
(b) Sales per month ratio (given)	Re.1 for 5 months	Rs.2.5 for 7 months and Rs.3.5 for 3 months
(c) Overall Sales Ratio	1 × 5 = **5**	(2.5 × 7) + (3.5 × 3) = **28**
(d) Salary ratio (Doubled)	Re.1	Rs.2
(e) Total Salary Ratio (a) × (d)	1 × 5 months = 5	2 × 10 months = 20
Upon simplification, **Salary Ratio** is	**1**	**4**
(f) Rent for additional showroom	**––**	10,000 × 9 = 90,000
(g) So, Balance Rent (1,35,000 – 90,000) in Time Ratio (1:2)	15,000	30,000
(h) Total Rent (f) + (g)	**15,000**	**1,20,000**
(i) Interest allocable to Company (Rs.9,00,000 × 10% × 10/12)	—	75,000
So, Balance Interest for Pre-Incorporation Period	(1,05,000 – 75,000) 30,000	—

2. Profit & Loss A/c of Shreya (P) Ltd for 15 months ended 31st March 2009

Particulars		1st Jan – 31st May	1st June – 31st Mar	Particulars	1st Jan – 31st May	1st June – 31st Mar
To Cost of Goods Sold	(5 : 28)	1,80,000	10,08,000	By Sales (5 : 28)	3,00,000	16,80,000
To Discount to Dealers	(5 : 28)	7,000	39,200			
To Director's Remuneration		—	60,000			
To Salaries	(1 : 4)	18,000	72,000			
To Rent	(W N 1h)	15,000	1,20,000			
To Interest	(W N 1j)	30,000	75,000			
To Depreciation	(1 : 2)	10,000	20,000			
To Office Expenses	(1 : 2)	35,000	70,000			
To Sales Promotion Expenses	(5 : 28)	5,000	28,000			
To Preliminary expenses		—	15,000			
To Net Profit – Post Incorp Pft		—	**1,72,800**			
Total		**3,00,000**	**16,80,000**	**Total**	**3,00,000**	**16,80,000**

During pre–incorporation period there is neither Profit nor Loss in this case. The treatment is as follows –

Profits	Losses
(a) Transferred to Capital Reserve or (b) Set of against Goodwill on acquisition, if any	(a) Debited to Goodwill or (b) Shown as "Loss Prior to Incorporation" on the Asset side of the Balance Sheet

6 (b) Hire Purchase Trading Account — 6 Marks

Sonam Corporation sells goods on Hire Purchase basis. The Hire Purchase Price is Cost plus 50%. From the following particulars prepare Hire Purchase Trading Account for the year ended 31st March 2010 –

Instalments not yet due on 01-04-09	3,00,000
Instalments due on 01-04-09	1,50,000
Goods sold on hire purchase during the year	9,00,000
Instalments collected from HP debtors	6,80,000
Stock with customers at hire purchase price	4,50,000
Goods re-possessed during the year	60,000
On 30-03-2010 Goods repossessed were valued at	Cost Less 40%

Hire Purchase Trading Account for the year ended 31st March 2010

Particulars	Rs.	Particulars	Rs.
To Hire Purchase Stock (Not yet due)	3,00,000	By Stock Reserve – Opg HP Stock (3,00,000 x 50/150)	1,00,000
To Hire Purchase Debtors (Due not collected)	1,50,000	By Goods Sold on Hire Purchase (Loading Reversal) – (9,00,000 × 50/150)	3,00,000
To Goods Sold on Hire Purchase	9,00,000	By Bank – Instalments collected	6,80,000
To Loss on Repossession **[WN – 2]**	36,000	By Repossessed Stock	60,000
To Stock Reserve (4,50,000 x 50/150)	1,50,000	By Hire Purchase Stock (Closing)	4,50,000
To Profit **(Bal. Fig)**	2,14,000	By Hire Purchase Debtors (Closing) **[WN – 3]**	1,60,000
Total	**17,50,000**	Total	**17,50,000**

Working Notes:

1. **Basic Data (Given):** Cost Price **=** Rs. 100 and HP Price = Rs.150. Therefore Profit Margin = Rs.50

2. **Computation of Loss on Repossession**
   (a) Repossession Value = Rs.60,000
   (b) Cost of Repossessed Goods = 60,000 x 100/150 = Rs.40,000
   (c) Repossessed stock valued at 40% less than cost. Therefore, 40,000 – 40% = Rs.24,000
   (d) Loss on Valuation of Repossessed Stock = 60,000 – 24,000 = Rs.36,000

3. **Computation of Closing Hire Purchase Debtors (Instalment Due Not yet Collected)**

	Particulars	Rs.
	Opening HP Stock and Debtors (Rs.3,00,000 + Rs.1,50,000)	4,50,000
Add:	Goods Sold on HP during the year at HP Price	9,00,000
	Gross Receivable	**13,50,000**
Less:	Installments Collected during the year	6,80,000
Less:	Goods Repossessed	60,000
Less:	Instalment Not Yet Due (Closing)	4,50,000
	Instalment Due Not Yet Collected (Closing HP Debtors)	**1,60,000**

Answer any four of the following

7(a) – Change in Method of Depreciation – AS 6 4 Marks

A company installed a Plant at a cost of Rs. 20 Lakhs with estimated useful life of 10 years and decided to depreciate on Straight Line Method. In the fifth year, the Company decided to switch over from Straight Line Method to Written Down Value method. Compute the resultant surplus / deficiency if any, and state how will you treat the same in the Accounts.

1. Computation of Surplus / Deficiency

Particulars	Rs.
Cost of the Plant	20,00,000
Depreciation Amount (Cost ÷ Estimated Useful Life of Years) (20,00,000 ÷ 10 Years)	2,00,000
Depreciation for 4 Years under SLM (2,00,000 × 4 Years)	8,00,000
Book Value after 4 years under SLM (20,00,000 – 8,00,000)	12,00,000
Book Value after 4 years under WDV (See Working 2)	13,12,200
Surplus to be credited to Profit and Loss Account	**1,12,200**

2. Computation of Book Value under WDV Method (assuming Rate of Depreciation as 10% p.a)

	Particulars	Rs.
	Original Cost	20,00,000
Less:	Depreciation for Year 1 (20,00,000 x 10%)	2,00,000
	Closing WDV at the end of Year 1 (20,00,000 – 2,00,000)	18,00,000
Less:	Depreciation for Year 2 (18,00,000 x 10%)	1,80,000
	Closing WDV at the end of Year 2 (18,00,000 – 1,80,000)	16,20,000
Less:	Depreciation for Year 3 (16,20,000 x 10%)	1,62,000
	Closing WDV at the end of Year 3 (16,20,000 – 1,62,000)	14,58,000
Less:	Depreciation for Year 4 (14,58,000 x 10%)	1,45,800
	Closing WDV at the end of Year 4 (14,58,000 – 1,45,800)	**13,12,200**

3. Treatment in the Books of Account in Year No.5

(a) Credit the surplus of Rs.1,12,200 to the Profit and Loss Account.
(b) Debit the current year depreciation of Rs.1,31,220 (Rs.13,12,200 × 10%) in the Profit and Loss Account.
(c) Disclose the change in method of depreciation from SLM to WDV as change in the Accounting Policy with the impact on profits of the Current Year.

7(b) – Accounting in e–Environment 4 Marks

A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

Refer Question No. 10; Page No. 15.6

7(c) – Construction Contracts – AS 7 4 Marks

An amount of Rs.9,90,000 was incurred on a contract work upto 31-3-2010. Certificates have been received to date to the value of Rs.12,00,000 against which Rs.10,80,000 has been received in cash. The cost of work done but not certified amounted to Rs.22,500. It is estimated that by spending an additional amount of Rs.60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is Rs.12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS – 7.

	Particulars	**Rs.**
	Cost incurred till Date	9,90,000
Add:	Estimated Additional cost	60,000
	Total Cost	**10,50,000**
	Hence % of completion based on cost (Cost incurred till date ÷ Estimated Total Cost = 9,90,000/10,50,000)	94.29%
	Contract Revenue to be recognised (12,50,000 x 94.29%)	11,78,625
Less:	Contract cost incurred till date	9,90,000
	Contract Profit	**1,88,625**

7(d) – Insurance Claims 4 Marks

A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount (Rs.) –

Turnover in last Financial Year	4,50,000
Standing Charges in last Financial Year	90,000

Net Profit earned in last year was 10% of Turnover and the same trend expected in subsequent year. Increase in turnover expected 25%. To achieve additional sales, trader has to incur additional expenditure of Rs.31,250.

1. Profit and Loss Account for Previous Year

Particulars	**Rs.**	**Particulars**	**Rs.**
To Variable Expenses **(Bal Fig.)**	3,15,000	By Sales	4,50,000
To Standing Charges	90,000		
To Net Profit (10% on Sales)	45,000		
Total	4,50,000	**Total**	4,50,000

2. Computation of Insurance Policy to be taken

	Particulars	**Rs.**
	Gross Profit (Sales Rs.4,50,000 *Less* Variable Expenses Rs.3,15,000)	1,35,000
Add:	25% for increase in Turnover (1,35,000 x 25%)	33,750
Add:	Additional Expenditure to achieve additional sales	31,250
	Policy to be Taken for current year	**2,00,000**

7(e) – Average Due Date 4 Marks

From the following details find out the Average Due Date –

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

Average Due Date (Base Date is 03.03.2009)

Date of Bill	**Date of Maturity**	**Amount (Rs.)**	**No. of Days**	**Product**
29.01.2009	03.03.2009	5,000	0	0
20.03.2009	23.05.2009	4,000	(28+30+23) 81	3,24,000
12.07.2009	14.08.2009 (since 15th is a public holiday)	7,000	(28+30+31+30+31+14) 164	11,48,000
10.08.2009	13.10.2009	6,000	(28+30+31+30+31+31+30+13) 224	13,44,000
		22,000		**28,16,000**

Average Due Date = 28,16,000 ÷ 22,000 = 128 Days from the Base Date.
Therefore the Average Due Date is **09.07.2009**

Gurukripa Guideline Answers for November 2010 CA PCC Question Paper
(Questions relevant for CA IPCC Group I)

1(c) – Insurance Claims 5 Marks

On 20th October, 2009, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available.

Stock of Goods @ 10% lower than cost as on 31st March 2009	Rs.2,16,000
Purchases Less Returns (1 – 4 – 2009 to 20 – 10 – 2009)	Rs.2,80,000
Sales Less Returns (1 – 4 – 2009 to 20 – 10 – 2009)	Rs.6,20,000

Additional Information –

a) Sales upto 20th Oct. 09 includes Rs.80,000 for which goods had not been despatched.
b) Purchases upto 20th Oct. 09 did not include Rs.40,000 for which Purchase Invoices had not been received from Suppliers, through goods have been received in Godown.
c) Past records show the GP Rate 25%.
d) The value of goods salvaged from fire Rs.31,000
e) Aman Ltd. has insured their stock for Rs.1,00,000

1. Memorandum Trading Account upto 20.10.2009

Particulars	Rs.	Particulars	Rs.
To Opening Stock (2,16,000÷90%)	2,40,000	By Sales	6,20,000
To Purchases (2,80,000 + 40,000)	3,20,000	By Closing Stock **(Bal. Fig)**	95,000
To Gross Profit (25% on Sales)	1,55,000		
Total	**7,15,000**	**Total**	**7,15,000**

2. Computation of Net Claim

	Particulars	Rs.
	Value of Stock on 20.10.2009	95,000
Less:	Value of Salvage Stock	(31,000)
	Net Claim	**64,000**

Since sum insured is greater than Net Claim, Average Clause is Not Applicable. Hence, Net Claim = **Rs.64,000**

1(d) – Revenue Recognition – AS – 9 5 Marks

On 25th September, 2009, Planet Advertising Limited obtained advertisement rights for World Cup Hockey Tournament to be held in Nov / Dec., 2009 for Rs.520 lakhs.

They furnish the following information:

1) The company obtained the advertisements for 70% of available time for Rs.700 Lakhs by 30th September 2009
2) For the balance time they got bookings in Oct. 09 for Rs.240 Lakhs
3) All the advertisers paid the full amount at the time of booking the Advertisement
4) 40% of the advertisements appeared before the public in Nov. 09 and balance 60% appeared in the month of Dec. 09.

You are required to calculate the amount of profit / loss to be recognized for the month of November and December, 2009, as per Accounting Standard – 9.

As per AS – 9, revenue from advertising should be recognised only when the service is completed. Here, service relating to advertisement is deemed to be completed only when the related advertisement appears before the public.

(In Rs. Lakhs)

Account	Treatment	September	October	November	December
Advertisement Revenue	Income	Nil	Nil	(700 + 240)x40% = 376	(700 + 240)x60% = 564
Advertisement Rights Purchased	Expense	Nil	Nil	520 x 40% = 208	520 x 60% = 312
Profit				**168**	**252**
Advance for Advertisement Rights Purchased	Asset	520	520	520 – 208 = 312	312 – 312 = 0
Advance from Customers for Sale of Time	Liability	700	940 (700 +240)	940 – 376 = 564	564 – 564 = 0

(2) – Partnership Accounting 16 Marks

P, Q, R are three doctors who are running a Polyclinic. Their capital on 31st March 2009 was Rs.1,00,000 each. They agreed to admit X, Y and Z as Partner w.e.f. 1st April 2009. The terms for sharing Profits & Losses as follows –

(a) 70% of the Visiting Fee is to go to the specialist concerned
(b) 50% of the Chamber Fee will be payable to the Individual Specialist
(c) 40% of Operation Fees and fees for pathological reports, X-ray and ECG will accrue in favour of the doctor concerned.
(d) Balance of Profit or Loss is shared equally.
(e) All the partners are entitled for 6% interest on capital employed.

They further agreed that:

(i) X, Y and Z brought in Rs.20,000 each as goodwill. Goodwill is shared by the existing Partners Equally.
(ii) X, Y and Z were brought in Rs.50,000 each as Capital. Each of the Original Partners also contributed Rs.50,000 by way of capital.

The receipts for the year after admission of new partners were:

Name of doctors	Particulars	Visiting Fees (Rs)	Chamber Fees (Rs)	Fees for Report, Operation etc. (Rs)
P	General Physician	1,50,000	2,00,000	
Q	Gynecologist	25,000	1,75,000	1,00,000
R	Cardiologist		1,00,000	
X	Child Specialist	1,00,000	1,50,000	
Y	Pathologist			1,00,000
Z	Radiologist		40,000	2,00,000
	Total	2,75,000	6,65,000	4,75,000

Expenses for the year were as follows:

Particulars	Rs
Medicines, Injections and Other Consumables	1,00,000
Printing and Stationery	5,000
Telephone Expenses	5,000
Rent	42,000
Power and Light	10,000
Nurses Salary	20,000
Attendants wages	20,000
Total	2,02,000
Depreciation:	
X-Ray Machines	15,000
ECG Equipments	5,000
Furniture	5,000
Surgical Equipments	5,000
Total Depreciation	30,000

You are requested to –

a) Pass necessary Journal entries on admission of Partners.
b) Prepare the Profit & Loss Account of the Polyclinic for the year ended 31st March, 2010.
c) Prepare Capital Accounts of all the partners at the end of the financial year 2009–10. Also show the distribution of profit among Partners.

Journal Entries on Admission of Partners (Rs.000's)

Particulars		Debit	Credit
X's Capital A/c	Dr.	20	
Y's Capital A/c	Dr.	20	
Z's Capital A/c	Dr.	20	
To P's Capital A/c			20
To Q's Capital A/c			20
To R's Capital A/c			20
(Being Goodwill compensation by new partners to old partners)			

Particulars		Debit	Credit
Cash A/c	Dr.	300	
To P's Capital A/c			50
To Q's Capital A/c			50
To R's Capital A/c			50
To X's Capital A/c			50
To Y's Capital A/c			50
To Z's Capital A/c			50
(Being Cash brought in by the New and Old Partners)			

Profit & Loss Account for year ended 31.3.2009

Particulars	Rs.(000's)	Particulars	Rs. (000's)
To Medicines	100	By Visiting Fees	275
To Printing & Stationary	5	By Chamber Fees	665
To Telephone Expenses	5	By Report Fees	475
To Rent	42		
To Power and Light	10		
To Nurses Salary	20		
To Attendants' Wages	20		
To Depreciation (15000+5000+5000+5000)	30		
To Interest on Capital Employed			
– P's (150 × 6%) = 9			
– Q's (150 × 6%) = 9			
– R's (150 × 6%) = 9			
– X's (50 × 6%) = 3			
– Y's (50 × 6%) = 3			
– Z's (50 × 6%) = 3	36		
To Profit (Tranfd to Capital Account)	**1,147**		
Total	**1,415**	**Total**	**1,415**

Partners' Capital Account (in Rs. 000's)

Particulars	P	Q	R	X	Y	Z	Particulars	P	Q	R	X	Y	Z
To P, Q & R	–	–	–	20	20	20	By Balance b/d	100	100	100	–	–	–
(Goodwill)							By Cash	50	50	50	50	50	50
To Bal C/d	456	396	331	250	145	205	By X, Y & Z – Goodwill	20	20	20	–	–	–
(Bal. Fig)							By Interest on Capital	9	9	9	3	3	3
							By P&L – Profit Share	277	217	152	217	112	172
Total	**456**	**396**	**331**	**270**	**165**	**225**	**Total**	**456**	**396**	**331**	**270**	**165**	**225**

Statement Showing Distribution of Profits (in Rs. 000's)

Name	Visiting Fees (70%)	Chamber Fees (50%)	Report / Operation (40%)	Balance Share in Profit (Equally)	Total
P	(150 × 70%) 105.0	(200 × 50%) 100.0	–	72	277
Q	(25 × 70%) 17.5	(175 × 50%) 87.5	(100 × 40%) 40.0	72	217
R	–	(100 × 50%) 50.0	(75 × 40%) 30.0	72	152
X	(100 × 70%) 70.0	(150 × 50%) 75.0	–	72	217
Y	–	–	(100 × 40%) 40.0	72	112
Z	–	(40 × 50%) 20.0	(200 × 40%) 80.0	72	172
Total	**192.5**	**332.5**	**190.0**	**(Bal. Fig) 432**	**1,147**

5 (a) – Investment Accounting 8 Marks

On 1st April 2009 XY Ltd. has 15,000 Equity Shares of ABC Ltd, at a Book Value of Rs. 15 Per Share (Face Value Rs. 10 Per Share). On 1st June 2009, XY Ltd acquired 5,000 Equity Shares of ABC Ltd, for Rs.1,00,000 on cum right basis. ABC Ltd. announced a Bonus and Right Issue.

a) Bonus was declared, at the rate of one Equity Share for every five Shares held, on 1 July 2009.
b) Right Shares are to be issued to the existing Shareholders on 1st September 2009. The Company will issue one Right Share for every 6 shares at 20% premium. No dividend was payable on these shares.
c) Dividend for the year ended 31-3-2009 were declared by ABC Ltd. @ 20% which was received by XY Ltd on 31st Oct. 2009.
d) XY Ltd. (i) Took up half the Right Issue (ii) Sold the remaining rights for Rs.8 per Share
e) XY Ltd. sold half of its share holdings on 1st Jan. 2010 at Rs.16.50 per share. Brokerage being 1%.

You are required to prepare Investment a/c of XY Ltd. for the year ended 31st March 2010 assuming the shares are being valued at average cost.

Investment (in Equity Shares of ABC Ltd) Account

Date	Particulars	No.	Rs.	Date	Particulars	No.	Rs.
1.4.09	To balance b/d	15,000	2,25,000	31.10.10	By Bank (Pre acqn. dividend) (WN 6)		10,000
1.6.09	To Bank	5,000	1,00,000	1.1.10	By Bank – Sale of Shares (WN 9)	13,000	2,12,355
1.7.09	Bonus Shares (WN 1)	4,000	–	31.3.10	By balance c/d	13,000	1,69,500
1.9.09	To Bank (Rights – WN 4)	2,000	24,000				
31.3.10	To P&L – Profit (WN 8)		42,855				
	Total	**26,000**	**3,91,855**		**Total**	**26,000**	**3,91,855**

Working Notes:

Particulars	Computation	Result
1. No. of Bonus Shares received at Nil Cost	(15,000 + 5,000) ÷ 5	4,000 Shares
2. No. of Rights Shares	(20,000 + 4000) ÷6	4,000 Shares
3. Rights Renounced @ Rs.8 Per Share – Taken to P & L A/c	(4000 x 50%) × Rs.8	Rs.16,000
4. Rights Subscribed at 20% Premium (i.e 10+20% = Rs.12 / Share)	(4000 x 50%) × Rs.12	Rs.24,000
5. Dividend Received for shares held on 01.04.2009 – Taken to P&L A/c	(15,000 x Rs.10 × 10%)	Rs.30,000
6. Dividend on Shares Purchased – Reacquisition Dividend	(5,000 x Rs.10 × 10%)	Rs.10,000
7. No. of Shares Sold on 01.01.2010	26,000 × 50%	13,000 Shares
8. Cost of 13,000 Shares	(2,25,000 + 1,00,000 + 24,000 –10,000) × 50%	1,69,500
9. Net Sale Proceeds of 13,000 Shares @16.50/Share	(13000 × 16.50) – 1%	2,12,355
10. Profit on Sales	(212355 – 169500)	42,855

5(b) – Non Profit Organisation – Preparation of Receipts and Payments Account 8 Marks

Income and Expenditure Account for the year ended 31st March 2010 of South Asia Club is given below –

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries & Wages	47,500	By Subscription	75,000
To Misc. Expenses	5,000	By Entrance fees	2,500
To Audit Fees	2,500	By Contribution for Annual Day (After deducting expenses Rs.7,500)	7,500
To Executive's Honorarium	10,000		
To Sports Day Exp.	5,000		
To Printing & Stationery	4,500		
To Interest on Bank Loan	1,500		
To Depreciation on Sports Equipment	3,000		
To Excess of Income over Expenditure	6,000		
Total	85,000	Total	85,000

Following additional informations are also available –

Particulars	31–3–2009 (Rs.)	31–3–2010 (Rs.)
Subscription received in advance	4,500	2,700
Subscription outstanding	6,000	7,500
Salaries Outstanding	4,000	4,500
Sports Equipment (after deducting depreciation)	26,000	27,000
Cash in hand on 31-3-2010	?	16,000

The Club took a 5% loan of Rs.30,000 from a bank during 2008-09 for which interest was not paid in F.Y.2009–10.
Prepare Receipts and Payments A/c of South Asia Club for the year ending 31st March 2010.

Receipts and Payments Account of Asia Club for year ended 31.3.2010

Particulars	Rs.	Particulars	Rs.
To Balance b/d – **Bal Fig.**	12,300	By Salaries & Wages (47500+4000–4500)	47,000
To Subscription (WN 1)	71,700	By Misc. Expenses	5,000
To Entrance Fees	2,500	By Audit Fees	2,500
To Contribution for Annual Day (7500 + 7500)	15,000	By Executives Honorarium	10,000
		By Sports day Expenses	5,000
		By Printing and Stationary	4,500
		By Annual Day Expenses	7,500
		By Sports Equipment (WN 2)	4,000
		By Balance c/d (Given)	16,000
Total	**1,01,500**	**Total**	**1,01,500**

Working Notes:

1. Subscription collected during the Year

	Particulars	Rs.
	Subscription credited as per Income and Expenditure Account	75,000
Add:	Outstanding Subscription (Opening)	6,000
Add:	Advance Subscription (Closing)	2,700
Less:	Outstanding Subscription (Closing)	7,500
Less:	Advance Subscription (Opening)	4,500
	Subscription collected during the year	**71,700**

2. Sports Equipment Account

Particulars	Rs.	Particulars	Rs.
To balance b/d	26,000	By Depreciation	3,000
To Bank (Purchases) – **Bal. Fig**	**4,000**	By balance c/d	27,000
Total	**30,000**	**Total**	**30,000**

6 (a) – Hire Purchase Trading Account 8 Marks

From the following information of M/s Chennai Traders, you are required to prepare Hire Purchase Trading Account to ascertain the profit during the Financial Year 2009 – 10.

Chennai Traders sell goods on hire purchase basis at cost plus 25%. The following details are available:

Particulars	Rs.
Instalment not due on 31st March, 2009	4,50,000
Instalment due and collected during the Financial Year 2009–10	12,00,000
Instalment due but not collected during the Financial Year 2009–10 which includes Rs.15,000 for which goods were repossessed	75,000
Instalment not due on 31st March, 2010 including Rs.30,000 for which goods were repossessed	5,55,000
Instalment collected on Repossesses Stock	22,500
M/s Chennai Traders valued repossesses Stock at 60% of Original Cost	

Hire Purchase Trading Account of M/s Chennai Traders for the year ended 31st March 2010

Particulars	Rs.	Particulars	Rs.
To HP Stock (Instalments not yet due)	4,50,000	By Stock Reserve (4,50,000 × 25÷125)	90,000
To Repossessed Stock (Loading) **[WN 2]**	6,000	By Bank – Instalments Collected (Rs.12,00,000 + Rs.22,500)	12,22,500
To Goods Sold on HP **(WN 3)**	14,02,500	By Goods Sold on HP – Loading (1402500 × 25÷125)	2,80,500
		By Repossessed Stock – Due not collected	15,000
To Loss on Repossession **[WN 2]**	17,400	By Repossessed Stock – Not yet due	30,000
To Stock Reserve (5,25,000 × 25÷125)	1,05,000	By HP Stock (Closing) (5,55,000 – 30,000)	5,25,000
To P&L A/c – Transfer	**2,42,100**	By HP Debtors (Closing) (75,000 – 15,000)	60,000
Total	**22,23,000**	**Total**	**22,23,000**

Working Notes:

1. **Basic Data (Given):** Cost Price **=** Rs. 100 and HP Price = Rs.125. Therefore Profit Margin = Rs.25

2. **Computation of Loss on Repossession**
   (a) Repossession Value = Rs.45,000
   (b) Cost of Repossessed Goods = 45,000 x 100/125 = Rs.36,000
   (c) Repossessed stock valued at 60% of cost. Therefore, 36,000 × 60% = Rs.21,600
   (d) Loading on Repossessed Stock = 30,000 × 25 ÷ 125 = Rs.6,000
   (e) Loss on Valuation = 45,000 – 6,000 – 21,600= Rs.17,400

3. **Computation of Goods Sold During the Year**

	Particulars	Rs.
	Installments Collected during the year	12,22,500
Add:	Goods Repossessed @ HP Price (15,000 + 30,000)	45,000
Add:	Instalment Not Yet Due (Closing)	5,25,000
Add:	Instalment due not collected (Closing)	60,000
Less:	Instalment due not collected (Opening)	4,50,000
	Goods Sold during the Year (at HP Price)	**14,02,500**

7 (b) – Self Balancing and Sectional Balancing System 4 Marks

Gupta Traders keep their Ledger on the self balancing system. They provide you the following information for the year ended 31st March 2010 –

Particulars	Rs.
Debtors balance on 1st April 2009	1,37,250
Credit Sales	68,100
Returns Inward	1,200
Returns Outward	1,800
Cash Received from customers	76,800
Discount Received	2,010
Acceptances Received	25,500
Bills Receivables Dishonoured	3,600
Bad Debts Written Off	7,500

You are required to prepare General Ledger Adjustment A/c in the Sales Ledger of Gupta Traders.

General Ledger Adjustment Account (in Sales Ledger) for the year ended 31.3.2010

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Debtors Ledger Adjt A/c		By Balance b/d	1,37,250
– Return Inwards	1,200	By Debtors Ledger Adjt A/c	
– Cash Received	76,800	– Credit Sales	68,100
– Acceptances Received	25,500	– B/R Dishonoured	3,600
– Bad Debts	7,500		
To Balance c/d – **Bal Fig.**	97,950		
Total	**2,08,950**	Total	**2,08,950**

Note: Returns outwards (Purchase Returns) and Discount Received will not affect Debtors related transactions and GL Adjustment Account in Sales Ledger.

7(d) – Accounting in e–Environment 4 Marks

"Recently a growing trend has developed for outsourcing the accounting function." Explain the advantages and disadvantages of outsourcing the accounting functions.

Refer Question No.10; Page No. 15.6

Students' Notes

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