

PAPER – 1 : ACCOUNTING

Question No. 1 is compulsory

Answer any five questions from the remaining six questions.

Wherever necessary suitable assumptions should be made by the candidates.

Working Notes should form part of the answer.

Question 1

Answer the following question:

- (a) The abstract of the Balance Sheet of the AXE Ltd. as at 31st March 2011, are as follows:

Liabilities	₹
Equity share capital (₹100 each)	15,00,000
12% Preference share capital (₹100 each)	8,00,000
13% Debentures	3,00,000

On 31st March, 2011, BXE Ltd. agreed to take over AXE Ltd. on the following terms:

- (1) For each preference share in AXE Ltd., ₹10 in cash and one 9% preference share of ₹100 in BXE Ltd.
- (2) For each equity share AXE Ltd. ₹20 in cash and one equity share in BXE Ltd. of ₹100 each. It was decided that the share in BXE Ltd. will be issued at market price ₹140 per share.
- (3) Liquidation expenses of AXE Ltd. are to be reimbursed by BXE Ltd. to the extent of ₹10,000. Actual expenses amounted to ₹12,500.

You are required to compute the amount of purchase consideration.

- (b) On 30th March, 2011 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of ₹60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March 2011.

- (1) Stock as per Balance Sheet at 31st December, 2010, ₹95,600.
- (2) Purchases (including purchase of machinery costing ₹30,000) ₹1,70,000
- (3) Wages (including wages ₹3,000 for installation of machinery) ₹50,000.
- (4) Sales (including goods sold on approval basis amounting to ₹49,500) ₹2,75,000. No approval has been received in respect of 2/3rd of the goods sold on approval.
- (5) The average rate of gross profit is 20% of sales.
- (6) The value of the salvaged goods was ₹12,300.

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You are required to compute the amount of the claim to be lodged to the insurance company.

- (c) Shiv and Mohan are partners in a firm sharing profits and losses equally. On 31st March, 2011, the balances of their capital accounts were ₹ 3,00,000 and ₹ 2,00,000 respectively. The average profits of the firm are ₹ 1,36,000 and the rate of normal profit is 20%.

On 1st April, 2011 they agreed to admit Hari as a partner for one fourth share. Hari will bring ₹ 1,00,000 as capital.

You are required to compute the value of the goodwill of the firm on admission of Hari, if goodwill is to be calculated on the basis of:

- (1) 5 years purchase of super profit
 - (2) Capitalization method
 - (3) 3 years purchase of average profit.
- (d) On 1st April, 2010, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (face value ₹ 10 each). He provides you the further information:
- (1) On 20th June, 2010, he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.
 - (2) On 1st August, 2010, P Ltd. issued one equity bonus share for every six shares held by the shareholders.
 - (3) On 31st October, 2010, the directors of P Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribe the rest on 5th November, 2010.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2011. (4 x 5 = 20 Marks)

Answer

- (a) Calculation of purchase consideration

		₹	
I	Payment made to shareholders of 8,000* preference shares of AXE Ltd. :		
	Cash @ ₹ 10 per share (8,000 preference shares x ₹ 10)	80,000	

$$* \frac{80,00,000}{\frac{100}{100}} = 8,000 \text{ preference shares}$$

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II	9% Preference shares in BXE Ltd. @ ₹ 100 each	8,00,000	8,80,000
	Payment made to Equity shareholders of 15,000* equity shares of AXE Ltd. :		
	Cash @ ₹ 20 per share (15,000 shares x ₹ 20)	3,00,000	
	Equity shares in BXE Ltd. issued at market price ₹ 140 each (15,000 shares x ₹ 140)	<u>21,00,000</u>	<u>24,00,000</u>
	Total purchase consideration		<u>32,80,000</u>

Note: Re-imbursement of liquidation expenses of AXE Ltd. to the extent of ₹ 10,000, will not be included in the calculation of purchase consideration.

(b) Computation of claim for loss of stock

	₹
Stock on the date of fire i.e. on 30 th March, 2011 (W.N.1)	62,600
Less: Value of salvaged stock	<u>(12,300)</u>
Loss of stock	<u>50,300</u>
Amount of claim = $\frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times \text{Loss of stock}$	48,211 (approx.)
$= \frac{60,000}{62,600} \times 50,300$	

A claim of ₹ 48,211 (approx.) should be lodged by M/s Suraj Brothers to the insurance company.

Working Notes:

1. Calculation of closing stock as on 30th March, 2011

Memorandum Trading Account for
(from 1st January, 2011 to 30th March, 2011)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	95,600	By Sales (W.N.3)	2,42,000
To Purchases (1,70,000-30,000)	1,40,000	By Goods with customers (for approval) (W.N.2)	26,400
To Wages (50,000 -)		By Closing stock (Bal. fig.)	62,600

$$* \frac{15,00,000}{100} = 15,000 \text{ equity shares}$$

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3,000)	47,000		
To Gross profit (20% on sales)	<u>48,400</u>		
	<u>3,31,000</u>		<u>3,31,000</u>

2. Calculation of goods with customers

Since no approval for sale has been received for the goods of ₹ 33,000 (i.e. 2/3 of ₹ 49,500) hence, these should be valued at cost i.e. ₹ 33,000 – 20% of ₹ 33,000 = ₹ 26,400.

3. Calculation of actual sales

Total sales – Sale of goods on approval = ₹ 2,75,000 – ₹ 33,000 = ₹ 2,42,000.

(c) Valuation of goodwill

(1) 5 years purchase of super profit

	₹
Average profit	1,36,000
Less : Normal profit @ 20% of (₹ 3,00,000+ ₹ 2,00,000)	<u>(1,00,000)</u>
Super profit	<u>36,000</u>

Value of goodwill = 5 × Super profit
 = 5 × ₹ 36,000
 = ₹ 1,80,000

Value of goodwill of the firm will be ₹ 1,80,000.

(2) Capitalisation method

$$\begin{aligned} \text{Normal value of business} &= \frac{\text{Average profit}}{\text{Normal rate of profit}} \\ &= \frac{1,36,000}{20\%} = ₹ 6,80,000 \end{aligned}$$

		₹
Normal value of business		6,80,000
Less: Actual capital employed – Shiv	3,00,000	
– Mohan	<u>2,00,000</u>	<u>(5,00,000)</u>
Value of goodwill of the firm will be		<u>1,80,000</u>

(3) 3 years purchase of average profits

Goodwill = 3 × Average profit

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$$= 3 \times ₹ 1,36,000$$

$$= ₹ 4,08,000$$

Value of goodwill of the firm will be ₹ 4,08,000.

(d) In the books of Rajat
Investment Account
(Equity shares in P Ltd.)

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.10	To Balance b/d	50,000	7,50,000	5.11.10	By Bank A/c (sale of rights) (W.N.3)	-	20,000
20.6.10	To Bank A/c	10,000	1,60,000	31.3.11	By Balance c/d (Bal. fig.)	90,000	11,90,000
1.8.10	To Bonus issue (W.N.1)	10,000	-				
5.11.10	To Bank A/c (right shares) (W.N.4)	20,000	3,00,000				
		<u>90,000</u>	<u>12,10,000</u>			<u>90,000</u>	<u>12,10,000</u>

Working Notes:

$$(1) \text{ Bonus shares} = \frac{50,000 + 10,000}{6} = 10,000 \text{ shares}$$

$$(2) \text{ Right shares} = \frac{50,000 + 10,000 + 10,000}{7} \times 3 = 30,000 \text{ shares}$$

$$(3) \text{ Sale of rights} = 30,000 \text{ shares} \times \frac{1}{3} \times ₹ 2 = ₹ 20,000$$

$$(4) \text{ Rights subscribed} = 30,000 \text{ shares} \times \frac{2}{3} \times ₹ 15 = ₹ 3,00,000$$

Question 2

Amit and Sumit are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as on 31st March 2011 is given below:

Liabilities	Amount ₹	Assets	Amount ₹
Capital Accounts:		Land & building	3,20,000
Amit	1,76,000	Investments (Market value ₹ 55,000)	50,000
Sumit	2,54,000	Debtors	3,00,000
Loan from Puneet	3,00,000	Less: Provision for doubtful debts <u>10,000</u>	2,90,000

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General Reserve	30,000	Stock	1,10,000
Employer's provident fund	10,000	Cash at bank	50,000
Creditors	<u>50,000</u>		
	<u>8,20,000</u>		<u>8,20,000</u>

They decided to admit Puneet as a new partner from 1st April, 2011 on the following terms:

- (1) Amit will give $\frac{1}{3}^{\text{rd}}$ of his share and Sumit will give $\frac{1}{4}^{\text{th}}$ of his share to Puneet.
- (2) Puneet's loan account will be converted into his capital.
- (3) The Goodwill of the firm is valued at ₹ 3,00,000. Puneet will bring his share of goodwill in cash and the same was immediately withdrawn by the partners.
- (4) Land and building was found undervalued by ₹ 1,00,000.
- (5) Stock was found overvalued by ₹ 60,000.
- (6) Provision for doubtful debts will be made equal to 5% of debtors.
- (7) Investments are to be valued at their market price.

It was decided that the total capital of the firm after admission of new partner would be ₹ 10,00,000. Capital accounts of partners will be readjusted on the basis of their profit sharing ratio and excess or deficiency will be adjusted in cash.

You are required to prepare:

- (a) Revaluation A/c
- (b) Partners' capital A/cs
- (c) Balance Sheet of the firm after admission of a new partner (16 Marks)

Answer

Revaluation A/c

Particulars	₹	Particulars	₹
To Stock	60,000	By Land & building	1,00,000
To Provision for doubtful debts	5,000	By Investments	5,000
To Profit transferred to			
Amit's capital A/c	24,000		
Sumit's capital A/c	<u>16,000</u>		
	<u>1,05,000</u>		<u>1,05,000</u>

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Partners' Capital Accounts

Particulars	Amit	Sumit	Puneet	Particulars	Amit	Sumit	Puneet
	₹	₹	₹		₹	₹	₹
To Amit's capital A/c	-	-	60,000	By Balance b/d	1,76,000	2,54,000	-
To Puneet's capital A/c	-	-	30,000	By Puneets' Loan A/c	-	-	3,00,000
To Bank A/c	60,000	30,000	-	By Puneet's capital A/c	60,000	30,000	-
To Balance c/d	4,00,000	3,00,000	3,00,000	By Bank A/c (W.N.2)	-	-	90,000
				By Revaluation A/c	24,000	16,000	-
				By General reserve	18,000	12,000	-
				By Bank	1,82,000	18,000	-
	<u>4,60,000</u>	<u>3,30,000</u>	<u>3,90,000</u>		<u>4,60,000</u>	<u>3,30,000</u>	<u>3,90,000</u>

Balance Sheet as on 1st April, 2011
(After admission of a new partner - Puneet)

Liabilities	Amount	Assets	Amount
	₹		₹
Capital accounts		Land and building (3,20,000 + 1,00,000)	4,20,000
Amit	4,00,000	Investments	55,000
Sumit	3,00,000	Debtors	3,00,000
Puneet	3,00,000	Less: Provision for doubtful debts (15,000)	2,85,000
Creditors	50,000	Stock (1,10,000 – 60,000)	50,000
Employers' provident fund*	10,000	Cash at bank (W.N. 3)	2,50,000
	<u>10,60,000</u>		<u>10,60,000</u>

Working Notes:

- (1) Calculation of incoming partner's share, new profit sharing ratio and sacrificing ratio

	Amit	Sumit
Old profit sharing ratio	3/5	2/5

* It is assumed that Employer's Provident Fund represents employer's contribution to provident fund which is yet to be deposited. Hence, the same represents a current liability.

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Surrendered by old partners	$3/5 \times 1/3 = 1/5$	$2/5 \times 1/4 = 1/10$
Remaining share	$3/5 - 1/5 = 2/5$	$2/5 - 1/10 = 3/10$

Puneet's total share in profits = $1/5 + 1/10 = 3/10$
New profit sharing ratio of Amit : Sumit : Puneet = $2/5 : 3/10 : 3/10 = 4:3:3$
Sacrificing ratio of Amit : Sumit is $1/5 : 1/10$ or 2:1

(2) Calculation of share of goodwill by old partners

Goodwill of the firm was ₹ 3,00,000

$$\text{Share of Puneet in goodwill} = ₹ 3,00,000 \times \frac{3}{10} = ₹ 90,000$$

Goodwill will be distributed among the old partners in their sacrificing ratio of 2:1 i.e. ₹ 60,000 by Amit and ₹ 30,000 by Sumit.

(3) Calculation of closing balance of bank account after admission

Bank A/c

Particulars	Amount	Particulars	Amount
	(₹)		(₹)
To Balance b/d	50,000	By Amit's capital A/c	60,000
To Puneet's capital A/c	90,000	By Sumit's capital A/c	30,000
To Sumit's capital A/c	18,000	By Balance c/d	2,50,000
To Amit's capital A/c	<u>1,82,000</u>		
	<u>3,40,000</u>		<u>3,40,000</u>

Question 3

The Balance Sheet of Mars Limited as on 31st March, 2011 was as follow:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
1,00,000 Equity shares of ₹ 10 each fully paid up	10,00,000	Land and building	7,64,000
Reserve and surplus		Current Assets	7,75,000
Capital reserve	42,000	Stock	
Contingency reserve	2,70,000	Sundry debtors	1,60,000
Profit and loss A/c	2,52,000	Less : Provision for doubtful debts	<u>8,000</u>
			1,52,000

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<i>Current Liabilities & Provisions</i>		<i>Bill receivable</i>	30,000
<i>Bills payable</i>	40,000	<i>Cash at bank</i>	3,29,000
<i>Sundry creditors</i>	2,26,000		
<i>Provisions for income tax</i>	<u>2,20,000</u>		
	<u>20,50,000</u>		<u>20,50,000</u>

On 1st April, 2011, Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

- (1) Jupiter Limited will take over the assets at the following values:

	₹
Land and building	10,80,000
Stock	7,70,000
Bills receivable	30,000

- (2) Purchase consideration will be settled by Jupiter Ltd. as under:

4,100 fully paid 10% preference shares of ₹ 100 will be issued and the balance will be settled by issuing equity shares of ₹10 each at ₹8 paid up.

- (3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹ 5,000.
 (4) Sundry debtors realized ₹ 1,50,000. Bills payable were settled for ₹ 38,000. Income tax authorities fixed the taxation liability at ₹ 2,22,000 and the same was paid.
 (5) Creditors were finally settled with cash remaining after meeting liquidation expenses amounting to ₹ 8,000

You are required to:

- (i) Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration
 (ii) Prepare the Realisation account, Bank account, Equity shareholders account and Jupiter Limited's account in the books of Mars Ltd. (16 Marks)

Answer

- (i) Calculation of number of shares to be allotted

Particulars	Amount (₹)
Land and building	10,80,000
Stock	7,70,000
Bills receivable	<u>30,000</u>
Total	<u>18,80,000</u>

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Amount discharged by issue of preference shares	4,10,000
Number of preference shares to be issued (4,10,000/100)	4,100 shares
Amount discharged by issue of equity shares (₹ 18,80,000 – 4,10,000)	14,70,000
Number of equity shares to be issued (₹ 14,70,000 / 8)	1,83,750 Shares

(ii) **Ledger Accounts in the books of Mars Limited**

Realization Account

Particulars	₹	Particulars	₹
To Land and building	7,64,000	By Provision for doubtful debts	8,000
To Stock	7,75,000	By Bills payable	40,000
To Sundry debtors	1,60,000	By Sundry creditors	2,26,000
To Bills receivable	30,000	By Provision for taxation	2,20,000
To Bank A/c –liquidation expenses	3,000	By Jupiter Ltd. (purchase consideration)	18,80,000
To Bank A/c- bills payable	38,000	By Bank A/c- sundry debtors	1,50,000
To Bank A/c –income tax	2,22,000		
To Bank A/c –sundry creditors	2,16,000		
To Profit transferred to equity shareholders A/c	<u>3,16,000</u>		
	<u>25,24,000</u>		<u>25,24,000</u>

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	3,29,000	By Realisation A/c (liquidation expenses)	3,000
To Realisation A/c (payment received from debtors)	1,50,000	By Jupiter Ltd.	5,000
To Jupiter Ltd. (liquidation expenses)	5,000	By Bills payable	38,000
		By Income tax	2,22,000
		By Sundry creditors (Bal.fig.)	<u>2,16,000</u>
	<u>4,84,000</u>		<u>4,84,000</u>

Equity Shareholders Account

Particulars	₹	Particulars	₹
To 10% Preference shares	4,10,000	By Equity share capital A/c	10,00,000

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in Jupiter Limited		By Capital reserve	42,000
To Equity shares in Jupiter Limited	14,70,000	By Contingency reserve	2,70,000
		By Profit and loss A/c	2,52,000
		By Realisation A/c (profit)	<u>3,16,000</u>
	<u>18,80,000</u>		<u>18,80,000</u>

Jupiter Limited Account

Particulars	₹	Particulars	₹
To Realisation A/c	18,80,000	To 10% Preference shares in Jupiter Limited	4,10,000
		To Equity shares in Jupiter Limited	<u>14,70,000</u>
	<u>18,80,000</u>		<u>18,80,000</u>

Question 4

The following are the summarized Balance Sheets of Lotus Ltd. as on 31st March 2010 and 2011:

Liabilities	31-3-2010 ₹	31-3-2011 ₹
Equity share capital (₹10 each)	10,00,000	12,50,000
Capital reserve		10,000
Profit and loss A/c	4,00,000	4,80,000
Long term loan from the bank	5,00,000	4,00,000
Sundry creditors	5,00,000	4,00,000
Provision for taxation	<u>50,000</u>	<u>60,000</u>
	<u>24,50,000</u>	<u>26,00,000</u>
Assets	₹	₹
Land and building	4,00,000	3,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry debtors	4,00,000	4,20,000
Cash in hand	2,00,000	1,40,000
Cash at bank	<u>3,00,000</u>	<u>4,10,000</u>
	<u>24,50,000</u>	<u>26,00,000</u>

Additional information:

- (1) Depreciation written off on land and building ₹ 20,000.
- (2) The company sold some investment at a profit of ₹ 10,000, which was credited to Capital Reserve.
- (3) Income-tax provided during the year ₹ 55,000.
- (4) During the year, the company purchased a machinery for ₹ 2,25,000. They paid ₹ 1,25,000 in cash and issued 10,000 equity shares of ₹ 10 each at par.

You are required to prepare a cash flow statement for the year ended 31st March 2011 as per AS 3 by using indirect method. (16 Marks)

Answer

In the books of Lotus Ltd.

Cash Flow Statement for the year ending 31st March, 2011

		₹	₹
I	<u>Cash flow from Operating Activities</u>		
	Net Profit before tax for the year (W.N.1)	1,35,000	
	Add: Depreciation on machinery (W.N.2)	55,000	
	Depreciation on land & building	<u>20,000</u>	
	Operating profit before change in working capital	2,10,000	
	Add: Decrease in stock	20,000	
	Less: Increase in sundry debtors	(20,000)	
	Less: Decrease in sundry creditors	<u>(1,00,000)</u>	
	Cash generated from Operations	1,10,000	
	Less: Income tax paid (W.N.3)	<u>(45,000)</u>	
	Net cash generated from operating activities		65,000
II	<u>Cash flow from Investing activities</u>		
	Purchase of machinery (2,25,000 – 1,00,000)	(1,25,000)	
	Sale of investment (W.N. 4)	<u>60,000</u>	
	Net cash used in investing activities		(65,000)
III	<u>Cash flow from financing activities</u>		
	Issue of equity shares (2,50,000-1,00,000)	1,50,000	
	Repayment of long term loan	<u>(1,00,000)</u>	
	Net cash generated from financing activities		<u>50,000</u>
	Net increase in cash and cash equivalents		50,000

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Cash and cash equivalents at the beginning of the year (2,00,000 + 3,00,000)	<u>5,00,000</u>
Cash and cash equivalents at the end of the year (1,40,000+4,10,000)	<u>5,50,000</u>

Working Notes:

1. Calculation of Net Profit before tax

	₹
Increase in Profit & Loss (Cr.) balance	80,000
Add: Provision for taxation made during the year	<u>55,000</u>
	<u>1,35,000</u>

2. Calculation of Depreciation charged during the year on Machinery account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	7,50,000	By Depreciation (Bal.fig.)	55,000
To Bank	1,25,000	By Balance c/d	9,20,000
To Equity share capital	<u>1,00,000</u>		
	<u>9,75,000</u>		<u>9,75,000</u>

3. Calculation of tax paid during the year

Provision for Taxation A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash (Bal.fig.)	45,000	By Balance b/d	50,000
To Balance c/d	<u>60,000</u>	By Profit and Loss A/c	<u>55,000</u>
	<u>1,05,000</u>		<u>1,05,000</u>

4. Calculation of sales value of investment sold

Investment A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	1,00,000	By Bank A/c (Bal.fig.)	60,000
To Capital reserve (Profit on sale of investments)	<u>10,000</u>	By Balance c/d	50,000
	<u>1,10,000</u>		<u>1,10,000</u>

Question 5

The following is the Receipt and Payment Account of Park View Club in respect of the year ended 31st March, 2011.

Receipt	Amount (₹)	Payments	Amount (₹)
To Balance b/d	1,02,500	By Salaries	2,08,000
To Subscriptions *		By Stationery	40,000
2009-10 4,500		By Rent	60,000
2010-11 2,11,000		By Telephone expenses	10,000
2011-12 <u>7,500</u>	2,23,000	By Investment	1,25,000
To Profit on sports meet	1,55,000	By Sundry expenses	92,500
To Income from investments	1,00,000	By Balance c/d	45,000
	<u>5,80,500</u>		<u>5,80,500</u>

Additional information:

- (1) There are 450 members each paying an annual subscription of ₹ 500. On 1st April, 2010 outstanding subscription was ₹ 5,000.
- (2) There was an outstanding telephone bill for ₹ 3,500 on 31st March, 2011.
- (3) Outstanding sundry expenses as on 31st March, 2010 totalled ₹ 7,000.
- (4) Stock of stationery:

On 31 st March, 2010	₹ 5,000
On 31 st March, 2011	₹ 9,000
- (5) On 31st March, 2010 building stood in the books at ₹ 10,00,000 and it was subject to depreciation @ 5% per annum.
- (6) Investment on 31st March, 2010 stood at ₹ 20,00,000.
- (7) On 31st March, 2011, income accrued on the investments purchased during the year amounted to ₹ 3,750.

Prepare an Income and Expenditure Account for the year ended 31st March, 2011 and the Balance Sheet as at that date. (16 Marks)

* In the questions paper, the years have been wrongly printed as 2008-09 (instead of 2009-10), 2009-10 (instead of 2010-11) and 2010-11 (instead of 2011-12). However, in the question given above, these corrections have been incorporated.

PAPER – 1 : ACCOUNTING

Answer

Park View Club
Income and Expenditure Account
for the year ending on 31st March 2011

<i>Expenditure</i>	<i>Amount (₹)</i>	<i>Income</i>	<i>Amount (₹)</i>
To Salaries	2,08,000	By Subscriptions (W.N. 2)	2,25,000
To Stationery consumed (W.N.3)	36,000	By Profit on sports meet	1,55,000
To Rent	60,000	By Income on investments 1,00,000	
To Telephone expenses 10,000		Add: Income accrued <u>3,750</u>	1,03,750
Add: Outstanding on 31.3.11 <u>3,500</u>	13,500		
To Sundry expenses 92,500			
Less: Outstanding on 31.3.10 <u>(7,000)</u>	85,500		
To Depreciation of building	50,000		
To Surplus (excess of income over expenditure)	<u>30,750</u>		
	<u>4,83,750</u>		<u>4,83,750</u>

Balance Sheet as at 31st March 2011

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>
Capital fund (W.N.1) 31,05,500		Outstanding subscriptions	14,500
Add: Surplus <u>30,750</u>	31,36,250	Investment	
Subscriptions received in advance 7,500		(20,00,000+1,25,000) 21,25,000	
Outstanding telephone bills 3,500		Add: Interest accrued on investments <u>3,750</u>	21,28,750
		Building 10,00,000	
		Less: Depreciation <u>(50,000)</u>	9,50,000
		Stock of stationery	9,000
		Cash balance	<u>45,000</u>
	<u>31,47,250</u>		<u>31,47,250</u>

Working Notes:

(1) **Balance Sheet as at 31st March 2010**

<i>Liabilities</i>	<i>Amount (₹)</i>	<i>Assets</i>	<i>Amount (₹)</i>
Outstanding sundry expenses	7,000	Building	10,00,000

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : MAY, 2011

Capital fund (Bal.fig.)	31,05,500	Investments	20,00,000
		Stock of stationery	5,000
		Cash balance	1,02,500
		Outstanding subscriptions	<u>5,000</u>
	<u>31,12,500</u>		<u>31,12,500</u>

(2) Calculation of subscriptions accrued during the year

Subscription A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Outstanding Subscriptions (as on 1.4.10)	5,000	By Cash A/c	2,23,000
To Income & Expenditure A/c	2,25,000	By Outstanding subscriptions (as on 31.3.11) (Bal.fig.)	14,500
To Subscriptions received in advance for 2011-12	<u>7,500</u>		
	<u>2,37,500</u>		<u>2,37,500</u>

(3) Calculation of stationery consumed during the year

	₹
Stock of stationery as on 31 March, 2010	5,000
Add: Purchased during the year 2010-11	<u>40,000</u>
	45,000
Less: Stock of stationery as on 31 st March, 2011	<u>(9,000)</u>
Stationery consumed	<u>36,000</u>

Question 6

Mr A runs a business of readymade garments. He closes the books of accounts on 31st March, 2010. The Balance Sheet as on 31st March, 2010 was as follows:

Liabilities	₹	Assets	₹
A's capital a/c	4,04,000	Furniture	40,000
Creditors	82,000	Stock	2,80,000
		Debtors	1,00,000
		Cash in hand	28,000
		Cash at bank	<u>38,000</u>
	<u>4,86,000</u>		<u>4,86,000</u>

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You are furnished with the following information:

- (1) His sales, for the year ended 31st March, 2011 were 20% higher than the sales of previous year, out of which 20% sales was cash sales.

Total sales during the year 2009-10 were ₹5,00,000.

- (2) Payments for all the purchases were made by cheques only.
 (3) Goods were sold for cash and credit both. Credit customers pay by cheques only.
 (4) Depreciation on furniture is to be charged 10% p.a.
 (5) Mr A sent to the bank the collection of the month at the last date of the each month after paying salary of ₹ 2,000 to the clerk, office expenses ₹1,200 and personal expenses ₹ 500.

Analysis of bank pass book for the year ending 31st March 2011 disclosed the following:

	₹
Payment to creditors	3,00,000
Payment of rent up to 31 st March, 2011	16,000
Cash deposited into the bank during the year	80,000

The following are the balances on 31st March, 2011:

	₹
Stock	1,60,000
Debtors	1,20,000
Creditors for goods	1,46,000

On the evening of 31st March 2011, the cashier absconded with the available cash in the cash book.

You are required to prepare Trading and Profit and Loss A/c for the year ended 31st March, 2011 and Balance Sheet as on that date. All the workings should form part of the answer.

(16 Marks)

Answer

Trading and Profit and Loss Account for the year ending 31st March 2011

Particulars	₹	Particulars	₹
To Opening stock	2,80,000	By Sales (W.N. 3)	
To Purchases (W.N. 1)	3,64,000	Credit	4,80,000
To Gross profit	1,16,000	Cash	<u>1,20,000</u>
		By Closing stock	<u>1,60,000</u>
	<u>7,60,000</u>		<u>7,60,000</u>

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : MAY, 2011

To Salary	24,000	By Gross profit	1,16,000
To Rent	16,000		
To Office expenses	14,400		
To Loss of cash (W.N. 6)	23,600		
To Depreciation on furniture	4,000		
To Net Profit	<u>34,000</u>		
	<u>1,16,000</u>		<u>1,16,000</u>

Balance Sheet as on 31st March, 2011

Liabilities		₹	Assets		₹
A's Capital	4,04,000		Furniture	40,000	
Add: Net Profit	34,000		Less: Depreciation	<u>(4,000)</u>	36,000
Less: Drawings	<u>(6,000)</u>	4,32,000	Stock		1,60,000
			Debtors		1,20,000
Creditors		<u>1,46,000</u>	Cash at bank		<u>2,62,000</u>
		<u>5,78,000</u>			<u>5,78,000</u>

Working Notes:

(1) Calculation of purchases

Creditors Account

Particulars	₹	Particulars	₹
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	<u>1,46,000</u>	By Purchases (Bal.fig.)	<u>3,64,000</u>
	<u>4,46,000</u>		<u>4,46,000</u>

(2) Calculation of total sales

	₹
Sales for the year 2009-10	5,00,000
Add: 20% increase	<u>1,00,000</u>
Total sales for the year 2010-11	<u>6,00,000</u>

(3) Calculation of credit sales

	₹
Total sales	6,00,000

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Less: Cash sales (20% of total sales)	(1,20,000)
	<u>4,80,000</u>

- (4) Calculation of cash collected from debtors

Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	<u>4,80,000</u>	By Balance c/d	<u>1,20,000</u>
	<u>5,80,000</u>		<u>5,80,000</u>

- (5) Calculation of closing balance of cash at bank

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To Cash A/c	<u>80,000</u>	By Balance c/d	<u>2,62,000</u>
	<u>5,78,000</u>		<u>5,78,000</u>

- (6) Calculation of the amount of cash defalcated by the cashier

		₹
Cash balance as on 1 st April 2010		28,000
Add: Cash sales during the year		<u>1,20,000</u>
		1,48,000
Less: Salary (₹ 2,000x12)	24,000	
Office expenses (₹ 1,200 x 12)	14,400	
Drawings of A (₹ 500x12)	6,000	
Cash deposited into bank during the year	<u>80,000</u>	<u>1,24,400</u>
Cash balance as on 31 st March 2011 (defalcated by the cashier)		<u>23,600</u>

Question 7

Answer any *four* of the following:

- (a) A and B are partners in a firm and share profits and losses equally. A has withdrawn the following sum during the half year ending 30th June 2010:

INTEGRATED PROFESSIONAL COMPETENCE EXAMINATION : MAY, 2011

Date	Amount ₹
January 15	5,000
February 10	4,000
April 5	8,000
May 20	10,000
June 18	9,000

Interest on drawings is charged @ 10% per annum. Find out the average due date and calculate the interest on drawings to be charged on 30th June 2010.

- (b) Best Ltd. deals in five products, P, Q, R, S, and T which are neither similar nor interchangeable. At the time of closing of its accounts for the year ending 31st March 2011, the historical cost and net realizable value of the items of the closing stock are determined as follows:

Items	Historical cost ₹	Net realizable value ₹
P	5,70,000	4,75,000
Q	9,80,000	10,32,000
R	3,16,000	2,89,000
S	4,25,000	4,25,000
T	1,60,000	2,15,000

What will be the value of closing stock for the year ending 31st March, 2011 as per AS 2 "Valuation of Inventories"?

- (c) X, Y and Z are partners sharing profits and losses in the ratio of 4:3:2 respectively. On 31st March, 2011 Y retires and X and Z decide to share profits and losses in the ratio of 5:3. Then immediately, W is admitted for 3/10th shares in profits, 2/3rd of which was given by X and rest was taken by W from Z. Goodwill of the firm is valued at ₹2,16,000 W brings required amount of goodwill.

Give necessary Journal Entries to adjust goodwill on retirement of Y and admission of W if they do not want to raise goodwill in the books of accounts.

- (d) "In business today, the accounts which were earlier maintained in a manual form, are replaced with computerized accounts". Explain the significance of computerized accounting system in modern time.
- (e) On 1st October, 2010, the debit balances of debtors account is ₹77,500 in the books of M/s Zee Ltd. Transactions during the 6 months ended on 31st March 2011 were as follows:

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	₹
Total sales (including cash sales ₹14,000)	84,000
Payment received from debtors in cash	38,000
Bills receivable received	26,000
Discount allowed to customers for prompt payment	1,000
Goods rejected and returned back by the customer	2,550
Bad debts recovered (written off in 2009)	900
Interest debited for delay in payment	1,250

You are required to prepare a Debtors Account for the period ending 31st March in the General of M/s Zee Ltd.
(4 x 4 = 16 Marks)

Answer

(a) Calculation of Average due date
(Base Date 15th Jan, 2010)

Date	Amount ₹	No. of days	Product ₹
January 15	5,000	0	0
February 10	4,000	26	1,04,000
April 5	8,000	80	6,40,000
May 20	10,000	125	12,50,000
June 18	<u>9,000</u>	154	<u>13,86,000</u>
	<u>36,000</u>		<u>33,80,000</u>

Average due date = Base date + $\frac{\text{Total product}}{\text{Total amount}}$ days

= 15th Jan + $\frac{33,80,000}{36,000}$ days

= 15th Jan + 94 days (approx.)

= 19th April, 2010

Number of days from 19th April, 2010 to 30th June, 2010 = 72 days

Interest on drawings from 19th April to 30th June @10%:

$$= ₹ 36,000 \times \frac{72}{365} \times \frac{10}{100}$$

$$= ₹ 710$$

Hence, interest on drawings ₹ 710 will be charged from A on 30th June, 2010.

- (b) As per para 5 of AS 2 "Valuation of Inventories, inventories should be valued at the lower of cost and net realizable value. Inventories should be written down to net realizable value on an item-by-item basis.

Valuation of inventory (item wise) for the year ending 31st March 2011

Item	Historical Cost	Net realizable value	Valuation of closing stock
	₹	₹	₹
P	5,70,000	4,75,000	4,75,000
Q	9,80,000	10,32,000	9,80,000
R	3,16,000	2,89,000	2,89,000
S	4,25,000	4,25,000	4,25,000
T	1,60,000	2,15,000	<u>1,60,000</u>
			<u>23,29,000</u>

The value of inventory for the year ending 31st March 2011 = ₹ 23,29,000.

- (c) Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
31.3.11	X's capital A/c Dr. Z's capital A/c Dr. To Y's capital A/c (3/9 x ₹ 2,16,000) (Being Y's share of goodwill adjusted in the capital accounts of gaining partners in their gaining ratio 13:11 – Refer Working Note.)		39,000 33,000	72,000
	Cash A/c Dr. To W's capital A/c (3/10 x ₹ 2,16,000) (Being the amount of goodwill brought in by W)		64,800	64,800
	W's capital A/c Dr. To X's capital A/c To Z's capital A/c (Being the goodwill credited to sacrificing partners in their sacrificing ratio 2:1)		64,800	43,200 21,600

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Working Note:

Calculation of gaining ratio of X and Z

Gaining ratio = New ratio – Old ratio

For X = $5/8 - 4/9$

= $13/72$

Z = $3/8 - 2/9$

= $11/72$

Gaining ratio = 13:11

- (d) In modern time, computerized accounting systems are used in various areas. The significance of the computerized accounting system is as follows:
- (1) Increase speed, accuracy and security - In computerized accounting system, the speed with which accounts can be maintained is several fold higher. Besides speed, level of accuracy is also high in computerized accounting system.
 - (2) Reduce errors - In computerized accounting, the possibilities of errors are also very less unless some mistake is made while recording the data.
 - (3) Immediate information - In this system, with an entry of a transaction, corresponding ledger posting is done automatically. Hence, trial balance will also be automatically tallied and the user will get the information immediately.
 - (4) Avoid duplication of work - Computerized accounting systems also remove the duplication of the work.
- (e) Total Debtors account in the General Ledger of M/s Zee Ltd.

Date	Particulars	Amount	Date	Particulars	Amount
		₹			₹
1.10.10	To Balance c/d	77,500	1.10.10 to 31.3.11	By General Ledger Adjustment A/c:	
1.10.10 to 31.3.11	To General Ledger Adjustment A/c:			Cash collected	38,000
	Sales (84,000-14,000)	70,000		Bills Receivable A/c	26,000
	Bills receivable (Bill dishonored)	8,500		Discount allowed	1,000
	Bank (Noting charges)	250	31.3.11	Sales return	2,550
	Interest	1,250		By Balance c/d	89,950
		<u>1,57,500</u>			<u>1,57,500</u>

Working Note:

1. Bad debts of the year 2008-09 recovered in 2010-11 will not appear in the 'Total Debtors account. It will be credited to profit & loss account.
2. Bills receivables of ₹ 5,000 endorsed to the supplier will not be shown in the 'Total Debtors account because at the time of endorsement Supplier's account will be debited and Bills receivable account will be credited.