

PAPER – 1 : ADVANCED ACCOUNTING

Answer **all** questions.

Wherever necessary, suitable assumption(s) should be made by the candidates.

Working notes should form part of the answer.

Question 1

- (i) Calculate the amount of Insurance claim to be lodged, based on the following information:

Value of stock destroyed by fire	Rs.90,000
Insurance policy amount (subject to average clause)	Rs.65,000
Value of stock salvaged from fire	Rs.40,000

- (ii) Arjun Ltd. issued 10,000 (Nos.) of 12% debentures of Rs.100 each in April, 2007. Interest is payable on 30th September and 31st March every year. The company purchased 2,000 debentures at Rs.104 per debenture on cum-interest basis on 1.7.2008. The own debentures were cancelled on 30.9.2009. Show Journal entries that are required to be passed for purchase of own debentures, interest on own debentures and for cancellation of those debentures.

- (iii) Find out the profit of Mr. A from the following information:

Capital at the beginning of the year	Rs.20,00,000
Drawings made by Mr. A	Rs.2,00,000
Capital at the end of the year	Rs.25,00,000
Additional capital introduced during the year	Rs.1,00,000

- (iv) Mr. X purchased a machine on hire purchase system. He made cash payment of Rs.30,000 and the balance was payable in 5 annual instalments of Rs.60,000 each. The cash price of the machine is Rs.3,00,000. Assume that the purchase was made on 1st April and the annual instalments are payable on 31st March of every year. Calculate the amount of interest for each year.
- (v) A trader purchased goods for Rs.1,70,000. The opening stock of inventory prior to the said purchase was Rs.30,000. His sales was Rs.2,10,000. Find out the closing stock of inventory if the Gross profit margin is 25% on cost.

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

- (vi) Find out the income to be recognised in the case of X Bank Ltd. for the year ended 31st March, 2009:

			(Rs. in lakhs)	
	Performing Assets		Non-performing Assets	
	Interest accrued	Interest received	Interest accrued	Interest received
Term loans	240	160	150	10
Cash credits and overdrafts	1,500	1,240	300	24

- (vii) An earthquake destroyed a major warehouse of ACO Ltd. on 20.5.2009. The accounting year of the company ended on 31.3.2009. The accounts were approved on 30.6.2009. The loss from earthquake is estimated at Rs.30 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting event and how the fact of loss is to be disclosed by the company?
- (viii) X Co. Ltd. having share capital of Rs.50 lakhs divided into equity shares of Rs.10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of Rs.10,00,000 and Profit and Loss account Cr. Rs.5,00,000. Y Co. Ltd. issued 11 equity shares of Rs.10 each for every 10 shares of X Co. Ltd.
- How the Journal entry would be passed in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interest method' of amalgamation.
- (ix) ABC Ltd. developed a know-how by incurring expenditure of Rs.20 lakhs. The know-how was used by the company from 1.4.2002. The useful life of the asset is 10 years from the year of commencement of its use. The company has not amortised the asset till 31.3.2009. Pass Journal entry to give effect to the value of know-how as per Accounting Standard-26 for the year ended 31.3.2009.
- (x) P, N and T are equal partners. They decided to change their profit sharing ratio into 5:4:3. They raised the goodwill in the books to the extent of Rs.2,40,000 and it is to be written off immediately. Show Journal entries with narration to be passed for raising the goodwill and for its subsequent write off. (10 x 2 = 20 Marks)

Answer

- (i) Total stock before fire = Rs. 90,000 + Rs.40,000 = Rs.1,30,000.

$$\begin{aligned} \text{Amount of insurance claim} &= \frac{\text{Stock destroyed by fire}}{\text{Total stock before fire}} \times \text{Amount insured} \\ &= \frac{\text{Rs.90,000}}{\text{Rs.1,30,000}} \times \text{Rs.65,000} = \text{Rs.45,000} \end{aligned}$$

PAPER – 1 : ADVANCED ACCOUNTING

(ii)

Journal Entries

			Rs.	Rs.
1.7.2008	12% Own Debentures A/c	Dr.	2,02,000	
	Interest on own Debentures A/c	Dr.	6,000	
	To Bank A/c			2,08,000
	(Being purchase of 12% own debenture on cum interest basis)			
30.9.2008	12% Debenture Interest A/c	Dr.	60,000	
	To Bank A/c			48,000
	To Interest on Own Debentures A/c			12,000
	(Being interest on Debentures including own debentures for 6 months i.e. upto 30.9.2008)			
31.3.2009	12% Debenture Interest A/c	Dr.	60,000	
	To Bank A/c			48,000
	To Interest on Own Debentures A/c			12,000
	(Being interest on Debentures including own debentures for 6 months i.e. upto 31.3.2009)			
30.9.2009	12% Debenture Interest A/c	Dr.	60,000	
	To Bank A/c			48,000
	To Interest on Own Debentures A/c			12,000
	(Being interest on Debentures including own debentures for 6 months i.e. upto 30.9.2009)			
30.9.2009	12% Debentures A/c	Dr.	2,00,000	
	Loss on cancellation of 12% Debentures A/c	Dr.	2,000	
	To 12% Own Debentures A/c			2,02,000
	(Being cancellation of 2,000 own debentures)			
30.9.2009	Profit and Loss A/c	Dr.	2,000	
	To Loss on cancellation of 12% Debentures A/c			2,000
	(Being loss on cancellation transferred)			

(iii) **Statement showing profit earned by Mr. A during the year**

	Rs.
Capital at the end of the year	25,00,000
Add: Drawings	<u>2,00,000</u>
	27,00,000

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

Less: Additional capital introduced during the year	<u>(1,00,000)</u>
	26,00,000
Less: Capital at the beginning of the year	<u>(20,00,000)</u>
Profit earned during the year	<u>6,00,000</u>

(iv)

$$\begin{aligned}
 \text{Hire Purchase Price} &= \text{Total of all instalments} + \text{Down Payment} \\
 &= (5 \times 60,000) + 30,000 = \text{Rs. } 3,30,000 \\
 \text{Total interest} &= \text{H.P. Price} - \text{Cash Price} \\
 &= \text{Rs. } 3,30,000 - \text{Rs. } 3,00,000 \\
 &= \text{Rs. } 30,000
 \end{aligned}$$

Statement showing calculation of interest for each year:

Year	Interest
	Rs.
I $\text{Rs. } 30,000 \times \frac{5}{15} =$	10,000
II $\text{Rs. } 30,000 \times \frac{4}{15} =$	8,000
III $\text{Rs. } 30,000 \times \frac{3}{15} =$	6,000
IV $\text{Rs. } 30,000 \times \frac{2}{15} =$	4,000
V $\text{Rs. } 30,000 \times \frac{1}{15} =$	<u>2,000</u>
	<u>30,000</u>

(v) Calculation of closing stock:

$$\begin{aligned}
 \text{Cost of goods sold} &= \text{Sales} - \text{Gross Profit} \\
 &= \text{Rs. } 2,10,000 - \left(\text{Rs. } 2,10,000 \times \frac{25}{125} \right) \\
 &= \text{Rs. } 1,68,000 \\
 \text{Closing stock} &= \text{Opening Stock} + \text{Purchases} - \text{Cost of goods sold} \\
 &= \text{Rs. } 30,000 + \text{Rs. } 1,70,000 - \text{Rs. } 1,68,000 \\
 &= \text{Rs. } 32,000
 \end{aligned}$$

PAPER – 1 : ADVANCED ACCOUNTING

(vi) Calculation of interest income of X Bank Ltd. to be recognised for the year ended 31.3.2009

	<i>(Rs. in lacs)</i>	
Term Loans		
Interest accrued on Performing Assets	240	
Interest received on Non - Performing Assets	<u>10</u>	250
Cash credit and overdraft		
Interest accrued on Performing Assets	1,500	
Interest received on Non - Performing Assets	<u>24</u>	<u>1,524</u>
Total interest to be recognised		<u>1,774</u>

- (vii)** Para 8.3 of AS 4 “Contingencies and Events Occurring after the Balance Sheet Date”, states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2009. Therefore, loss occurred due to earthquake is not to be recognised in the financial year 2008-2009.

However, according to para 8.6 of the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore fundamental accounting assumption of going concern is called upon. Hence, the fact of earthquake together with an estimated loss of Rs. 30 lakhs should be disclosed in the Report of the Directors for the financial year 2008-2009.

(viii) In the books of Y Co. Ltd.

Journal Entries

		<i>Rs.</i>	<i>Rs.</i>
Business Purchase A/c	Dr.	55,00,000	
To Liquidator of X Co. Ltd.			55,00,000
(Being business of X Co. Ltd. purchased)			
Assets A/c (Bal. Fig.)	Dr.	65,00,000	
To Business Purchase A/c			55,00,000
To General Reserve A/c*(10,00,000 – 5,00,000)			5,00,000
To Profit and Loss A/c			5,00,000
(Being assets and reserves and surplus taken over)			

* Purchase consideration	Rs. 55,00,000
Less : Share capital of X Co. Ltd.	<u>Rs. 50,00,000</u>
To be adjusted from general reserve	<u>Rs. 5,00,000</u>

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

Liquidator of X Co. Ltd.	Dr.	55,00,000	
To Equity share capital A/c			55,00,000
(Being purchase consideration discharged through equity shares of Y Co. Ltd.)			

(ix) Journal Entry

		Rs.	Rs.
Profit and Loss A/c (Prior period item)	Dr.	12,00,000	
Depreciation A/c	Dr.	2,00,000	
To Know-how A/c*			14,00,000
[Being depreciation of 7 years (out of which depreciation of 6 years charged as prior period item)]			

(x) Journal Entries

		Dr. (Rs.)	Cr. (Rs.)
Goodwill A/c	Dr.	2,40,000	
To A's Capital A/c			80,000
To B's Capital A/c			80,000
To C's Capital A/c			80,000
(Being the value of goodwill raised in the books, in old profit sharing ratio)			
A's Capital A/c	Dr.	1,00,000	
B's Capital A/c	Dr.	80,000	
C's Capital A/c	Dr.	60,000	
To Goodwill A/c			2,40,000
(Being the value of goodwill written off from the books of the firm, in new profit sharing ratio)			

Note: As per para 36 of AS 10, 'Accounting for fixed Assets,' goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, the goodwill valued at the time of change in profit and loss sharing ratio is to be adjusted through capital accounts of the partners directly. The journal entries for raising goodwill and then writing it off is not in accordance with the said standard but have been given due to the requirement of the question.

* As per para 63 of AS 26 "Intangible Assets", there is a rebuttable presumption that the useful life of an intangible asset will not exceed ten years from the date when the asset is available for use. Amortisation should commence when the asset is available for use.

PAPER – 1 : ADVANCED ACCOUNTING

Alternatively, Capital accounts of partner A and partner C may be adjusted to give net effect to the above entries.

The Adjusting Journal entry would be

	Rs.	Rs.
A's Capital A/c Dr.	20,000	
To C's Capital A/c		20,000
(Being adjusting entry passed for goodwill, due to change in profit and loss sharing ratio)		

Question 2

Balance Sheet of Raman Ltd. is given below:

(Rs. in '000)					
Liabilities	31.3.08	31.3.09	Assets	31.3.08	31.3.09
Share capital	500	500	Land & building	300	300
9% Debentures	200	160	Machinery	164	180
Sundry creditors	230	216	Stock-in-trade	200	228
Profit and Loss A/c	40	54	Sundry debtors	170	162
Depreciation fund	80	88	Cash and bank balances	120	110
Contingency reserve	140	110	Current Investment	262	190
Outstanding expenses	<u>30</u>	<u>48</u>	Pre-paid expenses	<u>4</u>	<u>6</u>
	<u>1,220</u>	<u>1,176</u>		<u>1,220</u>	<u>1,176</u>

The following information is furnished:

- (i) One old machinery which has original cost of Rs.30,000 was sold for Rs.10,000. The accumulated depreciation in respect of the said machinery amounts to Rs.16,000.
- (ii) One new machinery was acquired for Rs.46,000.
- (iii) 9% Debentures were redeemed at a discount of 4% of their face value.
- (iv) Dividend at 12% was declared and paid in cash.
- (v) Income-tax liability of Rs.30,000 paid was debited to contingency reserve.

You are required to prepare Cash Flow Statement in accordance with the Accounting Standard 3.

(16 Marks)

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

Answer

**Cash Flow Statement of Raman Ltd.
for the year ended 31st March, 2009**

		Rs.	Rs.
A.	<u>Cash flow from Operating Activities</u>		
	Net profit before tax (Rs. 54,000 – Rs. 40,000 + Rs. 60,000)	74,000	
	Add: Adjustment for depreciation (W.N.1)	24,000	
	Interest on debentures* (Rs.1,60,000 x 9%)	14,400	
	Loss on sale of machinery (W.N.2)	<u>4,000</u>	
		1,16,400	
	Less: Profit on redemption of debentures	<u>(1,600)</u>	
		1,14,800	
	Less :Income tax paid	<u>(30,000)</u>	
	Operating profit before changes in Working Capital	84,800	
	Add: Increase in outstanding expenses	18,000	
	Decrease in sundry debtors	8,000	
	Decrease in current investment**	<u>72,000</u>	
		<u>98,000</u>	
		1,82,800	
	Less: Decrease in sundry creditors	14,000	
	Increase in stock in trade	28,000	
	Increase in prepaid expenses	<u>2,000</u>	
		<u>(44,000)</u>	
	<i>Net cash from operating activities</i>		1,38,800
B.	<u>Cash flow from Investing Activities</u>		
	Sale of old machinery	10,000	
	Purchase of machinery	<u>(46,000)</u>	
	<i>Net cash used in investing activities</i>		(36,000)

* It is assumed that debentures were redeemed at the beginning of the year.

** It is assumed that current investments cannot be liquidated within short duration of 3 months, therefore it has not been considered as part of cash and cash equivalents.

PAPER – 1 : ADVANCED ACCOUNTING

C.	<u>Cash flow from Financing Activities</u>		
	Redemption of debentures (Rs. 40,000 – Rs.1,600)	(38,400)	
	Payment of dividend	(60,000)	
	Payment of interest on debentures	<u>(14,400)</u>	
	<i>Net cash used financing activities</i>		(1,12,800)
	Net decrease in cash and cash equivalents during the year		(10,000)
	Cash and cash equivalents at the beginning of the year		<u>1,20,000</u>
	Cash and cash equivalents at the end of the year		<u>1,10,000</u>

Working Notes:

1. Depreciation Fund

	Rs.		Rs.
To Machinery A/c	16,000	By Balance b/d	80,000
To Balance c/d	88,000	By Profit and Loss A/c	24,000
		(Current year depreciation)	
	<u>1,04,000</u>		<u>1,04,000</u>

2. Machinery A/c

	Rs.		Rs.
To Balance b/d	1,64,000	By Depreciation Fund	16,000
To Bank	46,000	By Bank	10,000
		By Profit and loss A/c (loss on sale)	4,000
		By Balance c/d	<u>1,80,000</u>
	<u>2,10,000</u>		<u>2,10,000</u>

Question 3

XYZ & Co. is a partnership firm consisting of Mr. X, Mr. Y and Mr. Z who share profits and losses in the ratio of 2:2:1 and ABC Ltd. is a company doing similar business.

Following is the Balance Sheet of the firm and that of the company as at 31.3.2009:

Liabilities	XYZ & Co. Rs.	ABC Ltd. Rs.		XYZ & Co. Rs.	ABC Ltd. Rs.
Equity share capital:			Plant & machinery	5,00,000	16,00,000
Equity shares of Rs.10		20,00,000	Furniture & fixture	50,000	2,25,000

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

<i>each</i>					
<i>Partners capital:</i>			<i>Stock in trade</i>	2,00,000	8,50,000
X	2,00,000		<i>Sundry debtors</i>	2,00,000	8,25,000
Y	3,00,000		<i>Cash at bank</i>	10,000	4,00,000
Z	1,00,000		<i>Cash in hand</i>	40,000	1,00,000
<i>General reserve</i>	1,00,000	7,00,000			
<i>Sundry creditors</i>	<u>3,00,000</u>	<u>13,00,000</u>			
	<u>10,00,000</u>	<u>40,00,000</u>		<u>10,00,000</u>	<u>40,00,000</u>

It was decided that the firm XYZ & Co. be dissolved and all the assets (except cash in hand and cash at bank) and all the liabilities of the firm be taken over by ABC Ltd. by issuing 50,000 shares of Rs.10 each at a premium of Rs.2 per share.

Partners of XYZ & Co. agreed to divide the shares issued by ABC Ltd. in the profit sharing ratio and bring necessary cash for settlement of their capital.

The creditors of XYZ & Co. includes Rs.1,00,000 payable to ABC Ltd. An unrecorded liability of Rs.25,000 of XYZ & Co. must also be taken over by ABC Ltd.

Prepare:

- (i) *Realisation account, Partners' capital accounts and Cash in hand/Bank account in the books of XYZ & Co.*
- (ii) *Pass journal entries in the books of ABC Ltd. for acquisition of XYZ & Co. and draw the Balance Sheet after the takeover.* (16 Marks)

Answer

(i) **In the books of XYZ & Co.**

Realisation Account

	Rs.		Rs.
To Plant & Machinery	5,00,000	By Sundry Creditors	3,00,000
To Furniture & Fixture	50,000	By ABC Ltd. (Refer W.N.)	6,00,000
To Stock in trade	2,00,000	By Partners' Capital Accounts (loss):	
To Sundry Debtors	2,00,000	X's Capital A/c	20,000
		Y's Capital A/c	20,000
		Z's Capital A/c	<u>10,000</u>
	<u>9,50,000</u>		<u>9,50,000</u>

PAPER – 1 : ADVANCED ACCOUNTING

Partners' Capital Accounts

	X Rs.	Y Rs.	Z Rs.		X Rs.	Y Rs.	Z Rs.
To Realisation A/c	20,000	20,000	10,000	By Balance b/d	2,00,000	3,00,000	1,00,000
To Shares in ABC Ltd.	2,40,000	2,40,000	1,20,000	By General Reserve	40,000	40,000	20,000
To Cash A/c	-	80,000	-	By Cash A/c	20,000	-	10,000
	<u>2,60,000</u>	<u>3,40,000</u>	<u>1,30,000</u>		<u>2,60,000</u>	<u>3,40,000</u>	<u>1,30,000</u>

Cash and Bank Account

	Cash Rs.	Bank Rs.		Cash Rs.	Bank Rs.
To Balance b/d	40,000	10,000	By Cash A/c (Contra)*		10,000
To Bank A/c (Contra)*	10,000		By Y	80,000	
To X	20,000				
To Z	<u>10,000</u>	<u></u>		<u></u>	<u></u>
	<u>80,000</u>	<u>10,000</u>		<u>80,000</u>	<u>10,000</u>

(ii)

In the Books of ABC Ltd.

Journal Entries

		Dr. (Rs.)	Cr. (Rs.)
1.	Business Purchase Account Dr. To XYZ & Co. (Being business of XYZ & Co. purchased and payment due)	6,00,000	6,00,000
2.	Plant and Machinery Account Dr. Furniture and Fixture Account Dr. Stock in Trade Account Dr. Sundry Debtors Account Dr. To Sundry Creditors Account	5,00,000 50,000 2,00,000 2,00,000	3,00,000

* It is assumed that cash at bank has been withdrawn to pay Rs.80,000 to partner Y. However, payment to Y of Rs. 80,000 can also be made by cash Rs.70,000 & by cheque Rs.10,000.

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

	To Unrecorded Liability Account		25,000
	To Business Purchase Account		6,00,000
	To Capital Reserve Account (Bal.Fig.)		25,000
	(Being take over of all assets and liabilities)		
3.	XYZ & Co. Dr.	6,00,000	
	To Equity Share Capital Account		5,00,000
	To Securities Premium Account		1,00,000
	(Being purchase consideration discharged in the form of shares of Rs. 10 each issued at a premium of Rs. 2 each)		
4.	Sundry Creditors Account Dr.	1,00,000	
	To Sundry Debtors Account		1,00,000
	(Being mutual owings eliminated)		

Balance Sheet of ABC Ltd. (After take over of XYZ & Co.)

as at 31.3.2009

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital :		Plant and Machinery (5,00,000+16,00,000)	21,00,000
2,50,000, Equity shares of Rs.10 each fully paid up (out of which 50,000 shares has been issued for consideration other than cash)	25,00,000	Furniture and fixture (50,000+2,25,000)	2,75,000
Securities Premium	1,00,000	Stock in trade (2,00,000+8,50,000)	10,50,000
Capital Reserve	25,000	Sundry Debtors (2,00,000+8,25,000-1,00,000)	9,25,000
General Reserve	7,00,000	Cash at Bank	4,00,000
Sundry Creditors (3,00,000 + 13,00,000 – 1,00,000)	15,00,000	Cash in hand	1,00,000
Unrecorded Liability	<u>25,000</u>		<u> </u>
	<u>48,50,000</u>		<u>48,50,000</u>

PAPER – 1 : ADVANCED ACCOUNTING

Working Note:

Computation of purchase consideration:

50,000, Equity shares of Rs.12 (10+2) each = Rs.6,00,000

Equity shares distributed among partners:

Partner X	=	20,000 shares @ Rs.12	= Rs.2,40,000
Partner Y	=	20,000 shares @ Rs.12	= Rs.2,40,000
Partner Z	=	10,000 shares @ Rs.12	= Rs.1,20,000
			Rs.6,00,000

Question 4

The Balance Sheet of Neptune Ltd as on 31.3.2009 is given below:

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
80,000, Equity shares of Rs.10 each fully paid		8,00,000	Freehold property	5,00,000
5,000, 6% Cumulative preference shares of Rs.100 each fully paid		5,00,000	Plant & machinery	1,80,000
6% Debentures (secured by freehold property)	3,75,000		Trade investment (at cost)	1,70,000
Arrear interest	<u>22,500</u>	3,97,500	Sundry debtors	4,50,000
Sundry creditors		17,500	Stock in trade	2,00,000
Director's loan		3,00,000	Deferred advertisement expenditure	1,50,000
			Profit and Loss A/c	<u>3,65,000</u>
		<u>20,15,000</u>		<u>20,15,000</u>

The Court approved a scheme of re-organisation to take effect on 1.4.2009 and the terms are given below:

- (i) *Preference shares are to be written down to Rs.75 each and equity shares to Rs.2 each.*
- (ii) *Preference dividend in arrear for 4 years to be waived by 75% and for the balance equity shares of Rs.2 each to be allotted.*
- (iii) *Arrear of debenture interest to be paid in cash.*
- (iv) *Debentureholders agreed to take one freehold property (Book value Rs.3,00,000) at a valuation of Rs.3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.*

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

- (v) *Deferred advertisement expenditure to be written off.*
- (vi) *Stock value to be written off fully in the books.*
- (vii) *50% of the Sundry Debtors to be written off as bad debt.*
- (viii) *Remaining freehold property (after take over by debentureholders) to be valued at Rs.3,50,000.*
- (ix) *Investment sold out for Rs.2,00,000.*
- (x) *80% of the Director's loan to be waived and for the balance, equity shares of Rs.2 each to be issued.*
- (xi) *Company's contractual commitments amounting to Rs.5,00,000 to be cancelled by paying penalty at 3% of contract value.*
- (xii) *Cost of re-construction scheme is Rs.20,000.*

Show the Journal entries (with narration) to be passed for giving effect to the above transactions and draw Balance Sheet of the company after effecting the scheme. (16 Marks)

Answer

In the Books of Neptune Ltd.

Journal Entries

	Particulars		Rs.	Rs.
(i)	6% Preference share capital A/c (Rs. 100) Dr.		5,00,000	
	To 6% Preference share capital A/c (Rs. 75)			3,75,000
	To Capital reduction A/c			1,25,000
	(Being preference shares of Rs.100 each reduced to Rs.75 each as per the scheme)			
(ii)	Equity share capital A/c (Rs.10) Dr.		8,00,000	
	To Equity share capital A/c (Rs.2)			1,60,000
	To Capital reduction A/c			6,40,000
	(Being equity shares of Rs.10 each reduced to Rs.2 each as per the scheme)			
(iii)	Capital reduction A/c Dr.		30,000	
	To Equity share capital A/c			30,000
	(Being arrears of preference share dividend of one year to be satisfied by issue of 1,500 equity shares of Rs.2 each as per the scheme)			

PAPER – 1 : ADVANCED ACCOUNTING

(iv)	Accrued debenture interest A/c To Bank A/c (Being accrued interest on debentures paid)	Dr.	22,500	22,500
(v)	6% Debenture A/c To Freehold property A/c (Being claim of debentureholders settled in part by transfer of freehold property as per the scheme)	Dr.	3,00,000	3,00,000
(vi)	Capital reduction A/c To Profit and loss A/c To Deferred advertising expenses A/c To Stock A/c To Sundry debtors A/c (Being the various assets written off as per the scheme)	Dr.	9,40,000	3,65,000 1,50,000 2,00,000 2,25,000
(vii)	Freehold property A/c To Capital reduction A/c (Being appreciation in the value of remaining property)	Dr.	1,50,000	1,50,000
(viii)	Bank A/c To Trade investment A/c To Capital reduction A/c (Being trade investment sold on profit)	Dr.	2,00,000	1,70,000 30,000
(ix)	Director's loan A/c To Equity share capital A/c To Capital reduction A/c (Being Director's loan reduced by 80% and remaining balance discharged by issue of equity shares of Rs. 2 each)	Dr.	3,00,000	60,000 2,40,000
(x)	Capital reduction A/c To Bank A/c (Being payment of 3% penalty on cancellation of contractual commitments)	Dr.	15,000	15,000
(xi)	Capital reduction A/c To Bank A/c (Being reconstruction expenses paid)	Dr.	20,000	20,000

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

(xii)	Capital reduction A/c	Dr.	1,80,000	
	To Capital reserve A/c			1,80,000
	(Being balance of capital reduction account transferred)			

Balance Sheet of Neptune Ltd. (And Reduced)

as at 1st April, 2009

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
1,25,000, Equity shares of Rs.2 each (out of above 45,000 shares have been issued for consideration other than cash)	2,50,000	Freehold property	3,50,000
		Plant	1,80,000
5,000, 6% Cumulative Preference shares of Rs.75 each fully paid up	3,75,000	Debtors	2,25,000
Capital reserve	1,80,000	Cash at bank (2,00,000 – 22,500 – 15,000 – 20,000)	1,42,500
6% Debentures (3,75,000 – 3,00,000)	75,000		
Creditors	<u>17,500</u>		
	<u>8,97,500</u>		<u>8,97,500</u>

Question 5

- (a) *Pawan & Co. of Delhi has a branch at Jaipur. Goods are invoiced to the branch at cost plus 25%. The branch is instructed to deposit the receipts everyday in the head office account with the bank. All the expenses are paid through cheque by the head office except petty cash expenses which are paid by the Branch.*

From the following information, you are required to prepare Branch Account in the books of Head office:

	<i>Rs.</i>
Stock at invoice price on 1.4.08	1,64,000
Stock at invoice price on 31.3.09	1,92,000
Debtors as on 1.4.08	63,400
Debtors as on 31.3.09	84,300
Furniture & fixtures as on 1.4.08	46,800
Cash sales	8,02,600
Credit sales	7,44,200

PAPER – 1 : ADVANCED ACCOUNTING

Goods invoiced to branch by head office	12,56,000
Expenses paid by head office	2,64,000
Petty expenses paid by the branch	20,900
Furniture acquired by the branch on 1.10.08 (payment was made by the branch from cash sales and collection from debtors)	5,000

Depreciation to be provided on branch furniture & fixtures @ 10% p.a. on WDV basis.

- (b) TM Ltd. went in for voluntary liquidation on 31st March, 2009.

The Balance Sheet of the company as at 31.3.2009 is given below:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Freehold property	11,85,000
1,00,000 Equity shares of Rs.10 each fully paid up	10,00,000	Plant	6,03,000
10% Preference shares of Rs.100 each fully paid up	12,00,000	Motor vehicles	1,15,000
Securities premium	1,00,000	Stock	3,72,000
5% Debentures	2,00,000	Sundry debtors	1,48,000
Interest on debentures	5,000	Profit & Loss A/c	4,28,000
Bank overdraft	1,16,000		
Sundry creditors	<u>2,30,000</u>		
	<u>28,51,000</u>		<u>28,51,000</u>

The preference dividends are in arrear for the years 2007-08 and 2008-09.

The company's Articles provide that on liquidation, out of surplus assets remaining after payment of liquidation costs and outside liabilities, it shall be applied firstly towards arrears of preference dividend, secondly to preference shareholders with a premium thereon at Rs.10 per share and finally any residue shall be paid to the equity shareholders.

The Liquidator realised the assets as below:

	Rs.
Freehold property	14,25,000
Plant	5,05,000
Motor vehicles	1,18,000
Stock in trade	3,00,000
Sundry debtors	1,20,000

Creditors were paid less discount of 5%. Debentureholders were paid alongwith accrued interest upto 30.6.2009.

Liquidators remuneration is 2% of the assets realised and cost of liquidation was Rs.7,640.

Prepare the Liquidator's Statement of Account.

(8 + 8 = 16 Marks)

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

Answer

(a) **In the Books of Pawan & Co., Delhi (Head Office)**
Jaipur Branch Account

	Rs.		Rs.
To Opening balances:		By Branch stock reserve	32,800
Branch stock A/c	1,64,000	By Bank A/c (W.N.4)	15,00,000
Branch debtors A/c	63,400	By Goods sent to branch A/c (Loading)	2,51,200
Branch furniture A/c	46,800		
To Goods sent to branch	12,56,000	By Closing Balances:	
To Bank A/c (branch expenses)	2,64,000	Branch stock A/c	1,92,000
To Branch stock reserve A/c	38,400	Branch debtors A/c	84,300
To Profit and loss A/c (Bal. Fig.)	<u>2,74,570</u>	Branch furniture A/c (W.N.2)	<u>46,870</u>
	<u>21,07,170</u>		<u>21,07,170</u>

Working Notes:

1. Depreciation on furniture

	Rs.
10% p.a. on Rs.46,800	4,680
10% p.a. for 6 months on Rs.5,000	<u>250</u>
	<u>4,930</u>

2. Closing balance of branch furniture as on 31.3.2009

	Rs.
Branch furniture as on 1.4.2008	46,800
Add: Acquired during the year	<u>5,000</u>
	51,800
Less: Depreciation (W.N.1)	<u>4,930</u>
Branch furniture as on 31.3.2009	<u>46,870</u>

3. Collection from branch debtors

Branch Debtors Account

	Rs.		Rs.
To Balance b/d	63,400	By Bank A/c (Bal.Fig.)	7,23,300
To Sales	<u>7,44,200</u>	By Balance c/d	<u>84,300</u>
	<u>8,07,600</u>		<u>8,07,600</u>

PAPER – 1 : ADVANCED ACCOUNTING

4. Cash remitted by the branch to head office

Cash sales + Collection from debtors – Petty expenses – Furniture acquired by branch

Rs.8,02,600 + Rs.7,23,300 (W.N. 3) – Rs.20,900 – Rs.5,000 = Rs.15,00,000

(b) TM Ltd. (In Liquidation)

Liquidator's Final Statement of Account

Particulars	Rs.	Particulars	Rs.	Rs.
To Assets realised:		By Liquidator's remuneration ($24,68,000 \times \frac{2}{100}$)		49,360
Freehold property	14,25,000	By Liquidation cost		7,640
Plant	5,05,000	By Debenture holders:		
Motor vehicles	1,18,000	5% Debentures	2,00,000	
Stock	3,00,000	Add: Debenture Interest	5,000	
Debtors	1,20,000	Interest for 3 months upto 30.6.2009	<u>2,500</u>	2,07,500
		By Bank overdraft		1,16,000
		By Creditors	2,30,000	
		Less: 5% discount	<u>11,500</u>	2,18,500
		By Preference Shareholders:		
		Share Capital	12,00,000	
		Add: 10% premium	1,20,000	
		Add: O/s dividend (for 2 years)	<u>2,40,000</u>	15,60,000
		By Equity shareholders [(Bal. Fig.) at the rate of Rs.3.09 per share]		<u>3,09,000</u>
	<u>24,68,000</u>			<u>24,68,000</u>

Question 6

(a) From the following information furnished by X & Co., prepare Total Debtors Account.

Transactions for the month of March, 2009		Rs.
(i)	Sales (includes cash sales of Rs.7,000)	68,000
(ii)	Collections from debtors (cash)	57,000
(iii)	Discount allowed	2,000
(iv)	Bad debts written off	1,500

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

(v)	Cheques received	10,000
(vi)	Cheques dishonoured	2,000
(vii)	Return inward	700
(viii)	Bad debts written off – now recovered	500
(ix)	Provision for doubtful debts	1,200
(x)	Balance outstanding on 1.3.2009 (Receivables)	20,000

- (b) What are the disadvantages of Enterprise Resource Planning (ERP)?
- (c) Harish has the following bills due on different dates. It was agreed to settle the total amount due by a single cheque payment. Find the date of the cheque.
- (i) Rs.5,000 due on 5.3.2009
- (ii) Rs.7,000 due on 7.4.2009
- (iii) Rs.6,000 due on 17.7.2009
- (iv) Rs.8,000 due on 14.9.2009
- (d) X Co. Ltd. has its share capital divided into equity shares of Rs.10 each. On 1.10.2008 it granted 20,000 employees' stock option at Rs.50 per share, when the market price was Rs.120 per share. The options were to be exercised between 10th December, 2008 and 31st March, 2009. The employees exercised their options for 16,000 shares only and the remaining options lapsed. The company closes its books on 31st March every year.

Show Journal entries (with narration) as would appear in the books of the company upto 31st March, 2009. (4 x 4 = 16 Marks)

Answer

(a) **Total Debtors Account**

	Rs.		Rs.
To Balance b/d	20,000	By Discount allowed	2,000
To Sales	61,000	By Bank A/c	10,000
To Bank A/c (Cheques dishonoured)	2,000	By Cash A/c	57,000
		By Bad debts A/c	1,500
		By Sales return A/c	700
		By Balance c/d	<u>11,800</u>
	<u>83,000</u>		<u>83,000</u>

PAPER – 1 : ADVANCED ACCOUNTING

(b) The disadvantages of Enterprise Resource Planning (E.R.P.) are as follows:

- (i) **Lesser flexibility:** The user may have to modify their business procedure at times to be able to effectively use the E.R.P.
- (ii) **Implementation hurdles:** Many of the consultants doing the implementation of the E.R.P. may not be able to fully appreciate the business procedure, to be able to do a good implementation.
- (iii) **Expensive:** E.R.Ps are normally priced at an amount which is often beyond the reach of small and medium size organisations.
- (iv) **Complexity of the software:** Generally an E.R.P. package has large number of options to choose from. Further the parameter settings and configuration makes it a little complex for the common users.

(c) **Calculation of number of days from the base date**

<i>Due date</i>	<i>Amount (Rs.)</i>	<i>No. of days from 5.3.09</i>	<i>Product</i>
5.3.2009	5,000	0	0
7.4.2009	7,000	33	2,31,000
17.7.2009	6,000	134	8,04,000
14.9.2009	<u>8,000</u>	193	<u>15,44,000</u>
	<u>26,000</u>		<u>25,79,000</u>

$$\begin{aligned} \text{Average due date} &= \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}} \\ &= 5.3.2009 + \frac{25,79,000}{26,000} = 99 \text{ days} \end{aligned}$$

The date of the cheque will be 99 days from the base date i.e. 12.6.2009. So on 12th June, 2009, all bills will be settled by a single cheque payment.

(d) **In the books of X Co. Ltd.**

Journal Entries

			<i>Rs.</i>	<i>Rs.</i>
1.10.2008	Employee compensation expense A/c	Dr.	14,00,000	
	To Employee stock option outstanding A/c			14,00,000
	(Being the grant of 20,000 stock options to employees at Rs.50 when market price is Rs.120)			
10.12.08	Bank A/c	Dr.	8,00,000	
to	Employee stock option outstanding A/c	Dr.	11,20,000	
31.3.09	To Equity share capital A/c			1,60,000

PROFESSIONAL COMPETENCE EXAMINATION: NOVEMBER, 2009

	To Securities premium A/c (Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			17,60,000
31.3.09	Employee stock option outstanding A/c	Dr.	2,80,000	
	To Employee compensation expense A/c (Being reverse entry passed for lapse of 4,000 stock options)			2,80,000
31.3.09	Profit and Loss A/c	Dr.	11,20,000	
	To Employee compensation expense A/c (Being transfer of employee compensation transferred to Profit and Loss Account)			11,20,000