

PAPER – 1 : ACCOUNTING
QUESTIONS

Cash Flow Statements

1. From the following information, prepare cash flow statement as at 31st December, 2008 by using direct method:

Balance Sheets					
Liabilities	2007	2008	Assets	2007	2008
	Rs.	Rs.		Rs.	Rs.
Share Capital	5,00,000	5,00,000	Fixed Assets	8,50,000	10,00,000
Profit & Loss A/c	4,25,000	5,00,000	Stock	3,40,000	3,50,000
Long Term Loans	5,00,000	5,30,000	Debtors	3,60,000	3,30,000
Creditors	1,75,000	2,00,000	Cash	30,000	35,000
			Bills Receivable	20,000	15,000
	<u>16,00,000</u>	<u>17,30,000</u>		<u>16,00,000</u>	<u>17,30,000</u>

Income Statement for the year ended 31st December, 2008

	Rs.
Sales	20,40,000
Less: Cost of Sales	<u>13,60,000</u>
Gross Profit	6,80,000
Less: Operating Expenses:	
Administrative Expenses	(2,30,000)
Depreciation	<u>(1,10,000)</u>
Operating Profit	3,40,000
Add: Non-Operating Incomes (dividend received)	<u>25,000</u>
	3,65,000
Less: Interest Paid	<u>(70,000)</u>
	2,95,000
Less: Income Tax	<u>(1,30,000)</u>
Profit after Tax	<u>1,65,000</u>

Statement of Retained Earnings

	Rs.
Opening Balance	4,25,000
Add: Profit	<u>1,65,000</u>
	5,90,000
Less: Dividend paid	<u>(90,000)</u>
Closing Balance	<u>5,00,000</u>

Profit (Loss) Prior to Incorporation

2. Rohan formed a private limited company under the name of Rohan Private Limited to take over his existing business as from April 1, 2008, but the company was not incorporated until July 1, 2008. No entries relating to transfer of the business were entered in the books, which were carried on without a break until March 31, 2009.

The following Trial Balance was extracted from the book as on March 31, 2009:-

	Dr. Rs.	Cr. Rs.
Stock April 1, 2008	4,300	
Sales		27,800
Purchases	18,900	
Carriage Outwards	330	
Travellers' Commission	750	
Office Salaries and Expenses	2,100	
Rent and Rates	1,200	
Rohan's Capital Account, April 1, 2008		23,000
Directors' Fees	1,800	
Fixed Assets	13,400	
Current Liabilities		3,700
Current Assets (other than Stock)	11,200	
Preliminary Expenses	<u>520</u>	<u> </u>
	<u>54,500</u>	<u>54,500</u>

You are also given the following information:

- (a) Stock as on March 31, 2009, Rs.4,400
- (b) The purchase consideration was agreed at Rs.30,000 to be satisfied by the issue of 3,000 Equity Shares of Rs.10 each.

- (c) The gross profit margin is constant and the monthly sales in April, 2008 February, 2009 and March, 2009 are double the monthly sales for the remaining months of the year.
- (d) The preliminary expenses are to be written off.
- (e) You are to assume that carriage outwards and travellers' commission vary in direct proportion to sales.

You are required to prepare Trading and Profit and Loss Account for the year ended March 31, 2009 apportioning the periods before and after incorporation and a Balance Sheet as on that date. Ignore depreciation.

Bonus Issue of Shares

3. Following is the extract of the Balance Sheet of X Ltd. as at 31st March, 2009

Authorised capital:	Rs.
10,000 12% Preference shares of Rs.10 each	1,00,000
1,00,000 Equity shares of Rs.10 each	<u>10,00,000</u>
	<u>11,00,000</u>
Issued and Subscribed capital:	
8,000 12% Preference shares of Rs.10 each fully paid	80,000
90,000 Equity shares of Rs.10 each, Rs.8 paid up	7,20,000
Reserves and surplus:	
General Reserve	1,20,000
Capital Reserve	75,000
Securities premium	25,000
Profit and Loss Account	2,00,000
Secured Loan:	
12% Partly Convertible Debentures @ Rs.100 each	5,00,000

On 1st April, 2009, the Company has made final call @ Rs.2 each on 90,000 equity shares. The call money was received by 20th April, 2009. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Securities premium of Rs.25,000 includes a premium of Rs.5,000 for shares issued to vendors pursuant to a scheme of amalgamation. Capital reserves include Rs.40,000, being profit on sale of plant and machinery, 20% of 12% debentures are convertible into equity shares of Rs.10 each fully paid on 1st July, 2009

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue but before conversion of debentures.

Accounts from Incomplete Records

4. Ms. Rashmi furnishes you with the following information relating to his business :

(a) Assets and liabilities as on	1.1.2008	31.12.2008
	Rs.	Rs.
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

(b) Receipts and payments during 2008 :

Collections from debtors, after allowing discount of Rs. 1,500 amounted to Rs. 58,500.

Collections on discounting of bills of exchange, after deduction of discount of Rs. 125 by the bank, totalled to Rs. 6,125.

Creditors of Rs. 40,000 were paid Rs. 39,200 in full settlement of their dues.

Payment for freight inwards Rs. 3,000.

Amounts withdrawn for personal use Rs. 7,000.

Payment for office furniture Rs. 1,000.

Investment carrying annual interest of 4% were purchased at Rs. 96 on 1st July, 2008 and payment made therefor.

Expenses including salaries paid Rs. 14,500.

Miscellaneous receipts Rs. 500.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 10,000. Of these, bills of exchange of Rs. 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 400 was dishonoured.

(d) Goods costing Rs. 900 were used as advertising materials.

(e) Goods are invariably sold to show a gross profit of 33 1/3% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction by Ms. Rashmi.

(g) Provide at 2.5% for doubtful debts on closing debtors.

Rasmi asks you to prepare trading and profit and loss a/c for the year ended 31st December, 2008 and the balance sheet as on that date.

Amalgamation of Companies

5. The following are the Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 2008:

	Yes Ltd.	No Ltd.
	Rs.	Rs.
	(in crores)	(in crores)
Sources of funds:		
Share capital:		
Authorised	<u>25</u>	<u>5</u>
Issued and Subscribed :		
Equity Shares of Rs. 10 each fully paid	12	5
Reserves and surplus	<u>88</u>	<u>10</u>
Shareholders funds	100	15
Unsecured loan from Yes Ltd.	<u>—</u>	<u>10</u>
	<u>100</u>	<u>25</u>
Funds employed in :		
Fixed assets: Cost	70	30
Less: Depreciation	<u>50</u>	<u>24</u>
	20	6
Written down value		
Investments at cost:		
30 lakhs equity shares of Rs. 10 each of No Ltd.	3	
Long-term loan to No. Ltd.	10	
Current assets	100	34
Less : Current liabilities	<u>33</u>	<u>15</u>
	<u>100</u>	<u>25</u>

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of Rs. 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entires in the books of the two companies to give effect to the above.

Self- Balancing Ledgers

6. From the following information, prepare Sales Ledger Adjustment A/c in the General Ledger:

		Rs.
On 1.4.2008: Balance in sales ledger	(Dr.)	1,41,880
	(Cr.)	2,240
On 31.3.2009:		
Total sales		7,68,000
Cash sales		40,000
Sales return		10,000
Cash received from customers		6,24,000
Discount allowed		11,200
Cash paid to supplier		4,80,000
Transfer from sales to bought ledger		20,800
Discount received		7,200
B/R received		40,000
Reserve for doubtful debts		9,160
Cash paid to customer		1,840
Bills received dishonoured		6,000
Sales ledger balance (Dr.)		1,83,200
Sales ledger balance (Cr.)		13,720

Average Due Date

7. Ram purchases goods on credit. His due dates for payments were as under:

Transaction Date	Rs.	Due Date
March 5	300	April 08
April 15	200	May 18
May 10	275	June 13
June 5	400	July 08

Calculate Average due date.

Account Current

8. Following transactions took place between X and Y during the month of April, 2009:

Date	Particulars	Rs.
1.4.2009	Amount payable by X to Y	10,000
7.4.2009	Received acceptance of X to Y for 2 months	5,000
10.4.2009	Bills receivable (accepted by Y) on 7.2.2009 is honoured on this due date	10,000
10.4.2009	X sold goods to Y (due date 10.5.2009)	15,000
12.4.2009	X received cheque from Y (due date 15.5.2009)	7,500
15.4.2009	Y sold goods to X (due date 15.5.2009)	6,000
20.4.2009	X returned goods sold by Y on 15.4.2009	1,000
20.4.2009	Bill accepted by Y is dishonoured on this due date	5,000

Prepare the Y's account in the books of X for the month of April, 2009.

Financial Statements of Not-for-Profit Organisations

9. The Accountant of Diana Club furnishes you the following receipts and payments account for the year ending 30th September, 2008:

Receipts	Amount	Payments	Amount
	Rs.		Rs.
Opening balance:		Honoraria to secretary	9,600
Cash and bank	16,760	Misc. expenses	3,060
Subscription	21,420	Rates and taxes	2,520
Sale of old newspapers	4,800	Groundman's wages	1,680
Entertainment fees	8,540	Printing and stationary	940
Bank interest	460	Telephone expenses	4,780
Bar receipts	14,900	Payment for bar purchases	11,540
		Repairs	640
		New car (Less sale proceeds of old car)	25,200
		Closing balance:	
		Cash and bank	<u>6,920</u>
	<u>66,880</u>		<u>66,880</u>

Additional informations:

	1.10.2007	30.9.2008
	Rs.	Rs.
Subscription due (not received)	2,400	1,960
Cheques issued, but not presented for payment of printing	180	60
Club premises at cost	58,000	-
Depreciation on club premises provided so far	37,600	-
Car at cost	24,380	-
Depredation on car	20,580	-
Value of Bar stock	1,420	1,740
Amount unpaid for bar purchases	1,180	860

Depreciation is to be provided @ 5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an income and expenditure account of Diana Club for the year ending 30th September, 2008 and balance sheet as on that date.

Internal Reconstruction of a Company

10. The paid-up capital of Toy Ltd. amounted to Rs. 2,50,000 consisting of 25,000 equity shares of Rs. 10 each.

Due to losses incurred by the company continuously, the directors of the company prepared a scheme for reconstruction which was duly approved by the court. The terms of reconstruction were as under:

- (i) In lieu of their present holdings, the shareholders are to receive:
 - (a) Fully paid equity shares equal to 2/5th of their holding.
 - (b) 5% preference shares fully paid-up to the extent of 20% of the above new equity shares.
 - (c) 3,000 6% second debentures of Rs. 10 each.
- (ii) An issue of 2,500 5% first debentures of Rs. 10 each was made and fully subscribed in cash.
- (iii) The assets were reduced as follows:
 - (a) Goodwill from Rs. 1,50,000 to Rs. 75,000.
 - (b) Machinery from Rs. 50,000 to Rs. 37,500.
 - (c) Leasehold premises from Rs. 75,000 to Rs. 62,500.

Show the journal entries to give effect to the above scheme of reconstruaction.

Investment Accounting

11. Piyush carried out the following transactions in the shares of Horizon Ltd.:

- (a) On 1st April, 2008 he purchased 20,000 equity shares of Re. 1 each fully paid up for Rs. 30,000.
- (b) On 15th May 2008, Piyush sold 4,000 shares for Rs. 7,600.
- (c) At a meeting on 15th June 2008, the company decided:
 - (i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2008, and
 - (ii) To give its members the right to apply for one share for every five shares held on 1st June 2008 at a price of Rs. 1.50 per share of which 75 paise is payable on or before 15th July 2008 and the balance, 75 paise per share, on or before 15th September, 2008.

The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2008.

- (a) Piyush received his bonus shares and took up 2000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2008.
- (b) On 15th March 2008, he received a dividend from Horizon Ltd. of 15 per cent in respect of the year ended 31st Dec 2008.
- (c) On 30th March he received Rs. 14,000 from the sale of 10,000 shares.

You are required to record these transactions in the Investment Account in Piyush's books for the year ended 31st March 2009 transferring any profits or losses on these transactions to Profit and Loss account. Apply average basis.

Expenses and tax to be ignored.

Hire-Purchase Accounting

12. Computer point sells computers on Hire-purchase basis at cost plus 25%. Terms of sale are Rs.5,000 down payment and eight monthly instalments of Rs.2,500 for each computer.

The following transactions took place during the financial year 2008-09:

Number of instalments not yet due as on 1.4.2008 = 25

Number of instalments due but not collected as on 1.4.2008 = 5

During the financial year 240 computers were sold. Out of the above sold computers during the year the outstanding position were as follows as on 31.3.2009:

Instalments not yet due:

- (i) Eight instalments on 50 computers.
- (ii) Six instalments on 30 computers.

(iii) Two instalments on 10 computers.

Instalments due but not collected:

Two instalments on 5 computers during the year. Two computers on which five instalments were due and two instalments not yet due were repossessed out of sales effected during current year. Repossessed stock is valued at 50% of cost. All instalments have been received. You are asked to prepare Hire-Purchase Trading Account for the year ending on 31.3.2009.

Insurance Claim

13. Mr. A prepares accounts on 30th September each year, but on 31st December, 2008 fire destroyed the greater part of his stock. Following information was collected from his book:

	Rs.
Stock as on 1.10.2008	29,700
Purchases from 1.10.2008 to 31.12.2008	75,000
Wages from 1.10.2008 to 31.12.2008	33,000
Sales from 1.10.2008 to 31.12.2008	1,40,000

The rate of gross profit is 33.33% on cost. Stock to the value of Rs. 3,000 was salvaged. Insurance policy was for Rs. 25,000 and claim was subject to average clause.

Additional informations:

- (i) Stock in the beginning was calculated at 10% less than cost.
- (ii) A plant was installed by firm's own worker. He was paid Rs. 500, which was included in wages.
- (iii) Purchases include the purchase of the plant for Rs. 5,000

You are required to calculate the claim for the loss of stock.

Partnership Accounts – Retirement of a Partner

14. On 31st March, 2009, the Balance Sheet of P, Q and R sharing profits and losses in proportion to their Capital stood as below:

Liabilities	Rs.	Assets	Rs.
Capital Account:		Land and Building	30,000
Mr. P	20,000	Plant and Machinery	20,000
Mr. Q	30,000	Stock of goods	12,000
Mr. R	20,000	Sundry debtors	11,000
Sundry Creditors	<u>10,000</u>	Cash and Bank Balances	<u>7,000</u>
	<u>80,000</u>		<u>80,000</u>

On 1st April, 2009, P desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

- (i) Land and Building be appreciated by 20%.
- (ii) Plant and Machinery be depreciated by 30%.
- (iii) Stock of goods to be valued at Rs.10,000.
- (iv) Old credit balances of Sundry creditors, Rs.2,000 to be written back.
- (v) Provisions for bad debts should be provided at 5%.
- (vi) Joint life policy of the partners surrendered and cash obtained Rs.7,550.
- (vii) Goodwill of the entire firm is valued at Rs.14,000 and P's share of the goodwill is adjusted in the A/cs of Q and R, who would share the future profits equally. No goodwill account being raised.
- (viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
- (ix) Amount due to Mr. P is to be settled on the following basis:
50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Q & R as on 1.04.2009.

Partnership Accounts – Admission of a Partner

15. A and B are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of A and B as on 1.1.2009 was as follow:

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Sundry Creditors	12,900	Building	26,000
Bill Payable	4,100	Furniture	5,800
Bank Overdraft	9,000	Stock-in-Trade	21,400
Capital Account:		Debtors	35,000
A 44,000		Less: Provision	<u>200</u>
B <u>36,000</u>	80,000	Investment	2,500
		Cash	<u>15,500</u>
	<u>1,06,000</u>		<u>1,06,000</u>

'C' was admitted to the firm on the above date on the following terms:

- (i) He is admitted for 1/6th share in future profits and to introduce a Capital of Rs. 25,000.

- (ii) The new profit sharing ratio of A, B and C will be 3 : 2 : 1 respectively.
- (iii) 'C' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to calculate goodwill on the basis of C's share in the profits and the capital contribution made by him to the firm.
- (iv) Furniture is to be written down by Rs. 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for Rs. 1,560. The value of Buildings having appreciated be brought upto Rs. 29,200. The value of investment is increased by Rs. 450.
- (v) It is found that the creditors included a sum of Rs. 1,400, which is not to be paid off.

Prepare the following:

- (i) Revaluation Account.
- (ii) Partners' Capital Accounts.
- (iii) Balance Sheet of New Partnership firm after admission of 'C'.

Theory Questions

16. (a) Explain the factors to be considered before selection of a pre-packaged accounting software.
- (b) What are the advantages of outsourcing the accounting functions? Explain in brief.
17. (a) What are the advantages of self-balancing ledger system?
- (b) What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein?
- (c) Explain the accounting treatment of donation received for specific purpose in the case of charitable society.

Theory Questions based on Accounting Standards

18. (a) What is meant by 'Cash' and 'Cash equivalents' as per AS 3?
- (b) When can a company change its accounting policy?
19. (a) What are the items that are to be excluded in determination of the cost of inventories as per AS 2?
- (b) What is B list contributories?
20. (a) Provisions contained in the Accounting Standard in respect of Revaluation of fixed assets.
- (b) When can revenue be recognised in the case of transaction of sale of goods?
21. Explain the significance of 'Convergence of Indian Accounting Standards towards Global Standards' in brief.

Practical problems based on Accounting Standards

22. (a) Jagannath Ltd. had made a rights issue of shares in 2007. In the offer document to its members, it had projected a surplus of Rs. 40 crores during the accounting year to end on 31st March, 2009. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of Rs. 10 crores. The board in consultation with the managing director, decided on the following:

- (i) Value year-end inventory at works cost (Rs. 50 crores) instead of the hitherto method of valuation of inventory at prime cost (Rs. 30 crores).
- (ii) Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at Rs. 27 crores is lower than the amount of Rs. 45 crores which would have been provided had the old method been followed, by Rs. 18 crores.

(b) Ram Co. (P) Ltd. furnishes you the following information for the year ended 31.3.2009:

Depreciation for the year ended 31.3.2009 (under straight line method)	Rs. 100 lakhs
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Depreciation for the year ended 31.3.2009 (under written down value method)	Rs. 200 lakhs
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Excess of depreciation for the earlier years calculated under written down value method over straight line method	Rs. 500 lakhs
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The Company wants to change its method of claiming depreciation from straight line method to written down value method.

Decide, how the depreciation should be disclosed in the Financial Statement for the year ended 31.3.2009.

(c) During the current year 2008–2009, X Limited made the following expenditure relating to its plant building:

	Rs. in lakhs
Routine Repairs	4
Repairing	1
Partial replacement of roof tiles	0.5
Substantial improvements to the electrical wiring system which will increase efficiency	10
What amount should be capitalized?	

23. (a) Arjun Ltd. sold farm equipments through its dealers. One of the conditions at the time of sale is, payment of consideration in 14 days and in the event of delay interest is chargeable @ 15% per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2008, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at Rs.9 lakhs. Decide whether the income by way of interest from dealers is eligible for recognition as per AS 9.
- (b) X Co. Limited purchased goods at the cost of Rs.40 lakhs in October, 2008. Till March, 2009, 75% of the stocks were sold. The company wants to disclose closing stock at Rs.10 lakhs. The expected sale value is Rs.11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct closing stock to be disclosed as at 31.3.2009.
- (c) X Ltd. purchased debentures of Rs.10 lacs of Y Ltd., which are traded in stock exchange. How will you show this item as per AS 3 while preparing cash flow statement for the year ended on 31st March, 2009?
24. (a) A manufacturing company purchased shares of another company from stock exchange on 1st May, 2008 at a cost of Rs.5,00,000. It also purchased Gold of Rs.2,00,000 and Silver of Rs.1,50,000 on 1st April, 2006. How will you treat these investments as per the applicable AS in the books of the company for the year ended on 31st March, 2009, if the values of these investments are as follows:

	Rs.
Shares	2,00,000
Gold	4,00,000
Silver	2,50,000

- (b) A firm of contractors obtained a contract for construction of bridges across river Revathi. The following details are available in the records kept for the year ended 31st March, 2009.

	(Rs. in lakhs)
Total Contract Price	1,000
Work Certified	500
Work not Certified	105
Estimated further Cost to Completion	495
Progress Payment Received	400
To be Received	140

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by your institute.

Short Answer Type Questions

25. Answer the following questions (Give adequate working notes in support of your answer)

- (a) A and B are equal partners. They admit C and D as partners with $\frac{1}{5}$ and $\frac{1}{6}$ share respectively. What is the profit sharing ratio of all the partners?
- (b) A company sold 25% of the goods on cash basis and the balance on credit basis. Debtors are allowed 2 months credit and their balance as on 31.3.2008 is Rs.1,40,000. Assume that the sale is uniform through out the year. Calculate the total sales of the company for the year ended 31.3.2008.
- (c) In a concern, the opening provision for doubtful debts is Rs.51,000. During the year a sum of Rs.10,000 was written off as bad debt. The closing balance of sundry debtors amounts to Rs.6,30,000. It was decided that 10% of the debtors is to be maintained as provision. Calculate the closing balance towards provision for doubtful debts and pass journal entry for giving effect to the provision maintained.
- (d) Mr. A advanced Rs.30,000 to Mr. B on 1.4.2008. The amount is repayable in 6 equal monthly instalments commencing from 1.5.2008. Compute the average due date for the loan.
- (e) A company lodged a claim to insurance company for Rs. 5,00,000 in September, 2008. The claim was settled in February, 2009 for Rs. 3,50,000. How will you record the short fall in claim settlement in the books of the company.
- (f) What is meant by 'Red-Ink interest' in an Account Current?
- (g) The closing capital of Mr. A on 31.3.2009 was Rs. 1,50,000. On 1.4.2008 his capital was Rs. 60,000. During the year he had drawn Rs. 40,000 for domestic expenses. He introduced Rs. 25,000 as additional capital in February, 2009. Find out his net profit for the year.
- (h) If payment is made on the average due date, it results in loss of interest to creditors. Is the statement true or false?
- (i) If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account. State whether the statement is true or false.
- (j) In self-balancing system, whenever a balance is transferred from an account in one ledger to that in another, only one entry is recorded through the respective ledger. State whether the statement is true or false.
- (k) A, B and C are partners with profit sharing ratio 5:3:2. A wants to retire, B and C agreed to continue at 2:1. Find the profit gaining ratio between B and C.

SUGGESTED ANSWERS / HINTS

1. Cash Flow Statement for the year ended December 31, 2008

Cash Flows from Operating Activities (direct method)	Rs.	Rs.
Received from customers: Sales	20,40,000	
Add: Decrease in Debtors	30,000	
Decrease in B/R	<u>5,000</u>	20,75,000
Less: Payments to suppliers:		
Cost of sales	13,60,000	
Add: Increase in stock	10,000	
Less: Increase in creditors	<u>(25,000)</u>	<u>(13,45,000)</u>
		7,30,000
Less: Payment for expenses		(2,30,000)
Tax paid		<u>(1,30,000)</u>
Cash provided by operating activities		3,70,000
Cash Flows from Investing Activities		
Purchase of Fixed Assets (10,00,000 + 1,10,000 – 8,50,000)	(2,60,000)	
Dividend on Investments	<u>25,000</u>	
Cash used in Investing Activities		(2,35,000)
Cash Flows from Financing Activities		
Long term loan taken	30,000	
Interest paid	(70,000)	
Dividend Paid	<u>(90,000)</u>	
Income from Financing Activities		<u>(1,30,000)</u>
Net Increase in cash during the year		5,000
Add: Opening cash balance		<u>30,000</u>
Closing cash balance		<u>35,000</u>

2. Rohan Pvt. Ltd.

Trading and Profit & Loss Account for the year ending 31st March, 2009

	Rs.	Rs.		Rs.	Rs.
To Opening Stock		4,300	By Sales		27,800
To Purchases		18,900	By Closing Stock		4,400
To Gross Profit c/d					

	April – June	2,400					
	July – March	<u>6,600</u>	<u>9,000</u>				
			<u>32,200</u>				<u>32,200</u>
		April- June	July- March			April- June	July- March
		Rs.	Rs.			Rs.	Rs.
To	Office Salaries & Expenses (Time basis)	525	1,575	By	Gross Profit b/d	2,400	6,600
To	Rent & Taxes (Time basis)	300	900				
To	Carriage outwards (Sales basis)	88	242				
To	Travellers' Commission (Sales basis)	200	550				
To	Preliminary Expenses		520				
To	Directors' fees		1,800				
To	Capital Profit transferred to Capital Reserve	1,287*					
To	Balance c/d	<u>2,400</u>	<u>1,013*</u>			<u>2,400</u>	<u>6,600</u>

Rohan Pvt Ltd.

Balance Sheet as on 31st March, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets:	
Authorised Capital:		Goodwill	7,000
Shares of Rs.10 each		Fixed Assets	13,400
Issued & Subscribed Capital:			
3,000 Equity Shares of Rs.10		Investments	--

* Subject to depreciation on fixed assets

each fully paid	30,000		
(All issued for consideration other than cash)		Current Assets, Loans & Advances:	
Reserves & Surplus		Stock in trade	4,400
Capital Reserve	1,287	Other Current Assets	11,200
Profit & Loss Account	1,013		
Secured Loans	-		
Unsecured Loans	-		
Current Liabilities & Provisions			
Current Liabilities	<u>3,700</u>		<u> </u>
	<u>36,000</u>		<u>36,000</u>

Working Notes:

(1) Ratio for apportioning gross profit:

Suppose sales for the months of April 2008, February, 2009 and March 2009 is 2 and for other months 1 per month. Than:

Sales for April, May & June - 4

Sales for July 2008 to March 2009 - 11

This gives the ratio of 4:11; this ratio has been used for apportioning gross profit and expenses related to sales.

(2) Rent and Rates have been divided on time basis which is 3:9 or 1 : 3.

(3) Goodwill is the difference between the amount of purchase consideration, Rs.30,000 and the balance of Rohan's Capital, Rs.23,000, on 1st April, 2008.

3. Journal Entries

			Rs.	Rs.
1-4-2009	Equity share final call A/c	Dr.	1,80,000	
	To Equity share capital A/c			1,80,000
	(For final calls of Rs.2 per share on 90,000 equity shares due as per Board's Resolution dated....)			
20-4-2009	Bank A/c	Dr.	1,80,000	
	To Equity share final call A/c			1,80,000
	(For final call money on 90,000 equity shares received)			

Securities Premium A/c (WN-1)	Dr.	20,000	
Capital Reserve A/c (WN-2)	Dr.	40,000	
General Reserve A/c	Dr.	1,20,000	
Profit and Loss A/c	Dr.	45,000	
To Bonus to shareholders A/c			2,25,000
(For making provision for bonus issue of one share for every four shares held)			
Bonus to shareholders A/c	Dr.	2,25,000	
To Equity share capital A/c			2,25,000
(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2009 (after bonus issue)

		Rs.
Authorised Capital		
10,000	12% Preference shares of Rs.10 each	1,00,000
1,25,000	Equity shares of Rs.10 each (W.N.2)	12,50,000
Issued and subscribed capital		
8,000	12% Preference shares of Rs.10 each, fully paid	80,000
1,12,500	Equity shares of Rs.10 each, fully paid	11,25,000
(Out of above, 22,500 equity shares @ Rs.10 each were issued by way of bonus)		
Reserves and surplus		
	Capital Reserve	35,000
	Securities premium	5,000
	Profit and Loss Account	1,55,000
Secured Loan		
	12% Convertible Debentures @ Rs.100 each	5,00,000

Working Notes:

- (1) As per SEBI Guidelines, securities premium collected in cash and capital reserve realized in cash only is to be utilized for issue of bonus shares.
- (2) The authorized capital should be increased as per details given below:

	Rs.
Existing authorized equity share capital	10,00,000
Add: Issue of bonus shares to equity shareholders	2,25,000

	(25% of Rs. 9,00,000)	
Add:	Bonus shares to be issued to debenture holders on conversion (25% of 20% of Rs. 5,00,000)	25,000
		<u>12,50,000</u>

4. Trading and Profit and Loss Account of Ms. Rashmi
for the year ended 31st December, 2008

	Rs.		Rs.
To Opening Stock	8,000	By Sales	73,050
To Purchases	45,600	By Closing stock	7,000
Less : For advertising	<u>900</u>		
	44,700		
To Freight inwards	3,000		
To Gross profit c/d	24,350		
	<u>80,050</u>		<u>80,050</u>
To Sundry expenses	14,200	By Gross profit b/d	24,350
To Advertisement	900	By Interest on investment	2
To Discount allowed –		$\left(\text{Rs.} 100 \times \frac{4}{100} \times \frac{1}{2} \right)$	
Debtors	1,500	By Discount received	800
Bills Receivable	<u>125</u>	By Miscellaneous income	500
	1,625		
To Depreciation on furniture	650		
To Provision for doubtful debts	486		
To Net Profit	7,791		
	<u>25,652</u>		<u>25,652</u>

Balance Sheet as on 31st December, 2008

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital as on 1st January, 2008	18,800	Furniture (w.d.v.)	6,000
		Additions during the year	<u>1,000</u>
Less: Drawings	<u>7,904</u>		7,000
	10,896	Less : Depreciation	<u>650</u>
Add : Net Profit	<u>7,791</u>	Investment	96
	18,687	Interest accrued	2
Sundry creditors	15,000	Closing Stock	7,000
Outstanding expenses	1,800		

Sundry debtors	19,450	
Less : Provision for		
doubtful debts	<u>486</u>	18,964
Bills receivable		1,750
Cash in hand and at bank		625
Prepaid expenses	<u>700</u>	
	<u>35,487</u>	<u>35,487</u>

Working Notes :

(1) Capital on 1st January, 2008

Balance Sheet as on 1st January, 2008

Liabilities	Rs.	Assets	Rs.
Capital (Balancing figure)	18,800	Furniture (w.d.v.)	6,000
Creditors	11,000	Stock at cost	8,000
Outstanding expenses	2,000	Sundry debtors	16,000
		Cash in hand and at bank	1,200
		Prepaid expenses	<u>600</u>
	<u>31,800</u>		<u>31,800</u>

(2) Purchases made during the year

Sundry Creditors Account

	Rs.		Rs.
To Cash and bank A/c	39,200	By Balance b/d	11,000
To Discount received A/c	800	By Sundry debtors A/c	400
To Bills Receivable A/c	2,000	By Purchases A/c	45,600
To Balance c/d	15,000	(Balancing figure)	
	<u>57,000</u>		<u>57,000</u>

(3) Sales made during the year

		Rs.
Opening stock		8,000
Purchases	45,600	
Less : For advertising	<u>900</u>	44,700
Freight inwards		<u>3,000</u>
		55,700

Less : Closing stock	<u>7,000</u>
Cost of goods sold	48,700
Add : Gross profit (@ 50% on cost)	<u>24,350</u>
	<u>73,050</u>

(4) Debtors on 31.12.2008

Sundry Debtors Account

	Rs.		Rs.
To Balance b/d	16,000	By Cash and bank A/c	58,500
To Sales A/c	73,050	By Discount allowed A/c	1,500
To Sundry creditors A/c		By Bills receivable A/c	10,000
(bill dishonoured)	<u>400</u>	By Balance c/d (Balancing figure)	<u>19,450</u>
	<u>89,450</u>		<u>89,450</u>

(5) Additional drawings by Ms. Rashmi

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	1,200	By Freight inwards A/c	3,000
To Sundry debtors A/c	58,500	By Furniture A/c	1,000
To Bills Receivable A/c	6,125	By Investment A/c	96
To Miscellaneous income A/c	500	By Expenses A/c	14,500
		By Creditors A/c	39,200
		By Drawings A/c	7,904
		[Rs. 7,000 + Rs. 904	
		(Additional drawings)]	
	<u>66,325</u>	By Balance c/d	<u>625</u>
			<u>66,325</u>

(6) Amount of expenses debited to Profit and Loss A/c

Expenses Account

	Rs.		Rs.
To Prepaid expenses A/c	600	By Outstanding expenses A/c	2,000
(on 1.1.2008)		(on 1.1.2008)	
To Bank A/c	14,500	By Profit and Loss A/c	
To Outstanding expenses A/c	1,800	(Balancing figure)	<u>14,200</u>

(on 31.12.2008)	By Prepaid expenses A/c	700
	(on 31.12.2008)	
	<u>16,900</u>	<u>16,900</u>

(7) Bills Receivable on 31.12.2008

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	10,000	By Creditors A/c	2,000
		By Bank A/c	6,125
		By Discount on bills receivable A/c	125
		By Balance c/d (Balancing figure)	1,750
	<u>10,000</u>		<u>10,000</u>

Note : As regards investment, it has been assumed that investment purchased for Rs. 96 was of the face value Rs. 100.

5. Journal entries in the books of No Ltd.

		(Rupees in crores)	
		Dr.	Cr.
		Rs.	Rs.
Realisation Account	Dr.	64.00	
To Fixed Assets Account			30.00
To Current Assets Account			34.00
(Being the assets taken over by Yes Ltd. transferred to Realisation Account)			
Provision for depreciation Account	Dr.	24.00	
Current Liabilities Account	Dr.	15.00	
Unsecured Loan from Yes Ltd. Account	Dr.	10.00	
To Realisation Account			49.00
(Being the transfer of liabilities and provision to Realisation Account)			
Yes Ltd.	Dr.	1.2	
To Realisation Account			1.2
(Being the amount of consideration due from Yes Ltd. credited to Realisation Account)			

Equity Shareholders Account	Dr.	13.80	
To Realisation Account			13.80
(Being the the loss on realisation transferred to equity shareholders account)			
Equity Share Capital Account	Dr.	5.00	
Reserves and Surplus Account	Dr.	10.00	
To Equity Shareholders Account			15.00
(Being the amount of share capital, reserves and surplus credited to equity shareholders account)			
Equity Shareholders (Yes Ltd.) Account	Dr.	0.72	
To Yes Ltd.			0.72
(Being the 3/5th of the consideration due from Yes Ltd. adjusted against the amount due to Yes Ltd. for shares held by it)			
Equity shares of Yes Ltd.	Dr.	0.48	
To Yes Ltd.			0.48
(Being the receipt of 4 lakhs equity shares of Rs. 10 each at Rs. 12 per share for allotment to outside shareholders)			
Equity Shareholders Account	Dr.	0.48	
To Equity Shares of Yes Ltd.			0.48
(Being the distribution of equity shares received from Yes Ltd. to shareholders)			

Journal Entries in the Books of Yes Ltd.

				(Rupees in crores)
		Dr.	Cr.	
		Rs.	Rs.	
Business Purchase Account	Dr.	1.2		
To Liquidator of No Ltd. Account			1.2	
(Being the amount of purchase consideration agreed under approved scheme of amalgamation- W.N. 1)				

Fixed Assets	Dr.	6.00	
Current Assets	Dr.	34.00	
To Current Liabilities			15.00
To Unsecured Loan (from Yes Ltd.)			10.00
To Business Purchase Account			1.20
To Capital Reserve			13.80
(Being the assets and liabilities taken over and the surplus transferred to capital reserve)			
Liquidator of No Ltd.	Dr.	0.72	
Capital Reserve	Dr.	2.28	
To Investments in Equity Shares of No Ltd.			3.00
(Being the investments in the equity shares of No Ltd. cancelled and the resultant loss recorded)			
Liquidator of No Ltd.	Dr.	0.48	
To Equity Share Capital Account			0.40
To Securities Premium Account			0.08
(Being the allotment to outside shareholders of No Ltd. 4 lakhs equity shares of Rs. 10 each at a premium of Rs. 2 per share)			
Unsecured Loan (from Yes Ltd.)	Dr.	10.00	
To Loan to No Ltd.			10.00
(Being the cancellation of unsecured loan given to No Ltd.)			

Working Note:

Purchase Consideration	Rs. in crores
$\frac{50\text{lakhs}}{5} \times \text{Rs. } 12$	
i.e., 10 lakhs equity shares at Rs. 12 per share	1.20
Less: Belonging to Yes Ltd. $\left[\frac{3}{5} \times 1.20 \right]$	<u>0.72</u>
Payable to other equity shareholders	<u>0.48</u>

Number of equity shares of Rs. 10 each to be issued $\left[\frac{48 \text{ lakhs}}{12} \right] = 4 \text{ lakhs}$

6.

In General Ledger
Sales Ledger Adjustment Account

		Rs.			Rs.
01.04.2008	To Balance b/d	1,41,880	1.4.2008	By Balance b/d	2,240
31.3.2009	To General ledger		31.3.2009	By General ledger	
	adjustment A/c in sales ledger:			adjustment A/c in sales ledger:	
	Credit sales	7,28,000		Cash	6,24,000
	Cash paid	1,840		Discount	
	Bills receivable			allowed	11,200
	dishonoured	<u>6,000</u>		Transfers	20,800
	To Balance c/d	13,720		Bills receivable	
				received	40,000
				Sales return	<u>10,000</u>
				By Balance c/d	<u>1,83,200</u>
		<u>8,91,440</u>			<u>8,91,440</u>

7. Calculation of average due date (Base date: 8th April)

Due Date	Amount	No. of days from base date	Product
	Rs.		Rs.
8th April	300	0	0
18th May	200	40	8,000
13th June	275	66	18,150
8th July	<u>400</u>	91	<u>36,400</u>
	<u>1,175</u>	91	<u>62,550</u>

$$\begin{aligned}
 \text{Average due date} &= \text{Base date} + \frac{\text{Total Product}}{\text{Total Amount}} \\
 &= 8\text{th April} + \frac{62,550}{1,175} \\
 &= 8\text{th April} + 53 \text{ days} = 31\text{st May}
 \end{aligned}$$

8. Y in Account Current with X as at 30.04.2009

Date Due Date	Particulars	Amount	Days	Product	Date Due Date	Particulars	Amount	Days	Product
7.4.2009 to 10.6.2009	To Bills Payable A/c	5,000	-41	-2,05,000	1.4.2009 to 1.4.2009	By Balance b/d	10,000	30	3,00,000
10.4.2009 10.5.2009	To Sales A/c	15,000	-10	-1,50,000	12.4.2009 to 15.5.2009	By Bank A/c	7,500	-15	-1,12,500
20.4.2009 to 15.5.2009	To Purchase Return A/c	1,000	-15	-15,000	15.4.2009 to 15.5.2009	By Purchases A/c	6,000	-15	-90,000
20.4.2009 to 20.4.2009	To Bills Receivable A/c	5,000	10	50,000	30.4.2009	By Interest A/c*	205.90		-
30.4.2009 to 30.4.2009	To Difference of Product	-		4,17,500	30.4.2009	By Balance c/d	2,294.10		-
		<u>26,000</u>		<u>97,500</u>			<u>26,000</u>		<u>97,500</u>

$$*4,17,500 \times 18/100 \times 1/365 = \text{Rs. } 205.90$$

Note that no entry is required for transaction of April 10, 2009.

9. Income and Expenditure Account of Diana Club
for the year ended 30th September, 2008

Dr.			Cr.
Expenditure	Amount	Income	Amount
	Rs.		Rs.
To Honoraria to secretary	9,600	By Subscriptions (W.N.3)	20,980
To Misc. expenses	3,060	By Sale of old newspapers	4,800
To Rates and taxes	2,520	By Entertainment fees	8,540
To Groundman's wages	1,680	By Bank interest	460
To Printing and stationary	940	By Bar receipts	14,900
To Telephone expenses	4,780	By Profit on sale of car	2,200
To Bar expenses		(W.N.5)	
Opening bar stock	1,420		
Add: Purchases (W.N.2)	<u>11,220</u>		
	12,640		

	Less: Closing bar stock	<u>1,740</u>	10,900	
To	Repairs		640	
To	Depreciation			
	Club premises (W.N. 4)	1,020		
	Car (W.N. 6)	<u>4,680</u>	5,700	
To	Excess of income over expenditure transferred to capital fund		<u>12,060</u>	
			<u>51,880</u>	<u>51,880</u>

Balance Sheet of Diana Club
as on 30th September, 2008

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital fund (W.N. 1)	43,600	Club Premises	19,380
Add: Excess of income over expenditure	<u>12,060</u>	Car	26,520
	55,660	Bar stock	1,740
Outstanding liabilities for bar purchases	860	Outstanding subscription	1,960
	<u>56,520</u>	Cash and bank	<u>6,920</u>
			<u>56,520</u>

Working Notes:

1. Balance Sheet of Diana Club
as on 1st October, 2007

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Amount due for bar purchases	1,180	Club premises	58,000
Capital fund on 1.10.2007	43,600	Less: Depreciation	<u>37,600</u>
(balancing figure)		Car	24,380
		Less: Depreciation	<u>20,580</u>
		Bar stock	1,420
		Outstanding subscription	2,400
	<u>44,780</u>	Cash at bank	<u>16,760</u>
			<u>44,780</u>

2. Calculation of bar purchases for the year:

	Rs.
Bar payments as per receipts and payments account	11,540
Add: Amount due on 30.9.2008	<u>860</u>
	12,400
Less: Amount due on 1.10.2007	<u>1,180</u>
	<u>11,220</u>

3. Calculation of subscriptions accrued during the year:

	Rs.
Subscriptions received as per receipts and payments account	21,420
Add: Outstanding on 30.9.2008	<u>1,960</u>
	23,380
Less: Outstanding on 1.10.2007	<u>2,400</u>
	<u>20,980</u>

4. Depreciation on club premises and written down value on 30th September, 2008:

	Rs.
Written down value on 1.10.2007 (58,000-37,600)	20,400
Less: Depreciation for the year 2007-2008 @ 5% p.a.	<u>1,020</u>
	<u>19,380</u>

5. Calculation of profit on sale of car:

		Rs.
Sale proceeds of old car		6,000
Less: Written down value of old car:		
Cost of car on 1.10.2007	24,380	
Less: Depreciation upto 1.10.2007	<u>20,580</u>	<u>3,800</u>
		<u>2,200</u>

6. Depreciation on car and written down values on 30th September, 2008:

	Rs.
Cost of new car purchased (25,200 + 6,000)	31,200
Less: Depreciation for the year @ 15% p.a.	<u>4,680</u>
Written down value on 30.9.2008	<u>26,520</u>

Note: The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing.

10. Journal Entries

	Rs.	Rs.
Share Capital A/c (old)	Dr. 2,50,000	
To Equity Share Capital A/c		1,00,000
($\frac{2}{5}$ of Rs. 2,50,000)		
To 5% Preference Share Capital A/c		20,000
($\frac{20}{100} \times \text{Rs. } 1,00,000$)		
To 6% Second Debentures A/c		30,000
To Capital Reduction A/c		1,00,000
(Conversion of 25,000 Equity Shares and balance being transferred to Capital Reduction A/c in accordance with the Scheme of internal reconstruction as per Special Resolution dated.....as confirmed by the Court Order dated.....)		
Bank A/c	Dr. 25,000	
To 5% First Debenture A/c		25,000
(Issue of Rs. 25,000 5% First Debentures for cash as per scheme of internal reconstruction)		
Capital Reduction A/c	Dr. 1,00,000	
To Goodwill A/c		75,000
To Plant & Machinery A/c		12,500
To Leasehold premises A/c		12,500
(Sundry Assets written down as per scheme of internal reconstruction)		

11.

In the books of Piyush

Investment Account (Shares in Horizon Limited)

Date	Particulars	No. of Shares	Income Rs.	Amount Rs.	Date	Particulars	No. of Shares	Income Rs.	Amount Rs.
2008					2008				
April 1	To Bank (Purchases)	20,000	-	30,000	May 15	By Bank (Sale)	4,000	-	7,600
May 15	To Profit & Loss A/c (W.N.1)	-	-	1,600	Sept. 30	By Bank (Sale of Right of 1,200 shares @ 40 paise per share)	-	-	480
June 15	To Bonus Issue	4,000	-	Nil	2008				
July 15	To Bank (@ 75 p. paid on 2,000 shares)	2,000	-	1,500	Mar. 15	By Bank (Dividend @ 15% on Rs.16,000)		2,400	-
Sept. 15	To Bank (@ 75 p. paid on 2,000 shares)	-	-	1,500	Mar. 30	By Bank (Sale)	10,000	-	14,000
2009 March 31	To Profit & Loss A/c (W.N.2)			1,945		By Balance c/d $\left(\frac{12,000}{22,000} \times 26,520 \right)$	12,000	-	14,465
	To Profit & Loss A/c	-	2,400						
		<u>26,000</u>	<u>2,400</u>	<u>36,545</u>			<u>26,000</u>	<u>2,400</u>	<u>36,545</u>

Working Notes:

(1) Sale on 15-5-2008:

Cost of 4,000 shares @ Rs.1.50	Rs.6,000	
Sales price	<u>Rs.7,600</u>	
Profit		Rs.1,600

(2) Cost of 10,000 shares sold:

Cost of 22,000 shares (24,000 + 3,000)	Rs.27,000	
Less: Amount received from rights	<u>Rs.480</u>	
Cost of 22,000 shares		Rs.26,520

$$\therefore \text{Cost of 10,000 shares} \left(\frac{\text{Rs.26,520}}{22,000 \text{ shares}} \times 10,000 \text{ shares} \right) \quad \text{Rs.12,055}$$

Profit on 10,000 shares (Rs.14,000 – Rs.12,055)		Rs.1,945
---	--	----------

12.

Dr. Hire Purchase Trading Account for the year ended 31.3.2009				Cr.
	Rs.			Rs.
To Hire purchase stock (25 x Rs. 2,500)	62,500	By	Stock reserve ($62,500 \times \frac{25}{125}$)	12,500
To Hire purchase debtors (5 x Rs. 2,500)	12,500	By	Goods sold on hire purchase A/c – Loading ($60,00,000 \times \frac{25}{125}$)	12,00,000
To Goods sold on hire purchase (240 computers x Rs.25,000*)	60,00,000	By	Cash A/c (W.N.1)	45,15,000
To Stock reserve ($\text{Rs.15,00,000} \times \frac{25}{125}$)	3,00,000	By	Repossessed goods (W.N.2)	20,000
To Profit transferred to P & L A/c	8,97,500	By	Hire purchase debtors (2 x 5 x Rs.2,500)	25,000
		By	Hire purchase stock [(8x50)+(6x30)+(2x10) x Rs.2,500]	<u>15,00,000</u>
	<u>72,72,500</u>			<u>72,72,500</u>

* Hire purchase price of a computer = Rs. 5,000 + (Rs. 2,500 x 8) = Rs. 25,000.

Working Notes:

1. Calculation of cash collected during the year

	Rs.
Down payment received on 240 computers sold during the year (240 x Rs.5,000)	12,00,000
Number of Instalments due and collected:	No. of instalments
Total Instalments (8 instalments x 240 computers)	1,920
Add: Opening hire purchase debtors	25
Add: Opening hire purchase stock	<u>5</u>
	1950
Less: Closing hire purchase debtors (2 x 5)	<u>10</u>
	1,940
Less: Closing hire purchase stock	
8 x 50 = 400	
6 x 30 = 180	
2 x 10 = <u>20</u>	<u>600</u>
	1,340
Less: Repossessed computer (5 x 2 + 2 x 2)	<u>14</u>
Total number of instalments received during the year	<u>1,326</u>
Total amount of instalments received (1,326 instalments x Rs.2,500)	<u>33,15,000</u>
Instalments collected during the year	<u>45,15,000</u>

2. Value of repossessed computers

Hire purchase price of two repossessed computers

$$= [\text{Rs.5,000} + (8 \times \text{Rs. 2,500})] \times 2 \text{ computers}$$

$$= \text{Rs.50,000}$$

$$\text{Cost price of the repossessed computers} = \frac{\text{Rs.50,000}}{125} \times 100 = \text{Rs. 40,000}$$

$$\text{Value of repossessed computers} = \text{Rs.40,000} \times 50\% = \text{Rs.20,000}$$

Alternatively Hire Purchase Trading Account can also be prepared in the following manner:

Dr.	Hire Purchase Trading Account for the year ended 31.3.2009	Cr.
	Rs.	Rs.
To Hire purchase stock (25 x Rs. 2,500)	62,500	By Stock reserve $(62,500 \times \frac{25}{125})$ 12,500
To Hire purchase debtors (5 x Rs. 2,500)	12,500	By Hire purchase sales A/c (W.N.1) 45,65,000
To Goods sold on hire purchase (240 computers x Rs.25,000)	60,00,000	By Goods sold on hire purchase A/c – Loading $(60,00,000 \times \frac{25}{125})$ 12,00,000
To Bad debts (W.N.3)	5,000	By Hire purchase stock [(8x50)+(6x30)+(2x10) x Rs.2,500] 15,00,000
To Loss on goods repossessed (W.N.2)	8,000	
Less : Cost of instalments not due	<u>8,000</u>	Nil
To Stock reserve	3,00,000	
	$15,00,000 \times \frac{25}{125}$	
To Profit transferred to P & L A/c	<u>8,97,500</u>	
	<u>72,77,500</u>	<u>72,77,500</u>

Working Notes:

1. Calculation of hire purchase sales	Rs.
Cash collected (As per the working note 1 of the Alternate solution given above)	45,15,000
Add: Instalments due but not collected (including repossessed computers)	50,000
$(2 \times \text{Rs.}2,500 \times 5) + (5 \times \text{Rs.}2,500 \times 2)$	<u>45,65,000</u>
2. Calculation of loss on repossessed computers	Rs.
Cost of instalments due but not collected $\frac{(2 \times 2,500 \times 5)}{125} \times 100$	20,000
Add: Cost of instalments not yet due $\frac{(2 \times 2,500 \times 2)}{125} \times 100$	8,000
	<u>28,000</u>

Less : Value of repossessed computers		20,000
$\left[\frac{(2 \times 25,000)}{125} \times 100 \right] \times 50\%$		<u>8,000</u>
Loss on repossessed computers		<u>8,000</u>
3. Bad debts (in respect of repossessed computers)		Rs.
Instalments due but not collected (5 x Rs.2,500 x 2)		25,000
Add: Cost of instalments not due $\frac{(2 \times \text{Rs. } 2,500 \times 2)}{125} \times 100$		<u>8,000</u>
		<u>33,000</u>
Less : Cost of instalments due but not collected		
$\frac{(5 \times \text{Rs. } 2,500 \times 2)}{125} \times 100$	20,000	
Cost of instalments not yet due		
$\frac{(2 \times \text{Rs. } 2,500 \times 2)}{125} \times 100$	<u>8,000</u>	28,000
Bad debts on repossessed computers		<u>5,000</u>
13. Computation of claim for loss of stock:		
		Rs.
Stock on the date of fire i.e. 31.12.2008 (Refer working note)		30,500
Less: Salvaged stock		<u>3,000</u>
Loss of stock		<u>27,500</u>

$$\begin{aligned} \text{Amount of claim} &= \frac{\text{Insured value}}{\text{Total cost of stock on the date of fire}} \times \text{loss of stock} \\ &= \frac{\text{Rs. } 25,000}{\text{Rs. } 30,500} \times \text{Rs. } 27,500 = 22,541 \end{aligned}$$

Working Note:

Memorandum trading account can be prepared for the period from 1.10.2008 to 31.12.2008 to compute the value of stock on 31.12.2008.

Memorandum Trading Account			
for period from 1.10.2008 to 31.12.2008			
	Rs.	Rs.	Rs.
To Opening stock		33,000	By Sales
			1,40,000

(Rs. 29,700x100/90)			By Closing stock	30,500
To Purchases	75,000		(balancing figure)	
Less: Cost of plant	<u>5,000</u>	70,000		
To Wages	33,000			
Less: Wages paid for plant	<u>500</u>	32,500		
To Gross profit		35,000		
(33.33% on cost or 25% on sales)				
		<u>1,70,500</u>		<u>1,70,500</u>

14. (a) Revaluation Account

Date	Particulars	Rs.	Date	Particulars	Rs.
2009			2009		
April	To Plant & Machinery	6,000	April	By Land and building	6,000
	To Stock of goods	2,000		By Sundry creditors	2,000
	To Provision for bad and doubtful debts	550		By Cash & Bank - Joint life Policy surrendered	7,550
	To Capital accounts (profit on revaluation transferred)				
	Mr. P (2/7)	2,000			
	Mr. Q (3/7)	3,000			
	Mr. R (2/7)	<u>2,000</u>			
		<u>7,000</u>			
		<u>15,550</u>			<u>15,550</u>

(b) Partners' Capital Accounts

Dr.							Cr.
Particulars	P	Q	R	Particulars	P	Q	R
	(Rs.)	(Rs.)	(Rs.)		(Rs.)	(Rs.)	(Rs.)
To P's Capital A/c -				By Balance b/d	20,000	30,000	20,000

	goodwill	-	1,000	3,000				
To	Cash & bank A/c - (50% dues paid)	13,000	-	-	By	Revaluation A/c	2,000	3,000 2,000
To	P's Loan A/c - (50% transfer)	13,000	-	-	By	Q & R's Capital A/cs - goodwill	4,000	- -
To	Balance c/d	-	35,000	35,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	3,000 16,000
		<u>26,000</u>	<u>36,000</u>	<u>38,000</u>			<u>26,000</u>	<u>36,000</u> <u>38,000</u>

(c)

Cash and Bank Account

Particulars	Rs.	Particulars	Rs.
To Balance b/d	7,000	By P's Capital A/c - 50% dues paid	13,000
To Revaluation A/c – surrender value of joint life policy	7,550	By Balance b/d	20,550
To Q's Capital A/c	3,000		
To R's Capital A/c	<u>16,000</u>		
	<u>33,550</u>		<u>33,550</u>

(d)

Balance Sheet of M/s Q & R as on 01.04.2009

Liabilities	Rs.	Assets	Rs.
Partners' Capital account		Land and Building	30,000
Mr. Q	35,000	Add: Appreciation 20%	<u>6,000</u> 36,000
Mr. R	<u>35,000</u> 70,000	Plant & Machinery	20,000
Mr. P's Loan	13,000	Less: Depreciation	

account		30%	<u>6,000</u>	14,000
Sundry Creditors	8,000	Stock of goods	12,000	
		Less: devalued	<u>2,000</u>	10,000
		Sundry Debtors	11,000	
		Less: Provision for bad debts 5%	<u>550</u>	10,450
		Cash & Bank balances		<u>20,550</u>
	<u>91,000</u>			<u>91,000</u>

Working Notes:

Adjustment for Goodwill:

Goodwill of the firm Rs. 14,000

Mr. P's Share (2/7) 4,000

Gaining ratio of Q & R;

$$Q = \frac{1}{2} - \frac{3}{7} = \frac{1}{14}$$

$$R = \frac{1}{2} - \frac{2}{7} = \frac{3}{14}$$

$$Q:R = 1:3$$

Therefore, Q will bear = $\frac{1}{4} \times 4,000$ or Rs.1,000

R will bear = $\frac{3}{4} \times 4,000$ or Rs.3,000

15. (i) Revaluation Account

Dr.		Rs.		Cr.		Rs.
To	Furniture	870	By	Building	3,200	
To	Stock	1,070	By	Sundry creditors	1,400	
To	Provision of doubtful debts (Rs. 1,750 – Rs. 200)	1,550	By	Investment	450	
To	Outstanding wages	<u>1,560</u>				
		<u>5,050</u>				<u>5,050</u>

(ii) Partners' Capital Accounts

		A	B	C			A	B	C
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
To	Balance				By	Balance			
	c/d	71,000	54,000	25,000		b/d	44,000	36,000	—

			By Cash A/c	–	–	25,000
			By Goodwill A/c			
			(W.N.)	<u>27,000</u>	<u>18,000</u>	<u>–</u>
<u>71,000</u>	<u>54,000</u>	<u>25,000</u>		<u>71,000</u>	<u>54,000</u>	<u>25,000</u>

(iii) **Balance Sheet of New Partnership Firm**
(after admission of C) as on 1.1.2009

Liabilities	Rs.	Assets	Rs.
Sundry Creditors (12,900 – 1,400)	11,500	Goodwill	45,000
Bills Payable	4,100	Building (26,000 + 3,200)	29,200
Bank Overdraft	9,000	Furniture (5,800 – 870)	4,930
Outstanding wages	1,560	Stock-in-trade (21,400 – 1,070)	20,330
Capital Accounts:		Debtors	35,000
A 71,000		Less: Provision for bad debts	<u>1,750</u>
B 54,000		Investment (2,500 + 450)	2,950
C <u>25,000</u>	<u>1,50,000</u>	Cash (15,500 + 25,000)	40,500
	<u>1,76,160</u>		<u>1,76,160</u>

Working Note:

Calculation of goodwill:

C's contribution of Rs. 25,000 consists only 1/6th of capital.

Therefore, total capital of firm should be Rs. 25,000 × 6 = Rs. 1,50,000.

But combined capital of A, B and C amounts Rs. 44,000 + 36,000 + 25,000 = Rs. 1,05,000.

Thus, Hidden goodwill is Rs. 45,000 (i.e. Rs. 1,50,000 – Rs. 1,05,000).

16. (a) There are many accounting softwares available in the market. To choose the accounting software appropriate to the need of the organization is a difficult task, some of the criteria for selection could be the following:
1. Fulfillment of business requirements: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
 2. Completeness of reports: Some packages might provide extra reports or the reports match the requirements more than the others.
 3. Ease of Use: Some packages could be very detailed and cumbersome compare to the others.

4. Cost: The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
 5. Reputation of vendor: Vendor support is essential for any software. A stable vendor with good reputation and track records will always be preferred.
 6. Regular updates: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.
- (b) Following are the advantages of outsourcing the accounting functions:
- (i) The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.
 - (ii) The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
 - (iii) Storage and maintenance of the data is in the hand of professional people.
 - (iv) The organisation is not bothered about people leaving the organisation in key accounting positions.
 - (v) The proposition is proving to be economically more sensible.
17. (a) Following are the advantages of self-balancing ledger system:
- (i) It fixes the responsibility on the ledger keeper who had to balance the ledger. The error is localised.
 - (ii) Interim accounts can be prepared without personal ledger to be balanced.
 - (iii) The total amount due from debtors and total amount payable to suppliers and creditors is readily available.
 - (iv) The maintenance of general ledger would be easy as the voluminous debtors and creditors details are maintained in control accounts.
- (b) The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. The framework suggests that the financial statements should observe and maintain the following four qualitative characteristics as far as possible within limits of reasonable cost/ benefit.
1. Understandability: The financial statements should present information in a manner as to be readily understandable by the users with reasonable knowledge of business and economic activities. It is not right to think that more disclosures are always better. A mass of irrelevant information creates confusion and can be even more harmful than non-disclosure. No relevant information can be however withheld on the grounds of complexity.
 2. Relevance: The financial statements should contain relevant information only. Information, which is likely to influence the economic decisions by the users, is said to be relevant. Such information may help the users to evaluate past, present or future events or may help in confirming or correcting past

evaluations. The relevance of a piece of information should be judged by its materiality. A piece of information is said to be material if its omission or misstatement can influence economic decisions of a user.

3. Reliability: To be useful, the information must be reliable; that is to say, they must be free from material error and bias. The information provided are not likely to be reliable unless:
 - (a) Transactions and events reported are faithfully represented.
 - (b) Transactions and events are reported in terms of their substance and economic reality not merely on the basis of their legal form. This principle is called the principle of 'substance over form'.
 - (c) The reporting of transactions and events are neutral, i.e. free from bias.
 - (d) Prudence is exercised in reporting uncertain outcome of transactions or events.
 4. Comparability: Comparison of financial statements is one of the most frequently used and most effective tools of financial analysis. The financial statements should permit both inter-firm and intra-firm comparison. One essential requirement of comparability is disclosure of financial effect of change in accounting policies.
 5. True and Fair View: Financial statements are required to show a true and fair view of the performance, financial position and cash flows of an enterprise. The conceptual framework does not deal directly with this concept of true and fair view, yet the application of the principal qualitative characteristics and of appropriate accounting standards normally results in financial statements portraying true and fair view of information about an enterprise.
- (c) Donations may have been raised either for meeting some revenue or capital expenditure; those intended for the first mentioned purpose are credited directly to the Income and Expenditure Account but others, if the donors have declared their specific intention, are credited to special fund account and in the absence thereof, to the Capital Fund Account. If any investments are purchased out of a special fund or an asset is acquired therefrom, these are disclosed separately. Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. On no account any such expense is charged to the Income and Expenditure Account. The term "Fund" is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. Scholarship Fund, Prize Fund etc. In other cases, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word "Account" is more appropriate e.g. Building Account, Tournament Account etc.

18. (a) As per AS 3 'Cash Flow Statements', the term 'Cash' and 'Cash equivalents' mean the following:

Cash: It includes cash on hand and demand deposits with banks.

Cash Equivalents: It means short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

- (b) A change in accounting policy should be made in the following conditions:

- (i) If the change is required by some statute or for compliance with an Accounting Standard.
- (ii) Change would result in more appropriate presentation of the financial statement.

Change in accounting policy may have a material effect on the items of financial statements. For example, if depreciation method is changed from straight-line method to written-down value method, or if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit / loss.

19. (a) Items that are to be excluded in determination of the cost of inventories as per para 13 of AS 2 on 'Valuation of Inventories' are:

- (i) Abnormal amounts of wasted materials, labour or other production costs.
- (ii) Storage costs unless those costs are necessary in the production process prior to a further production stage.
- (iii) Administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
- (iv) Selling and distribution costs.

- (b) B list contributories are the shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up. They may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to pay off such creditors, as existed on the date of transfer of shares and cannot be paid out of the funds otherwise

available with the liquidator, provided also that the existing shareholders have failed to pay the amount due on the shares.

20. (a) According to Accounting Standard 10 on "Accounting for Fixed Assets"
- (a) When fixed assets are revalued in financial statements, the basis of selection should be an entire class of assets or the selection should be done on a systematic basis. The basis of selection should be disclosed.
 - (b) The revaluation of any class of assets should not result in the net book value of that class being greater than the recoverable amount of that class of assets.
 - (c) The accumulated depreciation should not be credited to profit and loss account.
 - (d) The net increase in book value should be credited to a revaluation reserve account.
 - (e) On disposal of a previously revalued item of fixed asset, the difference between net disposal proceeds and the net book value should be charged or credited to the profit and loss account except that to the extent to which such a loss is related to an increase and which has not been subsequently reversed or utilised may be charged directly to that account.
- (b) As per AS 9 Revenue Recognition, revenue from sales transactions should be recognised when the following requirements as to performance are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection :
- (i) The seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
 - (ii) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of goods.
21. The convergence of financial reporting and accounting standards is a valuable process that contributes to the free flow of global investment and achieves substantial benefits for all capital market stakeholders. It improves the ability of investors to compare investments on a global basis and thus lowers their risk of errors of judgment. It facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements. It has the potential to create a new standard of accountability and greater transparency, which are values of great significance to all market participants including regulators. It reduces operational challenges for accounting firms and focuses their value and expertise around an increasingly unified set of standards. It creates an unprecedented opportunity for standard setters and other stakeholders to improve the reporting model. For the companies with joint listings in both domestic and foreign country, the convergence is very much significant.

22. (a) As per AS 1 "Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts :

- (i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognisance of the more capital intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at Rs. 50 crores and the profit for the year is increased by Rs. 20 crores.
 - (ii) In view of the heavy capital intensive method of production introduced during the year, the company has decided to change the method of providing depreciation from reducing balance method to straight line method. As a result of this change, depreciation has been provided at Rs. 27 crores which is lower than the charge which would have been made had the old method and the old rates been applied, by Rs. 18 crores. To that extent, the profit for the year is increased.
- (b) As per para 21 of AS 6 'Depreciation Accounting', when a change in the method of depreciation is made, depreciation should be calculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation should be adjusted in the accounts in the year in which the method of depreciation is changed. The deficiency should be charged to profit and loss account. Similarly, any surplus should be credited in the statement of profit and loss. Such change is a change in the accounting policy, and its effect should be quantified and disclosed.

In the given case, the deficiency of Rs. 500 lakhs would be charged to the profit and loss account of 31.3.2009. In the notes to account, the fact of change in method of depreciation should be elaborated along with the effect of Rs. 500 lakhs. The current depreciation charge of 200 lakhs determined in accordance with the written down value method should be debited to the profit and loss account.

- (c) As per para 12.1 of AS 10 on Accounting for Fixed Assets, expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity. Hence, in the given case, Repairs amounting Rs. 5 lakhs and Partial replacement of roof tiles should be charged to profit and loss statement. Rs. 10 lakhs incurred for substantial improvement to the electrical wiring system which will increase efficiency should be capitalized.

23. (a) As per AS 9 "Revenue Recognition", where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty inverted. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made.

In this case, the company never realized interest for the delayed payments made by the dealers. Hence, it has to recognize the interest only if the ultimate collection is certain. The interest income hence is not to be recognized.

- (b) As per Para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost and net realizable value.

In this case, the cost of inventory is Rs.10 lakhs. The net realizable value is $11,00,000 \times 90\% = \text{Rs.}9,90,000$. So, the stock should be valued at Rs.9,90,000.

- (c) As per AS 3 on 'Cash flow Statement', cash and cash equivalents consists of cash in hand, balance with banks and short-term, highly liquid investments¹. If investment, of Rs.10 lacs, made in debentures is for short-term period then it is an item of 'cash equivalents'.

However, if investment of Rs.10 lacs made in debentures is for long-term period then as per AS 3, it should be shown as cash flow from investing activities.

24. (a) As per para 32 of AS 13 on 'Accounting for Investments', any investment of long term period is shown at cost. Hence, the investment in Gold and Silver (purchased on 1st April 2006) shall continue to be shown at cost i.e., Rs.2,00,000 and Rs.1,50,000 respectively as their value have increased.

Also as per AS 13, for investment in shares - if the investment is for short-term period then the loss of Rs.3,00,000 is to be charged to profit & loss account for the year ended 31st March, 2006. If investment is of long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

- (b)

(a)	Amount of foreseeable loss	(Rs. in lakhs)
	Total cost of construction (500 + 105 + 495)	1,100
	Less: Total contract price	<u>1,000</u>
	Total foreseeable loss to be recognized as expense	<u>100</u>

According to para 35 of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

¹ As per para 6 of AS 3, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say three months or less from the date of acquisition.

- (b) Contract work-in-progress i.e. cost incurred to date are (Rs. in lakhs)
Rs. 605 lakhs

Work certified	500
Work not certified	<u>105</u>
	<u>605</u>

This is 55% $(605/1,100 \times 100)$ of total costs of construction.

- (c) Proportion of total contract value recognised as revenue as per para 21 of AS 7 (Revised).

55% of Rs. 1,000 lakhs = Rs. 550 lakhs

- (d) Amount due from/to customers = Contract costs + Recognised profits – Recognised

losses – (Progress payments received + Progress

payments to be received)

= $[605 + \text{Nil} - 100 - (400 + 140)]$ Rs. in lakhs

= $[605 - 100 - 540]$ Rs. in lakhs

Amount due to customers = Rs. 35 lakhs

The amount of Rs. 35 lakhs will be shown in the balance sheet as liability.

- (e) The relevant disclosures under AS 7 (Revised) are given below:

	Rs. in lakhs
Contract revenue	550
Contract expenses	605
Recognised profits less recognized losses	(100)
Progress billings $(400 + 140)$	540
Retentions (billed but not received from contractee)	140
Gross amount due to customers	35

25. (a)

Let total profits or losses of the firm be 1

Shares of C and D is $\frac{1}{5}$ and $\frac{1}{6}$ respectively.

Balance remaining: $1 - \left(\frac{1}{5} + \frac{1}{6}\right) = 1 - \frac{11}{30} = \frac{19}{30}$

$\frac{19}{30}$ to be shared equally by A and B as $\frac{9.5}{30} : \frac{9.5}{30}$

New profit sharing ratio will be A: B: C: D

$$\left[\frac{9.5}{30} \times \frac{2}{2} \right] : \left[\frac{9.5}{30} \times \frac{2}{2} \right] : \left[\frac{1}{5} \times \frac{12}{12} \right] : \left[\frac{1}{6} \times \frac{10}{10} \right]$$

Thus new profit sharing ratio of all the partners will be 19:19:12:10.

(b) Debtors as on 31.3.2008	=	Rs.1,40,000
Credit period allowed	=	2 months

i.e. Debtors as on 31.3.2008 is standing for credit sales of February and March 2008

Credit sales per month	=	Rs.1,40,000/2
	=	Rs.70,000
Credit sales for the year 2007-2008	=	Rs.70,000 × 12
	=	Rs.8,40,000

Add: Cash sales $8,40,000 \times \frac{25}{75}$	=	Rs.2,80,000
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Total sales of the company for the year ended 31.3.2008		<u>Rs.11,20,000</u>
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(c) Closing balance of Sundry Debtors	=	<u>Rs.6,30,000</u>
Closing provision for doubtful debts to be maintained @ 10%	=	Rs.63,000
Less: Opening Provision for doubtful debts	=	<u>Rs.51,000</u>
Additional provision to be maintained	=	<u>Rs.12,000</u>

(d) Average due date = $\frac{\text{Date of loan} + \text{Sum of months from the date of lending to repayment}}{\text{No. of instalments}}$

$$= 1.4.2008 + \frac{(1+2+3+4+5+6)}{6}$$

$$= 1.4.2008 + 3.5 \text{ months}$$

$$= 16^{\text{th}} \text{ July } 2008$$

(e) Journal Entry

		Rs.	Rs.
Profit and Loss A/c	Dr.	1,50,000	
To Insurance Company A/c			1,50,000
[Being the shortfall in insurance claim is the loss, transferred to Profit and Loss A/c]			

- (f) In an Account Current, interest is calculated on the amount of a bill from the date of transaction to the closing date of the period concerned. In case the due date of the bill falls after the closing date of the account, then no interest is allowed for that period. However, it is customarily followed that interest from the date of closing to the due date is written in red ink in the appropriate side of the Account Current. This interest is called Red-Ink Interest. This Red-Ink interest is treated as negative interest.
- (g) Statement showing calculation of profit for the year 31.3.2009
- | | |
|--|-----------------|
| Capital as on 31.3.2009 | Rs. 1,50,000 |
| Add: Drawings during the year | <u>40,000</u> |
| | 1,90,000 |
| Less: Additional capital introduced in February 2009 | <u>(25,000)</u> |
| | 1,65,000 |
| Less: Capital as on 1.4.2008 | <u>(60,000)</u> |
| Net profit for the year | <u>1,05,000</u> |
- (h) False- Average due date is 'no loss no gain' date to either party. i.e. neither the debtor nor the creditor stands to lose or gain anything by way of interest.
- (i) False- If there exists a specific sports fund, the expenditure incurred in carrying out the purpose of the fund i.e. incurred on sports activities will be deducted from that fund only.
- (j) False- Whenever a balance is transferred from one account in one ledger to that in another, the entry is recorded through the journal. Also an additional entry is made in the control accounts for recording the corresponding effect.
- (k) B : 2/3 less 3/10 = 11/30
 C: 1/3 less 2/10 = 4/30
 Gaining ratio = B : C
 11 : 4