GURUKRIPA'S GUIDELINE ANSWERS NOV 2007 EXAMS
ACCOUNTING – PE–II

Answer all questions

Question1: Single Entry — 20 Marks

'A' and 'B' are in partnership sharing Profits and Losses equally. They keep their books by Single Entry system. The following balances are available from their books as on 31.3.2006 and 31.3.2007:

Assets and Liabilities	31.3.2006 Rs.	31.3.2007 Rs.
Building	1,50,000	1,50,000
Equipments	2,40,000	2,72,000
Furniture	25,000	25,000
Debtors	?	1,00,000
Creditors	65,000	?
Stock	?	70,000
Bank loan	45,000	35,000
Cash	60,000	?

The transactions during the year ended 31.3.2007 were the following —

Collection from Debtors	Rs.3,80,000
Payment to Creditors	Rs.2,50,000
Cash Purchases	Rs.65,000
Expenses paid	Rs.40,000
Drawings by 'A'	Rs.30,000

On 1.4.2006 an equipment of Book value Rs. 20,000 was sold for Rs. 15,000. On 1.10.2006 some equipments were purchased. Cash sales amounted to 10% of sales. Credit sales amounted to Rs. 4,50,000. Credit purchases were 80% of total purchases. The Firm sells goods at cost plus 25%. Discount allowed Rs. 5,500 during the year. Discount earned Rs. 4,800 during the year. Outstanding expenses Rs. 3,000 as on 31.3.2007. A's Capital as on 31.3.2006 was Rs. 15,000 more than B's Capital. Equipments & Furniture to be depreciated at 10% p.a. and Building @ 2% p.a. Prepare the Trading, P&L account for the year ended 31.3.2007 and the Balance Sheet as on that date.

Answer: **Trading and Profit & Loss Account for the Year Ended on 31.03.2007**

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Opening Stock (**Bal.Fig.**)		1,45,000	By Sales A/c		
			• Cash (W.N.6)	50,000	
To Purchases			• Credit (Given)	4,50,000	5,00,000
• Cash (Given)	65,000		By Closing Stock Given)		70,000
• Credit (W.N.7)	2,60,000	3,25,000			
To Gross Profit (Tr. to P/L A/c) (W.N.8)		1,00,000			
		5,70,000			**5,70,000**
To Expenses A/c (W.N.2)		43,000	By Gross Profit		1,00,000
To Discount Allowed		5,500			
To Depreciation (W.N.11)		30,100	By Discount Earned		4,800
To loss on sale of equipment (W.N.2)		5,000			
To Profit (Tr. to Capital A/c)					
• A's Capital	10,600				
• B's Capital	10,600	21,200			
		1,04,800			**1,04,800**

Balance Sheet as on 31.03.2007

Liabilities	Rs.	Rs.	Assets	Rs.
Capital A/c			Building (W.N.11)	1,47,000
• A	2,60,850		Equipment (W.N.11)	2,47,400
• B	2,75,850	5,36,700	Furniture (W.N.11)	22,500
Bank Loan (Given)		35,000	Stock (Given)	70,000
Sundry Creditors (W.N.4)		70,200	Sundry Debtors (Given)	1,00,000
Outstanding expenses (Given)		3,000	Cash (W.N.1)	58,000
		6,44,900		**6,44,900**

Working Note:

1. Cash Account

Receipts	Rs.	Payments	Rs.
To Balance B/d	60,000	By Sundry Creditors (Settlement)	2,50,000
To Sundry Debtors	3,80,000	By Purchases A/c	65,000
To Equipment A/c. (Sale)	15,000	By Expenses A/c	40,000
To Sales A/c (Cash Sales) (W.N.6)	50,000	By A's Capital A/c (Drawings)	30,000
		By Bank Loan (repaid during the year: 45,000 – 35,000)	10,000
		By Equipments A/c (Purchased for cash) (W.N.2)	52,000
		By Balance C/d (Bal. Fig)	**58,000**
	5,05,000		**5,05,000**

2. Equipment Account

	Rs.		Rs.
To Balance B/d	2,40,000	By Cash A/c (sale of equipment)	15,000
To Cash A/c (Bal. Fig)	52,000	By Loss on sale of Equipment (20,000–15,000)	5,000
		By Balance C/d	**2,72,000**
	2,92,000		**2,92,000**

3. Sundry Debtors Account

	Rs.		Rs.
To Balance B/d **(Bal. Fig.)**	**35,500**	By Cash A/c (Collections)	3,80,000
To Credit Sales	4,50,000	By Discount Allowed	5,500
		By Balance C/d	1,00,000
	4,85,500		**4,85,500**

4. Sundry Creditors Account

	Rs.		Rs.
To Cash A/c	2,50,000	By Balance B/d	65,000
To Discount earned	4,800	By Credit Purchases (W.N.7)	2,60,000
To Balance C/d **(Bal.Fig.)**	**70,200**		
	3,25,000		**3,25,000**

5. Determination of total expenses

		Rs.
	Expenses paid by cash during the year	40,000
Add:	Outstanding Expenses as on 31.03.2007	3,000
	Total expenses to be debited to Profit & Loss Account	**43,000**

6. Determination of Credit Sales

	%	Rs.	Computation
Let Total Sales be :	100 %	5,00,000	(4,50,000+50,000)
Cash sales (Given)	10 %[100%× 10%]	50,000	[(4,50,000/90)×10]
∴ Credit Sales	90 % [100%×10%]	4,50,000	(Given)

7. Determination of Credit Purchase

	%	Rs.	Computation
Let Total Purchase be :	100 %	3,25,000	(65,000×100%) / 20%
Cash Purchase (Given)	80 %[80%× 100%]	2,60,000	(3,25,000×80%)
∴ Case Purchases	20 %[100%−80%]	65,000	(Given)

8. Determination of Gross Profit

	%	Rs.	Computation
Let Cost be	100 %	4,00,000	(5,00,000×100) /125
Gross Profit	25%[25% of 100%]	1,00,000	(5,00,000×25) / 125
Sale price	125 %	5,00,000	

9. Determination of Opening Balance Sheet as at 1.04.2006

Liabilities	Rs.	Assets	Rs.
Capital A/c **(Bal. Fig)**	**5,45,500**	Building	1,50,000
A's & B's		Equipment	2,40,000
Bank Loan	45,000	Furniture	25,000
Sundry Creditors	65,000	Stock (from Trading A/c)	1,45,000
		Sundry Debtors (W.N.3)	35,500
		Cash	60,000
	6,55,500		**6,55,500**

10. Determination of Capitals of A & B

a. Let A's Capital be = A, B's Capital be = B
b. From W.N. 9 , A+B = 5,45,500 ⟶ (1)
c. Given that Capital of A's Capital is Rs.15,000 more than that of B.
d. ∴ A = B+15,000 → A–B =15,000 ⟶ (2)
(1) + (2) = 2A = 5,60,500
e. ∴ A = Rs. 2,80,250
f. From (2) → B=A – 15,000 → B = 2,80,250 – 15,000 = Rs. 2,65,250.

11. Calculation of Depreciation & Closing Value of Assets:

Nature of Assets	Depreciation Rate p.a.	Opening Book Value	Purchase Rs.	Sale Rs.	Balance Rs.	Depreciation Rs.	Closing Book Value Rs.
a. Building	2 %	1,50,000	—	—	1,50,000	3,000 (1,50,000×2%)	1,47,000
b. Furniture	10 %	25,000	—	—	25,000	2,500 (25,000×10%)	22,500
c. Equipments	10 %	2,40,000	52,000 (1.10.06)	(20,000) (1.4.06)	2,72,000	24,600 [(2,20,000×10 %) + (52,000×10%×6/12)]	2,47,400
TOTAL						**30,100**	

12. Partners' Capital Account

Particulars	A	B	Particulars	A	B
	Rs.	Rs.		Rs.	Rs.
To Drawings	30,0000	—	By Balance b/d (W.N.10)	2,80,250	2,65,250
To balance c/d	2,60,850	2,75,850	By Net Profit	10,600	10,600
	2,90,850	**2,75,850**		**2,90,850**	**2,75,850**

Note: The Following assumptions are made:

1. Depreciation has not been already provided in the books on 31.03.207,
2. Equipments purchased through cash only for Rs.52,000,
3. Bank loan repaid through cash only for Rs.10,000,
4. Collections & Payments are only through cash.

Question 2 (a): Liquidator's Final Statement of Account 10 Marks

The following particulars relate to a Limited Company which has gone into Voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2 1/2% on all Assets realized excluding Call money received and 2% on the amount paid to unsecured creditors including Preferential creditors :

Share Capital issued:

10,000 Preference shares of Rs. 100 each fully paid.

50,000 Equity shares of Rs. 10 each fully paid.

30,000 Equity shares of Rs. 10 each Rs. 8 paid up.

Assets realized Rs. 20,00,000 excluding the amount realized by sale of securities held by partly Secured creditors.

Preferential Creditors	**Rs.50,000**
Unsecured Creditors	**Rs.18,00,000**
Partly Secured creditors (Asset realized Rs. 3,20,000)	**Rs.3,50,000**
Debenture holders having floating charge on all Assets of the Company	**Rs.6,00,000**
Expenses of Liquidation	**Rs.10,000**

A call of Rs. 2 per share on the partly paid Equity Shares was duly received except for one person holding 1,000 shares

Also calculate the percentage of amount paid to the Unsecured Creditors to the total Unsecured Creditors.

Answer: **Liquidator's Final Statement of Account**

Receipts	Rs.	Payments	Rs.
Assets realized	20,00,000	Liquidation Expenses	10,000
Call Money from Equity Shares holders [(30,000–1,000)×2]	58,000	Liquidator's Remuneration (W.N.1)	85,275
		Debenture holders	6,00,000
		Preferential creditors	50,000
		Unsecured Creditors **(Bal. Fig)**	**13,12,725**
	20,58,000		**20,58,000**

1. Liquidator's Remuneration

Particulars	Computation	Rs.
(a) 2½% on all assets realized excluding call money :	(2.5%) of (Rs.20,00,000+ Rs.3,20,000)	**58,000**
(b) 2% on amount paid to unsecured creditors (inclu.Pref.Crs)		
(i) Total amount available for Unsecured Creditors & Liquidator's Remuneration	20,58,000 − 10,000 − 58,000– 6,00,000–50,000=Rs.13,40,000	
(ii) Liquidator's Remuneration	(13,40,000)×(2 / 102)	**26,275**
(iii) Remuneration on amount paid to Pref. Creditors	2 % × 50,000	**1,000**
Total Remuneration to Liquidator		**85,275**

2. % of amount paid to unsecured creditors to total unsecured creditors = $\frac{50{,}000+13{,}12{,}725}{50{,}000(\text{Pref. Crs.})+18{,}00{,}000(\text{Fully Unsecured})+30{,}000(\text{Partly unsecured})}$ =72.49%

Notes —

1. Amount payable to partly secured creditors after setting off the assets realized is considered as unsecured amount and hence considered for calculating total amount payable to unsecured creditors.
2. Preferential creditors are also included in the category of unsecured creditors for calculating the % of unsecured creditors paid off.
3. Assets held by partly secured creditors are assumed to be realized by Liquidator himself and hence taken into account for calculating remuneration.
4. There is a total deficiency of Rs.17,98,000 (Rs.10,00,000+5,00000+2,98,000) in respect of contributors.
5. There is no List B Contributory available in respect of amount unrealized on call from one shareholder (Rs.2×1000).

Question 2(b): Calculation of Purchase Consideration — 6 Marks

The following is the Balance Sheet of 'A' Ltd., as on 31.3.2007:

Liabilities	Rs.	Assets	Rs.
14,000 Equity Shares of Rs. 100 each fully paid	14,00,000	Sundry Assets	18,00,000
General Reserve	10,000	Dist. on issue of Debentures	10,000
10% Debentures	2,00,000	Preliminary Expenses	30,000
Sundry Creditors	2,00,000	Profit & Loss A/c	60,000
Bank Overdraft	50,000		
Bills payable	40,000		
	19,00,000		19,00,000

'R' Ltd., agreed to take over the business of 'A' Ltd., Calculate purchase consideration under Net Assets method on the basis of the following — The market value of 75% of the "Sundry Assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities at book values. There is an unrecorded liability of Rs. 25,000.

Answer:

In the Books of A Ltd.,
Calculation of Purchase Consideration under Net Assets Method

Particulars	Book Value	Valuation	Calculation	Rs.
A. Assets				
(i) 75 % of Sundry Assets	13,50,000	12 % More than B.V	(18Lacs×75%)×(112/100)	15,12,0000
(ii) 25 % of Sundry Assets	4,50,000	8 % Less than B.V	(18 Lacs×25%)×(92/100)	4,14,000
(iii) Total Value	**18,00,000**	—	—	**19,26,000**
b. Discount on Issue of Debentures	10,000	Nil	—	—
c. Preliminary Expenses	30,000	Nil	—	—
d. P & L A/c	60,000	Nil	—	—
Total value of Assets (I)	**19,00,000**	–	–	**19,26,000**
B. Liabilities				
(a) 10 % Debentures	2,00,000	—	—	2,00,000
(b) Creditors	2,00,000	—	—	2,00,000

(c) Bank Overdraft	50,000	—	—	50,000
(d) Bills Payable	40,000	—	—	40,000
(e) Unrecorded Liability	—	—	—	25,000
Total Liabilities (II)	**4,90,000**	—	—	**5,15,000**
C. Net Asset [(I)–(II)]	**14,10,000**	—	—	**14,11,000**

D. ∴ Purchase Consideration payable by R Ltd., to A Ltd., = Rs.14,11,000

E. Purchase Consideration per share = $\frac{\text{Purchase Consideration}}{\text{No. of Shares}} = \frac{14,11,000}{14,000}$ =Rs.100.79 per share

Question 3: Accounting for Electricity Companies 16 Marks

'H' Electricity Company earned a Profit of Rs. 60,00,000 (after tax) after paying Rs. 48,000 at 12% interest on Debentures for the year ended 31.3.2007. The following further information is supplied to you:

Share Capital	Rs.2,50,00,000
Reserve Fund Investment (invested in 8% Government Securities at par)	Rs.60,00,000
Contingencies Reserve fund Investment (7%)	Rs.25,00,000
Loan from State Electricity Board	Rs.50,00,000
Development Reserve	Rs.16,00,000
Fixed Assets	Rs.6,00,00,000
Depreciation Reserve on Fixed Assets	Rs.60,00,000
Security Deposits of Customers	Rs.80,00,000
Amount contributed by Consumers towards cost of Fixed Assets	Rs.4,50,000
Intangible Assets	Rs.17,50,000
Tariffs and Dividends Control Reserve	Rs.22,00,000
Monthly average of Current Assets including amount due from customers Rs. 5,00,000	Rs.36,00,000

Show, how the Profits of the Company will be dealt with under the provisions of the Electricity Act, assuming the Bank rate of the year was 8%. All working notes should form part of your answer.

Answer:

1. Calculation of Capital Base

Particulars			Rs. Lakhs
	Original Cost of Fixed Assets		6,00,00,000
	Cost of intangible assets		17,50,000
	Current Assets	36,00,000	
Less:	Amount due from Customers	(5,00,000)	31,00,000
	Contingency Reserve Fund Investments		25,00,000
	Total (A)		**6,73,50,000**
Less:	Depreciation Reserve	60,00,000	
	Loan from State Electricity Board	50,00,000	
	Debentures (48,000 / 12 %)	4,00,000	
	Development Reserve	16,00,000	
	Security Deposit from customers	80,00,000	
	Amounts contributed by consumers	4,50,000	
	Tariff and Dividend Control Reserve	22,00,000	
	Total (B)		**2,36,50,000**
	Capital Base (A – B)		**4,37,00,000**

2. Reasonable Return

	Particulars	Rs. Lakhs
A.	8% being RBI rate plus 2% on Capital Base (4,37,00,000 ×10%)	43,70,000
B.	½ % on Loan from Electricity Board and Approved Institution and on Debentures and Development Reserve [(50,00,000+4,00,000+16,00,000) × ½ %]	35,000
C.	Income from investments other than Contingencies Reserve Investments (Rs.60,00,000 × 8%)	4,80,000
	Reasonable Return (A + B + C)	**48,85,000**

3. Computation of Surplus

	Particulars	Rs.
	Post tax Profit	60,00,000
Less:	Reasonable Return	48,85,000
	Surplus	**11,15,000**

4. Disposal of Surplus

	Particulars		Rs.
	Surplus as per 3 Above		11,15,000
Less:	20% of Reasonable Return = Rs.48,85,000 × 20%		9,77,000
	1. Amount to be Credited to Customer Rebate Reserve (Amount Refundable to Consumers)		**1,38,000**
	Disposal of Balance of Surplus of Rs.9,77,000 (11,15,000 – 1,38,000):		
	2. Amount at the Disposal of the Company: Least of the following		
	(a) 1/3 of the Surplus = Rs.9,77,000 × 1/3	3,25,667	
	(b) 5% of the Reasonable Return = Rs.48,85,000 × 5%	2,44,250	2,44,250
	3. ½ of the balance to be credited to Tariff and Dividend Control Reserve [(Rs.9,77,000 Less Amount at Company's Disposal Rs.2,44,250) × 50%]		3,66,375
	4.Remainder of the balance to be credited to Customers Rebate Res. (in addition to Rs.1,38,000 as above)		3,66,375
	Total Surplus		**11,15,000**
	Summary:		
	Amount to be Refunded to Customers (Rs. 1,38,000 + Rs.3,66,375)		5,04,375
	Amount to be transferred to Tariff and Dividend Control Reserve		3,66,375
	Amount at Disposal of the Company (Reasonable Return Rs.48,85,000+ Rs.2,44,250)		51,29,250
	Net Profit After Tax		**60,00,000**

Question 4: Accounting for Hire Purchase Transactions — 16 Marks

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 2006–07:

Number of instalments not yet due as on 1.4.2006 — 25. Number of instalments due but not collected as on 1.4.2006 — 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 31.3.2007.

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. Re–possessed stock is valued at 50% of cost. All instalments have seen received. You are asked to prepare Hire–Purchase Trading Account for the year ending on 31.3.2007.

Answer:

In the books of Computer Point

Hire Purchase Trading A/c for the year ended 31–03–2007

Particulars	Rs.	Particulars	Rs.
To Balance b/d		By Balance b/d	
• Instalments not yet due (25×Rs.2,500)	62,500	• HP Stock Reserve (62,500×25) / 125	12,500
• Instalments due not yet collected (5×Rs.2,500)	12,500	By Bank (W.N.2)	45,15,000
To Goods sold on HP (240×Rs.25,000)	60,00,000	By Goods sold on HP (240×Rs.5,000)	12,00,000
To Repossessed Stock (10,000×25) / 125 (Removal of Loading)	2,000	By Repossessed Stock • Instalment not due (2×2×2500) • Instalment due (2×5×2,500)	 10,000 25,000
To Repossessed Stock (Loss on Repossession)	23,000	By Balance c/d (a) Instalment not yet due [(8×50)+(6×30)+(2×10)]×2,500	15,00,000
To Balance b/d HP Stock Reserve (15 ,00,000×25)/125	3,00,000	(b) Instalments due not collected (2×5×Rs.2,500)	25,000
To P & L A/c–Transfer **(bal. figure)**	**8,87,500**		
Total	**72,87,500**	**Total**	**72,87,500**

Workings:

1. Calculation of Loss on Repossession

Particulars	Workings		Rs.
(a) Instalments due at the time of repossession	(2 Computers×5 Instalments×Rs.2,500)		25,000
(b) Instalments not due at the time of repossession	(2 Computers×2 Instalmetns×Rs.2,500)		10,000
(c) **Less:** Unrealized Profit	(10,000×25) / 125		(2,000)
(d) Balance at the time of repossession			33,000
(e) Valuation of Stock on repossession(50% of cost)	(i) Sale price	25,000	
	(ii) Cost (25,000×4/5)	20,000	
	(iii) 50 % of Cost	(20,000×50%)	(10,000)
(f) Loss on Repossession [(d)–(e)]			**23,000**

2. Calculation of collections during the year:

(i) Calculation of no. of instalments due during the year

Particulars		No. of instalments	Rs.	
	Opening	25	62,500	(25×2,500)
Add:	Current year HP Sales (240×8)	1920+240 (down payment)	60,00,000	(240×2,500)

Less:	Down Payment Received	(240)	12,00,000	(240×5,000)
Less:	Repossessed Stock	(4)	10,000	(4×2,500)
Less :	Closing	(600)[(8×50)+(6×30)+(2×10)]	15,00,000	(600×2500)
	Installment due	**1,341**	**33,52,500**	

(ii) Calculation of amount collected from HP Debtors

Particulars		**No. of instalments**	**Rs.**	
	Opening	5	12,500	(5×2,500)
Add:	Due during the year	1,341	33,52,500	(From (i))
Less:	Repossessed stock	(10)	(25,000)	(10×2,500)
Less :	Closing	(10)	(25,000)	(2,500×10)
	Collections from Debtors	1,326	33,15,000	
Add:	Down Payment	240	12,00,000	(240×5,000)
	Total collections	1,566	45,15,000	

(iii) Calculation of HP Profit

	Particulars	**Rs.**
	Hire purchase installment (8 installment× Rs.2,500)	20,000
Add:	Down Payment	5,000
	Hire purchase price (a)+(b)	25,000
	Cost : (25,000×100) / 125	20,000
	∴ **Hire Purchase Profit**	**5,000**

Question 5: Admission of a Partner — 16 Marks

The following was the Balance Sheet of 'A' and 'B', who shared Profits & Losses in the ratio of 2:1 on 31.12.2006:

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital Accounts		**Plant and machinery**	**12,00,000**
A	**10,00,000**	**Building**	**9,00,000**
B	**5,00,000**	**Sundry Debtors**	**3,00,000**
Reserve Fund	**9,00,000**	**Stock**	**4,00,000**
Sundry Creditors	**4,00,000**	**Cash**	**1,00,000**
Bills payable	**1,00,000**		
	29,00,000		**29,00,000**

They agreed to admit 'C' into the partnership on the following terms:

(i) The Goodwill of the Firm was fixed at Rs.1,05,000.
(ii) That the value of Stock and Plant and Machinery were to be reduced by 10%.
(iii) That a provision of 5% was to be created for Doubtful Debts.
(iv) That the Building Account was to be appreciated by 20%.
(v) There was an unrecorded Liability of Rs. 10,000.
(vi) Investments worth Rs. 20,000 (Not mentioned in the Balance Sheet) were taken into account.
(vii) That the value of Reserve fund, the values of Liabilities and the values of Assets other than Cash are not to be altered.
(viii) 'C' was to be given one–fourth share in the Profit and was to bring capital equal to his share of Profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital Account of the Partners and the Balance Sheet of the Newly Reconstituted Firm.

Answer: **Memorandum Revaluation Account**

Particulars		Rs.	Particulars		Rs.
To Stock (4,00,000×10%)		40,000	By Building (9,00,000×20%)		1,80,000
To Plant & Machinery (12,00,000×10 %)		1,20,000	By Investments (not entered)		20,000
To Provision for debts (3,00,000×5 %)		15,000			
To Liability (Unrecorded)		10,000			
To Capital A/c (2:1)					
– A	10,000				
– B	5,000	15,000			
		2,00,000			**2,00,000**
To Building (9,00,000×20%)		1,80,000	By Stock (4,00,000×10%)		40,000
To Investments		20,000	By Plant & Machinery (12,00,000×10%)		1,20,000
			By Provision for debts (3,00,000×5 %)		15,000
			By Liability (Unrecorded)		10,000
			By Capital A/c (2:1:1)		
			– A	7,500	
			– B	3,750	
			– C	3,750	15,000
		2,00,000			**2,00,000**

Partners' Capital Account

Particulars	A	B	C	Particulars	A	B	C
To Goodwill	52,500	26,250	26,250	By Balance b/d	10,00,000	5,00,000	—
To Memo. Revaluation	7,500	3,750	3,750	By Reserve Fund (2:1)	6,00,000	3,00,000	—
To Reserve Fund	4,50,000	2,25,000	2,25,000	By Goodwill (2:1)	70,000	35,000	
To Balance c/d	11,70,000	5,85,000	5,85,000	By Memo. Revaluation (W.N.1)	10,000	5,000	—
				By Cash (Bal. Fig.)	–	—	**8,40,000**
Total	16,80,000	8,40,000	8,40,000	Total	16,80,000	8,40,000	8,40,000

Working Note 1—

A's Capital	Rs.11,70,000	Profit Ratio 2/4
Total Capital	Rs.23,40,000	(11,70,000×4) / 2
C's Capital	Rs.5,85,000	**=23,40,000×1/4**

Balance Sheet of the Firm as on 31–03–2007 (after C's admission)

Liabilities	Rs.	Assets		Rs.
Capital A/c:		Plant & Machinery		12,00,000
– A	11,70,000	Building		9,00,000
– B	5,85,000	Debtors		3,00,000
– C	5,85,000	Stock		4,00,000
Reserve Fund	9,00,000	Cash	1,00,000	
Creditors	4,00,000	Add: Brought by "C"	8,40,000	9,40,000
Bills payable	1,00,000			
Total	**37,40,000**	**Total**		**37,40,000**

Working Note 2 —

Calculation of Net Profit Ratio

(a) Total available	=1	
(b) C's share	=1/4	
(c) Balance [(a) – (b)]	= 1 – (1/4)	= 3/4
(d) A's Share	= (3/4) × (2/3)	= 6/12
(e) B's share	= (3/4) × (1/3)	= 3/12
(f) C's share	= 1/4	= 3/12

Note: The Loss as a result of admission of C is assumed to be shared in old proportion.

Question 6(a) Answer any four form the following: 4 Marks

Explain the functions entrusted to the Treasury.

Answer:

The major activities / functions of a Treasury are –

1. Receipt of money from the public and Departmental Officers, for credit to Government Account.
2. Payment of Claims against the Government, on bills, cheques or other instruments, presented by the Departmental Drawing and Disbursing Officers or Pensioners or Others authorized to do so.
3. Maintenance of initial and subsidiary accounts of the receipts and payments in Government Account.
4. Submission of returns and statements to the C & AG for detailed compilation and consolidation.
5. Acting as a Banker in respect of funds of Local Bodies (Municipalities) or Panchayat Institutions, who keep their funds with the treasury.
6. Safe Custody of Cash balances of the State Government, and proper conduct of cash business.

Question 6(b): Accounting for Agricultural Farms 4 Marks

List out major cost elements and Revenue of an Agricultural farm.

Answer: The major elements of Revenue and Cost of an Agricultural Farm are —

Costs	Rs.	Revenues	Rs.
Operational Costs: Seeds Fertilizers, Pesticides and Manures Irrigation Wages of workers employed in the Farm Power (where applicable) Repairs & Maintenance of Agri. M/c Maintenance Cost of Draught Animals **Other Costs:** Rent on leased–in land (where applicable) Depreciation on Fixed Assets Interest on Borrowed Capital **Notional Costs:** Rent on own land Wages of Family Workers Interest on Owned Capital **Surplus** / Profit / Excess of Income over Exp.		**Sales:** Sale of Main Product and By Products **Other Revenues:** Rent of leased–out land **Notional Incomes:** Value of output exchanged for input Value of crop and by–products transferred to allied enterprise run by the Farm Household Value of Family Consumption of Crop and By–products	
Total		**Total**	

Question 6(c): AS–12 Government Grants 4 Marks

Explain the treatment of Refund of Government Grants as per AS–12.

Answer: When certain conditions are not fulfilled, the Government Grants should be **refunded.** A Grant that becomes refundable is treated as an **Extra–ordinary Item.**

1. **Revenue Grants:** The amount refundable in respect of a revenue item is applied first against any unamortised Deferred Credit remaining in respect of the Grant. Any excess of Grant refundable over the Deferred Credit or when there is no Deferred Credit, it is **immediately charged** to the P &L Statement.
2. **Specific Fixed Asset:** The amount refundable in respect of a specific Fixed Asset is recorded –
   (a) by **increasing the book value** of the asset, (wherein the depreciation on the Revised Book Value is provided **prospectively** over the residual life of the asset), or
   (b) by **reducing the Capital Reserve** or the Deferred Income balance, as appropriate, by the amount refundable.
3. **Promoters' Contribution:** Where a Grant in the nature of Promoters' Contribution becomes refundable, in part or in full, the relevant amount recoverable by the Government is **deducted from the Capital Reserve.**

Refund of Government Grants relating to

- Revenue Items
  - Adjust Grant Refundable (GR) against Unamortised Deferred Credit (DC) if any.
  - Debit Excess Refundable (i.e. GR **less** DC) to P&L Account.
  - Credit Surplus Grant (i.e. GR **less than** DC) to P&L A/c.
- Promoter's Contribution
  - Deduct Grant Refundable from **Capital Reserve.**
- Specific Fixed Assets
  - Depreciable Fixed Assets
    - Where Asset Cost Reduction Method is followed
      - Increase book value of the asset by the Grant Refundable.
      - Provide Depreciation on the Revised Book Value **prospectively** over the balance residual life of the asset.
    - Where Deferred Income Method is followed
      - Adjust Grant Refundable against unamortised balance in **Deferred Income** if any.
  - Non–Depreciable Fixed Assets
    - Deduct Grant Refundable from **Capital Reserve** or **Deferred Income** balance, if any.

Question 6(d): Changes in Accounting Policies — AS 5 4 Marks

The Company X Ltd has to pay for delay in Cotton clearing charges. The Company up to 31.3.2006 has included such charges in the valuation of Closing Stock. This being in the nature of interest, X Ltd., decided to exclude such charges from Closing Stock for the year 2006–07. This would result in decrease in profit by Rs. 5 lakhs. Comment.

Answer:

1. **Change in Accounting Policy:** AS–5 states that a change in an accounting policy should be made only –
   (a) If the adoption of a different accounting policy is required by **statute**, or
   (b) For compliance with an **Accounting Standard,** or

(c) If it is considered that the change would result in a more **appropriate preparation** and presentation of Financial Statements of an enterprise.

2. **Analysis:** In the instant case, the exclusion of interest for stock valuation is in line with AS – 2 and would result in more appropriate preparation of Financial Statements.
3. **Conclusion:** As per AS–2, the accounting policy adopted for valuation of inventories including the cost formulae used should be **disclosed** in the Financial Statements.
4. **Draft Disclosure Note:** Appropriate disclosure of the change and the amount by which any item in the Financial Statements is affected by such change, is necessary as per AS–1, AS–2 and AS – 5. Therefore, the under–mentioned note should be given in the Annual Accounts.

   "In compliance with the Accounting Standards issued by the ICAI, delayed cotton clearing charges which are in the nature of interest have been excluded from the valuation of closing stock unlike preceding years. Had the Company continued the accounting practice followed earlier, the value of closing stock as well as Profit before Tax for the year would have been higher by Rs.5 Lakhs".

   Alternative Disclosure Note: "To be in conformity with the Accounting Standard on Valuation of Inventories issued by ICAI, interest has been excluded from the valuation of Closing Stock unlike preceding years. Had the same principle of previous years been followed, Profit for the year and its corresponding effect on the year–end Net Assets would have been higher by Rs.5,00,000."

Question 6(e): Revenue Recognition 4 Marks

The Board of Directors of X Ltd., decided on 31.3.2007 to increase sale price of certain items of goods sold retrospectively from 1st January, 2007. As a result of this decision the Company has to receive Rs. 5 lakhs from its customers in respect of sales made from 1.1.2007 to 31.3.2007. But the Company's Accountant was reluctant to make–up his mind. You are asked to offer your suggestion.

Answer:

1. **Analysis:** The price revision was effected during the current accounting period i.e. 2006–2007. So, it is **not** a Prior Period Item as per AS – 5 as there is no error or omission in the past financial year.
2. **Conclusion:** As per AS – 9, if the Company is able to assess the ultimate collection with reasonable certainty, then additional revenues of Rs.5 lakhs arising out of the said price revision may be recognized in the current financial year i.e. 2006–2007.

Question 6(f): Accounting for Investments 4 Marks

Briefly explain disclosure requirements for Investments as per AS–13.

Answer: The following information should be disclosed in the Financial Statements –

1. **Accounting Policies** for determination of carrying amount of investments,
2. **Classification** of Investments into Current and Long Term and further classification, if any,
3. Amounts included in **Profit and Loss Statement** for –
   (a) Interest, Dividends (showing separately Dividends from Subsidiary Companies), and Rentals on investments (showing separately such income from Long Term and Current Investments). Gross Income should be stated, and the amount of income tax deducted at source should be included under Advance Taxes Paid,
   (b) Profits & Losses on disposal of Current Investments & changes in the Carrying Amount of such investments,
   (c) Profits & Losses on disposal of long–term Investments and changes in Carrying Amount of such investments,
4. Significant **restrictions** on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal,
5. Aggregate amount of **quoted and unquoted investments**, giving the aggregate market value of Quoted Investments,
6. Other **disclosures** as specifically required by the relevant statute governing the enterprise.

STUDENT'S NOTES