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- Ans. 1(a) According to para 35 of AS-7 "Accounting for construction contracts (Revised)" an expected loss on the construction contract should be recognized as an expense immediately irrespective of
- The amount of profit expected to arise in other contracts, or
 - Whether or not the work has commenced on the contracts, or
 - The stage of completion of the contract.

	Amount (₹)
a. Cost incurred to date	180 lakhs
b. Estimate of cost to completion	<u>140 lakhs</u>
c. Estimated total cost	320 lakhs
d. Degree of completion (a/c)	56.25%
e. Revenue Recognized (56.25% of 300 lakhs)	168.75 lakhs
Total foreseeable loss (320 lakhs – 300 lakhs)	20.00 lakhs
Less : Loss for current year (e–a)	<u>11.25 lakhs</u>
Expected loss to be recognized immediately.	<u>8.75 lakhs</u>

Profit & Loss Account

To construction costs	180.00 lakhs	By Contract Price	168.75 lakhs
To provision for loss	<u>8.75 lakhs</u>	By Net Loss	<u>20.00 lakhs</u>
	<u>188.75 lakhs</u>		<u>188.75 lakhs</u>

- (b) 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 Oct 2011) shall continue to be shown at cost i.e. Rs. 4,00,000 and Rs. 2,00,000 respectively as their value have increased.
For investment in shares :- Also as per AS 13, if the investment is for short-term period then the loss of Rs. 25,000 is to be charged to profit and loss accounts for the year ended 31st March , 2012. If investment is of long terms 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.
- (c) As per AS -6 on " Depreciation Accounting ". depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Thus, depreciation has to be charged even in case of those assets which are not used at all during the year but by mere effluxion of time, provided such assets qualify as depreciable assets. When the spare bus was kept ready for use as stand-by , it means it was intended to be used for the purpose of business. Depreciation in respect of this bus ought to have been provided in the accounts for the year ended 31st March, 2012. If there is an intention to use an asset, through it may not have actually been used, it is a 'constructive' or passive ' use and eligible for claim of depreciation.
The contention of the Board to debit the Factory Building Account by Rs. 6,00,000 is incorrect, as the addition to factory buildings have been made at a cost of Rs. 4,50,000. In the case of a fixed asset which is held for the purpose of earning income and not for resale, it would be improper to value the asset in excess of the amount which has been paid for it. The additions made to the factory buildings must appear in the balance sheet at a figure not exceeding its actual cost to the company. AS- 10 in "Accounting for Fixed Assets" makes clear that gross books value of self constructed fixed assets should be computed on the basis of actual cost incurred/allocated. Even internal profits, if any, are eliminated in arriving at such costs. Hence the Board's contention is not correct.
- (d) 'Amalgamations' as per AS -14 on Accounting for Amalgamations , are of following two types :
- Amalgamation in the nature of merger.
 - Amalgamation in the nature of purchase.
- (1) Amalgamation in the nature of merger :-
For this purpose, **all** the following conditions must be satisfied :
- All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
 - Shareholders holdings not less than 90% for the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the

transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares
- (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company, except to ensure uniformity of accounting policies.

(2) Amalgamation in the nature of purchase :-

If any one of the above conditions is not satisfied in a process of amalgamation, it can be treated as amalgamation in the nature of purchase.

Ans. 2

**Journal entries in the books
of
M/S Platinum Ltd.**

Date	Particulars	L.F.	Dr.	Cr.
	Bank A/c Dr. To Rs.50 Equity Share Capital A/c (Balance of Rs.10 per share on 1,00,000 equity shares called up as per reconstruction scheme.)		10,00,000	10,00,000
	Rs.50 Equity Share Capital A/c Dr. To Rs.40 Equity Share Capital A/c To Capital Reduction A/c (Reduction of equity share of Rs.50 each to share of Rs.20 each per share)		75,00,000	60,00,000 15,00,000
	Bank A/c Dr. To Rs.40 Equity Share Capital A/c (Being the amount of application money received and transferred to share capital.)		12,50,000	12,50,000
	Trade Creditors A/c Dr. To Rs.40 Equity Share Capital A/c To Bank A/c To Capital Reduction A/c (Trade Creditors for Rs.7,50,000 accepting shares for full amount and those for Rs.4,90,000 accepting cash equal to 70% of claim in full settlement.)		12,40,000	7,50,000 3,43,000 1,47,000
	8% Debentures A/c Dr. 12% Debentures A/c Dr. To Shiv's A/c (Being the total amount due to shiv transferred to his account.)		3,00,000 4,00,000	7,00,000
	Shiv's A/c Dr. To 15% Debentures A/c To Capital Reduction A/c (Being the cancellation of Rs.2,00,000 out of total debt of Mr. Shiv and issue of 15% Debentures for the balance amount.)		7,00,000	5,00,000 2,00,000
	Bank A/c Dr. To 15% Debentures A/c (Being the amount of further 15% Debentures subscribe in cash by Mr. Shiv.)		100,000	1,00,000
	8% Debentures A/c Dr. 12% Debentures A/c Dr. To Ganesh's A/c (Being the total amount due to Mr. Ganesh transferred to his account.)		1,00,000 2,00,000	3,00,000
	Ganesh's A/c Dr. To 15% Debentures A/c To Capital Reduction A/c		3,00,000	2,50,000 50,000

(Being the cancellation of Rs.50,000 out of total debt of Mr. Ganesh and issue of 15% Debentures for the balance amount.)				
Capital Reserve A/c Dr. To Capital Reduction A/c (Capital reserve being used for purpose of reconstruction).		5,00,000		5,00,000
Land and Building A/c Dr. Stock A/c Dr. To Capital Reduction A/c Being the amount of appreciation in the value of land and building and stock transferred to capital reduction A/c)		9,14,000 30,000		9,44,000
Outstanding Expenses A/c Dr. To Bank A/c (Being the amount of outstanding expenses paid full in cash)		10,60,000		10,60,000
Capital Reduction A/c Dr. To Profit & loss A/c (Dr. bal.) To Goodwill A/c To Machinery A/c To Computers A/c To Trade Debtors A/c (Writing off losses and goodwill A/c and other assets as per reconstruction scheme.)		33,41,000		7,82,000 22,00,000 1,30,000 1,20,000 1,09,000

M/s Platynume LTD. (---- and reduced)

Balance Sheet as on 31.03.2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Share Capital 20,00,000 Equity shares of ₹ 40 each fully paid up 15% Debentures	80,00,000 8,50,000	Land and Building Machinery Computers Stock Trade Debtors Cash at Bank . [w. note (1)]	51,84,000 7,20,000 4,00,000 3,50,000 9,81,000 12,15,000
	88,50,000		88,50,000

Working Note :

(1)

Cash at Bank A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,68,000	By Trade Creditors	3,43,000
To ₹ 50 Equity share Cap	10,00,000	By Outstanding Exp. A/c	10,60,000
To ₹ 40 Equity share Cap	12,50,000	By balance c/d	12,15,000
To 15% Debentures A/c	1,00,000		
	26,18,000		26,18,000

Ans. 3 (a)

Total Debtors Account

Particular	Amount ₹	Particular	Amount ₹
To Balance b/d	70,000	By Bills Receivables	47,000
To Bills Receivables Dishonoured	5,000	By cash	156,000
To Creditors	3,000	By Discount	9,000
To Bank	2,000	By Sales Return	11,000
To Sales (B/F)	225,000	By Balance c/d	82,000
Total	305,000		305,000

Total Creditors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bills payable	53,000	By bal b/d	81,000.00
To Cash	1,72,000	By debtors	3,000.00
To Bills Receivable (Endorsed)	27,000	By purchases (B/F)	2,70,000
To Discount	7,000		
To Bal c/d	95,000		
Total	3,54,000		3,54,000

Total sales $\Rightarrow ₹ 1,68,500 + ₹ 2,25,000 = ₹ 3,93,500$

Total Purchases $\Rightarrow ₹ 1,97,800 + ₹ 2,70,000 = ₹ 4,67,800$

Ans.3 (b)

Profit & Loss Appropriation Account

Particulars	Amount ₹	Particulars	Amount ₹
To Salary to Partners		By Net Profit	225000
Good 28800		(Working Note 1)	
Better 19200			
Best 21600	69600	By Interest on Drawings	
		Good 1040	
By Interest on capital		Better 770	
Good 10200		Best 600	2410
Better 6600			
Best 7320	24120		
To Commission			
Good 18000			
Best 22500	40500		
To Commission			
Better	8940		
To General Reserve	22240		
To Profit			
Good	20670		
Better	13780		
Best	27560		
Total	227410		227410

Working Note

(1) Profit(Given)	276000
Less:Salary to Accountant	<u>24000</u>
	252000
Less:Commission	<u>27000</u>
	225000

(2) Interest on Drawings

Good	$(2000 \times 12 \times 8 / 100 \times 6.5 / 12)$	1040
Better	$(1750 \times 12) \times 8 / 100 \times 5.5 / 12$	770
Best	$(1250 \times 12) \times 8 / 100 \times 6 / 12$	600

(3) Commission to Better

Profit	225000
Less:Commission to other partners	40500
Less:Interest on Capital	24120
Less:General Reserve	22240
Less:Salary to partners	69600
	<u>68540</u>

Commission 8940

Assumption : The Better's commission is considered as "after charging such commission" because as per question it is before charging interest on drawings but after making **all other** appropriations (including better's commission).

Ans.4

Receipts & Payment Account
for the year ended 31 March 2012

Particular	Amount(₹)	Particular	Amount(₹)
To balance b/d	8,300	By Salaries	120500
To Subscriptions	427000	By Rent	222000
To Entrance fees	240000	By Printing & Stat.	28200
To Sale of sports Material	22480	By Postage & Telephone	41600
To Interest on 8% govt. Bonds	6000	By Membership fees	12800
To newspaper	11600	By Electricity Charges	38500
		By Garden upkeep	19300
		By Sports Material	71200
		By Repair & maintenance	19900
		By miscellaneous Exp.	5700
		By Fixed Assets	40000
		By Fixed Deposit	80000
		By Balance c/d	15680
Total	715,380	Total	715380

Balance Sheet
as on 31 March 2012

Liabilities	Amount(₹)	Assets	Amount(₹)
Subscription in advance	4,900	Fixed Assets	267000
Outstanding Salaries	14300	Bank Balance	15680
Outstanding Rent	15000	Stock of Sports Mat.	35670
Creditor for sports material	4200	Outstanding Subscription	5700
Capital funds 409300			
+ Entrance Fees 120000	532800		150000
+ Surplus 3500		8 % Govt. Bonds	
		Advance for printing	1550
		Advance membership	9600
		Accured Interest	6000
		Fixed deposit	80000
Total	571,200	Total	571200

Working Notes

1

Balance Sheet
as on 31 March 2011

Liabilities	Amount(₹)	Assets	Amount(₹)
Subscription in advance	2,400	Fixed Assets	240000
Outstanding Salaries	16000	Bank Balance	8300
Outstanding Rent	21000	Stock of Sports Mat.	43450
Creditor for sports material	3400	Outstanding Subscription	10200
Outstanding Repair	1200	8 % Govt. Bonds	150000
Capital funds 409300		Advance for printing	1350
Total	453,300	Total	453300

2

Fixed Assets A/c

Particular	Amount(₹)	Particular	Amount(₹)
To balance b/d	240000	By Depreciation	13000
To Bank	40000	By Balance c/d	267000
Total	280000	Total	280000

3

Creditor for sports material

Particular	Amount(₹)	Particular	Amount(₹)
To Bank (b/f)	71200	By balance b/d	3400
To balance c/d	4200	By Sports Material	72000
Total	75400	Total	75400

4

Stock of sports material

Particular	Amount(₹)	Particular	Amount(₹)
To balance b/d	43450	By income and expenditure	62800
To Creditors	72000	By bank(b/f)	22480
To Profit	5500	By Balance c/d	35670
Total	120950	Total	120950

5

Subscription A/c

Particular	Amount(₹)	Particular	Amount(₹)
To Prepaid at the end	4900	By bank (b/f)	427000
To Outstanding at the end	10200	By Outstanding at the end	5700
To Income and Expenditure a/c	420000	By Prepaid at the beginning	2400
Total	435100	Total	435100

6

Salaries A/c

Particular	Amount(₹)	Particular	Amount(₹)
To Bank (b/f)	120500	By balance b/d	16000
To balance c/d	14300	By income and expenditure	118800
Total	134800	Total	134800

7

Rent A/c

Particular	Amount(₹)	Particular	Amount(₹)
To Bank (b/f)	222000	By balance b/d	21000
To balance c/d	15000	By income and expenditure a/c	216000
Total	237000	Total	237000

8

Advance for stationery

Particular	Amount(₹)	Particular	Amount(₹)
To balance b/d	1350	By income and expenditure a/c	28000
To balance (b/f)	28200	By Balance c/d	1550
Total	29550	Total	29550

Repairs & Maintenance Account

Particular	Amount(₹)	Particular	Amount(₹)
To Bank (b/f)	19900	By balance b/d	1200
		By income and expenditure	18700
Total	19900	Total	19900

Ans. 5(a) As per question, the excess of settlement amount of scooter shall be adjusted against the installments due of the LCD TV. Therefore, in the light of relevant accounting standards, the installments not due in respect of LCD TV cannot be assumed as due in the current year.

The balance 3 installments of LCD TV which will become due in the next year cannot be shown as closing balance of H/P Debtors A/c but will be shown as closing balance of H/P Stock A/c.

IN THE BOOKS OF M/s MULTISTORE LTD.

H/P Stock Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	Nil	By H/P Debtors A/c (Down payment received)	
		Scooter	5,000
To Goods sold on H/P (H/P price)		LCD	<u>6,000</u>
Scooter	38,600		11,000
LCD	51,600	By H/P Debtors A/c	
	90,200	Scooter (8 × 2800)	22,400
		LCD (3 × 7600)	<u>22,800</u>
			45,200
		By Goods Repossessed A/c (4×2800) (Installments not yet due on scooter)	11,200
		By balance c/d	22,800
	90,200		90,200

H/P Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	Nil	By Bank A/c (Down payment received)	11,000
To H/P Stock A/c (Down payment)	11,000	By Bank A/c (Installments received)	
To H/P Stock A/c (Installments due)	45,200	Scooter (7 × 2800)	19,600
		LCD (2 × 7600)	<u>15,200</u>
To balance b/d (bal. fig.) (difference of excess amount (adjusted.) [8,000-7,600])	400		34,800
		By Goods repossessed A/c (1×2800) (Installments due but not received)	2,800
		By Goods repossessed A/c (excess amount adjusted against installments due on LCD TV but not received)	8,000
	56,600		56,600

Goods Repossessed A/c

Liabilities	Amount (₹)	Assets	Amount (₹)
To H/P Stock A/c (installments not due on repossessed scooter)	11,200	By bank A/c (sale)	24,500
To H/P Debtors A/c (installments due but not received on repossessed scooter)	2,800		
To H/P Debtors A/c (excess of settlement amount adjusted against installments of LCD) [22,000-{11,200+2,800}]	8,000		
To bank A/c (repairs)	1,000		
To H/P Adjustment A/c (profit on sale of repossessed goods)	1,500		
	24,500		24,500

H/P Adjustment

Particulars	Amount (₹)	Particulars	Amount (₹)
To H/P Stock Reserve (11,600/51,600×22,800)	5,126	By balance b/d	Nil
To Gen P & L A/c (bal.fig.) (Profit transferred)	16,574	By Goods sold on H/P (Loading) Scooter 8,600 LCD <u>11,600</u>	20,200
		By Goods repossessed A/c (Profit on sale of repossessed goods)	1,500
	21,700		21,700

Alternative Solution

There is an alternative solution also by some authors in which the installments not yet due in respect of LCD TV are also transferred to the H/P debtors A/c which in our view is not in conformity with the relevant accounting standards and accounting policies.

IN THE BOOKS OF M/s MULTISTORE LTD.

H/P Stock Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	Nil	By H/P Debtors A/c (Down payment received) Scooter 5,000 LCD <u>6,000</u>	11,000
To Goods sold on H/P (H/P price) Scooter 38,600 LCD 51,600	90,200	By H/P Debtors A/c Scooter (8 × 2800) 22,400 LCD (3 × 7600) <u>22,800</u>	45,200
		By H/P Debtors A/c (Installments not due on default) (4×2800) 11,200 (3×7600) <u>22,800</u>	34,000
	90,200		90,200

H/P Debtors Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	Nil	By Bank A/c (Down payment received)	11,000
To H/P Stock A/c (Down payment)	11,000	By Bank A/c (Installments received) Scooter (7 × 2800) 19,600 LCD (2 × 7600) <u>15,200</u>	34,800
To H/P Stock A/c (Installments due)	45,200	By Goods repossessed A/c (Settlement of scooter repossessed)	22,000
To H/P Stock A/c buyer)	34,000	By balance c/d (For LCD TV only)	22,400
	90,200		90,200

Goods Repossessed A/c

Liabilities	Amount (₹)	Assets	Amount (₹)
To H/P Debtors A/c (Settlement of Scooter)	22,000	By bank A/c (sale)	24,500
To Bank A/c (repairs)	1,000		
To H/P Adjustment A/c (profit on sale of repossessed scooter)	1,500		
	24,500		24,500

H/P Adjustment

Particulars	Amount (₹)	Particulars	Amount (₹)
to Gen P & L A/c (Profit transferred)	21,700	By balance b/d	Nil
		By Goods sold on H/P (Loading)	
		Scooter	8,600
		LCD	<u>11,600</u>
			20,200
		By Goods repossessed A/c (Profit on sale of repossessed goods)	1,500
	21,700		21,700

Ans.5 (b)

12% Bond

Date	Particulars	Nominal value	Interest	Cost	Date	Particulars	Nominal value	Interest	Cost
2011 1-May	To bank A/c	24,00,000	24,000	19,92,000	2011 30-Sep	By Bank A/c		1,44,000	
2012 1-Mar	To P&L A/c			10,50,000	2012 1-Mar	By Bank A/c	15,00,000	75,000	13,50,000
31-Mar	To P&L A/c		2,49,000		31-Mar	By Bank A/c		54,000	
					31-Mar	By Bal. c/d	9,00,000		7,47,000
		24,00,000	2,73,000	20,97,000			24,00,000	2,73,000	20,97,000

Equity shares in Alpah Ltd.

Date	Particulars	Nominal value	Interest	Cost	Date	Particulars	Nominal value	Interest	Cost
2011 15-Jun	To bank A/c	1,50,000		38,25,000	2011 31-Oct	By Bank A/c	80,000		17,60,000
	To bonus shares	1,00,000			2012 1-Jan	By Bank A/c		2,55,000	
14-Oct	To P&L A/c			5,36,000	31-Mar	By Bal. c/d	1,70,000		26,01,000
31-Mar	(Profit on sale)								
31-Mar	To P&L A/c		2,55,000						
	(Bal. Fig.)								
		2,50,000	2,55,000	43,61,000			2,50,000	2,55,000	43,61,000

Equity shares in Beeta Ltd.

Date	Particulars	Nominal value	Interest	Cost	Date	Particulars	Nominal value	Interest	Cost
2011 10-Jul	To bank A/c	60,000		26,92,800	2011				
2012 15-Jan	To bank A/c	6,000		30,000	2012 15-Jan	By Bank A/c		20,250	
	(Right shares)					(Sale of Right)			
31-Mar	To P&L A/c		1,39,050		15-Mar	By Bank A/c		1,18,800	
	(Profit on sale)					(Div. Recd.)			
					31-Mar	By Bal. c/d	66,000		27,22,800
		66,000	1,39,050	27,22,800			66,000	1,39,050	27,22,800

(a) Loss of stock

Step 2: Closing Stock

Particular	Amount(₹)	Particular	Amount(₹)
To Opening Stock	185000	By sales	336000
To Purchases	214000	By Closing Stock	226800
To Wages	51000		
To Manufacturing Expenses	12000		
To Gross Profit(30%)	100800		
Total	562800	Total	562800

(b) **Loss of Profit**

(C)	Additional Expenses	₹
	Last 12 Months Sales	
	Sales for 2010-11	12,00,000
	Less : Sales from 1-4-2010 to	
	30-06-2010	<u>3,00,000,</u>
		9,00,000
	Add: Sales from 1-4-2011 to	
	30-06-2011	12,36,000
	Add : Increase 12% of 1236000	<u>1,48,320</u>
		13,84,320

$$\text{(iii)} \quad \frac{318394}{318394 + 42000} \times 198000 = 1,74,925$$

Ans.7

(a)	Date of bill	Due Date	Amount (₹)	Days	Product (₹)
	12 May	14 August	44000	10	440000
	10 June	13 October	45000	70	3150000
	01 July	04 August	14000	00	0
	19 July	23 September	<u>7000</u>	50	<u>350000</u>
			110000		3940000

$$4 \text{ August} + \frac{3940000}{110000} = 9 \text{ September}$$

- (b) According to Sec 37 of Partnership Act, 1932, If the accounts of the outgoing partner were not settled at the date of retirement, then he will be entitled to
- share the profits of the business in proportion to their capital balance as stood on the date of retirement.

OR

- Interest @ 6% p.a. on the balance of the outgoing partner as on the date of retirement.

Z will be entitled for the higher of the following :-

$$(i) \quad 30000 \times \frac{50000}{170000} = ₹ 8824$$

or

$$(ii) \quad 50000 \times \frac{6}{100} \times \frac{3}{12} = ₹ 750$$

- (c) Depreciation for the first 3 years = $\frac{60000 - 0}{10} = ₹ 6000 \text{ p.a.}$

The change in the estimated useful life is a change in accounting estimate. Hence effect shall be given for remaining years and not retrospectively.

$$\text{WDV at end of 3rd year} = 60000 - 18000 = ₹ 42000$$

$$\text{Depreciation for the next 5 years} = \frac{42000}{5} = ₹ 8400 \text{ p.a.}$$

- (d) In case of companies having adequate profits, following are the maximum limits for the managerial remuneration:

- | | |
|---|-------------------|
| (i) Overall (excluding fees for attending meetings) | 11% of net profit |
| (ii) If there is one managerial person | 5% of net profit |
| (iii) If there are more than one managerial person | 10% of net profit |
| (iv) Remuneration of part-time directors: | |
| (a) If there is no managing or whole-time director | 3% of net profit |
| (b) If there is a managing or whole-time director | 1% of net profit |

- (e) Larger organisations often go for an ERP package where finance comes as a module. An ERP is an integrated software package that manages the business process across the entire enterprise.

Advantages of using an ERP:

The advantages of using an ERP for maintaining accounts are as follows.

- (1) **Standardised processes and procedures** : An ERP is a generalised package which covers most of the common functionalities of any specific module.
- (2) **Standardised reporting** : Majority of the desired reports are available in an ERP package. These reports are standardised across industry and are generally acceptable to the users.
- (3) Duplication of data entry is avoided as it is an integrated package.
- (4) Greater information is available through the package.