

PAPER – 1 : ACCOUNTING

Question No. 1 is compulsory

Answer any **five** questions from the remaining **six** questions.

Wherever appropriate, suitable assumption/s should be made and indicated in answer by the candidate.

Working notes should form part of the answer.

Question 1

- (a) M/s Excellent Construction Company Limited under took a contract to construct a building for ₹ 3 crore on 1st September, 2011. On 31st March, 2012 the company found that it had already spent ₹ 1 crore 80 lakhs on the construction. Prudent estimate of additional cost for completion was ₹ 1 crore 40 lakhs. What amount should be charged, to revenue in the final accounts for the year ended on 31st March, 2012, as per the provisions of Accounting Standard 7 "Construction Contracts (Revised)" ?
- (b) M/s Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2011 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March, 2009. Market value as on 31st March, 2012 of above investments are as follows:

	₹
Shares	2,25,000
Gold	6,00,000
Silver	3,50,000

How above investments will be shown in the books of accounts of M/s Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2012 as per the provisions of Accounting Standard 13 "Accounting for Investments"?

- (c) M/s Progressive Company Limited has not charged depreciation for the year ended on 31st March, 2012, in respect of a spare bus purchased during the financial year 2011-12 and kept ready by the company for use as a stand-by, on the ground that, it was not actually used during the year. State your views with reference to Accounting Standard 6 "Depreciation Accounting".

Further during the year company made additions to its factory by using its own workforce, at a cost of ₹ 4,50,000 as wages and materials. The lowest estimate from an outside contractor to carry out the same work was ₹ 6,00,000. The directors contend that, since they are fully entitled to employ an outside contractor, it is reasonable to debit the Factory Building Account with ₹ 6,00,000. Comment whether the directors' contention is right in view of the provisions of Accounting Standard 10 "Accounting for Fixed Assets"?

- (d) Briefly explain the types of Amalgamations? (4 x 5 = 20 Marks)

Answer**(a) Calculation of Estimated Cost of Construction**

	₹ in crores
Cost of construction incurred till date	1.80
Add: Estimated future cost	<u>1.40</u>
Total estimated cost of construction	<u>3.20</u>

Percentage of completion of contract till date to total estimated cost of construction

$$= ₹ (1.80/3.20) \times 100 = 56.25\%$$

Proportion of total contract value recognised as revenue as per AS 7 (Revised)

$$= \text{Contract price} \times \text{percentage of completion}$$

$$= ₹ 3 \text{ crores} \times 56.25\% = ₹ 1.6875 \text{ crores}$$

- (b)** As per AS 13 Accounting for Investments', for investment in shares - if shares are purchased with an intention to hold for short-term period then it will be shown at the realizable value of ₹ 2,25,000 as on 31st March, 2012.

However, if equity shares are acquired with an intention to hold for long term period then it will be shown at cost of ₹ 2,50,000 in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of shares.

As per the standard, investment acquired for long term period shall be shown at cost. Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2009) shall continue to be shown at cost as on 31st March, 2012 i.e., ₹ 4,00,000 and ₹ 2,00,000 respectively, though their realizable values have been increased.

- (c)** According to para no. 3.1 of AS 6, 'Depreciation Accounting', depreciation is a measure of 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. Accordingly, depreciation may arise even when asset has not been used in the current year but was ready for use in that year.

The need for using the stand by bus may not have arisen during the year but that does not imply that the useful life of the bus has not been affected. Therefore, non-provision of depreciation on the ground that the bus was not used during the year is not tenable.

As per para no. 10.1 of AS 10, 'Accounting for Fixed Assets', clearly states that the gross book value of the self constructed fixed asset includes the costs of construction that relate directly to the specific asset and the costs that are attributable to the construction activity in general can be allocated to the specific asset. If any internal profit is there it

should be eliminated. Saving of ₹ 1,50,000 on account of using its own work force is an unrealized/ internal profit, which should not be capitalized/recorded as per the standard. Thus, only ₹ 4,50,000 should be debited to the factory building account and not ₹ 6,00,000. Hence, the contention of the directors of the company to capitalize ₹ 6,00,000 as cost of factory building, on the ground that the company is fully entitled to employ an outside contractor is not justifiable.

- (d) As per AS 14, 'Accounting for Amalgamations' there are two types of amalgamation. In first type of amalgamation there is a genuine pooling not merely of assets and liabilities of the amalgamating companies but also of the shareholders' interests and of the businesses of the companies. Such amalgamations are amalgamations which are in the nature of 'merger' and the accounting treatment of such amalgamations should ensure that the resultant figures of assets, liabilities, capital and reserves more or less represent the sum of the relevant figures of the amalgamating companies.

In the second category are those amalgamations which are in effect a mode by which one company acquires another company and, as a consequence, the share holders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined company, or the business of the company which is acquired is not intended to be continued. Such amalgamations are amalgamations in the nature of 'purchase'.

Note: It is possible to answer this question by specifying all the conditions to be satisfied for an amalgamation to be an amalgamation in the nature of merger. The amalgamation would be an amalgamation in the nature of purchase if any one or more of the said conditions are not satisfied.

Question 2

M/s Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the company as on 31st March, 2012 before reconstruction :

Liabilities	Amount (₹)	Assets	Amount (₹)
<u>Share Capital</u>			
50,000 shares of ₹50 each fully paid up	25,00,000	Goodwill	22,00,000
1,00,000 shares of ₹50 each ₹40 paid up	40,00,000	Land & Building	42,70,000
Capital Reserve	5,00,000	Machinery	8,50,000
8% Debentures of ₹100 each	4,00,000	Computers	5,20,000
12% Debentures of ₹100 each	6,00,000	Stock	3,20,000
		Trade Debtors	10,90,000
		Cash at Bank	2,68,000

Trade Creditors	12,40,000	Profit & Loss A/c	7,82,000
Outstanding Expenses	10,60,000		
Total	1,03,00,000	Total	1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in M/s Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties :

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of ₹ 40 each for ₹ 12,50,000.
- (3) Trade Creditors are given option of either to accept fully paid equity shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debenture amounting to ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.
- (5) Mr. Ganesh agrees to cancel debenture amounting to ₹ 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Stock at ₹ 3,50,000 and Trade Debtors at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction. (16 Marks)

Answer

Journal Entries

Particulars	₹	₹
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1.	Equity Share final call A/c To Equity Share Capital A/c (Being final call made for ₹10 each on 1,00,000 shares)	Dr.	10,00,000	10,00,000
2.	Bank A/c To Equity Share final call A/c (Being money on final call received)	Dr.	10,00,000	10,00,000
3.	Equity share capital (₹ 50) A/c To Equity Share Capital (₹40) A/c To Capital Reduction A/c (Being conversion of equity share capital of ₹50 each into ₹40 each as per reconstruction scheme)	Dr.	75,00,000	60,00,000 15,00,000
4.	Bank A/c To Equity Share Capital A/c (Being new shares allotted at ₹40 each)	Dr.	12,50,000	12,50,000
5.	Trade Creditors A/c To Equity Share Capital A/c To Bank A/c To Capital Reduction A/c (Being payment made to creditors in shares or cash to the extent of 70% as per reconstruction scheme)	Dr.	12,40,000	7,50,000 3,43,000 1,47,000
6.	8% Debentures A/c 12% Debentures A/c To 15% Debentures A/c To Capital Reduction A/c (Being cancellation of 8% and 12% debentures of Shiv, & issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)	Dr. Dr.	3,00,000 4,00,000	5,00,000 2,00,000
7.	Bank A/c To 15% Debentures A/c (Being new debentures subscribed by Shiv)	Dr.	1,00,000	1,00,000

8.	8% Debentures A/c	Dr.	1,00,000	
	12% Debentures A/c	Dr.	2,00,000	
	To 15% Debentures A/c			2,50,000
	To Capital Reduction A/c			50,000
	(Being cancellation of 8% and 12% debentures of Ganesh, & issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)			
9.	Land and Building (51,84,000-42,70,000)	Dr.	9,14,000	
	Stock	Dr.	30,000	
	To Capital Reduction A/c			9,44,000
	(Being value of assets appreciated)			
10.	Outstanding expenses A/c	Dr.	10,60,000	
	To Bank A/c			10,60,000
	(Being outstanding expenses paid in cash)			
11.	Capital Reduction A/c	Dr.	33,41,000	
	To Machinery A/c			1,30,000
	To Computers A/c			1,20,000
	To Trade Debtors A/c			1,09,000
	To Goodwill A/c			22,00,000
	To Profit and Loss A/c			7,82,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)			
12.	Capital Reserve A/c	Dr.	5,00,000	
	To Capital reduction A/c			5,00,000
	(Being debit balance of capital reduction account adjusted against capital reserve)			

Balance Sheet (as reduced) as on 31.3.2012

Liabilities	₹	Assets	₹
Share Capital:		Land & Building	51,84,000
2,00,000 Equity shares of ₹ 40 each	80,00,000	Machinery	7,20,000
15% Debentures	8,50,000	Computers	4,00,000

		Trade Debtors	9,81,000
		Stock	3,50,000
		Cash at Bank (W.N.1)	<u>12,15,000</u>
	<u>88,50,000</u>		<u>88,50,000</u>

Working Notes:**1. Cash at Bank Account**

Particulars	₹	Particulars	₹
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share final call A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To 15% Debentures A/c	<u>1,00,000</u>		
	<u>26,18,000</u>		<u>26,18,000</u>

2. Capital Reduction Account

Particulars	₹	Particulars	₹
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade Creditors A/c	1,47,000
To Trade Debtors A/c	1,09,000	By 8% and 12% Debentures A/c	2,00,000
To Goodwill A/c	22,00,000	By 8% and 12% Debentures A/c	50,000
To Profit and Loss A/c	7,82,000	By Land & Building	9,14,000
		By Stock	30,000
		By Capital Reserve A/c	<u>5,00,000</u>
	<u>33,41,000</u>		<u>33,41,000</u>

Question 3

- (a) M/s Ice Limited gives you the following information to find out Total Sales and Total Purchases:

Particulars	Amount (₹)
Debtors as on 01.04.2011	70,000
Creditors as on 01.04.2011	81,000
Bills Receivables received during the year	47,000
Bills Payable issued during the year	53,000

Cash received from customers	1,56,000
Cash paid to suppliers	1,72,000
Bad Debts recovered	16,000
Bills Receivables endorsed to creditors	27,000
Bills Receivables dishonoured by customers	5,000
Discount allowed by suppliers	7,000
Discount allowed to customers	9,000
Endorsed Bills Receivables dishonoured	3,000
Sales Return	11,000
Bills Receivable discounted	8,000
Discounted Bills Receivable dishonoured	2,000
Cash Sales	1,68,500
Cash Purchases	1,97,800
Debtors as on 31.03.2012	82,000
Creditors as on 31.03.2012	95,000

(8 Marks)

- (b) Good, Better and Best are in partnership sharing profits and losses in the ratio 3 : 2 : 4. Their capital account balances as on 31st March, 2012 are as follows:

	₹
Good	1,70,000 (Cr)
Better	1,10,000 (Cr)
Best	1,22,000 (Cr)

Following further information provided:

- (1) ₹22,240 is to be transferred to General Reserve.
- (2) Good, Better and Best are paid monthly salary in cash amounting ₹2,400, ₹1,600 and ₹1,800 respectively.
- (3) Partners are allowed interest on their closing capital balance @ 6% p.a. and are charged interest on drawings @ 8% p.a.
- (4) Good and Best are entitled to commission @ 8% and 10% respectively of the net profit before making any appropriation.
- (5) Better is entitled to commission @ 15% of the net profit before charging Interest on Drawings but after making all other appropriations.

- (6) During the year Good withdraw ₹ 2,000 at the beginning of every month, Better ₹ 1,750 at the end of every month and Best ₹ 1,250 at the middle of every month.
- (7) Firm's Accountant is entitled to a salary of ₹ 2,000 per month and a commission of 12% of net profit after charging such commission.

The Net Profit of the firm for the year ended on 31st March, 2012 before providing for any of the above adjustments was ₹ 2,76,000.

You are required to prepare Profit and Loss Appropriation Account for the year ended on 31st March, 2012 (8 Marks)

Answer

- (a) 1. Total Sales = Cash sales + Credit sales
 = ₹ 1,68,500 + ₹ 2,25,000 (W.N.1)
 = ₹ 3,93,500
2. Purchases = Cash Purchases + Credit Purchases
 = ₹ 1,97,800 + ₹ 2,70,000 (W.N.2)
 = ₹ 4,67,800

Working Notes:

1. Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	70,000	By Bills receivable	47,000
To Bills receivable dishonoured	5,000	By Cash	1,56,000
To Bills receivable dishonoured (endorsed)	3,000	By Discount allowed	9,000
To Bills receivable dishonoured (discounted)	2,000	By Sales return	11,000
To Credit sales (bal.fig.)	<u>2,25,000</u>	By Balance c/d	<u>82,000</u>
	<u>3,05,000</u>		<u>3,05,000</u>

2. Creditors Account

Particulars	₹	Particulars	₹
To Bills payable	53,000	By Balance b/d	81,000
To Cash	1,72,000	By Bills receivable dishonoured (endorsed)	3,000
To Discount received	7,000	By Credit purchases (bal.fig.)	2,70,000
To Bills receivable endorsed	27,000		

To Balance c/d	<u>95,000</u>	<u>3,54,000</u>
		<u>3,54,000</u>

Note: It is assumed that sales return is out of credit sales only.

(b)

Profit and Loss Appropriation Account**for the year ended on 31st March, 2012**

Particulars	₹	Particulars	₹
To General reserve	22,240	By Net Profit (See W.N.1)	2,25,000
To Salaries to partners		By Interest on drawings (W.N.3)	
Good 28,800		Good 1,040	
Better 19,200		Better 770	
Best <u>21,600</u>	69,600	Best <u>600</u>	2,410
To Interest on Capital			
Good 10,200			
Better 6,600			
Best <u>7,320</u>	24,120		
To Commission to partners			
Good 18,000			
Better 10,281 (W.N.4)			
Best <u>22,500</u>	50,781		
To Partners' Capital A/cs (profit)			
Good 20,223			
Better 13,482			
Best <u>26,964</u>	<u>60,669</u>		
	<u>2,27,410</u>		<u>2,27,410</u>

Working Notes:

1.

Profit and Loss Account

Particulars	₹	Particulars	₹
To Salary (Firm's Accountant)	24,000	By Profit	2,76,000
To Commission (Firm's			

Accountant) (W.N.2)	27,000		
To Net Profit transferred to P & L Appropriation A/c	<u>2,25,000</u>		
	<u>2,76,000</u>		<u>2,76,000</u>

2. Commission of Firm's Accountant

$$= \frac{\text{Profit after salary of firm's accountant}}{(100+12)\%} \times 12\%$$

$$= \frac{(2,76,000 - 24,000)}{(100+12)\%} \times 12\% = ₹ 27,000$$

3. Interest on Drawings

	₹
Good (at the beginning of every month) (₹ 2,000 x 6.5 x 8%)	1,040
Better (at the end of every month) (₹ 1,750 x 5.5 x 8%)	770
Best (at the middle of every month) (₹ 1,250 x 6 x 8%)	<u>600</u>
	<u>2,410</u>

4. Commission of Better

Commission of Better = [Net profit for appropriation (excluding interest on drawings) - General reserve - Interest on capital - Salaries to partners - Commission to Good and Best] x 15%

$$\begin{aligned} \text{Commission to Better} &= ₹ [2,25,000 - 22,240 - 24,120 - 69,600 - 18,000 - 22,500] \times 15\% \\ &= ₹ 68,540 \times 15\% = ₹ 10,281. \end{aligned}$$

Question 4

From the following Income & Expenditure A/c of Premium Sports Club for the year ended 31st March, 2012, you are required to prepare Receipts & Payment A/c for the year ended 31st March, 2012 and Balance Sheet as on that date:

Expenditure	Amount	Income	Amount
	(₹)		(₹)
To Salaries	1,18,800	By Subscriptions	4,20,000
To Rent	2,16,000	By Entrance Fee	1,20,000
To Printing & Stationery	28,000	By Profit on sale of Sports	
To Postage & Telephone	41,600	Material	5,500

To Membership Fee	3,200	By Interest on 8%	
To Electricity Charges	38,500	Government Bonds	12,000
To Garden Upkeep	19,300	By Sale of Old Newspaper	11,600
To Sports Material Utilized	62,800		
To Repairs & Maintenance	18,700		
To Depreciation	13,000		
To Miscellaneous Expenses	5,700		
To Surplus carried to Capital Fund	3,500		
Total	5,69,100	Total	5,69,100

The following additional information is provided to you:

(a)

	Balances as	Balances as
	on 01.04.2011	on 31.03.2012
Fixed Assets	2,40,000	?
Bank Balance	8,300	?
Stock of Sports Material	43,450	35,670
Outstanding Subscription	10,200	5,700
Subscription received in advance	2,400	4,900
8% Government Bonds	1,50,000	1,50,000
Outstanding Salaries	16,000	14,300
Outstanding Rent	21,000	15,000
Advance for Stationery	1,350	1,550
Outstanding Repairs & Maintenance	1,200	Nil
Creditors for purchase of Sports Material	3,400	4,200

- (b) Some of Fixed Assets were purchased on 01.10.2011 and depreciation is to be charged @ 5% p.a.
- (c) Sports Material worth ₹72,000 was purchased on credit during the year.
- (d) The Club became member of State Table Tennis Association on 01.01.2012 when it paid fee up to 31.12.2012.

- (e) 50% of Entrance Fee is to be capitalized.
 (f) Interest on 8% Government Bonds was received for two quarters only.
 (g) A Fixed Deposit of ₹80,000 was made on 31st March, 2012. (16 Marks)

Answer

**Receipts and Payments Account of Premium Sports Club
for the year ended 31st March, 2012**

Receipts	₹	Payments	₹
To Cash at bank (opening)	8,300	By Salaries (W.N.6)	1,20,500
To Subscription (W.N.1)	4,27,000	By Rent (W.N.7)	2,22,000
To Entrance fee (W.N.2)	2,40,000	By Printing and stationary (W.N.8)	28,200
To Interest on 8% Government Bond (W.N.3)	6,000	By Postage and telephone	41,600
To Sale of old Newspaper	11,600	By Membership fee (W.N.9)	12,800
To Sale of Sports Material (W.N.4)	22,480	By Electricity charges	38,500
		By Garden upkeep	19,300
		By Payment to creditors for sports material (W.N.5)	71,200
		By Purchase of Fixed assets (W.N.10)	40,000
		By Repairs and Maintenance (W.N.11)	19,900
		By Misc. expenses	5,700
		By Fixed Deposit made	80,000
		By Cash at bank (closing) (bal.fig.)	<u>15,680</u>
	<u>7,15,380</u>		<u>7,15,380</u>

**Balance Sheet of Premium Sports Club
as on 31st March, 2012**

Liabilities	₹	₹	Assets	₹	₹
Capital fund:			Fixed Assets	2,40,000	
Opening balance (W.N.12)	4,09,300		Add: Additions (W.N.10)	<u>40,000</u>	
Add: Surplus	<u>3,500</u>	4,12,800		2,80,000	

Entrance fee		1,20,000	Less: Depreciation	<u>13,000</u>	2,67,000
Subscription received in advance		4,900	Fixed Deposit Investments in 8% Government Bonds		80,000
Outstanding expenses			Stock of sports material		1,50,000
Salary	14,300		Subscription receivable		35,670
Rent	<u>15,000</u>	29,300	Membership fee paid in advance		9,600
Creditors for purchase of sports material		4,200	Prepaid printing and stationery charges		1,550
			Outstanding interest on 8% Govt. Bond		6,000
			Cash at bank		<u>15,680</u>
		<u>5,71,200</u>			<u>5,71,200</u>

Working Notes:**1. Subscription received during the year**

		₹
Subscription for the year ended 31 st March, 2012		4,20,000
Less: Subscription receivable on 31.3.2012	5,700	
Less: Subscription received in advance on 1.4.2011	<u>2,400</u>	<u>(8,100)</u>
		4,11,900
Add: Subscription receivable on 1.4.2011	10,200	
Add: Subscription received in advance on 31.3.2012	<u>4,900</u>	<u>15,100</u>
		<u>4,27,000</u>

2. Entrance Fee received during the year

Entrance fee as per Income and Expenditure Account	₹ 1,20,000
Add: Capitalised entrance fee (50%)	<u>₹ 1,20,000</u>
	<u>₹ 2,40,000</u>

3. Interest on 8% Government Bond

	₹
Interest as per Income and Expenditure Account	12,000

Less: Outstanding interest for 2 quarters [12,000x (6/12)]	<u>(6,000)</u>
	<u>6,000</u>

4. Sales price of Sports Material sold

	₹
Stock of Sports Material on 1.4.2011	43,450
Add: Purchase of Sports Material during the year	<u>72,000</u>
	1,15,450
Less: Stock of Sports Material on 31.3.2012	<u>(35,670)</u>
Cost of Sports Material consumed in the club and for sale	79,780
Less: Sports material consumed in the club	<u>(62,800)</u>
Cost of Sports material sold	<u>16,980</u>

Sales Price of sports material sold = ₹ 16,980 + ₹ 5,500 = ₹ 22,480

5. Payment to creditors for Sports Material

	₹
Purchase of Sports Material	72,000
Less: Closing creditors for purchase of Sports Material on 31.3.2012	<u>(4,200)</u>
	67,800
Add: Opening creditors for purchase of Sports Material on 1.4.2011	<u>3,400</u>
	<u>71,200</u>

6. Salaries paid during the year

	₹
Salary as per Income and Expenditure Account	1,18,800
Less: Outstanding balance as on 31.3.2012	<u>(14,300)</u>
	1,04,500
Add: Outstanding balance as on 1.4.2011	<u>16,000</u>
	<u>1,20,500</u>

7. Rent paid during the year

	₹
Rent as per Income and Expenditure Account	2,16,000
Less: Outstanding balance as on 31.3.2012	<u>(15,000)</u>
	<u>2,01,000</u>

Add: Outstanding balance as on 1.4.2011	<u>21,000</u>
	<u>2,22,000</u>

8. Printing and Stationary paid during the year

	₹
Printing and stationary as per Income and Expenditure Account	28,000
Less: Prepaid balance as on 1.4.2011	<u>(1,350)</u>
	26,650
Add: Prepaid balance as on 31.3.2012	<u>1,550</u>
	<u>28,200</u>

9. Membership fee paid during the year

	₹
Membership fee as per Income and Expenditure Account	3,200
Add: Prepaid balance as on 31.3.2012 $[(3,200/3) \times 9]$	<u>9,600</u>
	<u>12,800</u>

10. Fixed Asset purchased during the year

	₹
Depreciation during the year	13,000
Less: Depreciation on Opening balance of fixed asset	<u>(12,000)</u>
Depreciation on new purchase of fixed asset during the year	<u>1,000</u>
Cost of asset purchased during the year $(1,000 \times \frac{12}{6} \times \frac{100}{5})$	40,000

11. Repairs and Maintenance paid during the year

	₹
Repairs and Maintenance as per Income and Expenditure Account	18,700
Add: Outstanding balance as on 1.4.2011	<u>1,200</u>
	<u>19,900</u>

**12. Balance Sheet of Premium Sports Club
as on 1st April, 2011**

Liabilities	₹	Assets	₹
Capital fund (Bal.fig.)	4,09,300	Fixed Assets	2,40,000
Subscription received in advance	2,400	Investments in 8% Government Bonds	1,50,000

Outstanding expenses:		Stock of sports material	43,450
Salary	16,000	Subscription receivable	10,200
Rent	21,000	Prepaid printing and stationary charges	1,350
Repairs and maintenance	1,200	Bank	8,300
Creditors for purchase of sports material	<u>3,400</u>		<u> </u>
	<u>4,53,300</u>		<u>4,53,300</u>

Note: It is assumed that Premium Sports Club has purchased all the sports equipment on credit basis only.

Question 5

- (a) M/s Multistore Limited sells goods both on cash and hire purchase basis and record hire-purchase transactions on "Stock and Debtors System". It closes its books of accounts on 31st March every year. On 1st May, 2011, it sold to Manas a Scooter and a LCD TV.

The other information are as follows:

Particulars	Scooter	LCD TV
Cost Price	30,000	40,000
Down Payment	5,000	6,000
Number of Installments Payable	12	6
Amount of each Installment	2,800	7,600
Mode of Payment	Monthly	Quarterly
1 st Installment due on	1 st June, 2011	1 st July, 2011

Manas paid all the installments due except for those due on 1st January, 2012. It was decided that M/s Multistore Limited will take back Scooter at an agreed price of ₹22,000 and excess amount, if any, will be adjusted against the installments due of LCD TV.

Scooter repossessed was sold for ₹24,500 after incurring repair charges of ₹1,000.

Prepare necessary ledger accounts to record the above transactions and find out the profit. (8 Marks)

- (b) Mr. Brown has made following transactions during the financial year 2011-12:

Date	Particulars
01.05.2011	Purchased 24,000 12% Bonds of ₹100 each at ₹84 cum-interest. Interest is payable on 30 th September and 31st March every year.
15.06.2011	Purchased ₹1,50,000 equity shares of ₹10 each in Alpha Limited for ₹25 each through a broker, who charged brokerage @ 2%.

10.07.2011	Purchased 60,000 equity shares of ₹ 10 each in Beeta Limited for ₹44 each through a broker, who charged brokerage @2%.
14.10.2011	Alpha Limited made a bonus issue of two shares for every three shares held.
31.10.2011	Sold 80,000 shares in Alpha Limited for ₹22 each.
01.01.2012	Received 15% interim dividend on equity shares of Alpha Limited.
15. 01.2012	Beeta Limited made a right issue of one equity share for every four shares held at ₹5 per share. Mr. Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at ₹2.25 per share.
01.03.2012	Sold 15,000 12% Bonds at ₹90 ex-interest.
15.03.2012	Received 18% interim dividend on equity shares of Beeta Limited. Interest on 12% Bonds was duly received on due dates.

Prepare separate investment account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr. Brown for the year ended on 31st March, 2012. (8 Marks)

Answer**(a)**

**In the books of M/s Multistore Limited
Hire Purchase Stock Account**

Date	Particulars	₹	Date	Particulars	₹
1.5.2011	To Goods Sold on Hire Purchase A/c (38,600+51,600)	90,200	1.5.2011	By Hire Purchase Debtors A/c (Down payment) (5,000+6,000)	11,000
			1.6.2011	By Hire Purchase Debtors A/c (Scooter)	2,800
			1.7.2011	By Hire Purchase Debtors A/c (Scooter & LCD T.V.) –(₹ 2,800+ ₹ 7,600)	10,400
			1.8.2011	By Hire Purchase Debtors A/c (Scooter)	2,800
			1.9. 2011	By Hire Purchase Debtors A/c (Scooter)	2,800
			1.10.2011	By Hire Purchase A/c (Scooter & LCD T.V.)	10,400

		1.11.2011	By Hire Purchase Debtors A/c (Scooter)	2,800
		1.12.2011	By Hire Purchase Debtors A/c (Scooter)	2,800
		1.1.2012	By Hire Purchase debtor A/c (Scooter & LCD T.V.)	10,400
		1.1.2012	By Hire Purchase debtor A/c (Scooter & LCD T.V.) (4 x 2,800)+(3 x 7,600) (W.N.3)	34,000*
		<u>90,200</u>		<u>90,200</u>

Hire Purchase Debtors Account

Date	Particulars	₹	Date	Particulars	₹
1.5.2011	To Hire Purchase Stock A/c	11,000	1.5.2011	By Cash A/c	11,000
1.6.2011	To Hire Purchase Stock A/c	2,800	1.6.2011	By Cash A/c	2,800
1.7.2011	To Hire Purchase Stock A/c	10,400	1.7.2011	By Cash A/c	10,400
1.8.2011	To Hire Purchase Stock A/c	2,800	1.8.2011	By Cash A/c	2,800
1.9. 2011	To Hire Purchase Stock A/c	2,800	1.9. 2011	By Cash A/c	2,800
1.10.2011	To Hire Purchase Stock A/c	10,400	1.10.2011	By Cash A/c	10,400
1.11.2011	To Hire Purchase Stock A/c	2,800	1.11.2011	By Cash A/c	2,800
1.12.2011	To Hire Purchase Stock A/c	2,800	1.12.2011	By Cash A/c	2,800
1.1.2012	To Hire Purchase Stock A/c	10,400	1.1.2012	By Good Repossessed A/c	22,000
1.1.2012	To Hire Purchase Stock A/c		31.03.2012	By Balance c/d (For LCD T.V. only)	22,400
		<u>34,000</u>			<u>22,400</u>
		<u>90,200</u>			<u>90,200</u>

Hire Purchase Adjustment Account

Date	Particulars	₹	Date	Particulars	₹
31.03.2012	To Profit & Loss A/c	21,700	1.5.2011	By Goods sold on hire purchase A/c (profit on hire purchase) (8,600+11,600)	20,200
			???	By Goods Repossessed A/c	<u>1,500</u>
		<u>21,700</u>			<u>21,700</u>

Goods Repossessed Account

Date	Particulars	₹	Date	Particulars	₹
1.1.2012	To Hire Purchase Debtors A/c	22,000	?	By Cash A/c (Sales)	24,500
?	To Cash A/c (Expenses)	1,000			
?	To Hire Purchase Adjustment A/c	<u>1,500</u>			
		<u>24,500</u>			<u>24,500</u>

Working Notes:

- Hire purchase Price of

Scooter = Down payment + Sum of Amount of all instalments

$$= ₹ 5,000 + (₹ 2,800 \times 12) = ₹ 38,600$$

$$\text{LCD TV} = ₹ 6,000 + (₹ 7,600 \times 6) = ₹ 51,600$$

- Profit on H.P. Sale = Hire Purchase Price - Cash Price

$$(38,600 + 51,600) - (30,000 + 40,000) = ₹ 20,200$$

- Same customer has purchased both Scooter & LCD TV. Therefore, when there is default on 01.01.2012, all the remaining installments are to be shown as due.

Note: Alternatively the monthly entries in the 'Hire purchase stock A/c' can be consolidated by opening a 'Goods sold on Hire purchase stock A/c'. Likewise the monthly entries in the 'Hire purchase Debtor A/c' can also be consolidated.

(b)

In the books of Mr. Brown
12% Bonds for the year ended 31st March, 2012

Date	Particulars	No.	Interest Income ₹	Amount ₹	Date	Particulars	No.	Interest Income ₹	Amount ₹
2011	To Bank A/c	24,000	24,000	19,92,000	2011	By Bank-	-	1,44,000	

May, 1 2012 March 31	To P & L A/c (W.N.1)	-	-	1,05,000	Sept. 30 2012 Mar. 1	Interest By Bank A/c	15,000	75,000	13,50,000
	To P & L A/c		2,49,000		2012 Mar. 31	By Bank- Interest By Balance c/d (W.N.2)		54,000	
		<u>24,000</u>	<u>2,73,000</u>	<u>20,97,000</u>			<u>9,000</u>	<u>-</u>	<u>7,47,000</u>
							<u>24,000</u>	<u>2,73,000</u>	<u>20,97,000</u>

Investment in Equity shares of Alpha Ltd. for the year ended 31st March, 2012

Date	Particulars	No.	Dividend Income ₹	Amount ₹	Date	Particulars	No.	Dividend Income ₹	Amount ₹
2011 June 15	To Bank A/c	1,50,000	--	38,25,000	2011 Oct. 31	By Bank A/c	80,000	-	17,60,000
Oct. 14	To Bonus Issue (1,50,000/3 x2)	1,00,000	-	-	2012 Jan. 1	By Bank A/c -dividend		2,55,000	
2012 Mar. 31	To P & L A/c (W.N.3)			5,36,000	March 31	By Balance c/d (W.N.4)	1,70,000	-	26,01,000
	To P & L A/c		<u>2,55,000</u>						
		<u>2,50,000</u>	<u>2,55,000</u>	<u>43,61,000</u>			<u>2,50,000</u>	<u>2,55,000</u>	<u>43,61,000</u>

Investment in Equity shares of Beeta Ltd. for the year ended 31st March, 2012

Date	Particulars	No.	Dividend Income ₹	Amount ₹	Date	Particulars	No.	Dividend Income ₹	Amount ₹
2011 July 10	To Bank A/c	60,000	--	26,92,800	2012 Jan. 15	By Bank A/c (W.N 6)	-	-	20,250
2012 Jan. 15	To Bank A/c (W.N. 5)	6,000	-	30,000	Mar. 15 2012	By Bank – dividend	-	1,18,800	
March 31	To P & L A/c	-	<u>1,18,800</u>	-	March 31, 2012	By Balance c/d (bal.fig.)	<u>66,000</u>	<u>-</u>	<u>27,02,550</u>
		<u>66,000</u>	<u>1,18,800</u>	<u>27,22,800</u>			<u>66,000</u>	<u>1,18,800</u>	<u>27,22,800</u>

Working Notes:

1. Profit on sale of 12% Bond

Sales price ₹ 13,50,000

Less: Cost of bond sold = $\frac{19,92,000}{24,000} \times 15,000$ ₹ 12,45,000

Profit on sale ₹ 1,05,000

2. Closing balance as on 31.3.2012 of 12 % Bond

$$\frac{19,92,000}{24,000} \times 9,000 = ₹ 7,47,000$$

3. Profit on sale of equity shares of Alpha Ltd.

Sales price (80,000 shares x ₹22) ₹ 17,60,000

Less: Cost of bond sold = $\frac{38,25,000}{2,50,000} \times 80,000$ ₹ 12,24,000

Profit on sale ₹ 5,36,000

4. Closing balance as on 31.3.2012 of equity shares of Alpha Ltd.

$$\frac{38,25,000}{2,50,000} \times 1,70,000 = ₹ 26,01,000$$

5. Calculation of right shares subscribed by Beeta Ltd.

$$\text{Right Shares} = \frac{60,000 \text{ shares}}{4} \times 1 = 15,000 \text{ shares}$$

Shares subscribed by Mr. Brown = 15,000 x 40% = 6,000 shares

Value of right shares subscribed = 6,000 shares @ ₹ 5 per share = ₹ 30,000

6. Calculation of sale of right entitlement by Beeta Ltd.

No. of right shares sold = 15,000 - 6,000 = 9,000 shares

Sale value of right = 9,000 shares x ₹ 2.25 per share = ₹ 20,250

Note: Shares are assumed to be purchased on cum right basis, therefore, amount received from sale of rights is credited to Investment A/c.

Question 6

Ramda & Sons had taken out policies (without Average Clause) both against loss of stock and loss of profit, for ₹ 2,10,000 and ₹ 3,20,000 respectively. A fire occurred on 1st July, 2011 and as a result of which sales were seriously affected for a period of 3 months.

Trading and Profit & Loss A/c of Ramda & Sons for the year ended on 31st March, 2011 is given below:

Particulars	Amount(₹)	Particulars	Amount (₹)
To Opening Stock	96,000	By Sales	12,00,000
To Purchases	7,56,000	By Closing Stock	1,85,000
To Wages	1,58,000		

To Manufacturing Expenses	75,000		
To Gross Profit c/d	<u>3,00,000</u>		
Total	<u>13,85,000</u>	Total	<u>13,85,000</u>
To Administrative Expenses	83,600	By Gross Profit b/d	3,00,000
To Selling Expenses (Fixed)	72,400		
To Commission on Sales	34,200		
To Carriage Outward	49,800		
To Net Profit	<u>60,000</u>		
Total	<u>3,00,000</u>	Total	<u>3,00,000</u>

Further detail provided is as below:

(a) Sales, Purchases, Wages and Manufacturing Expenses for the period 1.04.2011 to 30.06.2011 were ₹ 3,36,000, ₹ 2,14,000, ₹ 51,000 and ₹ 12,000 respectively.

(b) Other Sales figure were as follows

₹

From 01.04.2010 to 30.06.2010 3,00,000

From 01.07.2010 to 30.09.2010 3,20,000

From 01.07.2011 to 30.09.2011 48,000

(c) Due to decrease in the material cost, Gross Profit during 2011-12 was expected to increase by 5% on sales.

(d) ₹ 1,98,000 were additionally incurred during the period after fire. The amount of policy included ₹ 1,56,000 for expenses leaving ₹ 42,000 uncovered. Compute the claim for stock, loss of profit and additional expenses (16 Marks)

Answer

Claim for loss of stock

Memorandum Trading Account for the period 1st April to 1st July, 2011

	₹		₹
To Opening Stock	1,85,000	By Sales	3,36,000
To Purchases	2,14,000	By Closing stock	
To Wages	51,000	(Bal.fig.)	2,26,800
To Manufacturing expenses	12,000		
To Gross Profit @ 30% on sales (W.N)	<u>1,00,800</u>		
	<u>5,62,800</u>		<u>5,62,800</u>

Claim for loss of stock will be limited to ₹ 2,10,000 only which is the amount of Insurance policy and no average clause will be applied.

Loss of Profit

(a) Short Sales :	Amount (₹)
Sales from 1st July, 2010 to 30 th Sept. 2010	3,20,000
Add: 12% rise observed in 2011-12 over 2010-11 (April- June ₹ 3,36,000 instead of ₹ 3,00,000)	<u>38,400</u>
	3,58,400
Less: Actual Sales from 1st July, 2011 to 30 th Sept. 2011	<u>(48,000)</u>
Short-Sales	<u>3,10,400</u>

(b) Gross profit ratio

$$\frac{\text{Net Profit} + \text{Insured standing charges (2010-11)}}{\text{Sales (2010-11)}} \times 100$$

$$\frac{\text{₹ 60,000} + \text{₹ 1,56,000}}{12,00,000} \times 100 = 18\%$$

$$\text{Add: Expected rise due to decline in material cost} \quad 5\%$$

$$\text{Hence, Gross Profit Ratio} \quad 23\%$$

(c) Loss of Gross Profit

$$23\% \text{ on short sales ₹ 3,10,400} = ₹ 71,392$$

(d) Annual turnover (12 months to 1st July, 2011):

	Amount (₹)
Sales for April 2010 - March, 2011	12,00,000
Less: From 1-4-2010 to 30-6-2010	<u>(3,00,000)</u>
	9,00,000
Add: 12% increasing trend	<u>1,08,000</u>
	10,08,000
Add: From 1-4-2011 to 30-6-2011	<u>3,36,000</u>
	<u>13,44,000</u>
Gross Profit on annual turnover @ 23%	<u>3,09,120</u>

(e) Amount allowable in respect of additional expenses

Least of the following:	Amount (₹)
(i) Actual expenses	1,98,000
(ii) Gross Profit on sales during indemnity period	

$$\begin{array}{rcl}
 & 23\% \text{ of ₹ } 48,000 & 11,040 \\
 \text{(iii)} & \frac{\text{Gross profit on annual (adjusted) turnover}}{\text{Gross profit as above} + \text{Uninsured charges}} \times \text{Additional Expenses} & \\
 & \frac{3,09,120}{3,51,120} \times 1,98,000 = & 1,74,316 \\
 & \text{Least i.e. ₹ } 11,040 \text{ is admissible.} &
 \end{array}$$

Claim

Loss of Gross Profit	₹ 71,392
Add: Additional expenses	<u>₹ 11,040</u>
	<u>₹ 82,432</u>

Insurance claim for loss of profit will be of ₹ 82,432 only.

Working Note:**Rate of Gross Profit in 2010-11**

$$\begin{array}{l}
 \frac{\text{Gross Profit}}{\text{Sales}} \times 100 \\
 \frac{3,00,000}{12,00,000} \times 100 = 25\%
 \end{array}$$

In 2011-12, Gross Profit is expected to increase by 5% as a result of decline in material cost, hence the rate of Gross Profit for loss of stock is taken at 30%.

Question 7

Answer any **FOUR** out of the following:

- (a) M/s Stairs & Co. draw upon M/s Marble & Co. several bills of exchange due for payment on different dates as under :

Date of Bill	Amount(₹)	Tenure of Bill
12 th May	44,000	3 months
10 th June	45,000	4 months
1 st July	14,000	1 month
19 th July	17,000	2 months

Find out the average due date on which payment may be made in one single amount by M/s Marble & Co. to M/s Stairs & Co. 15th August, Independence Day, is national holiday and 22nd September declared emergency holiday, due to death of a national leader.

- (b) X, Y and Z are partners sharing profits and losses equally. On 1st December, 2011 Z retired from the partnership firm. The capitals of the partners, after all necessary

adjustments stood at ₹ 45,000, ₹ 75,000 and ₹ 50,000 respectively. X and Y continued to carry on the business without settling the accounts of Z. Final payment to Z made on 1st March, 2012. The partnership firm made profit amounting to ₹ 30,000 during the period from 1st December, 2011 to 29th February, 2012.

What are the rights of Z to share subsequent profit as per the provisions of Section 37 of the Indian Partnership Act?

- (c) A computer costing ₹ 60,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years. Calculate depreciation as per the provisions of Accounting Standard 6 "Depreciation Accounting".
- (d) What are the maximum limits of managerial remuneration for companies having adequate profits?
- (e) "ERP package is gaining popularity in big organizations." Briefly explain the advantages of using an ERP package, in the light of above statement. (4 × 4 = 16 Marks)

Answer

- (a) **Calculation of Average Due Date**
(Taking 4th August as the base date)

Date of bill	Term	Due date	Amount ₹	No. of days from the base date i.e. 4 th August	Product
12 th May	3 months	14 th August	44,000	10	4,40,000
10 th June	4 months	13 th October	45,000	70	31,50,000
1 st July	1 month	4 th August	14,000	0	0
19 th July	2 months	23 th September	<u>17,000</u>	50	<u>8,50,000</u>
			<u>1,20,000</u>		<u>44,40,000</u>

Average due date = Base date + Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

$$= 4\text{th August} + \frac{44,40,000}{1,20,000}$$

$$= 4\text{th August} + 37 \text{ days} = 10\text{th September}$$

- (b) Under Section 37 of the Partnership Act, Z can exercise any of the following two options in the absence of a contract:
1. Z is entitled at his option to such share of the profits made since he ceased to be a partner as may be attributable to the use of his share of the property of the firm or

2. Z is entitled to interest at the rate of six per cent per annum on the amount of his share in the property of the firm.

It may be noted that Z is not bound to make election until the share of the profit that would be payable to him has been ascertained.

- (c) Depreciation per year = ₹ 60,000 / 10 = ₹ 6,000

Depreciation on SLM charged for three years = ₹ 6,000 x 3 years = ₹ 18,000

Book value of the computer at the end of third year = ₹ 60,000 – ₹ 18,000 = ₹ 42,000.

Remaining useful life as per previous estimate = 7 years

Remaining useful life as per revised estimate = 5 years

Depreciation from the fourth year onwards = ₹ 42,000 / 5 = ₹ 8,400 per annum

- (d) For companies having adequate profits, maximum limits of managerial remuneration in different circumstances are as under:

- | | |
|--|-------------------|
| (i) Overall (excluding fee 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) 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. **No Redundancy** : Duplication of data entry is avoided as it is an integrated package.
4. **Better Information** : Greater information is available through this package.