Gurukripa's Guideline Answers to Nov 2012 Exam Questions
IPCC Group I Accounting

Question No. **1** is compulsory **(4 × 5 = 20 Marks)**
Answer any **five** questions from the remaining **six** questions **(16 × 5 = 80 Marks)** (Answer any 4 out of 5 in **Q.7**)

Question 1(a): Self – Balancing System – General Ledger Adjustment A/c in Debtors Ledger **N 12 (5 Marks)**

A Business Concern maintains self–balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April:

Particulars	₹
Debit Balances in Debtors Ledger on 1st April	**3,58,200**
Credit Balances in Debtors Ledger on 1st April	**9,400**
Transactions during the month of April are:	
Total Sales (including Cash Sales of ₹ 1,00,000)	**20,95,400**
Sales Returns	**33,100**
Cash received from credit Customers	**17,25,700**
Bills Receivable received from Customers	**95,000**
Bills Receivable dishonoured	**7,500**
Cash paid to Customers for Returns	**6,000**
Transfers to Creditors Ledger	**16,000**
Credit Balances in Debtors Ledger on 30th April	**9,800**

Solution: **Similar to Page No.A.2.34, Q.No.9**

General Ledger Adjustment Account (in Debtors Ledger)

Particulars	₹	Particulars	₹
To balance b/d (OB Cr Balances contra)	9,400	By balance b/d (OB Dr Balances contra)	3,58,200
To Debtors Ledger Adjustment A/c:		By Debtors Ledger Adjustment A/c:	
Sales Returns	33,100	Credit Sales	19,95,400
Cash Received	17,25,700	B/R dishonoured	7,500
B/R Received	95,000	Cash paid for Returns	6,000
Tfr to Creditors Ledger	16,000	By balance c/d (CB Cr Balances Contra)	9,800
To balance c/d **(balancing figure)**	**4,97,700**		
Total	**23,76,900**	**Total**	**23,76,900**

Question 1(b): Partnership Admission – Goodwill Adjustment and Sacrifice Ratio **N 12 (5 Marks)**

Arun and Varun were Partners sharing Profits in the ratio of 13 : 11 respectively. On 1st April 2012, they admitted Tarun as a new Partner on the following conditions:

(i) All Partners would share profits equally in the New Firm.

(ii) Tarun would bring in ₹ 52,000 as his Capital and ₹ 36,000 as his share of Goodwill. No Goodwill Account appeared in the books of the Firm at the time of Tarun's admission and it was decided not to open any Goodwill Account. Adjustment for Tarun's Goodwill being made through Capital Accounts.

Pass Journal Entries to record all the transactions on Tarun's admission.
Clearly show the calculation of ratio of sacrifice.

Solution: (Similar to Page A.6.9, Q.No.9) **1. Computation of Sacrifice Ratio**

Particulars	Arun	Varun	Total
(a) New Ratio	$\frac{1}{3}$	$\frac{1}{3}$	1:1
(b) Old Ratio	$\frac{13}{24}$	$\frac{11}{24}$	13:11
(c) Sacrifice Ratio = (b) – (a)	$\frac{5}{24}$	$\frac{3}{24}$	**5:3**

2. Journal Entries

S.No.	Particulars		Dr. (₹)	Cr. (₹)
1.	Cash A/c	Dr.	88,000	
	To Tarun's Capital A/c			88,000
	(Being amount brought by Partner Tarun towards Capital and Goodwill)			
2.	Tarun's Capital A/c	Dr.	36,000	
	To Arun's Capital A/c	Dr.		22,500
	To Varun's Capital A/c			13,500
	(Being Tarun's Share of Goodwill of the Firm ₹ 36,000, adjusted in the Sacrifice Ratio 5:3 between Arun and Varun)			

Question 1(c): Hire Purchase – Computation of Cash Price **N 12 (5 Marks)**

On 1st April 2012, Fastrack Motors Co sells a Truck on Hire Purchase basis to Teja Transport Co for a total Hire Purchase Price of ₹ 9,00,000 payable as to ₹ 2,40,000 as Down Payment and the balance in three equal annual instalments of ₹ 2,20,000 each payable on 31st March 2013, 2014 and 2015. The Hire Vendor charges interest at 10% per annum.

Ascertain the Cash Price of the Truck for Teja Transport Co. Calculations may be made to the nearest rupee.

Solution: **Similar to Page No.A.5.91, Q.No.20**

Statement of Cash Price of the Asset acquired on Hire–Purchase basis

End of Instalment	Balance due after Instalment	Instalment Amount	Cumulative Amount	Interest at 10% p.a	Paid for Principal
(1)	**(2)**	**(3)**	**(4) = (2) + (3)**	**(5) = (4) × $\frac{10}{110}$**	**(6) = (3) – (5)**
3	Nil	2,20,000	2,20,000	20,000	2,00,000
2	2,00,000 (0 + 2,00,000)	2,20,000	4,20,000	38,182	1,81,818
1	3,81,818 (2,00,000 + 1,81,818)	2,20,000	6,01,818	54,711	1,65,289
0	5,47,107 (3,81,818 + 1,65,289)	2,40,000	7,87,107	(Down Payment) NIL	2,40,000
		9,00,000		**1,12,893**	**7,87,107**

Thus, Cash Price of the Asset = ₹ **7,87,107.**

Alternatively, the computation may be made as follows –

Year	Installment Amount	Discount Factor at 10%	Discounted Amount
(1)	**(2)**	**(3)**	**(4) = (2) × (3)**
0	2,40,000	1.0000	2,40,000
1	2,20,000	0.9091	2,00,002
2	2,20,000	0.8264	1,81,808
3	2,20,000	0.7513	1,65,286
Total			**7,87,096**

Question 1(d): Subscription – Income Recognition **N 12 (5 Marks)**

During the year ended 31st March 2012, Sachin Cricket Club received Subscriptions as follows:

Particulars	₹
For year ending 31st March 2011	**12,000**
For year ending 31st March 2012	**6,15,000**
For year ending 31st March 2013	**18,000**
Total	**6,45,000**

There are 500 Members and annual subscription is ₹ 1,500 per member.

On 31st March 2012, a sum of ₹ 15,000 was still in arrears for Subscriptions for the year ended 31st March 2011.

Ascertain the amount of Subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March 2012. Also, show how the items would appear in the Balance Sheet as on 31st March 2011 and the Balance Sheet as on 31st March 2012.

Solution: **Similar to Page A.4.11, Q.No.4**

1. Subscription to be credited to I & E A/c for the year ended 31st March 2012 = 500 Members × ₹ 1,500 = ₹ **7,50,000**

2. Balance Sheet of Sachin Cricket Club as on 31st March 2011 (Extract)

Liabilities	₹	Assets	₹
		Subscription Receivable (15,000 + 12,000)	27,000

3. Balance Sheet of Sachin Cricket Club as on 31st March 2012 (Extract)

Liabilities	₹	Assets		₹
To Subscription Received in Advance		Subscription Receivable		
– 2013	18,000	– 2012 (7,50,000 – 6,15,000)	1,35,000	
		– 2011	15,000	1,50,000

Question 2: Amalgamation as Merger – Realisation A/c and Journal Entries **N 12 (16 Marks)**

The following was the Balance Sheet of V Ltd as on 31st March 2012:

Particulars		Note No.	Amount (₹ in Lakhs)
Equity and Liabilities			
(1) Shareholders' Funds	(a) Share Capital	1	1,150
	(b) Reserves and Surplus	2	(87)
(2) Non–Current Liabilities	Long–Term Borrowings	3	630
(3) Current Liabilities	Trade Payables		170
Total			1,863
Assets			
(1) Non–Current Assets	Tangible Assets	4	1,152
(2) Current Assets	Inventories		380
	Trade Receivables		256
	Cash and Cash Equivalents	5	75
Total			1,863

Notes:

(1) Share Capital	
Authorised:	?
Issued, Subscribed and Paid up:	
80 Lakh Equity Shares of ₹ 10 each, fully paid up	800
35 Lakh 12% Cumulative Preference Shares of ₹ 10 each, fully paid up	350
Total	1,150

(2) Reserves and Surplus:	Debit Balance of Profit & Loss Account	(87)
Total		(87)

(3) Long–Term Borrowings	
10% Secured Cumulative Debentures of ₹ 100 each, fully paid up	600
Outstanding Debenture Interest	30
Total	630

(4) Tangible Assets	
Land and Buildings	445
Plant and Machinery	593
Furniture, Fixtures and Fittings	114
Total	1,152

(5) Cash and Cash Equivalents	
Balance at Bank	**69**
Cash in Hand	**6**
Total	**75**

On 1st April 2012, P Ltd took over the entire business of V Ltd on the following terms:
V Ltd's Equity Shareholders would receive 4 fully paid Equity Shares of P Ltd of ₹ 10 each issued at a Premium of ₹ 2.50 each for every Five Shares held by them in V Ltd.

Preference Shareholders of V Ltd would get 35 Lakh 13% Cumulative Preference Shares of ₹ 10 each fully paid up in P Ltd, in lieu of their present holding.

All the Debentures of V Ltd would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹ 100 each, fully paid up after the take over by P Ltd, which would also pay Outstanding Debenture Interest in cash.

Expenses of Amalgamation would be borne by P Ltd. Expenses came to be ₹ 2 Lakh. P Ltd discovered that its Creditors included ₹ 7 Lakh due to V Ltd for goods purchased.

Also P Ltd's Stock included goods of the Invoice Price of ₹ 5 Lakh earlier purchased from V Ltd, which had charged profit at 20% of the Invoice Price.

You are required to:
(i) Prepare Realisation A/c in the books of V Ltd.
(ii) Pass Journal Entries in the books of P Ltd, assuming it to be an amalgamation in the nature of Merger.

Solution:

1. Computation of Purchase Consideration

Particulars	₹ Lakhs
Equity Shares: (issued at Premium ₹ 2.50) 80 Lakh Shares× $\frac{4}{5}$ = 64 Lakh Shares issued at ₹ 12.50 per Share. Therefore, Total Value of Equity Shares (including Premium) (64 Lakh Shares × ₹ 12.50)	800
Preference Shares: 13% Cumulative Preference Shares of ₹ 10 each (35 Lakh Shares × ₹ 10)	350
Total Purchase Consideration	**1,150**

2. Realisation Account

Particulars	₹ Lakhs	Particulars	₹ Lakhs
To Land and Buildings A/c	445	By Trade payables A/c	170
To Plant and Machinery A/c	593	By 10% Debentures A/c	600
To Furniture, Fixtures & Fittings A/c	114	By Outstanding Debenture interest A/c	30
To inventories A/c	380	By P Ltd A/c	1,150
To Trade Receivables A/c	256		
To Cash in Hand A/c	6		
To Cash at Bank A/c	69		
To Equity Shareholders A/c **(bal. figure)**	**87**		
Total	**1,950**	**Total**	**1,950**

3.Journal Entries in the books of P Ltd (₹ Lakhs)

S.No	Particulars		Dr.	Cr.
1	Business Purchase A/c	Dr.	1,150	
	To Liquidator of V Ltd A/c			1,150
	(Being Purchase Consideration Due)			
2	Land and Building A/c	Dr.	445	
	Plant and Machinery A/c	Dr.	593	
	Furniture, Fixtures and Fittings A/c	Dr.	114	
	Inventories A/c	Dr.	380	
	Trade Receivables A/c	Dr.	256	
	Cash in Hand A/c	Dr.	6	
	Cash at Bank A/c	Dr.	69	
	Profit and Loss A/c	Dr.	87	

S.No	Particulars		Dr.	Cr.
	To 10.5% Debentures A/c			600
	To Outstanding Interest A/c			30
	To Trade Payables A/c			170
	To Business Purchase A/c			1,150
	(Being Assets and Liabilities taken over from V Ltd under amalgmation)			
3	Liquidator of V Ltd A/c	Dr.	1,150	
	To Equity Share Capital A/c			640
	To 13% Cumulative Preference Shares A/c			350
	To Securities premium A/c			160
	(Being discharge of consideration, by allotment of 64 Lakh Equity Shares of ₹ 10 each at a premium of ₹ 2.50 per Share & 35 Lakh 13% Cumulative Pref. Shares of ₹ 10 each at par)			
4	Trade Payables A/c	Dr.	7	
	To Trade Receivables A/c			7
	(Being settlement of mutual liability)			
5	Amalgamation Expenses A/c	Dr.	2	
	To Cash A/c			2
	(Amalgamation Expenses met by P Ltd)			

Note: No Journal Entry is required for Stock purchased from V Ltd in case of Merger, since it is recorded at Actual Cost.

Question 3(a): Hire Purchase – Shop Stock and HP Adjustment A/c **N 12 (8 Marks)**

A Trader sold out goods on Hire Purchase at a Profit of 25% on Cost Price. Prepare (i) Hire Purchase Stock A/c (ii) Shop Stock A/c (iii) Hire Purchase Debtors' A/c and (iv) Hire Purchase Adjustment A/c in the books of the Trader from the following details:

Particulars		₹	Particulars	₹
Stock in Godown	**on 01.04.2011**	**6,00,000**	**Goods with Customer on Hire Purchase on 01.04.2011**	**7,20,000**
	on 31.03.2012	**5,00,000**	**Purchases**	**12,92,000**
Overdue Installments:	**on 01.04.2011**	**40,000**	**Instalments received**	**12,00,000**
	on 31.03.2012	**60,000**		

Solution:

1. HP Stock A/c

Particulars	₹	Particulars	₹
To Opening Balance	7,20,000	By HP Sales (From HP Debtors A/c)	12,20,000
To Goods Sold on HP (13,92,000 + 25% thereon)	17,40,000	By Closing Balance **(balancing figure)**	**12,40,000**
Total	**24,60,000**	**Total**	**24,60,000**

2. Shop Stock A/c

Particulars	₹	Particulars	₹
To Opening Balance	6,00,000	By Goods Sold on HP **(bal. fig.)**	**13,92,000**
To Purchases	12,92,000	By Closing Balance	5,00,000
Total	**18,92,000**	**Total**	**18,92,000**

3. HP Debtors A/c

Particulars	₹	Particulars	₹
To Opening Balance	40,000	By Bank A/c (Collections)	12,00,000
To HP Sales **(balancing figure)**	**12,20,000**	By Closing Balance	60,000
Total	**12,60,000**	**Total**	**12,60,000**

4. Goods Sold on HP A/c

Particulars	₹	Particulars	₹
To Shop Stock A/c	13,92,000	By HP Stock **(WN 1)**	17,40,000
To HP Adjustment A/c **(balancing figure)**	**3,48,000**		
Total	**17,40,000**	**Total**	**17,40,000**

5. HP Adjustment A/c

Particulars	₹	Particulars	₹
To Closing HP Stock Reserve 12,40,000× $\frac{25}{125}$	2,48,000	By Opg HP Stock Reserve A/c (7,20,000 × $\frac{25}{125}$)	1,44,000
To HP Profit (tfrd to general P & L A/c)	**2,44,000**	By Goods sold on HP	3,48,000
Total	**4,92,000**	**Total**	**4,92,000**

Note: Profit = 25% on Cost (given). So, HP Price = Cost + Profit = 100 + 25 = 125. Profit on HP Price = 25/125.

Question 3(b): Share Call and Bonus Issue **N 12 (8 Marks)**

The following notes pertain to Brite Ltd's Balance Sheet as on 31st March 2012:

Notes	₹ in Lakhs
(1) Share Capital	
Authorised: 20 Crore Shares of ₹ 10 each	**20,000**
Issued and Subscribed: 10 Crore Equity Shares of ₹ 10 each	**10,000**
2 Crore 11% Cumulative Preference Shares of ₹ 10 each	**2,000**
Total	**12,000**
Called and Paid Up:	
10 Crore Equity Shares of ₹ 10 each, ₹ 8 per Share called and paid up	**8,000**
2 Crore 11% Cumulative Preference Shares of ₹ 10 each, fully called and paid up	**2,000**
Total	**10,000**
(2) Reserves and Surplus:	
Capital Reserve	**485**
Capital Redemption Reserve	**1,000**
Securities Premium	**2,000**
General Reserve	**1,040**
Surplus, i.e. Credit Balance of Profit & Loss (Appropriation) Account	**273**
Total	**4,798**

On 2nd April 2012, the Company made the Final Call on Equity Shares at ₹ 2 per Share. The entire money was received in the month of April 2012.

On 1st June 2012, the Company decided to issue Equity Shareholders Bonus Shares at the rate of 2 Shares for every 5 Shares held and for this purpose, it decided to utilize the Capital Reserves to the maximum possible extent.

Pass Journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of Bonus Shares.

Solution: **Similar to Page No.A.7.22, Q.No.10**

1. Journal Entries in the books of Jayaram Ltd (Amount in ₹ Lakhs)

S.No	Particulars		Dr.	Cr.
1.	Equity Share Final Call A/c	Dr.	2,000	
	To Equity Share Capital A/c			2,000
	(Being Equity Share Final Call of ₹ 2 per Share due on 10 Crore Shares as per Board Resolution No........ dated......)			
2.	Bank A/c	Dr.	2,000	
	To Equity Share Final Call A/c			2,000
	(Being Final Call Money on 10 Crore Shares received)			
3.	Capital Redemption Reserve A/c	Dr.	1,000	
	Securities Premium A/c	Dr.	2,000	
	General Reserve A/c **(balancing figure)**	Dr.	1,000	
	To Bonus to Shareholders A/c			4,000
	(Being appropriation made to facilitate issue of Fully Paid Up Bonus Shares at 2 Share for every 5 Shares held, i.e. for Total Bonus Value of ₹ 4,000 Crores, No. of Fully Paid Bonus Shares to be issued = 10 Crore Shares × 2/5 = 4 Crore Shares of ₹ 10 each)			

S.No	Particulars		Dr.	Cr.
4.	Bonus to Shareholders A/c	Dr.	4,000	
	To Equity Share Capital A/c			4,000
	(Being allotment of Bonus Shares as above)			

2. Balance Sheet of Jayaram Ltd as at (Extract) (Amount in ₹ Lakhs)

	Particulars as at 31st March	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	16,000	
	(b) Reserves and Surplus	**2**	798	
	Total			
II	**ASSETS**			
	Total			

Note 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: 20 Crore Shares of ₹ 10 each	20,000	
……. 11% Cumulative Preference Shares of ₹ 10 each	XXX	
Issued, Subscribed & Paid up: 14 Crore Equity Shares of ₹ 10 each, fully paid (out of which 4 Crore Shares issued as fully paid Bonus Shares, by capitalization of Profits)	14,000	
2 Crore 11% Cumulative Preference Shares of ₹ 10 each fully paid	2,000	
Total	**16,000**	

Note 2: Reserves and Surplus (showing appropriations and transfers) (all figures for this year) (₹ Lakhs)

Particulars	Opening Balance	Additions	Deductions	Closing Balance
Capital Reserve	485	Nil	Nil	485
Capital Redemption Reserve	1,000	Nil	Bonus Issue 1,000	Nil
Securities Premium Reserve	2,000	Nil	Bonus Issue 2,000	Nil
General Reserve	1,040	Nil	Bonus Issue 1,000	40
Surplus (P&L A/c)	273	Nil	Nil	273
Total	**4,798**	**Nil**	**4,000**	**798**

Question 4: Financial Statements from Incomplete Records and Ratios **N 12 (16 Marks)**

Following information of the Final Accounts of Kumaran Ltd, are missing as shown below:

Trading and Profit & Loss A/c for the year ended 31.03.2012

Particulars	₹ 000s	Particulars	₹ 000s
To Opening Stock	7,000	By Sales	?
To Purchases	?	By Closing Stock	?
To Manufacturing Expenses	1,750		
To Gross Profit c/d	?		
Total	?	Total	?
To Office and Administration Expenses	7,400	By Gross Profit b/d	?
To Interest on Debentures	600	By Commission Received	1,000
To Provision for Taxation	?		
To Net Profit for the year c/d	?		
Total		Total	?
To Proposed Dividends	?	By Balance b/f	1,400
To Transfer to General Reserves	?	By Net Profit for the year b/d	?
To Balance Transfer to Balance Sheet	?		
Total	?	Total	?

Balance Sheet as on 31.03.2012

Liabilities	₹ 000s	Assets	₹ 000s
Paid up Capital	**10,000**	**Fixed Assets:**	**?**
General Reserves:		**Plant and Machinery**	**14,000**
Balance at the beginning of the year	**?**	**Other Fixed Assets**	**?**
Proposed addition	**?**	**Current Assets:**	
Profit and Loss Appropriation A/c		**Stock in Trade**	**?**
10% Debentures	**?**	**Sundry Debtors**	**?**
Current Liabilities	**?**	**Bank Balance**	**1,250**
Total	**?**	**Total**	**?**

You are required to provide the missing figures with the help of following information:

(i) Current Ratio 2 : 1.

(ii) Closing Stock is 25% of Sales.

(iii) Proposed Dividends are 40% of the Paid Up Capital.

(iv) Gross Profit Ratio is 60%.

(v) Ratio of Current Liabilities to Debentures is 2 : 1.

(vi) Transfer to General Reserves is equal to Proposed Dividends.

(vii) Profit carried forward are 10% of the Proposed Dividends.

(viii) Provision for Taxation is 50% of Profits.

(ix) Balance to the credit of General Reserves at the beginning of the year is twice the amount transferred to that account from the Current Profits.

Solution: **Working Notes:**

1. Given Tax Provision is 50% (of Pre Tax Profits), Hence, PAT = balance 50%. Hence, Tax = Profit after Tax = **7,000.**
2. $\frac{\text{Current Liabilities}}{\text{Debentures}} = \frac{2}{1}$. So, Current Liabilities = 6,000 × 2 = 12,000
3. $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2}{1}$ $\qquad \frac{8,750 + \text{Debtors} + 1,250}{12,000} = \frac{2}{1}$ $\qquad$ 10,000 + Debtors= 24,000. So, Debtors = **14,000**

Trading and Profit & Loss A/c of Kumaran Ltd for the year ended 31.03.2012

Particulars	₹ 000s	Particulars	₹ 000s
To Opening Stock	7,000	By Sales (21,000 ÷ 60%)	35,000
To Purchases **(bal. fig.)**	**14,000**	By Closing Stock (25% of Sales 35,000)	8,750
To Manufacturing Expenses	1,750		
To Gross Profit c/d	21,000		
Total	**43,750**	**Total**	**43,750**
To Office and Administrative Expenses	7,400	By Gross Profit b/d	21,000
To Interest on Debentures	600	By Commission Received	1,000
To Provision for Taxation **(WN 1)**	7,000		
To Net Profit after Tax for the year c/d **(b/fd)**	**7,000**		
Total	**22,000**	**Total**	**22,000**
To Proposed Dividend (40% × Capital 10,000)	4,000	By Balance b/f (given)	1,400
To Transfer to General Reserve (= Prop Dvds)	4,000	By Net Profit after Tax for the year b/d (bal. fig.)	**7,000**
To Balance tfr to B/S (10% of Prop Dvd 4,000)	400		
Total	**8,400**	**Total**	**8,400**

2. Balance Sheet of Kumaran Ltd as on 31.03.2012

	Particulars	Note	This Yr	Last Yr
I.	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' Funds**			
	(a) Share Capital	**B–1**	10,000	
	(b) Reserves & Surplus	**B–2**	12,400	
(2)	**Non–Current Liabilities** Long Term Borrowings – 10% Debentures (600 ÷ 10%)		6,000	
(3)	**Current Liabilities** – Other Current Liabilities **(WN 3)**		12,000	
	Total		**40,400**	

	Particulars	Note	This Yr	Last Yr
II.	**ASSETS**			
(1)	**Non–Current Assets –** Fixed Assets	**B–3**	16,400	
(2)	**Current Assets**			
	(a) Inventories		8,750	
	(b) Trade Receivables		14,000	
	(c) Cash & Cash Equivalents – Balances with Banks		1,250	
	Total		**40,400**	

Note B–1: Share Capital

Particulars	31.03.2012	31.03.2011
Authorised: ………. Equity Shares of ₹ ……… each		
Issued, Subscribed & Paid up: ………. Equity Shares of ₹ ……… each	10,000	
Total	**10,000**	

Note B–2: Reserves and Surplus

Particulars	31.03.2012	31.03.2011
Other Reserves – General Reserve (Opening 8,000 + Additions 4,000)	12,000	
Surplus (Balance in P&L A/c)	400	
Total	**12,400**	

Note B–3: Tangible Fixed Assets

Particulars	31.03.2012	31.03.2011
Plant and Machinery	14,000	
Other Fixed Assets	2,400	
Total	**16,400**	

Question 5(a): Investment Account **N 12 (8 Marks)**

On 01.04.2011, T. Shekharan purchased 5,000 Equity Shares of ₹ 100 each in V Ltd at ₹ 120 each from a Broker, who charged 2% Brokerage. He incurred 50 paisa per ₹ 100 as Cost of Share Transfer Stamps. On 31.01.2012, Bonus was declared in the ratio of 1 : 2. Before and after the Record Date of Bonus Shares, the Shares were quoted at ₹ 175 per Share and ₹ 90 per Share respectively. On 31.03.2012, Mr. T Shekharan sold Bonus Shares to a Broker, who charged 2% Brokerage.

Show the Investment Account in the books of T. Shekharan, who held the Shares as Current Assets and Closing Value of Investments shall be made at Cost or Market Value whichever is lower.

Solution: **Similar to Page No.A.5.52, Q.No.9**

1. Basic Computations

Particulars	Computation	₹
(a) Cost of Shares purchased on 01.04.2011	(5,000 × 120) + (2% of 6,00,000) + 0.5% of 6,00,000	6,15,000
(b) Sale Proceeds of Shares sold on 31.03.2012	(2,500 × 90) – 2% of 2,25,000	2,20,500
(c) Profit on Sale of Bonus Shares on 31.03.2012	Sale Proceeds = 2,20,500 **Less:** Average Cost $6,15,000 \times \frac{2,50,000}{7,50,000}$ = (2,05,000)	15,500
(d) Valuation of Equity Shares of 31.03.2012	**Cost:** $6,15,000 \times \frac{5,00,000}{7,50,000}$ = 4,10,000 **Market Value:** 5,000 Shares of ₹ 90 = 4,50,000	Least of the two 4,10,000

Note:
- Stamp Duty is calculated on the Price excluding the Brokerage, i.e. on the Purchase Price.
- Total Cost of Investment = Purchase Price + Brokerage + Stamp Duty.
- Brokerage on Sale Transaction is to be reduced to arrive at the net Sale Proceeds.

2. Investment (Equity Shares of V Limited) Account

Date	Particulars	NV	Cost	Date	Particulars	NV	Cost
01.04.2011	To Bank	5,00,000	6,15,000	31.03.2012	By Bank	2,50,000	2,20,500
31.03.2012	To Bonus Shares	2,50,000	–	31.03.2012	By balance c/d	5,00,000	4,10,000
31.03.2012	To P&L A/c		15,500				
	Total	**7,50,000**	**6,30,500**		**Total**	**7,50,000**	**6,30,500**

Question 5(b): Insurance Claim – Loss of Stock + Expenses **N 12 (8 Marks)**

On 29th August, 2012 the Godown of a Trader caught fire and a large part of the Stock of Goods was destroyed. However, goods costing ₹ 1,08,000 could be salvaged incurring Fire Fighting Expenses amounting to ₹ 4,700.

The trader provides you the following additional information:

Particulars	₹
Cost of Stock on 1st April 2011	**7,10,500**
Cost of Stock on 31st March 2012	**7,90,100**
Purchases during the year ended 31st March 2012	**56,79,600**
Purchases from 1st April 2012 to the date of fire	**33,10,700**
Cost of goods distributed as Samples for advertising from 1st April 2012 to the date of fire	**41,000**
Cost of goods withdrawn by the Trader for personal use from 1st April 2012 to the date of fire	**2,000**
Sales for the year ended 31st March 2012	**80,00,000**
Sales from 1st April 2012 to the date of fire	**45,36,000**

The Insurance Company also admitted fire Fighting Expenses. The Trader had taken the Fire Insurance Policy for ₹ 9,00,000 with an Average Clause.

Calculate the amount of the claim that will be admitted by the Insurance Company.

Solution: **Similar to Page A.5.4, Q.No.2**

1. Trading Account for the year ended 31st March 2012 (to compute GP Rate)

Particulars	₹	Particulars	₹
To Opening Stock	7,10,500	By Sales	80,00,000
To Purchases	56,79,600	By Closing Stock	7,90,100
To Gross Profit **(balancing figure)**	**24,00,000**		
Total	**87,90,100**	**Total**	**87,90,100**

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} = \frac{24,00,000}{80,00,000} = \mathbf{30\%}$$

Dr. **2. Memorandum Trading Account (1st Apr 2012 to 29th Jun 2012)** **Cr.**

Particulars			₹	Particulars	₹
To Opening Stock			7,90,100	By Sales	45,36,000
To	Purchases	33,10,700		By Stock on the date of fire **(balancing figure)**	**8,82,600**
Less:	Drawings	(2,000)			
Less:	Advertisement	(41,000)	32,67,700		
To Gross Profit = 30% of Sales **(from WN 1)**			13,60,800		
Total			**54,18,600**	**Total**	**54,18,600**

3. Statement of Insurance Claim

	Particulars	₹
	Value of Stock Lost on date of Fire **(WN 2)**	8,82,600
Less:	Salvaged Stock	(1,08,000)
Add:	Fire Fighting Expenses	4,700
	Net Claim	**7,79,300**

Note: Since Policy Amount > Net Claim, Average Clause is Not Applicable. Hence, **Admissible Claim** = **₹ 7,79,300.**

Question 6: Partnership – Retirement of Partner **N 12 (16 Marks)**

Atul, Balbir and Chatur were carrying on a business in Partnership sharing Profits in the ratio of 5 : 3 : 2 respectively. On 31st March 2012, their Balance Sheet stood as follows:

Liabilities	₹	Assets		₹
Atul's Capital	**6,25,000**	**Goodwill**		**80,000**
Balbir's Capital	**3,75,000**	**Land and Buildings**		**7,00,000**
Chatur's Capital	**2,50,000**	**Furniture**		**1,65,000**
General Reserve	**1,00,000**	**Stock**		**2,86,000**
Trade Creditors	**2,10,000**	**Trade Debtors**	**1,80,000**	
		Less: Provision for Bad Debts	**(3,600)**	**1,76,400**
		Cash at Bank		**1,52,600**
Total	**15,60,000**	**Total**		**15,60,000**

Atul retired on the above mentioned date and partners agreed that:

(i) The Current Value of Goodwill be taken to be equal to the Book Value of the Asset.

(ii) Land and Buildings be considered worth ₹ 9,00,000.

(iii) The Provision for Bad Debts on Trade Debtors be raised to 5%.

(iv) Provision be made for compensation of ₹ 5,000 to an ex–employee.

(v) Half of the amount due to Atul be paid immediately in cash, and balance be treated as 10% Loan, repayable within 3 years.

In order to facilitate cash payment to Atul, Balbir and Chatur brought in ₹ 3,00,000 in the ratio of 3:2 respectively.

Prepare Revaluation Account, the Capital Account of all the Partners and Bank Account. Also, draw the Initial Balance Sheet of Balbir and Chatur, immediately after Atul's retirement.

Solution: **Similar to Page A.6.26, Q.No.21**

1. Revaluation Account

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts (5% of 1,80,000 – 3,600)		5,400	By Land & Buildings (9,00,000 – 7,00,000)	2,00,000
To Provision for Compensation		5,000		
To Capital Account (tfr in new PSR 5 : 3 : 2)				
– Atul	94,800			
– Balbir	56,880			
– Chatur	37,920	**1,89,600**		
Total		**2,00,000**	**Total**	**2,00,000**

2. Partners' Capital Account

Particulars	Atul	Balbir	Chatur	Particulars	Atul	Balbir	Chatur
To Goodwill (5:3:2)	40,000	24,000	16,000	By balance b/d	6,25,000	3,75,000	2,50,000
To Cash A/c	3,84,900	–	–	By General Reserve	50,000	30,000	20,000
To 10% Loan	**3,84,900**	**–**	**–**	By Revaluation A/c	94,800	56,880	37,920
To A's Capital	–	24,000	16,000	By B & C's Capital A/c	40,000	–	–
To balance c/d **(b/f)**	**–**	**5,93,880**	**3,95,920**	By Cash A/c	–	1,80,000	1,20,000
Total	**8,09,800**	**6,41,880**	**4,27,920**	**Total**	**8,09,800**	**6,41,880**	**4,27,920**

3. Balance Sheet as at 31.03.2012 (after Atul's retirement)

Equity & Liabilities	₹	Assets		₹
Capital Account:		**Non–Current Assets:** Land & Buildings		9,00,000
– Balbir	5,93,880	Furniture		1,65,000
– Chatur	3,95,920	**Current Assets:**		
10% Loan A/c	3,84,900	Stock		2,86,000
Current Liabilities:		Sundry Debtors	1,80,000	
Sundry Creditors	2,10,000	**Less:** Provision for Doubtful Debts	(9,000)	1,71,000
Provision for Compensation	5,000	Cash at Bank **(Note)**		67,700
Total	**15,89,700**	**Total**		**15,89,700**

Note: Balance at Bank = 1,52,600 + 1,80,000 + 1,20,000 – 3,84,900 = ₹ **67,700**

Question 7(a): Average Due Date **N 12 (4 Marks)**

T owes to K the following amounts:

Due Date	15th March 2012	5th April 2012	25th April 2012	11th June 2012
Amount (₹)	7,000	12,000	30,000	20,000

He desires to make full payment on 30th June 2012 along with interest at 10% per annum from the Average Due Date. Find out the Average Due Date and the amount of interest. Amount of interest may be rounded off to the nearest rupee.

Solution: **Similar to Page No.A.2.7, Q.No.11**

Computation of Average Due Date (**Note:** Base Date = 15th March)

Due Date	No. of Days from Base Date	Amount (₹)	Product (₹)
Col. (1)	**Col. (2)**	**Col. (3)**	**Col. (4) = (2) × (3)**
15th March	0	7,000	0
5th April	16 + 5 = 21	12,000	2,52,000
25th April	16 + 25 = 41	30,000	12,30,000
11th June	16 + 30 + 31 + 11 = 88	20,000	17,60,000
Total		**69,000**	**32,42,000**

Avg Due Date=Base Date ± $\frac{\text{Total of Products}}{\text{Total of Amounts}}$ = 15th Mar + $\frac{32,42,000}{69,000}$ = 15th Mar + 47 days (approx.) = **1st May 2012**

Days from ADD to 30th June (payment) = 30 + 30 = 60 days. So, **Interest** = ₹ 69,000 × 10% × $\frac{60}{365}$ = ₹ **1,134.**

Question 7(b): Insurance Claims – Computation of Stock Value **N 12 (4 Marks)**

From the following information ascertain the value of Stock as on 31st March 2012:

Particulars	₹
Stock as on 01.04.2011	**28,500**
Purchases	**1,52,500**
Manufacturing Expenses	**30,000**
Selling Expenses	**12,100**
Administration Expenses	**6,000**
Financial Expenses	**4,300**
Sales	**2,49,000**

At the time of valuing stock as on 31st March 2011, a sum of ₹ 3,500 was written off on a particular item, which was originally purchased for ₹ 10,000 and was sold during the year of ₹ 9,000. Barring the transaction relating to this item, the Gross Profit earned during the year was 20% on Sales.

Solution: Similar to Page A.5.4, Q.No.1 **Trading Account for the year ended 31st March 2012**

Particulars	Normal	Abnml	Total	Particulars	Normal	Abnml	Total
To Opening Stock	22,000	6,500	28,500	By Sales	2,40,000	9,000	2,49,000
To Purchases	1,52,500	–	1,52,500	By Closing Stock	**(b/f)** 12,500	–	12,500
To Mfg Exps	30,000	–	30,000				
To Gross Profit (20% on 2,40,000)	48,000	2,500	50,500				
Total	**2,52,500**	**9,000**	**2,61,500**	**Total**	**2,52,500**	**9,000**	**2,61,500**

Question 7(c): AS – 10 Fixed Assets **N 12 (4 Marks)**

PQR Ltd constructed a Fixed Asset and incurred following expenses on its construction. Calculate the Cost of the Fixed Asset.

Particulars	Rs.
Materials	**16,00,000**
Direct Expenses	**3,00,000**
Total Direct Labour (1/15th of the Total Labour Time was chargeable to the construction)	**6,00,000**
Total Office & Administration Expenses (4% is chargeable to the construction)	**9,00,000**
Depreciation on Assets used for the construction of this asset	**15,000**

Solution: **Similar to Page No.B.7.8, Q.No.25 P (A/cs) – RTP**

Particulars	₹
Direct Materials (Given)	16,00,000
Direct Labour (1/15th of Total Labour ₹ 6,00,000)	40,000
Direct Expenses (Given)	3,00,000
Office & Administrative Exps (4% is only apportionment change, not attributable specifically)	Nil
Depreciation Expense on other Assets used in construction (Given)	15,000
Cost of Self–Constructed Fixed Asset	**19,55,000**

Note: Office and Administrative Expenses are general in nature, and not directly / specifically attributable to the asset.

Question 7(d): AS – 2 Inventories **N 12 (4 Marks)**

"In determining the Cost of Inventories, it is appropriate to exclude certain costs and recognize them as Expenses in the period in which they are incurred." Provide example of such costs as per AS – 2.

Solution: **Refer Page No.B.2.6, Q.No.23**

Question 7(e): Accounting in E – Environment **N 12 (4 Marks)**

Write any four disadvantages of Pre–Packaged Accounting Software.

Solution: **Refer Page No.A.1.7, Q.No.6**

PCC Group I Accounting – Questions Relevant for IPCC Group I

Question 1(a): AS – 7 Construction Contracts **N 12 (5 Marks)**

On 1st December 2011, BC Ltd undertook a contract to construct a Building of ₹ 21.25 Lakhs. On 31st March 2012, the Company found out that it had already spent ₹ 16,24,750 on the construction. Prudent estimate of the Additional Cost for Completion was ₹ 8,00,250. What amount should be charged to Revenue in the Final Accounts for the year ended 31st March 2012?

Solution: **Similar to Page No.B.5.13, Q.No.39 F (A/cs) – M 10, M 11**

Estimated Total Contract Costs = Cost till date + Further Costs = ₹ 16,24,750 + ₹ 8,00,250 = **₹ 24,25,000**

Percentage of Completion = Cost incurred till date ÷ Estimated Total Costs = 16,24,750 ÷ 24,25,000 = **67%**

Total Expected Loss to be provided for = Contract Price – Total Costs = ₹ 21,25,000 – ₹ 24,25,000 = **₹ 3,00,000.**

	Contract Revenue = 67% of ₹ 21,25,000	= ₹ 14,23,750
Less:	Contract Costs	= ₹ 16,24,750
	Loss on Contract	= ₹ 2,01,000
Less:	Further provision required in respect of expected loss	= **₹ 99,000 (bal. fig.)**
	Expected Loss recognised as per Para 35	= ₹ 3,00,000

The relevant disclosures under AS – 7 are as follows –

	Particulars	**₹**
(a)	Contract Revenue	14,23,750
(b)	Contract Expenses Charged	16,24,750
(c)	Provision for Future Losses to be Charged	99,000

Question 1(c): AS – 2 Inventories **N 12 (5 Marks)**

The Closing Inventory at cost of a Company amounted to ₹ 9,56,700. The following items were included at cost in the total:

(i) 350 Shirts, which had cost ₹ 380 each and normally sold for ₹ 750 each. Owing to a defect in a manufacture, they were all sold after the Balance Sheet date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.

(ii) 700 Trousers, which had cost ₹ 520 each. These two were found to be defective. Selling Expenses for the batch totalled ₹ 3,800. They were sold for ₹ 950 each.

What should be the Closing Inventory value, after considering the above items?

Solution: **Similar to Page No.B.2.12, Q.No.44 F / P (A/cs) – RTP**

1. **Valuation of Shirts:**

(a) Value of Stock at Cost	(₹ 380 × 350 units)	₹ 1,33,000
(b) NRV of Shirts	(₹ 750 × 50% × 350 units) Less 5% thereon	₹ 1,24,688
(c) Write–down required for Shirts	(a – b)	₹ 8,312

2. **Valuation of Trousers:**
   (a) Cost of Trousers as given = ₹ 520 × 700 Skirts = ₹ 3,64,000
   (b) Net Realisable Value of Trousers =

	Estimated Sale Price per unit	₹ 950.00
Less:	Selling Expenses per Unit (₹ 3800 ÷ 700 Skirts)	(₹ 5.43)
	Net Realisable Value per Unit	**₹ 944.57**

   (c) Value = Lower of (i) Cost ₹ 520 & (ii) NRV ₹ 944.57. Therefore, ₹ 520 per unit or ₹ 3,64,000 should be the Carrying Amount. Since Inventory is already carried at cost, no further adjustment is required.

3. **Valuation of Inventory:**

	Value of Inventory as given	9,56,700
Less:	Write Down of Value of Shirts	(8,312)
	Revised Inventory Value as per AS–2	**₹ 9,48,388**

Question 1(d): AS – 6 Depreciation **N 12 (5 Marks)**

A Plant was depreciated under two different methods as under:

Year	SLM (₹ In Lakhs)	WDV (₹ In Lakhs)
1	39.00	106.90
2	39.00	79.00
3	39.00	58.40
4	39.00	43.20
	156.00	287.50
5	39.00	31.90

What should be the amount of resultant Surplus / Deficiency, if the Company decides to switch over from WDV Method for the first four years? Also, state how will you treat the same in Accounts?

Solution: **Similar to Page No.B.4.5, Q.No.20, P (A/cs) – M 04, M 03, N 03, N 05, N 10, M 10**

Particulars	Computation	Amount (₹ in Lakhs)
1. Depreciation upto Year 4 under SLM Method	₹ 39 × 4	156.00
2. Depreciation upto Year 4 under WDV Method	106.90 + 79.00 + 58.40 + 43.20	287.50
3. Surplus Depreciation on account of change from WDV Method to SLM method	₹ 287.50 – ₹ 156.00	131.50

Treatment in Year 5:

(a) **Credit** Surplus of ₹ 131.50 Lakhs to the Profit & Loss Account of Year 5.

(b) **Debit** Current Year Depreciation of ₹ 39.00 Lakhs in the Profit & Loss Account of Year 5.

(c) **Disclose** the change in the method of depreciation as a change in Accounting Policy, along with its impact in the Financial Statements.

Question 2: Amalgamation in the nature of Merger **N 12 (16 Marks)**

The following is the summarized Balance Sheet of X Ltd and Y Ltd as at 31st March 2012. **(₹ in Lakhs)**

Liabilities	X Ltd	Y Ltd	Assets	X Ltd	Y Ltd
Fully Paid Equity Shares of ₹ 10 each	10,800	2,700	Plant and Machinery	12,645	1,404
10% Preference Shares of ₹ 10 each fully paid up	3,600	–	Furniture and Fixtures	7,200	549
Capital Reserve	1,800	–	Motor Vehicles	–	153
General Reserve	6,300	–	Stock	7,110	1,332
Profit and Loss Account	2,340	–	Sundry Debtors	3,132	711
8% Redeemable Debentures of ₹ 1,000 each	–	900	Cash at Bank	4,626	720
Trade Creditors	7,263	1,107	Preliminary Expenses	–	99
Provisions	2,610	279	Discount on Issue of Debentures	–	18
Total	34,713	4,986	Total	34,713	4,986

A new Company XY Ltd was incorporated with an Authorized Capital of ₹ 45,000 Lakhs divided into Shares of ₹ 10 each. For the purpose of amalgamation in the nature of Merger, X Ltd and Y Ltd were merged into XY Ltd, on the following terms –

(i) Purchase Consideration for X Ltd's business is to be discharged by issue of 360 Lakhs fully paid 11% Preference Shares and 2,160 Lakhs fully paid Equity Shares of XY Ltd to the Preference and Equity Shareholders of X Ltd in full satisfaction of their claims.

(ii) To discharge Purchase Consideration for Y Ltd's business, XY Ltd to allot 270 Lakhs fully paid up Equity Shares to Shareholders of Y Ltd in full satisfaction of their claims.

(iii) Expenses on the Liquidation of X Ltd and Y Ltd amounting to ₹ 18 Lakhs are to be borne by XY Ltd.

(iv) 8% Redeemable Debentures of Y Ltd to be converted into 8.5% Redeemable Debentures of XY Ltd.

(v) Expenses on Incorporation of XY Ltd were ₹ 45 Lakhs.

You are required to:

(a) Pass necessary Journal Entries in the books of XY Ltd to record the above transactions, and

(b) Prepare Balance Sheet of XY Ltd after Merger.

Solution: **Similar to Page No.A.11.35, Q.No.16**

1. Computation of Purchase Consideration (₹ in Lakhs)

Particulars	X Ltd	Y Ltd	Total
Preference Shareholders	360 Lakhs Shares × ₹ 10 = 3,600	–	3,600
Equity Shareholders	2160 Lakhs × ₹ 10 = 21,600	270 Lakhs × ₹ 10 = 2,700	24,300
Total	**25,200**	**2,700**	**27,900**

2. Analysis of Reserves to be incorporated in the books of XY Ltd (₹ in Lakhs)

Particulars	X Ltd	Y Ltd
(a) Purchase Consideration	25,200	2,700
(b) Paid Up Capital (Equity + Preference)	14,400	2,700
(c) Difference	**10,800**	**–**
(d) Difference adjusted against the Reserves		
– General Reserve of X Ltd	6,300	–
– Profit & Loss A/c of X Ltd	2,340	–
– Profit & Loss A/c of XY Ltd (Bal. Figure)	**2,160**	**–**

3. Journal Entries in the Books of XY Ltd (₹ in Lakhs)

Nature of Amalgamation: Merger **Method of Accounting: Pooling of Interest**

S.No.	Particulars		Dr.	Cr.
1.	Business Purchase A/c	Dr.	27,900	
	To Liquidator of X Ltd A/c			25,200
	To Liquidator of Y Ltd A/c			2,700
	(Being purchase of business of X Ltd & Y Ltd, and consideration due thereon)			
2.	Plant and Machinery A/c	Dr.	12,645	
	Furniture and Fixtures A/c	Dr.	7,200	
	Stock A/c	Dr.	7,110	
	Sundry Debtors A/c	Dr.	3,132	
	Cash at Bank A/c	Dr.	4,626	
	Profit & Loss A/c **(WN 2)**	Dr.	2,160	
	To Business Purchase A/c			25,200
	To Capital Reserve A/c			1,800
	To Trade Creditors A/c			7,263
	To Provisions A/c			2,610
	(Being recording of Assets and Liabilities taken over from of X Ltd)			
3.	Plant and Machinery A/c	Dr.	1,404	
	Furniture and Fixtures A/c	Dr.	549	
	Motor Vehicles A/c	Dr.	153	
	Stock A/c	Dr.	1,332	
	Sundry Debtors A/c	Dr.	711	
	Cash at Bank A/c	Dr.	720	
	Preliminary Expenses A/c	Dr.	99	
	Debentures Discount A/c	Dr.	18	

S.No.	Particulars		Dr.	Cr.
	To Business Purchase A/c To Debenture Holders A/c To Trade Creditors A/c To Provisions A/c (Being recording of Assets and Liabilities taken over from Y Ltd)			2,700 900 1,107 279
4.	Liquidator of X Ltd A/c Liquidator of Y Ltd A/c To Equity Share Capital A/c To 11% Preference Share Capital A/c (Being discharge of Purchase Consideration by allotment of Equity & Preference Shares)	Dr. Dr.	25,200 2,700	 24,300 3,600
5.	Profit & Loss A/c To Bank A/c (Being payment of Liquidation Expenses of X Ltd and Y Ltd)	Dr.	18	 18
6.	Debenture Holders A/c To 8.5% Redeemable Debentures A/c (Being Allotment of 8.5% Debentures of XY Ltd to Debenture Holders of Y Ltd)	Dr.	900	 900
7.	Preliminary Expenses A/c To Bank A/c (Being expenses incurred for formation of New Company)	Dr.	45	 45
8.	Profit & Loss A/c To Preliminary Expenses (99+45) To Debentures Discount (Being Preliminary Expenses and Debentures Discount written off)	Dr.	162	 144 18

4. Balance Sheet of XY Ltd as on 31st March (₹ in Lakhs)

	Particulars as at 31st March			Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**					
(1)	**Shareholders' Funds:**					
	(a) Share Capital			**1**	27,900	
	(b) Reserves and Surplus			**2**	(540)	
(2)	**Non–Current Liabilities:**					
	Long Term Borrowings	8.5% Redeemable Debentures			900	
(3)	**Current Liabilities:**					
	(a) Trade Payables	Creditors (7,263 + 1,107)			8,370	
	(b) Short Term Provisions	(2,610 + 279)			2,889	
	Total				**39,519**	
II	**ASSETS**					
(1)	**Non–Current Assets**					
	Fixed Assets: Tangible Assets			**3**	21,951	
(2)	**Current Assets:**					
	(a) Inventories	Stock–in–Trade	(7,110 + 1,332)		8,442	
	(b) Trade Receivables	Debtors	(3,132 + 711)		3,843	
	(c) Cash and Cash Equivalents	Cash & Bank	(5,346 – 45 – 18)		5,283	
	Total				**39,519**	

Note 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: 4,500 Shares of ₹ 10 each	**45,000**	
Issued, Subscribed & Paid up:		
(a) 2,430 Lakh Equity Shares of ₹ 10 each (All the above Shares were issued for non–cash consideration under Merger Scheme)	24,300	
(b) 360 Lakh 11% Preference Shares of ₹ 10 each (All the above Shares were issued for non–cash consideration under Merger Scheme)	3,600	
Total	**27,900**	

Note 2: Reserves and Surplus

Particulars	This Year	Prev. Yr
(a) Capital Reserve	1,800	
(b) Surplus Profit and Loss A/c (162 + 18 + 2,160)	(2,340)	
Total	**(540)**	

Note 3: Tangible Fixed Assets

Particulars		This Year	Prev. Yr
(a) Plant & Machinery	(12,645 + 1,404)	14,049	
(b) Furniture & Fittings	(7,200 + 549)	7,749	
(c) Motor Vehicles		153	
Total		**21,951**	

Question 3(b): Self–Balancing System – Total Debtors and Total Creditors Accounts **N 12 (8 Marks)**

The following particulars are obtained from books of a Z Ltd for the year ended 31st March 2012:

Particulars	₹	Particulars	₹
Cash Sales	**75,000**	**Returns Inward**	**10,500**
Credit Purchases	**2,80,000**	**Payment to Creditors**	**2,62,000**
Collection from Debtors	**5,00,000**	**Discount allowed by Creditors**	**3,000**
Bills Receivable drawn	**20,000**	**Debtors' cheque returned dishonoured**	**7,000**
Discount Received	**5,000**	**Credit Sales**	**5,25,000**
Cash Purchases	**72,000**	**Bills Receivables collected**	**10,000**
Bills Payable paid	**6,500**	**Returns outward**	**3,700**
Recovery of Bad Debts	**1,500**	**Bills Receivable endorsed to Creditors**	**7,900**
Bills Receivable discounted with Bank	**8,000**	**Overpayments refunded by Suppliers**	**600**
Interest charged on overdue Customers Account	**1,200**	**Bad Debts**	**1,000**
Endorsed Bills Receivable dishonoured	**5,500**	**Opening Balances**	
Bills Payable accepted	**16,000**	**Sundry Debtors**	**78,000**
Bills Receivable dishonoured	**2,500**	**Sundry Creditors**	**85,000**

You are required to prepare the Total Debtors Account and Total Creditors Account.

Solution: **Similar to Page A.2.39, Q.No.16**

1. Total Debtors A/c

Particulars	₹	Particulars	₹
To balance b/d (Opening)	78,000	By Bank – Collection from Debtors	5,00,000
To Bills Receivable Dishonoured	2,500	By Bills Receivable A/c	20,000
To Sales	5,25,000	By Sales Return A/c	10,500
To Bank	7,000	By Bad Debts A/c	1,000
To Interest Charged	1,200	By balance c/d **(bal. fig.)**	**87,700**
To Creditors – Endorsed bills dishonoured	5,500		
Total	**6,19,200**	**Total**	**6,19,200**

2. Total Creditors A/c

Particulars	₹	Particulars	₹
To Discount Received	5,000	By balance b/d (Opening)	85,000
To Bank – payment to Creditors	2,62,000	By Purchases	2,80,000
To Discount allowed by Creditors	3,000	By Bank A/c – overpayments refunded	600
To Returns Outward	3,700	By Debtors – endorsed bills dishonoured	5,500
To Bills Receivable – endorsed to Creditors	7,900		
To Bills Payable A/c – accepted	16,000		
To balance c/d **(bal. fig.)**	**73,500**		
Total	**3,71,100**	**Total**	**3,71,100**

Question 4: Income and Expenditure A/c and Balance Sheet from R&P A/c and other information **N 12 (16 Marks)**

Mary Sports Club provides the following Receipts & Payments for the year ending 31st March 2012:

Receipts and Payments Account

Receipts	₹	Payments	₹
To Cash & Bank Balances b/d	36,900	By Municipal Taxes	6,800
To Subscription	57,300	By Salaries	36,000
To Donations (received for meeting Capital Expenditure)	25,000	By Electricity Charges	2,300
To Interest on Investments	5,000	By Sports Material	4,000
To Other Income	1,200	By Books for Library	17,000
		By Newspapers	1,425
		By Miscellaneous Expenses	1,235
		By Cash & Bank Balance c/d	56,640
	1,25,400		1,25,400

Other Information:

Assets	As on 31.03.2011
(1) Books at Library	22,000
(2) Furniture & Fixtures	20,000
(3) Subscription Receivable	7,500
(4) Investment	75,000
(5) Accrued on Investment	1,750
(6) Sports Material	12,000

Assets as on 31.03.2012 are as follows:	
(1) Subscription	17,500
(2) Accrued Interest on Investments	1,750

Liabilities for Outstanding Expenses	31.03.2011	31.03.2012
(a) Salaries	4,000	6,000
(b) Newspapers	350	450
(c) Municipal Taxes	850	900
(d) Electricity Charges	1,350	1,500

Depreciation to be provided at the following rates

Furnitures and Fixtures – 10% p.a

Sports Material – 25% p.a.

Books at Library – 10% p.a.

You are required to prepare Mary Sports Club's Opening Balance Sheet as on 01.04.2011. Income and Expenditure Account for the year ended 31st March 2012, and Balance Sheet as on that date.

Solution: **Similar to Page A.4.31, Q.No.19**

1. Balance Sheet of Mary Sports Club as on 31.03.2011 (To ascertain Capital Opening Balance)

Equity and Liabilities	₹	Assets		₹
Capital Fund (bal. fig.)	**1,68,600**	**Non–Current Assets:**	Books at Library	22,000
Outstanding Expenses			Furniture and Fixtures	20,000
– Salary	4,000		Sports Material	12,000
– Newspaper	350		Investments	75,000
– Municipal Taxes	850	**Current Assets:**	Accrued Interest on Investments	1,750
– Electricity Charges	1,350		Subscription Receivable	7,500
			Cash and Bank	36,900
Total	**6,13,700**		**Total**	**6,13,700**

2. Income and Expenditure A/c of Mary Sports Club for the year ended 31st March 2012

Expenditure	₹	Income	₹
To Municipal Taxes (6,800 – 850 + 900)	6,850	By Subscription (57,300 – 7,500 +17,500)	67,300
To Salaries (36,000 – 4,000 + 6,000)	38,000	By Interest on Investments	5,000
To Electricity Charges (2,300 – 1,350 + 1,500)	2,450	By Other Income	1,200
To Newspaper (1,425 – 350 + 450)	1,525		
To Miscellaneous Expenses	1,235		
To Depreciation **(WN)**	8,550		
To Excess of Income over Expenditure **(Bal. Fig.)**	**14,890**		
Total	**73,500**	**Total**	**73,500**

Working Note: **1. Computation of Depreciation**

Assets	Computation	₹
Furniture and Fittings	20,000 × 10%	2,000
Books at Library	(22,000 × 10%)+ (17,000 × 10% × 1/2) [Assumed additions in middle of the year]	3,050
Sports Material	(12,000 × 25%) + (4,000 × 25% × 1/2) [Assumed additions in middle of the year]	3,500
Total		**8,550**

2. Balance Sheet of Mary Sports Club as on 31.03.2012

Equity and Liabilities	₹	Assets	₹
Capital Fund: Opg Bal. 1,68,600		**Non–Current Assets:**	
Add: Surplus 14,890		Books at Library (22,000 + 17,000 – 3,050)	35,950
Add: Capital Donations 25,000	2,08,490	Furniture and Fixtures (20,000 – 2,000)	18,000
Outstanding Expenses		Sports Material (12,000 + 4,000 – 3,500)	12,500
– Salary	6,000	Investments	75,000
– Newspaper	450	**Current Assets:** Accrued Interest on Investments	1,750
– Municipal Taxes	900	Subscription Receivable	17,500
– Electricity Charges	1,500	Cash and Bank	56,640
Total	**2,17,340**	**Total**	**2,17,340**

Note:

Question 5(b): Investment Accounts **N 12 (8 Marks)**

On 01.04.2011, Mr. Sharma purchased 2,000 Equity Shares of ₹ 100 each in Reliance Ltd at ₹ 130 each from a Broker, who charged 1% Brokerage. He incurred 50 paise per ₹ 100 as cost of Share Transfer Stamps. On 31.01.2012 Bonus was declared in the ratio of 1 : 2. Before and after the Record Date of Bonus Shares, the Shares were quoted at ₹ 135 per Share and ₹ 82 per Share respectively. On 31.03.2012, Mr. Varma sold Bonus Shares to a Broker, who charged 1% Brokerage.

Show the Investment Account for the year ended 31st March 2012, in the books of Mr. Sharma, who held the Shares as Current Assets and closing value of investments shall be made at Cost or Market value whichever is lower.

Solution: **Similar to Page No.A.5.52, Q.No.9**

1. Basic Computations

Particulars	Computation	₹
(a) Cost of Shares purchased on 01.04.2011	(2,000 × 130) + (1% of 2,60,000) + 0.5% of 2,60,000	2,63,900
(b) Sale Proceeds of Shares sold on 31.03.2012	(1000 × 82) – 1% of 82,000	81,180
(c) Profit on Sale of Bonus Shares on 31.03.2012	Sale Proceeds = 81,180 **Less:** Average Cost 2,63,900 × $\frac{1,00,000}{3,00,000}$ = (87,967)	(6,787)
(d) Valuation of Equity Shares of 31.03.2012	**Cost:** 2,63,900 × $\frac{2,00,000}{3,00,000}$ = 1,75,933 **Market Value:** 2,000 Shares of ₹ 82 = 1,64,000	Least of the two 1,64,000

2. Investment (Equity Shares of Reliance Limited) Account

Date	Particulars	NV	Cost	Date	Particulars	NV	Cost
01.04.2011	To Bank	2,00,000	2,63,900	31.03.2012	By Bank	1,00,000	81,180
31.03.2012	To Bonus Shares	1,00,000	–	31.03.2012	To P&L A/c	–	6,787
				31.03.2012	By balance c/d	2,00,000	1,64,000
				31.03.2012	To P&L A/c	–	11,933
	Total	**3,00,000**	**2,63,900**		**Total**	**3,00,000**	**2,63,900**

Question 7(b): **N 12 (4 Marks)**

Differentiate between Amalgamation, Absorption and External Reconstruction.

Solution:

1. **Amalgamation:** Amalgamation includes – (a) two or more companies joining to form a new Company, and / or (b) absorption and blending of one by the other.
2. **Absorption:** When one or more Companies goes into liquidation and some existing Company takes over its business, it is a case of absorption.
3. **External Reconstruction:** Wherever an undertaking is being carried on by a Company and is in substance transferred, not to an outsider, but to another Company consisting substantially of the same Shareholders with a view to its being continued by the Transferee Company, there is External Reconstruction. Such external reconstruction is essentially covered under "Amalgamation in the nature of Merger" in AS–14.

Question 7(c): Accounting in E – Environment **N 12 (4 Marks)**

What are the salient features of accounting in Computerized Environment?

Solution: **Refer Page No. A.1.5, Q.No.1 & 2 P (A/cs) – M 11**

Question 7(d): Insurance Claims **N 12 (4 Marks)**

Describe the significance of 'Average Clause' in a Fire Insurance Policy with an example.

Solution: **Refer Page No. A.5.3, Q. No. 4 P (A/cs) – M 09**

Question 7(e): Accounting in E – Environment **N 12 (4 Marks)**

What are the disadvantages of outsourcing the accounting functions?

Solution: **Refer Page No. A.1.9, Q. No. 10 P (A/cs) – N 10**