

PAPER – 1 : ACCOUNTING

Answer all questions.

Working notes should form part of the answer.

Question 1

'A' and 'B' are in partnership sharing profits and losses equally. They keep their books by single entry system. The following balances are available from their books as on 31.3.2006 and 31.3.2007

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

The transactions during the year ended 31.3.2007 were the following:

	Rs.
Collection from debtors	3,80,000
Payment to creditors	2,50,000
Cash purchases	65,000
Expenses paid	40,000
Drawings by 'A'	30,000

On 1.4.2006 an equipment of book value Rs.20,000 was sold for Rs.15,000. On 1.10.2006, some equipments were purchased.

Cash sales amounted to 10% of sales.

Credit sales amounted to Rs.4,50,000.

Credit purchases were 80% of total purchases.

The firm sells goods at cost plus 25%.

Discount allowed Rs.5,500 during the year.

Discount earned Rs.4,800 during the year.

Outstanding expenses Rs.3,000 as on 31.3.2007.

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Capital of 'A' as on 31.3.2006 was Rs.15,000 more than the capital of 'B', equipments and furniture to be depreciated at 10% p.a. and building @ 2% p.a.

You are required to prepare:

- (I) Trading and Profit and Loss account for the year ended 31.3.2007 and
(ii) The Balance Sheet as on that date. (20 Marks)

Answer

Trading and Profit and Loss A/c for the year ended 31.3.2007

		Rs.			Rs.
To	Opening stock (W.N.3)	1,45,000	By	Sales- Cash (W.N.1)	50,000
To	Purchases-Cash	65,000		Credit	<u>4,50,000</u>
	Credit (W.N.2)	<u>2,60,000</u>	By	Closing stock	70,000
To	Gross profit c/d	<u>1,00,000</u>			
		<u>5,70,000</u>			<u>5,70,000</u>
To	Loss on sale of equipment (20,000-15,000)	5,000	By	Gross profit b/d	1,00,000
To	Depreciation		By	Discount received	4,800
	Building	3,000			
	Furniture	2,500			
	Equipment (W.N.4)	<u>24,600</u>			
To	Expenses paid	40,000			
	Add : Outstanding expenses	<u>3,000</u>			
To	Discount allowed	5,500			
To	Net profit transferred to:	10,600			
	A's capital A/c				
	B's capital A/c	<u>10,600</u>			
		<u>21,200</u>			
		<u>1,04,800</u>			<u>1,04,800</u>

Balance Sheet as on 31-3-2007

Liabilities	Rs.	Assets	Rs.
A's capital (W.N.7)	2,80,250	Building	1,50,000
Less: Drawings	<u>30,000</u>	Less: Depreciation	<u>3,000</u>
	2,50,250	Equipments	2,72,000
Add: Net profit	<u>10,600</u>	Less: Depreciation	<u>24,600</u>
B's capital (W.N.7)	2,65,250	Furniture	25,000
Add: Net profit	<u>10,600</u>	Less: Depreciation	<u>2,500</u>
Sundry creditors (W.N.5)	70,200	Debtors	1,00,000
Bank loan	35,000	Stock	70,000
Outstanding expenses	<u>3,000</u>	Cash balance (W.N.8)	<u>58,000</u>
	<u>6,44,900</u>		<u>6,44,900</u>

Working Notes:

1. Calculation of total sales and cost of goods sold

Cash sales = 10% of total sales

Credit sales = 90% of total sales = Rs.4,50,000

$$\text{Total sales} = \frac{4,50,000}{90} \times 100 = 5,00,000$$

Cash sales = 10% of 5,00,000 = Rs.50,000

2. Calculation of total purchases and credit purchases

Cash purchases = Rs.65,000

Credit purchases = 80% of total purchases

Cash purchases = 20% of total purchases

$$\text{Total purchases} = \frac{65,000}{20} \times 100 = \text{Rs.}3,25,000$$

Credit purchases = 3,25,000 – 65,000 = Rs.2,60,000

3. Calculation of opening stock

Stock Account

	Rs.		Rs.
To Balance b/d (Bal. Fig.)	1,45,000	By Cost of goods sold	
		$\frac{5,00,000}{125} \times 100$	4,00,000
To Total purchases (W.N.2)	<u>3,25,000</u>	By Balance c/d	<u>70,000</u>
	<u>4,70,000</u>		<u>4,70,000</u>

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4. Purchase of equipment & depreciation on equipments

Equipment Account			
	Rs.		Rs.
To Balance b/d	2,40,000	By Cash -equipment sold	15,000
To Cash-purchase (Bal. Fig.)	52,000	By Profit and Loss Accounts (Loss on sale)	5,000
		By Balance c/d	<u>2,72,000</u>
	<u>2,92,000</u>		<u>2,92,000</u>

Depreciation on equipment:

@ 10% p.a. on Rs.2,20,000 (i.e Rs.2,40,000 – Rs.20,000)	=	22,000
@ 10% p.a. on Rs.52,000 for 6 months (i.e. during the year)	=	<u>2,600</u>
		<u>24,600</u>

5. Calculation of closing balance of creditors

Creditors Account			
	Rs.		Rs.
To Cash	2,50,000	By Balance b/d	65,000
To Discount received	4,800	By Credit purchases (W.N.2)	2,60,000
To Balance c/d (Bal. Fig.)	<u>70,200</u>		
	<u>3,25,000</u>		<u>3,25,000</u>

6. Calculation of opening balance of debtors

Debtors Account			
	Rs.		Rs.
To Balance b/d (Bal. Fig.)	35,500	By Cash	3,80,000
To Sales (Credit)	4,50,000	By Discount allowed	5,500
		By Balance c/d	<u>1,00,000</u>
	<u>4,85,500</u>		<u>4,85,500</u>

7. Calculation of capital accounts of A & B as on 31.3.2006

Balance Sheet as on 31.3.2006			
Liabilities	Rs.	Assets	Rs.
Combined Capital Accounts of A & B (Bal. Fig.)	5,45,500	Building	1,50,000
Creditors	65,000	Equipments	2,40,000
Bank Loan	45,000	Furniture	25,000
		Debtors (W.N.6)	35,500

	Stock (W.N.3)	1,45,000
	Cash balance	<u>60,000</u>
	<u>6,55,500</u>	<u>6,55,500</u>
		Rs.
Combined Capitals of A & B		5,45,500
Less: Difference in capitals of A and B		<u>15,000</u>
		<u>5,30,500</u>

$$\text{A's Capital as on 31.3.2006} = \frac{5,30,500}{2} = 2,65,250 + 15,000 = \text{Rs. } 2,80,250$$

$$\text{B's Capital as on 31.3.2006} = \frac{5,30,500}{2} = \text{Rs. } 2,65,250$$

8.

Cash Account

	Rs.		Rs.
To Balance b/d	60,000	By Creditors	2,50,000
To Debtors	3,80,000	By Purchases	65,000
To Equipment (sales)	15,000	By Expenses	40,000
To Cash sales (W.N.1)	50,000	By A's drawings	30,000
		By Bank loan paid (45,000-35,000)	10,000
		By Equipment purchased (W.N.4)	52,000
		By Balance c/d (Bal. Fig.)	<u>58,000</u>
	<u>5,05,000</u>		<u>5,05,000</u>

Question 2

- (a) The following particulars relate to a Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2½% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Share capital issued:

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

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

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

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

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	Rs.
Preferential creditors	50,000
Unsecured creditors	18,00,000
Partly secured creditors (Assets realized Rs.3,20,000)	3,50,000
Debentureholders having floating charge on all assets of the company	6,00,000
Expenses of liquidation	10,000

A call of Rs.2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1,000 shares.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

(b) The following is the Balance Sheet of 'A' Ltd. as on 31.3.2007:

Liabilities	Rs.	Assets	Rs.
14,000 Equity shares of Rs.100 each fully paid	14,00,000	Sundry assets	18,00,000
General reserve	10,000	Discount on issue of debentures	10,000
10% Debentures	2,00,000	Preliminary expenses	30,000
Sundry creditors	2,00,000	P & L A/c	60,000
Bank overdraft	50,000		
Bills payable	40,000		
	<u>19,00,000</u>		<u>19,00,000</u>

'R' Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis of the following:

The market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of Rs.25,000.

(10+6 = 16 Marks)

Answer

(a) (i) Liquidator's Final Statement of Account

	Rs.		Rs.
To Assets Realised	20,00,000	By Liquidator's remuneration	
To Receipt of call money on 29,000 equity shares @ 2 per share	58,000	2.5% on 23,20,000*	58,000
		2% on 50,000	1,000
		2% on 13,12,745 (W.N.3)	<u>26,255</u>
			85,255

* Total assets realised = Rs.20,00,000 + Rs.3,20,000 = Rs.23,20,000

By Liquidation Expenses	10,000
By Debenture holders having a floating charge on all assets	6,00,000
By Preferential creditors	50,000
By Unsecured creditors	<u>13,12,745</u>
	<u>20,58,000</u>

- (ii) Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{13,12,745}{18,30,000} \times 100 = 71.73\%$$

Working Notes:

1. Unsecured portion in partly secured creditors = Rs.3,50,000 - Rs.3,20,000

$$= \text{Rs.} 30,000$$

2. Total unsecured creditors = 18,00,000 + 30,000 (W.N.1)

$$= \text{Rs.} 18,30,000$$

3. Liquidator's remuneration on payment to unsecured creditors

Cash available for unsecured creditors after all payments including payment to preferential creditors & liquidator's remuneration on it = Rs.13,39,000

$$\text{Liquidator's remuneration on unsecured creditors} = \frac{2}{102} \times 13,39,000 = \text{Rs.} 26,255$$

$$\text{or on Rs. } 13,12,754 \times \frac{2}{100} = \text{Rs. } 26,255$$

- (b) Calculation of Purchase Consideration under Net Assets Method

Sundry assets		Rs.
$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	15,12,000	
$18,00,000 \times \frac{25}{100} \times \frac{92}{100} =$	<u>4,14,000</u>	19,26,000
Less: Liabilities:		
10% Debentures	2,00,000	
Sundry creditors	2,00,000	
Bank overdraft	50,000	
Bills payable	40,000	
Unrecorded liability	<u>25,000</u>	<u>5,15,000</u>
Purchase consideration		<u>14,11,000</u>

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Question 3

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

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

Show, how the profits of the company will be dealt with under the provisions of the Electricity Act, assuming the bank rate of the year was 8%. All working notes should form part of your answer.
(16 Marks)

Answer

‘H’ Electricity Company

Statement of Distribution of Profit for the year ended 31.3.2007

Capital Base

	Rs.	Rs.
Fixed Assets as reduced by customers contribution (6,00,00,000 – 4,50,000)	5,95,50,000	
Intangible Assets	17,50,000	
Monthly average of Current Assets (Excluding amount due from customers i.e. 36,00,000 – 5,00,000)	31,00,000	
Contingencies Reserve Fund Investment	<u>25,00,000</u>	6,69,00,000
Deduct:		
Depreciation Reserve	60,00,000	
Loan from Electricity Board	50,00,000	

12% Debentures ($48,000 \times \frac{100}{12}$)	4,00,000	
Development Reserve	16,00,000	
Security Deposits of Customers	80,00,000	
Tariffs and Dividends Control Reserve	<u>22,00,000</u>	<u>2,32,00,000</u>
Capital Base		<u>4,37,00,000</u>

Reasonable Return

	Rs.
10% (Bank Rate + 2%) on Capital Base	43,70,000
8% on Reserve Fund Investment	4,80,000
½% on Loan from Electricity Board	25,000
½% on Debentures	2,000
½% on Development Reserve	<u>8,000</u>
Reasonable Return	<u>48,85,000</u>

Surplus and its Disposal

	Rs.
Clear Profit	<u>60,00,000</u>
Surplus (Rs.60,00,000 – Rs.48,85,000)	11,15,000
Less: 20% of Reasonable Return (to be disposed off)	<u>9,77,000</u>
Amount refundable to consumers	<u>1,38,000</u>

Disposal of Surplus of Rs.9,77,000

	Rs.
(i) $\frac{1}{3}$ of surplus over clear profit limited to 5% of reasonable return will be at the disposal of the company i.e. Rs.3,71,667 > Rs.2,44,250	2,44,250
(ii) Credit to Tariffs and Dividends Control Reserve (1/2 of remaining balance of 20% of Reasonable Return)	3,66,375
(iii) Credit to Consumers' Suspense Account	<u>3,66,375</u>
	<u>9,77,000</u>

Total amount at the disposal of the company

	Rs.
(a) Amount of reasonable return	48,85,000
(b) Share in surplus	<u>2,44,250</u>
	<u>51,29,250</u>

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Total amount refunded to consumers

	Rs.
(a) Surplus in excess of 20% of reasonable return	1,38,000
(b) Share in surplus	<u>3,66,375</u>
	<u>5,04,375</u>

Question 4

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

The following transactions took place during the financial year 2006-07:

Number of instalments not yet due as on 1.4.2006	= 25
Number of instalments due but not collected as on 1.4.2006	= 5

During the financial year 240 computers were sold. Out of the above sold computers during the year the outstanding position were as follows as on 31.3.2007:

Instalments not yet due:

- (i) Eight instalments on 50 computers.
- (ii) Six instalments on 30 computers.
- (iii) Two instalments on 10 computers.

Instalments due but not collected:

Two instalments on 5 computers during the year. Two computers on which five instalments were due and two instalments not yet due were repossessed out of sales effected during current year. Repossessed stock is valued at 50% of cost. All instalments have been received. You are asked to prepare Hire-Purchase Trading Account for the year ending on 31.3.2007. (16 Marks)

Answer

Dr.		Hire Purchase Trading Account for the year ended 31.3.2007		Cr.	
		Rs.		Rs.	
To	Hire purchase stock (25 x Rs. 2,500)	62,500	By	Stock reserve ($62,500 \times \frac{25}{125}$)	12,500
To	Hire purchase debtors (5 x Rs. 2,500)	12,500	By	Goods sold on hire purchase A/c – Loading ($60,00,000 \times \frac{25}{125}$)	12,00,000
To	Goods sold on hire purchase (240 computers x Rs.25,000*)	60,00,000	By	Cash A/c (W.N.1)	45,15,000

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

To	Stock reserve (Rs.15,00,000 × $\frac{25}{125}$)	3,00,000	By	Repossessed goods (W.N.2)	20,000
To	Profit transferred to P & L A/c	8,97,500	By	Hire purchase debtors (2 x 5 x Rs.2,500)	25,000
			By	Hire purchase stock [(8x50)+(6x30)+(2x10) x Rs.2,500]	15,00,000
		<u>72,72,500</u>			<u>72,72,500</u>

Working Notes:

1. Calculation of cash collected during the year

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

2. Value of repossessed computers

$$\begin{aligned}
 \text{Hire purchase price of two repossessed computers} &= [\text{Rs.5,000} + (8 \times \text{Rs. 2,500})] \times 2 \\
 &\quad \text{computers} \\
 &= \text{Rs.50,000}
 \end{aligned}$$

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

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

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

Dr. Hire Purchase Trading Account for the year ended 31.3.2007				Cr.	
		Rs.			Rs.
To Hire purchase stock (25 x Rs. 2,500)	62,500		By Stock reserve ($62,500 \times \frac{25}{125}$)		12,500
To Hire purchase debtors (5 x Rs. 2,500)	12,500		By Hire purchase sales A/c (W.N.1)		45,65,000
To Goods sold on hire purchase (240 computers x Rs.25,000)	60,00,000		By Goods sold on hire purchase A/c – Loading ($60,00,000 \times \frac{25}{125}$)		12,00,000
To Bad debts (W.N.3)	5,000		By Hire purchase stock [(8x50)+(6x30)+(2x10) x Rs.2,500]		15,00,000
To Loss on goods repossessed (W.N.2)	8,000				
Less : Cost of instalments not due	<u>8,000</u>	Nil			
To Stock reserve $15,00,000 \times \frac{25}{125}$	3,00,000				
To Profit transferred to P & L A/c	<u>8,97,500</u>				
	<u>72,77,500</u>				<u>72,77,500</u>

Working Notes:

1. Calculation of hire purchase sales	Rs.
Cash collected (As per the working note 1 of the Alternate solution given above)	45,15,000
Add: Instalments due but not collected (including repossessed computers) (2 x Rs.2,500 x 5) + (5 x Rs.2,500 x 2)	<u>50,000</u>
	<u>45,65,000</u>

2. Calculation of loss on repossessed computers

Cost of instalments due but not collected $\frac{(2 \times 2,500 \times 5)}{125} \times 100$	20,000
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Add: Cost of instalments not yet due $\frac{(2 \times 2,500 \times 2)}{125} \times 100$	<u>8,000</u>
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28,000

Less : Value of repossessed computers

$\left[\frac{(2 \times 25,000)}{125} \times 100 \right] \times 50\%$	<u>20,000</u>
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Loss on repossessed computers	<u>8,000</u>
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3. Bad debts (in respect of repossessed computers)

Instalments due but not collected $(5 \times \text{Rs.} 2,500 \times 2)$	25,000
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Add: Cost of instalments not due $\frac{(2 \times \text{Rs.} 2,500 \times 2)}{125} \times 100$	<u>8,000</u>
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33,000

Less : Cost of instalments due but not collected

$\frac{(5 \times \text{Rs.} 2,500 \times 2)}{125} \times 100$	20,000
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Cost of instalments not yet due

$\frac{(2 \times \text{Rs.} 2,500 \times 2)}{125} \times 100$	<u>8,000</u>	<u>28,000</u>
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Bad debts on repossessed computers	<u>5,000</u>
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Question 5

The following was the Balance Sheet of 'A' and 'B', who were sharing profits and losses in the ratio of 2:1 on 31.12.2006:

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Plant and machinery	12,00,000
A	10,00,000	Building	9,00,000
B	5,00,000	Sundry debtors	3,00,000
Reserve fund	9,00,000	Stock	4,00,000
Sundry creditors	4,00,000	Cash	1,00,000
Bills payable	<u>1,00,000</u>		
	<u>29,00,000</u>		<u>29,00,000</u>

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

- (i) The goodwill of the firm was fixed at Rs.1,05,000.
- (ii) That the value of stock and plant and machinery were to be reduced by 10%.
- (iii) That a provision of 5% was to be created for doubtful debts.
- (iv) That the building account was to be appreciated by 20%.
- (v) There was an unrecorded liability of Rs.10,000.
- (vi) Investments worth Rs.20,000 (Not mentioned in the Balance Sheet) were taken into account.
- (vii) That the value of reserve fund, the values of liabilities and the values of assets other than cash are not to be altered.
- (viii) 'C' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm. (16 Marks)

Answer

Memorandum Revaluation Account

	Rs.			Rs.
To Stock	40,000	By Building		1,80,000
To Plant & machinery	1,20,000	By Investments		20,000
To Provision for doubtful debts	15,000			
To Unrecorded liability	10,000			
To Profit transferred to Partners' Capital A/cs (in old ratio)				
A = 10,000				
B = <u>5,000</u>	<u>15,000</u>			
	<u>2,00,000</u>			<u>2,00,000</u>
To Building	1,80,000	By Stock		40,000
To Investments	20,000	By Plant & machinery		1,20,000
		By Provision for doubtful debts		15,000
		By Unrecorded liability		10,000
		By Loss transferred to Partners' Capital A/cs (in new ratio)		
		A = 7,500		
		B = 3,750		
		C = <u>3,750</u>		<u>15,000</u>
	<u>2,00,000</u>			<u>2,00,000</u>

Partners' Capital Accounts

		A	B	C			A	B	C
To	Loss on Revaluation	7,500	3,750	3,750	By	Balance b/d	10,00,000	5,00,000	-
To	Reserve Fund	4,50,000	2,25,000	2,25,000	By	Reserve Fund	6,00,000	3,00,000	-
To	A (W.N.3)	-	-	17,500	By	C (W.N.3)	17,500	8,750	-
To	B (W.N.3)	-	-	8,750	By	Profit on Revaluation	10,000	5,000	-
To	Balance c/d (Refer W.N.2)	<u>11,70,000</u>	<u>5,85,000</u>	<u>5,85,000</u>	By	Cash (Bal. Fig.)			8,40,000
		<u>16,27,500</u>	<u>8,13,750</u>	<u>8,40,000</u>			<u>16,27,500</u>	<u>8,13,750</u>	<u>8,40,000</u>

Balance Sheet of newly reconstituted firm as on 31.12.2006

Liabilities	Rs.	Assets	Rs.
Capital Accounts		Plant & Machinery	12,00,000
A	11,70,000	Building	9,00,000
B	5,85,000	Sundry Debtors	3,00,000
C	5,85,000	Stock	4,00,000
Reserve Fund	9,00,000	Cash (1,00,000 + 8,40,000)	9,40,000
Sundry Creditors	4,00,000		
Bills Payable	<u>1,00,000</u>		
	<u>37,40,000</u>		<u>37,40,000</u>

Working Notes:

- Calculation of new profit and loss sharing ratio

C will get $\frac{1}{4}$ th share in the new profit sharing ratio.

Therefore, remaining share will be $1 - \frac{1}{4} = \frac{3}{4}$

Share of A will be $\frac{3}{4} \times \frac{2}{3} = \frac{2}{4}$ i.e. $\frac{1}{2}$

Share of B will be $\frac{3}{4} \times \frac{1}{3} = \frac{1}{4}$

New ratio will be

A : B : C

$\frac{1}{2} : \frac{1}{4} : \frac{1}{4}$

2 : 1 : 1

- Calculation of closing capital of C

Closing capitals of A & B after all adjustments are:

A = Rs.11,70,000

B = Rs. 5,85,000

Since B's capital is less than A's capital, therefore B's capital is taken as base.

Hence, C's closing capital should be Rs.5,85,000 i.e. at par with B (as per new profit and loss sharing ratio)

3. Adjustment entry for goodwill*

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect	
A	70,000	52,500	+ 17,500	-
B	35,000	26,250	+ 8,750	-
C	-	26,250	-	-26,250
	<u>1,05,000</u>	<u>1,05,000</u>	<u>26,250</u>	<u>26,250</u>

Adjustment entry will be:

C's Capital A/c	Dr.	26,250
To A's Capital A/c		17,500
To B's Capital A/c		8,750

Question 6

Answer any four from the following:

- Explain the functions entrusted to the Treasury.
- List out major cost elements and revenue elements of an Agricultural farm.
- Explain the treatment of Refund of Government Grants as per AS-12.
- The Company X Ltd., has to pay for delay in cotton clearing charges. The company up to 31.3.2006 has included such charges in the valuation of closing stock. This being in the nature of interest, X Ltd. decided to exclude such charges from closing stock for the year 2006-07. This would result in decrease in profit by Rs.5 lakhs. Comment.
- The Board of Directors of X Ltd. decided on 31.3.2007 to increase sale price of certain items of goods sold retrospectively from 1st January, 2007. As a result of this decision the company has to receive Rs.5 lakhs from its customers in respect of sales made from 1.1.2007 to 31.3.2007. But the Company's Accountant was reluctant to make-up his mind. You are asked to offer your suggestion.
- Briefly explain disclosure requirements for Investments as per AS-13. (4x4 = 16 Marks)

* As per para 36 of AS 10, 'Accounting for fixed Assets,' goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, the goodwill raised at the time of admission of C is to be written off in new ratio among all partners including new partner, C.

Answer

(a) Functions entrusted to the Treasury

The functions entrusted to the treasury are as follows:

- (i) Receipt of money from the public and departmental officers for credit to government.
- (ii) Payment of claims against Government on bills or cheques or other instruments presented by departmental drawing and disbursing officers or pensioners or others authorised to do so.
- (iii) Keeping initial and subsidiary accounts of the receipts and payments occurring at them and rendering statements of such transactions to the Accountant General for detailed compilation and consolidation.
- (iv) Acting as a banker in respect of funds of local bodies, Zilla Parishads, Panchayat Institutions etc. who keep their funds with the treasuries.
- (v) Custody of opium and other valuables because of the strong room facility provided at the treasury.
- (vi) Custody of cash balances of the State Government and conducting cash business of Government at non-banking treasuries.

(b) Major Cost Elements and Revenue of an Agricultural Farm

In an agricultural farm, major cost elements are:

Seed, Fertilizer, Pesticides, Irrigation, Wages, Running and Maintenance cost of Agricultural Machinery and Implements, Maintenance cost of draught animals, depreciation of fixed assets, Interest on borrowed capital, Notional Rental on owned Land, Notional interest on owner's capital, Notional Wages of Family Workers.

In an agricultural farm, revenue consists of sale of main products and by-products, value of family consumption of crops and by-products, value of crops and by-products transferred to allied enterprise run by the family (example, use of paddy straw as food of milch animal), value of output exchanged for input.

(c) As per para 11 of AS 12 'Accounting for Government Grants', government grant that becomes refundable is treated as an extraordinary item.

The amount refundable in respect of a government grant related to revenue is first applied against any unamortised deferred credit remaining in respect of the grant.

The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable.

Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfillment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.

- (d) As per para 12 of AS 2 (revised), interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are therefore, usually not included in the cost of inventories. However, X Ltd. was in practice to charge the cost for delay in cotton clearing in the closing stock. As X Ltd. decided to change this valuation procedure of closing stock, this treatment will be considered as a change in accounting policy and such fact to be disclosed as per AS 1. Therefore, any change in amount mentioned in financial statement, which will affect the financial position of the company should be disclosed properly as per AS 1, AS 2 and AS 5.

Also a note should be given in the annual accounts that, had the company followed earlier system of valuation of closing stock, the profit before tax would have been higher by Rs. 5 lakhs.

- (e) As per para 10 of AS 9 'Revenue Recognition', the additional revenue on account of increase in sales price with retrospective effect, as decided by Board of Directors of X Ltd., of Rs.5 lakhs to be recognised as income for financial year 2006-07, only if the company is able to assess the ultimate collection with reasonable certainty. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.
- (f) The disclosure requirements as per para 35 of AS 13 are as follows:
- (i) Accounting policies followed for valuation of investments.
 - (ii) Classification of investment into current and long term in addition to classification as per Schedule VI of Companies Act in case of company.
 - (iii) The amount included in profit and loss statements for
 - (a) Interest, dividends and rentals for long term and current investments, disclosing therein gross income and tax deducted at source thereon;
 - (b) Profits and losses on disposal of current investment and changes in carrying amount of such investments;
 - (c) Profits and losses and disposal of long term investments and changes in carrying amount of investments.
 - (iv) Aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;
 - (v) Any significant restrictions on investments like minimum holding period for sale/disposal, utilisation of sale proceeds or non-remittance of sale proceeds of investment held outside India.
 - (vi) Other disclosures required by the relevant statute governing the enterprises.