SUGGESTED ANSWERS

TO

QUESTIONS

OF

IPCC EXAMINATION MAY 2014

(ON ACCOUNTING:GROUP ONE)
(100% CONCEPTS COVERAGE IN CLASS NOTES FOR THE 22ND TIME)

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ABOUT THE ANSWERS:

(i) *The answers in the given book are based on author's own opinion and may be unmatched with suggested answers issued by ICAI.*
(ii) *Required working notes are given with the answers for better understanding.*
(iii) *For any problem relating to above answers, you may contact at 011-65068692, 9312281275, 9871272725*

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(iv) *ALL THE QUESTIONS IN MAY 2012 EXAMINATION ARE ASKED B*Y ICAI FROM THE BOOK ON ACCOUNTS WHICH WAS PROVIDED IN THE CLASS BY MR.PARVEEN JINDAL TO IPCC STUDENTS. THE FOLLOWING DETAILS MAY BE CONSIDERED:

QUESTION NO. IN MAY EXAMS	**QUESTION NO. IN MR. JINDAL' BOOK**
Question No: 1(a)(5marks)	Page no :313
Question No: 1(d)(5marks)	Page no :326
Question No:2 (b)(8marks)	Page no :401
Question No:3(16marks)	Page no :113
Question No:4(16marks)	Page no :11 &9
Question No:5(a)(8marks)	Page no :48
Question No:5(b)(8marks)	Page no :170
Question No:6(16marks)	Page no :90
Question No:7(a)(4mark)	Page no :252
Question No:7(d)(4marks)	Page no :315
Question No:7(e)(4marks)	Page no :ICS63
QUESTION NO. IN MAY EXAMS	**QUESTIONS IN MR. JINDAL' Class Notes**
Question No:1(b)(5marks)	**Change in estimated life of an asset**
Question No:1(c)(5marks)	**Accounting for fixed assets**
Question No:7(b(4marks)	**Classification of cash flow activities**
Question No:7(c)	**Meaning of ADD**

(NOTE: THE PAPER WAS CONCEPTUAL BUT LENGHTY. THERE WAS A PRINTING MISTAKE IN QUESTION 2A. IN THIS QUESTION FACE VALUE OF EQUITY SHARE WAS MISPRINTED)

QUESTION 1(A)

(a) Calculate the value of raw materials and closing stock based on the following information :

Raw materials X	
Closing balance	500 units
	` Per unit
Cost price including excise duty	200
Excise duty	10
(Cenvat credit is receivable on the excise duty paid.	
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished goods Y	
Closing Balance	1200 units
	` Per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ` 2,00,000 on normal capacity of 20,000 units

Calculate the value of the closing stock, when

(i) Net Realizable Value of the Finished Goods Y is ` 400.

(ii) Net Realizable Value of the Finished Goods Y is ` 300.

ANSWER 1 (A)

Calculation of cost per unit of Raw material

Cost price including excise duty	**200**
Cenvat Credit	**(10)**
Freight inward	**20**
Unloading charges	**10**
Cost per unit	**220**

Calculation of cost per unit of Finished goods

Material consumed	**220**
Direct labour	**60**
Direct overhead	**40**
Fixed overhead(200000/20000)	**10**
Cost per unit	**330**

Valuation in first case:

In case NRV of finished goods per unit is 400 then it is higher than cost per unit of 330 due to which valuation of finished goods and raw material should be made at cost. The following calculations may be relevant:

Stock of finished goods=1200units x330 =396000

Stock of Raw material=500units x220 =110000

Valuation in second case:

In case NRV of finished goods per unit is 300 per unit then we should value finished goods and raw material at NRV because in both cases NRV is lower than cost of goods. The following calculations may be relevant:

Stock of Finished goods=1200units x300 =360000

Stock of Raw material=500units x150 =75000

QUESTION 1(B)

On 01.04.2010 a machine was acquired at ` 4,00,000. The machine was expected to have a useful life of 10 years. The residual value was estimated at 10% of the original cost. At the end of the 3rd year, an attachment was made to the machine at a cost of 1,80,000 to enhance its capacity. The attachment was expected to have a useful life of 10 years and zero terminal value. During the same time the original machine was revalued upwards by ` 90,000 and remaining useful life was reassessed at 9 years and residual value was reassessed at NIL.

Find depreciation for the year, if

(i) attachment retains its separate identity.

(ii) attachment becomes integral part of the machine

ANSWER 1 (B)

Calculation of depreciation in First case

Acquisition cost of machinery as on 1.4.2010	**4,00,000**
Salvage value	**40,000**
Depreciable value	**3,60,000**
Depreciation for 3 years(360000/10 x3)	**(1,08,000)**
Book value after 3 years	**2,52,000**
Add: upward revaluation Add: salvage value which is revised as zero value	**90,000** **40,000**
Revised depreciable value	**3,82,000**
Revised estimated life	**9years**
Revised amount of depreciation	**42444**

Separate depreciation for attachment: 180000/10 years=18000

Calculation of Depreciation in Second case

Acquisition cost of machinery as on 1.4.2010	**4,00,000**
Salvage value	**40,000**
Depreciable value	**3,60,000**
Depreciation for 3 years(360000/10 x3)	**(1,08,000)**
Book value after 3 years	**2,52,000**
Add: acquisition cost of attachments Add: upward revaluation Add: salvage value which is revised as zero value	**1,80,000** **90,000** **40,000**
Revised depreciable value	**5,62,000**
Revised estimated life	**9years**
Revised amount of depreciation	**62,444**

QUESTION 1(C)

Ascertain the value at which various items of Fixed Assets are to be shown in the Financial Statements of Velvet Ltd and amount to be debited to the profit and loss account in the context of the relevant accounting standard.

Narrations for the adjustments made should form part of the answer.

(i) Goodwill was valued at ` 1,20,000 by independent valuers and no consideration was paid. The Company has not yet recorded the same.

(ii) Balance of office Equipment as on 01.04.2013 is 1,20,000.

On 01.04.2013, out of the above office equipment having book value 20,000 has been retired from use and held for disposal. The net realizable value of the same is 2,000. Rate of depreciation is 15% p.a. on WDV basis.

(iii) Book Value of Plant and Machinery as on 01.04.2013 was 7,20,000. on 01.08.2013 an item of machinery was purchased in exchange for 500 equity shares of face value ` 10. The Fair Market value of the equity shares on 01.08.2013 was ` 120. Rate of depreciation is 10% p.a. on WDV basis.

ANSWER 1 (C)

JOURNAL ENTRIES

FIRST CASE:

As per the provisions of AS-10, Self Generated Goodwill can not be disclosed in the accounting books because nothing is paid for such Goodwill. There will be no journal entry in the accounting books. There will be no disclosure in the balance sheet as well as in profit and loss account.

SECOND CASE:

(i) Profit and loss account dr. 18000

To revaluation loss 18000

(BEING FIXED ASSETS OF 20000 REVALUED AT MARKET VALUE OF 2000)

(ii) Depreciation dr. 15000

To Fixed assets 15,000

(BEING DEPRECIATION IS CHARGED ON FIXED ASSETS OF 100000 @15% as on 31.3.2014)

i) Profit and loss account dr. 15000
To Depreciation 15000

Balance sheet

Liablilites	***Amount***	Assets	Amount
		Equipment :book value Revaluation loss Depreciation	120000 (18000) (15000)
		Closing book value	87000

(note: it is clearly specified in question that revalued assets are not in use due to which we have not calculated depreciation on that asset)

THIRD CASE:

i) 1.8.2013

Plant account dr. 60000

To ESC(500x10) 5000

To Securities premium(500x110) 55000

(being plant is acquired by issue of shares)

ii) 31.3.2014
Depreciation account dr. 76000
To plant 76000
(being depreciation is charged @10% for 12months on opening balance but for 8months on new acquisition)

iii) Profit and loss account dr.76000

To depreciation 76000

Balance sheet

Liablilites	***Amount***	Assets	Amount
		Plant :book value New purchase Depreciation	720000 60000 (76000)
		Closing book value	704000

QUESTION 1(D)

M/s Highway Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 2 years. The contract price was estimated at ` 150 crores. Up to 31.3.2014 the company incurred ` 120 crores on the construction. The engineers involved in the project estimated that a further 45 crores would be incurred for completing the work.

What amount should be charged to revenue for the year 2013-14 as per theprovisions for Accounting Standard 7 " Construction Contracts"? Show the extract of the Profit & Loss A/c in the books of M/s Highway Constructions.

ANSWER 1 (D)

As per the provisions of para 35 of AS-7 construction contracts, each contractor should create provision if total estimated cost of contract exceeds contract price. In the given case total estimated cost of contract is 165 crores but contract price is only for 150 crores which indicates that total estimated cost is higher than contract price. So highway construction company should create provision of 15 crores.

Profit & Loss account

Particulars	Amount	Particulars	Amount
To provision for loss	15 crores		

Balance sheet

Liabilities	Amount	Assets	Amount
Provision for loss Actual loss in 1^{st} year: 120 ------x150 -120 165	15 crores (10.90 crores)		
	4.10crores		

QUESTION 2(A) (MISPRINTED IN QUESTION PAPER MISTAKE BY ICAI)

(a) The Articles of Associations of Samson Ltd. provide the following:

(i) That 25% of the net profit of each year shall be transferred to reserve fund.

(ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied.

(1) In paying 15% on cumulative preference shares.

(2) in paying 20% dividend on equity shares.

(3) One-third of the balance available as additional dividend on preference shares and two -third as additional equity dividend.

A further conditions was imposed by the articles viz. that the balance carried forward shall be equal to 14% on preference shares after making provision (i), (ii) and (iii) mentioned above. The company has issued 12,000, 15% cumulative participating preference shares of ` 100 each fully paid and 75,000 equity shares of ` 100 each fully paid up.

The profit for the year 2013-14 was ` 10,00,000 and balance brought from previous year ` 1,50,000. Provide ` 37,500 for depreciation and ` 1,20,000 for taxation before making other appropriations.

Show net balance of profit and Los Account after making above adjustments.

ANSWER 2 (A)

PROFIT & LOSS STATEMENT

PARTICULARS	AMOUNT
Profit before tax and depreciation Depreciation	**10,00,000** **(37,500)**
Profit before taxation	**9,62,500**

Taxation	**(1,20,000)**
Profit after taxation Add: balance brought forward	**8,42,500** **1,50,000**
Total balance available in profit and loss Profit to be transferred to Reserve fund(842500x25%) Proposed preference dividend(1200000x15%) Proposed equity dividend(750000x20%) Staff bonus (10% of equity dividend) Profit to be set aside and to be carried forward(1200000x14%)	**9,92,500** **(2,10,625)** **(1,80,000)** **(1,50,000)** **(15,000)** **(1,68,000)**
Balance available for further distribution Additional preference dividend(252070 x1/3) Additional equity dividend(252070 x2/3) Additional staff bonus (252070 x2/30)	**2,68,875** **84,023** **1,68,046** **16,806**

NOTE: IN THE GIVEN QUESTION, THERE WAS A PRINTING MISTAKE IN QUESTION PAPER IN FACE VALUE OF EQUITY SHARE. IT WAS WRONGLY PRINTED OF 100 EACH INSTEAD OF 10 EACH.

Working note:

Calculation of distribution of available balance

1/3x + 2/3x +2/30x =268875

32x =268875x30

32x = 8066250

X =8066250/32=252070

QUESTION 2(B)

Sneha Ltd. was incorporated on 1st July, 2013 to acquire a running business of Atul Sons with effect from 1st April, 2013. During the year 2013-14 the total sales were ` 24,00,000 of which ` 4,80,000 were for the first six months. The Gross profit of the company ` 3,90,800. The expenses debited to the Profit & Loss Account included.

(i) Director's fees ` 30,000

(ii) Bad debts ` 7,200

(iii) Advertising ` 24,000 (under a contract amounting to ` 2,000 per month)

(iv) Salaries and General Expenses ` 1,28,000

(v) Preliminary expenses written off ` 10,000

(vi Donation to a political party given by the company ` 10,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2014.

ANSWER 2 (B)

STATEMENT SHOWING APPORTIONMENT OF PROFIT DURING THE PERIOD UNDER THE HEADING OF PRE INCORPORATION & POST INCORPORATION PERIODS

	PRE INCORPORATION PERIOD	POST INCORPORATION PERIOD
Gross Profit (24:216)	39080	351720
Total (a)	**39080**	**351720**
Director' fees (post)	-	30,000
Bad debts (24:216)	720	6,480
Advertising (fixed on per month basis)(3:9)	6,000	18,000
Salaries and general expenses(3:9)	32,000	96,000
Preliminary expenses written off(post)	-	10,000
Donations made by company(post)	-	10,000
Total (b)	**38720**	**1,70,480**
Net profit or loss (a-b)	**360**	**181240**

Note 1: The amount of earned profit in pre incorporation period should be transferred to capital reserve assuming capital profit but profit during post incorporation period should be transferred to profit and loss statement.

Note 2: In the given question, advertising is fixed on per month basis which indicates that we should consider it as a fixed expense. And it should be distributed on the basis of time ratio.

w.n## ***calculation of sales ratio***

	PRE INCORPORATION PERIOD (1.4.2013-30.6.2013)	POST INCORPORATION PERIOD (1.7.2013-31.3.2014)
Sales during first six months (3:3)	240000	240000
sales during remaining six months	-	19,20,000
(24,00,000-4,80,000)	**2,40,000**	**21,60,000**

(Note: we have only three months in pre incorporation profits but sales is given for first six months due to which we have assumed that it has been uniform during first six months)

QUESTION 3

Following are the incomplete information of Moonlight Traders:

The following balances are available as on 31.03.2013 and 31.03.2014.

(Fig. in `)

Balance	31.3.03.2013	31.03.2014
Land and building	500,000	500,000
Plant and Machinery	220,000	330,000
Office equipment	105,000	85,000
Debtors	?	225,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%	125,000	100,000
Bank	25,000	?
Provision for tax (rate 30%)	35,000	30,000

Other Information	**In `**
Collection from debtors	925,000
Payment to creditors for purchases	525,000
Payment of office expenses	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	250,000
Credit sales (80% of total sales)	
Credit purchase	540,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided follows	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustment :

(i) On 01.10.13 they sold machine having Book Value ` 40,000 (as on 31.03.2013) at a loss of ` 15,000. New machine was purchased on 01.01.2014.

(ii) Office equipment was sold at its book value on 01.04.2013

(iii) Loan was partly repaid on 31.03.2014 together with interest for the year.

Prepare Trading P&L A/c and Balance Sheet as on 31.03.2014.

ANSWER 3 (16MARKS)

TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING ON 31.03.2014

Particulars	Amount	Particulars	Amount
TO opening stock(Bal.)	1,65,000	By sales (cash)	2,50,000
To purchases **:cash**	3,60,000	By sales (credit)	10,00,000
Credit	5,40,000	By closing stock	65,000
To gross profit@20%	2,50,000		
	13,15,000		13,15,000
To office expenses **(W.N#5)**	37,000	By gross profit	**2,50,000**
		By discount	**4,500**
To salary	32,000		
To sundry expenses	15,000		
To discount	5,500		
To bad debts (225000x2%)	4,500		
To Depreciation:			
Building (500000x5%)	25,000		
Machinery	27,750		
Equipment(85000x15%)	12,750		
To loss on sale of plant	15,000		
To interest on loan (125000x12%)	15,000		
To provision for tax	30,000		
To net profit	35,000		
	2,54,500		2,54,500

BALANCE SHEET AS ON 31.03.2014

LIABILITIES	Amount	ASSETS	Amount
Capital (W.N#7)	9,35,000	Building	4,75,000
		Machinery **(w.n#6)**	3,04,250
Creditors **(w.n#4)**	1,05,500	Equipment	72,250
Bank loan	1,00,000	Stock	65,000
O/s office expenses	15,000	Debtors	2,25,000
Provision for tax	30,000	Bank **(w.n#2)**	44,000

	11,85,500		11,85,500

WORKING NOTES:

W.N # 1

STATEMENT OF AFFAIRS AS ON 31.03.2013

LIABILITIES	**Amount**	**ASSETS**	**Amount**
Capital (bal.fig.)	9,00,000	Building	5,00,000
		Machinery	2,20,000
Creditors	95,000	Equipment	1,05,000
Bank loan	1,25,000	Stock	1,65,000
O/s office expenses	20,000	Debtors**(w.n#3)**	1,60,000
Provision for tax	35,000	Bank	25,000
	11,75,000		11,75,000

W.N # 2

CASH &Bank Account

Particulars	**Amount**	**Particulars**	**Amount**
To balance b/d	25,000	By By creditors	5,25,000
To cash sales	2,50,000	By o/s expenses	42,000
To debtors	9,25,000	By salaries	32,000
To machinery	23,000	By sundry expenses	15,000
To equipment	20,000	By cash purchases (540000/60%)x40%	3,60,000
		By machinery	1,50,000
		By bank loan	25,000
		By interest (125000x12%)	15,000
		By provision for tax	35,000
		By balance c/d (**bal.fig.)**	44,000
	12,43,000		12,43,000

W.N # 3

Debtors Account

Particulars	Amount	Particulars	Amount
To balance b/d (bal.fig.)	**1,60,000**	By bank (collection)	9,25,000
		By Discount	5,500
		By bad debts	4,500
To credit sale (250000/20%)x80%	10,00,000	By balance c/d	2,25,000
	11,60,000		11,60,000

W.N # 4

Creditors Account

Particulars	Amount	Particulars	Amount
To bank (payment)	5,25,000	By balance b/d	95,000
To discount	4,500	By credit purchases	5,40,000
To balance c/d (bal.fig.)	**1,05,500**		
	6,35,000		6,35,000

W.N # 5

O/S Expenses Account

Particulars	Amount	Particulars	Amount
To bank (payment)	42,000	By balance b/d	20,000
To balance c/d	15,000	**By profit & loss a/c (bal.fig)**	**37,000**
	57,000		57,000

W.N # 6

PLANT & MACHINERY Account

Particulars	Amount	Particulars	Amount
To balance b/d	2,20,000	By depreciation (40000x10%x6/12)	2,000
To bank (220000-40000-330000)	1,50,000		
		By loss on sale	15,000

		By bank (40000-2000-15000)	23,000
		By Depreciation (220000@10%)+ (150000@2.5%)	25,750
		By balance c/d **(bal.fig.)**	3,04,250
	3,70,000		3,70,000

W.N # 7

Calculation of closing capital

Opening balance of capital		900000
ADD:	Profits	35000
	Additional capital employed during the year	nil
LESS:	Drawings	nil
	Closing capital	935000

QUESTION 4

The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2014 was as follows:

Liabilities	Amount (`)	Assets	Amount (`)
Equity Shares of ` 10 fully paid	30,00,000	Goodwill	5,00,000
Export Profit Reserves	8,50,000	Tangible Fixed Assets	30,00,000
General Reserves	50,000	Stock	10,40,000
Profit and loss Account	5,50,000	Debtors	1,80,000
9% Debentures	5,00,000	Cash & Bank	2,80,000
Trade Creditors	1,00,000	Preliminary Expenses	50,000
	50,50,000		**50,50,000**

ANU Ltd. agreed to absorb the business of SRISHTI Ltd. with effect from 1st April, 2014.

(a) The purchase consideration settled by ANU Ltd. as agreed :

(i) 4,50,000 equity Shares of ` 10 each issued by ANU Ltd. by valuing its shares @ ` 15 per shares.

(ii) Cash payment equivalent to ` 2.50 for every shares in SRISHTI Ltd.

(b) The issue of such an amount of fully paid 8% Debentures in ANU Ltd. at 96% as is sufficient to discharge 9% Debentures in SRISHTI Ltd. at a premium of 20%.

(C) ANU Ltd. will take over the Tangible Fixed Assets at 100% more than the book value, stock at ` 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.

(d) The actual cost liquidation of SRISHTI Ltd. was ` 75,000. Liquidation cost of SRISHTI Ltd. is to be reimbursed by ANU Ltd to the extent of ` 50,000.

(e) Statutory Reserves are to be maintained for 1 more year.

You are required to :

(i) Close the books of SRISHTI ltd by preparing Realisation Account, ANU LTD. Account, Shareholders Account and Debenture Account, and

(ii) Pass Journal Entries in the books of ANU Ltd. regarding acquisition of business.

ANSWER 4 (16MARKS)

Calculation of Purchase consideration

Payment in Shares(4,50,000shares x15)	**67,50,000**
Payment in cash(3,00,000shares x2.5)	**7,50,000**
Purchase Consideration	**75,00,000**

Books of SRISHTI Ltd.

Realisation Account

Particulars	Amount	Particulars	Amount
To Goodwill	5,00,000	By 9% debentures	5,00,000

To Fixed Assets	30,00,000	By Creditors	1,00,000
To Stock	10,40,000	By ANU LIMITED (PC)	75,00,000
To Debtors	1,80,000		
To cash: creditors Expenses	1,00,000 25,000		
To Profit on Realisation	32,55,000		
	81,00,000		**81,00,000**

(NOTE: IN THE GIVEN QUESTION, TAKEN OVER ITEMS DO NOT INCLUDE CREDITORS AND CASH BALANCE. SO WE HAVE ASSUMED THAT THESE ITEMS ARE NOT TAKEN OVER)

Shareholders Account

Particulars	Amount	Particulars	Amount
To Preliminary expenses	50,000	By Equity share capital	30,00,000
To shares in ANU LTD.	67,50,000	By Export Reserve	8,50,000
To cash (refer A/C)	9,05,000	By General Reserve	50,000
		By Profit and loss account	5,50,000
		By profit on Realisation	32,55,000
	77,05,000		**77,05,000**

CASH & BANK Account

Particulars	Amount	Particulars	Amount
To balance b/d	2,80,000	By Realisation Account: Creditors Liquidation expenses	 1,00,000 25,000
To ANU LIMITED (PC)	7,50,000	**By shareholders account (balancing figure)**	**9,05,000**
	10,30,000		**10,30,000**

ANU LIMITED Account

Particulars	Amount	Particulars	Amount
To Realisation account (purchase consideration)	75,00,000	By equity shares By cash	67,50,000 7,50,000
	75,00,000		**75,00,000**

<u>In the books of Anu limited</u>

<u>Journal Entries</u>

(Amount in Rs lakhs)

Particulars			Debit	Credit
(1) Business Purchase A / C		Dr.	7500000	
To liquidator of Srishti Ltd				7500000
(Being an agreement for acquisition of business is entered into by the parties)				
(2) Fixed Assets	A/c	Dr.	60,00,000	
Stock	A/c	Dr.	7,10,000	
Debtors	A/c	Dr.	1,71,000	
Goodwill (bal.fig.)	A/c	Dr.	12,19,000	
To Debenture holder of Srishti Ltd				6,00,000
To Business Purchase A/c				75,00,000
				1,150
(Being sundry assets & liabilities are taken over)				

(3) Liquidator A/c	Dr.	75,00,000	
To Equity Share capital A/c (450000x10)			45,00,000
To cash (300000x2.5)			7,50,000
To Security Premium A/c (450000x5)			22,50,000
(Being payment is made to Liquidator of V Ltd.)			
(4) Debenture holder of V Ltd A/c	Dr.	6,00,000	
Discount on issue	Dr.	25,000	
To 8% Debenture A/c			6,25,000
(Being 8% debenture issued to debenture holders)			
(5) Goodwill	Dr.	50,000	
To Bank Account			50,000
(Being expenses on scheme are paid)			
(6) Amalgamation Adjustment Account	Dr.	8,50,000	
To Export Reserve			8,50,000
(being statutory Reserve of vendor company is maintained by purchasing company for one year)			

QUESTION 5(A)(8MARKS)

Happy Valley Florists Ltd acquired a delivery van on hire purchase on 01.04.2010 from Ganesh Enterprise. The terms were as follows:

Particulars	Amount (`)
Hire Purchase Price	180,000
Down Payment	30,000

1st installment payable after 1 year	50,000
2nd installment after 2 years	50,000
3rd installment after 3 years	30,000
4th installment after 4 years	20,000

Cash price of van ` 150,000 and depreciation is charged at 10% WDV.

You are required to

(i) Calculate total Interest and Interest included in each installment

(ii) Prepare Van A/c., Ganesh Enterprises A/c. in the books of Happy Valley Florists Ltd. up to 31.03.2014.

ANSWER 5 (A)

Interest Calculation

Cost Price	1,50,000
Hire-purchase Price	1,80,000
Interest	30,000

Ratio

(1) 50,000+50,000+30,000+20,000	=	1,50,000
(2) 50,000+30,000+20,000	=	1,00,000
(3) 30,000+20,000	=	50,000
(4) 20,000	=	20,000
	=	

INTEREST ALLOCATION OF 30,000 IN THE RATIO 15:10:5:2=14062,9375,4688,1875

GANESH ENTERPRISES ACCOUNT

Particulars	Amount	Particulars	Amount
To bank (down payment) To bank (installment) To balance c/d	30,000 50,000 84062	By Van By interest	150000 14062
	164062		**164062**
To bank To balance c/d	50000 43437	By balance b/d By interest	84062 9375
	93437		**93437**
To bank To balance c/d	30000 18125	By balance c/d By interest	43437 4688
	48125		**48125**
To bank	20000	By balance c/d By interest	18125 1875
	20000		**20000**

VAN ACCOUNT

Particulars	Amount	Particulars	Amount
To Ganesh enterprises	150000	By Depreciation (10%) By Balance c/d	15000 135000
	150000		**150000**
To Balance b/d	135000	By Depreciation (10%) By Balance c/d	13500 121500
	135000		**135000**
To Balance b/d	121500	By Depreciation (10%) By Balance c/d	12150 109350
	121500		**121500**
To Balance b/d	109350	By Depreciation (10%) By Balance c/d	10935 98415
	109350		**109350**

QUESTION 5(B) 8MARKS

Smart Investments made the following investments in the year 2013-14

12% State Government Bonds having face value ` 100

Date	Particulars
01.04.2013	Opening Balance (1200 bonds) book value of ` 126,000
02.05.2013	Purchased 2,000 bonds @ ` 100 cum interest
30.09.2013	Sold 1,5000 bonds at ` 105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd

15.4.2013	Purchased 5,000 equity shares @ ` 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares ` 10)
03.06.2013	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2013	The company made a rights issue of 1 shares for every 7 shares held at ` 250 per share The entire money was payable by 31.08.2013
22.08.2013	Rights to the extent of 20% was sold @ ` 60. The remaining rights were subscribed.
02.09.2013	Dividend @ 15% for the year ended 31.3.2013 was received on 16.09.2013.
15.12.2013	SOLD 3,000 shares @ ` 300. Brokerage of 1% was incurred extra.
15.01.2014	Received interim dividend @ 10% for the year

	2013-14
31.03.2014	The shares were quoted in the stock exchange @ ` 220

Prepare Investment Accounts in the books of Smart Investments.

Assume that the average cost method is followed:

ANSWER 5 (B)

CALCULATION OF COST OF INVESTMENTS MADE ON 2.5.2013

Purchase price (2000X100)	200000
Interest (200000X12%X122/365)	(8022)

Cost of investments	191978

CALCULATION OF PROFIT OR LOSS ON SALE OF INVESTMENTS

Selling price (1500x105)	157500
Cost of investment made on	(149052)
(126000+191978)	
------------------------ x 1500	
1200+2000	

Profit on sale of investment	8448

Investment in 12% Debentures Account

Particulars	Nominal Value	Amount	Income	Particulars	Nominal value	Amount	Income

1.4.2013 To balance b/d	1200	126000	3600 (3month)	**30.6.2013** **By bank**	-	**-**	19200 (6months)
02.05.2013 **To bank**	2000	**191978**	**8022**	**30.09.2013** **By bank**	1500	**157500**	4500 (3months)
30.09.2013 **To profit on sale**	-	8448	**-**	**31.12.2013** **By bank**	-	**-**	10200 (6months)
31.3.2014 **To profit loss**	-	-	**27378**	**31.3.2014** **By accrued int. (170000x12%x3/12)**	-	**-**	5100
				By balance c/d	1700	168926	-
	3200	326426	39000		**3200**	**326426**	**39000**

INVESTMENT IN SHARES ACCOUNT

Particulars	No.	Amount	Particulars	No.	Amount
15.4.2013 To bank (5000x200)+1%	5000	10,10,000	22.08.2013 By sale of right (1000x20%)@60	-	12,000
03.06.2013 To bonus shares (5000x2/5)	2000	Nil	02.09.2013 By pre acquisition dividend (5000x10x15%)	-	7,500
31.08.2013 To bank (7000x1/7)-20%	800	2,00,000	15.12.2013 By bank(sold)	3000	8,91,000
15.12.2013 To profit on sale (w.n#1)	-	4,33,115	31.03.2014 By balance c/d (working note 2)	4800	7,32,615
	7800	**16,43,115**		**7800**	**16,43,115**

Working note:1

Calculation of profit or loss on sale of investments on 15.12.2013

Selling price (3000shares @300)	9,00,000
Brokerage @1%	(9,000)

Net selling price	8,91,000
Cost for sold portion	(4,57,885)
(1010000+nil+200000-12000-7500)	
-- x 3000shares	
5000+2000+800	

Profit on sale	4,33,115

Working note 2

Valuation of investment as on 31.03.2014

ii)	Cost of investment as a balancing figure in investment account For 4800 shares	732615
iii)	Market value @220 per share for 4800 shares	1056000
	Whichever is lower	732615

(NOTE: THE AMOUNT OF INTERIM DIVIDEND SHOULD BE TRANSFERRED TO PROFIT ANDLOSS ACCOUNT BECAUSE IT IS RELATED TO CURRENT YEAR)

QUESTION 6 (16MARKS)

The Balance Sheet of Amit, Bhushan and Charan, who share profit and losses as 3:2:1 respectively, as on 01.04.2013 is as follows:

Liabilities	Amount (`)	Assets	Amount (`)
Capital Accounts : Amit	1,80,000	Machinery	1,50,000
Bhushan	1,60,000	Furniture	1,50,000

Charan	1,40,000	Debtors 80,000	
Current Accounts : Bhushan	16,000	Less: Provision for	
Creditors	1,20,000	Doubtful Debts 4,000	76,000
		Stock	2,10,000
		Cash	20,000
		Current Accounts: Charan	10,000
	6,16,000		**6,16,000**

Dev is admitted as a partner on the above date for $\frac{1}{5}th$ share in the profit and loss, Following are agreed upon:

(1) The profit and loss sharing ratio among the old partners will be equal.

(2) Dev brings in ` 1,50,000 as capital but is unable to bring the required amount of premium for goodwill.

(3) The goodwill of the firm is valued at ` 60,000.

(4) Assets and liabilities are to be valued as follows:

Machinery ` 2,06,000: Furniture ` 1,28,000 : Provision for doubtful debts @ 10% on debtors .

(5) Necessary adjustments regarding goodwill and profit / loss on revaluation are to made through the Partner's Current Accounts.

(6) It is decided that the revalued figures of assets and liabilities will not appear in the Balance Sheet of the new firm.

(7) Capital Accounts of the old partners in the new firm should be proportionate to the new profit and loss sharing ratio, taking Dev's Capital as base. The existing partners will not bring cash for further capital. The necessary adjustments are to be made through the Partner's Current Accounts.

Prepare Partner' s Capital & Current Account, and the Balance Sheet of the new firm after admission

ANSWER 6 (16MARKS)

CALCULATION OF NEW PSR

Remaining Share of all partners after =1-1/5=4/5

Dev' Admission

Amit' new ratio = 4/5 x1/3 = 4/15

Bhushan new ratio = 4/5 x1/3 = 4/15

Charan new ratio= 4/5 x1/3 = 4/15

Dev ratio = 1/5 x 3/3 = 3/15

MEMORANDUM REVALUATION ACCOUNT

Particulars	**Amount**	**Particulars**	**Amount**
To furniture To Provision for D.Debts (80000x10%)-4000 **To Profit on Rev. (OLD PSR)**	22,000 4,000 30,000	By machinery	56,000
	56,000		**56,000**
To machinery	56,000	By furniture By Provision for D.Debts **By Reversal of revaluation profit (NEW PSR)**	22,000 4,000 30,000
	56,000		**56,000**

(NOTE: IN THE GIVEN QUESTION, IT IS CLEARLY SPECIFIED THAT BALANCE SHEET IS TO PREPARED ON THE BASIS OF OLD FIGURES. SO WE HAVE REVERSED THE REVALUED AMOUNTS)

PARTNERS CAPITAL ACCOUNTS

Particulars	Amit	Bhusan	Charan	Dev	Particulars	Amit	Bhusan	Charan	Dev
					By bal. b/d	180000	160000	140000	-
					By bank	-	-	-	150000
To bal. b/d (150000/3)x PSR	200000	200000	200000	150000	**By current Account (bal.fig)**	20000	40000	60000	-
	200000	200000	200000	150000		200000	200000	200000	150000

PARTNERS CURRENT ACCOUNTS

Particulars	Amit	Bhusan	Charan	Dev	Particulars	Amit	Bhusan	Charan	Dev
To bal. b/d	-	-	10000	-	By bal. b/d	-	16000	-	-
To profit reversal on revaluation (4:4:4:3)	8000	8000	8000	6000	By profit on revaluation (3:2:1)	15,000	10000	5000	-
To Goodwill (4:4:4:3)	16000	16000	16000	12000	By Goodwill (3:2:1)	30,000	20,000	10,000	-
To Capital Accounts (deficit)	20000	40000	60000 .	-	By balance c/d (bal.fig)	-	18000	79000	18000
To balance c/d	1000	-	-	-					
	45000	64000	94000	18000		45000	64000	94000	18000

BALANCE SHEET

LIABILITIES	**Amount**	**ASSETS**	**Amount**
Capital accounts:		Machinery	1,50,000
Amit	2,00,000	Furniture	1,50,000
Bhusan	2,00,000	Debtors (net)	76,000
Charan	2,00,000	Stock	2,10,000
Dev	1,50,000	Cash	1,70,000
Current accounts:		Current account:	
Amit	1,000	Bhusan	18,000
Creditors	1,20,000	Charan	79,000
		Dev	18,000
	8,71,000		8,71,000

(Note: in the given question, it is also clearly specified that adjustments of goodwill and revaluations are to be considered through current accounts. So we have ignored these adjustments in capital accounts.)

QUESTION 7(A)(4MARKS)

From the following extract of Receipts and Payments Account and the additional information, you are required to calculate the Income from Subscription for the year ending March, 31, 2010 and show them in the Income & Expenditure Account, and the Balance Sheet of a Club.

An extract of Receipts and Payments Account

for the year ended 31st March, 2014

Receipts	`	Payment	`
To Subscription 2012-13 4,000 2013-14 20,000 2014-15 5,000	**29,000**		

Information :

(i) Subscription outstanding on 31.03.2013 ` 5,000

(ii) Subscription outstanding on 31.03.2014 ` 4,000

(iii) Subscription received in advance on 31.03.2013 for 2013-14- ` 5,000

ANSWER 7 (A)

Subscription Account

Particulars	**Amount**	**Particulars**	**Amount**
To balance b/d(o/s) **To income & exp.(bal.fig)** To balance c/d(advance)	5000 **28000** 5000	By balance b/d (advance) **By bank** By balance c/d (o/s)	5000 **29000** 4000
	38000		**38000**

Income & Expenditure Account

Expenditure	Amount	Incomes	Amount
		By subscription a/c	28,000

Balance sheet

Liabilities	Amount	Assets	Amount
Advance subscription	5000	O/S subscription	4000

QUESTION 7(B)(4MARKS)

Intelligent Ltd., a non financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

(i) Loans and Advances given to the following and interest earned on them:

(1) to suppliers

(2) to employees

(3) To its subsidiaries companies

(ii) Investment made in subsidiary Smart Ltd. and dividend received

(iii) Dividend paid for the year

(iv) TDS on interest income earned on investments made

(v) TDS on interest earned on advances given to suppliers

(vi) Insurance claim received against loss of fixed asset by fire Discuss in the contexts of AS3 Cash Flow Statement.

ANSWER 7 (B)

Classification of transactions under the heading CFS

NATURE OF TRANSACTION	CLASSIFICATION
(a) Loans and advances given to the following and interest earned on them:	
(i) To suppliers	Operating
(ii) To employees	Operating
(iii) To its subsidiaries	Investing
(b) Investment made in subsidiary and dividend received	Investing
(c) Dividend paid during the year	Financing
(d) Tds on interest income earned on investment	Investing
(e) Tds on interest income on advance given to supplier	Operating
(f) Insurance claim received against loss of fixed assets by fire	Investing extra ordinary

QUESTION 7(C)(4MARKS)

Define Average Due Date. List out the various instances when Average Due Date can be used.

ANSWER 7 (C)

Average due date is the short cut method for calculation of interest. It is applied if there are number of transactions for settlement on single date. The following situations may be covered under ADD for the easy calculation of interest:

(1) Sale / Purchase of goods (debtors/ creditors balances)
(2) Bills of exchange
(3) Interest on partners drawings
(4) Interest on loans which are payable on installment basis

QUESTION 7(D)(4MARKS)

What are depreciable assets as per Accounting Standard-6 ? Explain why AS 6 does not apply to Land.

ANSWER 7 (D)

Depreciable assets are assets, which are:

- Expected to be used during more than one accounting period; and
- Having a limited useful life, e.g., land does not has limited useful life; and
- Held by an enterprise for:
- Use in the production or supply of goods and services,
- Administrative purposes and not for sale in the ordinary course of business.

AS-6 deals with depreciation accounting and applies to all depreciable assets BUT it is not applicable on land due to its unlimited life.

QUESTION 7(E)(4MARKS)

Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2014

Particulars	Amount (`)
4,500 Equity Shares of ` 100 each	4,50,000
Capital Reserve (including ` 40,000 being profit on sale of plant)	90,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,05,000
Profit and loss account (Cr. Balance)	65,000

The Company decided to issued to equity shareholders bonus shares at the rate of 1 share for every shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the book Saral Ltd.

ANSWER 7 (E)

Journal Entry

(IN LAKHS)

Date	Particular	Debit	Credit
	Capital Redemption Reserve A/c Dr. Capital Reserve A/c Dr.	30000 40000	

	Security Premium A/c Dr. General Reserve A/c **(Balancing figure)** To Bonus to equityshareholders (Being bonus shares are announced by company @1 for 3 on 4500 equity shares of 100 each)	40000 40000	 150000
	Bonus to equityshareholders Dr. To Equity Share Capital A/c (Being announced bonus shares are converted in to equity share capital	150000	 150000

(Note: it is given that capital reserve include profit on sale of plant which can be assumed as a cash profit but other balance should be assumed non cash and should not be utilised. But there is no dispute on securities premium due to which it should be assumed a cash profit.)