CA – IPCC May 2014 Paper 1 Accounting – SUGGESTED ANSWER

Question No. 1 (a)

Valuation of Finished Goods:	Per unit	
Material consumed	220	
Direct Labour	60	
Direct overhead	40	
Fixed overhead	10	[200000/20000]
Total Cost	330	

Case:	Cost	NRV	Valuation scale [cost or NRV which is less]	Value of Finished goods	
1	330	400	330	396000	[1200 x 330]
2	330	300	300	360000	[1200 x 300]

Valuation of Raw materials:	
Cost Price (including excise duty)	200
Less; Excise duty	10
Cost Price (excluding excise duty)	190
Add: Freight inward	20
Unloading charges	10
Total Cost	**220**
Replacement cost (NRV)	**150**

Case:	For Raw material		For Finished Goods		Value per unit of Raw material	Total Value of Raw material Stock
	Cost	NRV	Cost	NRV		
1	220	150	330	400	220	110000
						[500 x 220]
2	220	150	330	300	150	75000
						[500 x 150]

As per AS 2, para 24. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

Question No. 1 (b)

Cost of machine as on 1.4.2010	400000
Less; Residual Value	40000
Depreciable amount	360000
Depreciation p.a.	36000
Depreciation for 3 years	108000
WDV at the end of 3rd year	292000
Add: Upward Revaluation	90000
Revalued (& Unamortised) amount	382000
Note: Rs.90,000 shall be credited to Revaluation reserves as per AS 10 issued by ICAI.	

Part: 1 If attachment retains its separate identity

	Original asset	Attachment
Revalued Amount	382000	Not applicable
Cost	Not applicable	180000
Scrap value	Nil	Nil
Depreciable amount	382000	180000
Life	9 years	10 years
Depreciation from 4th year onwards p.a.	42444	18000
	[382000/9]	[180000/10]

Part: 2 If attachment becomes integral part of machine:

	Original asset
Revalued Amount	382000
Add: Attachment cost	180000
Total Value	562000
Scrap value	Nil
Depreciable amount	562000
Life	9 years
Depreciation from 4th year onwards p.a.	62444
	[562000/9]

Question No. 1 (c)

Part (i)

In the given case, Goodwill was valued at Rs.1,20,000 by independent valuers and no consideration was paid. The company has not yet recorded the same.

As per Para 16.1 of AS 10, Goodwill, in general, is recorded in the books only when some consideration in money or money's worth has been paid for it. Whenever a business is acquired for a price (payable either in cash or in shares or otherwise) which is in excess of the value of the net assets of the business taken over, the excess is termed as 'goodwill'. Self generated goodwill cannot be shown in the books of account as per AS 26. Only purchased goodwill (AS 14) can be shown in the books of account

Based on the above information, Goodwill not recorded by the company is correct.

Part (ii)

In the given case, an equipment having a book value of Rs.20,000 has been retired out of the total equipment book value of Rs.1,20,000.

As per Para 14.1 of AS 10, An item of fixed asset is eliminated from the financial statements on disposal. 14.2 Items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realisable value and are shown separately in the financial statements. Any expected loss is recognised immediately in the profit and loss statement.

	Office equipment a/c		
To Balance b/d	1,20,000	By Equipment retired	20,000
		By Depreciation [120000 – 20000] x 15%	15,000
		By Balance c/d	85,000
	1,20,000		**1,20,000**

	Office equipment Retired a/c		
To Office Equipment a/c	20,000	By Loss on retirement	18,000
		[Balancing Figure]	
		By Balance c/d	2,000
	20,000		**20,000**

Question No. 1 (d)

Contract period	2 years	
	Rs. in crores	
Estimated Contract Price	150	
Cost to date	120	
Further cost to complete the contract	45	
Total Estimated contract cost	165	[120 + 45]
% of Completion	72.73%	[120/165]
Revenue to be recognised	109.10	[150 x 72.73%]
Expected total loss when contract is completed	15.00	[165 - 150]
Provision for loss to be created	4.1	[15 - [120 - 109.10]

Extract of P & L:	
Revenue	109.10
less: Cost incurred	120.00
Less: Provision for loss	4.10
Net Loss	-15.00

Question No. 2 (a)

It is understood that Face value of Preference Share and Equity Share were Rs.10 and not Rs.100

Statement of Profit and Loss a/c	
Profit (before Depreciation & Taxation)	1000000
Less: Depreciation	37500
Profit before taxation	962500
Less: Taxation	120000
Profit after taxation (Net Profit)	842500

Notes to Accounts:

1. **Reserves & Surplus:**

A) Profit and Loss a/c	
Balance b/d (previous year)	150000
Add: Current Year Net profit	842500
Less: Transfer to Reserve Fund	210625
Less: Proposed Preference Dividend (W.N.1)	199898
less: Proposed Equity Dividend (W.N.1)	513796
Less: Provision for Staff Bonus (W.N.1)	51381
Balance C/fd to Balance Sheet	16800

B) Reserve Fund	
Current year appropriation	210625

2. **Current Liabilities:**

Provisions	
Provision for Staff Bonus	51381

W.N. 1

Opening P & L balance	150000
Current year net profit	842500
Total Profit available	992500
Less: Transfer to Reserve fund	210625
Less: Proposed preference Dividend	18000
Less: Proposed equity Dividend	150000
Less: Provision for Staff bonus	15000
Balance profit available	598875
Less: Balance to be carried forward	16800
Surplus available	582075

If Surplus is considered as 'y'		
Share of Surplus by		
Preference share holders	0.3333 y	1/3 of y
Equity Shareholders	0.6667 y	2/3 of y
Staff bonus	0.06667 y	[10% x 0.67]
Total Surplus	**y**	

y = 0.3333 y + 0.6667 y + 0.06667 y
582075 = 0.3333 y + 0.6667 y + 0.06667 y
582075 = 1.06667 y
y = 582075/1.06667
= 545694

Share of Surplus by		
Preference share holders	181898	[545694 x 1/3]
Equity Shareholders	363796	[545694 x 2/3]
Staff bonus	36381	[363796 x 10%]
Total Surplus	**582075**	

Summary:	**Basic**	**Surplus**	**Total**
Preference	18000	181898	199898
Equity	150000	363796	513796
Staff Bonus	15000	36381	51381

Question No. 2 (b)

W.N. 1 Time Ratio	
Date of Acquisition	1.4.2013
Date of Incorporation	1.7.2013
Date of Financial Statement	31.3.2014
Pre Incorporation	1.4.13 to 1.7.13 i.e. 3 months
Post Incorporation	1.7.13 to 31.3.14 i.e. 9 months
Time Ratio	3: 9 or 1 : 3

W.N. 2 Sales Ratio	
Sales for the year 2013 -14	2400000
Sales for first six months	480000
Sales for remaining 6 months	1920000

Assuming sales for first 6 months and remaining 6 months occurred evenly during the respective periods;

Sales per month during 1st 6 months	80000	[480000/6]
Sales per month during 2nd 6 months	320000	[1920000/6]

Pre - Incorporation period	Sales	Post Incorporation period	Sales
April 2013	80000	July 2013	80000
May 2013	80000	August 2013	80000
June 2013	80000	September 2013	80000
		October 2013	320000
		November 2013	320000
		December 2013	320000
		January 2014	320000
		February 2014	320000
		March 2014	320000
	240000		**2160000**

Hence, Sales ratio is 240000 : 2160000 or 1 : 9

Statement of Profit and Loss of Sneha Ltd. for the year ending 31.3.14				
Particulars	**Total**	**Basis**	**Pre**	**Post**
A) Income				
Gross Profit	390800	1 : 9	39080	351720
Total Income	**390800**		**39080**	**351720**
B) Expenses:				
Director Fees	30000	Only Post		30000
Bad Debts	7200	1 : 9	720	6480
Advertising	24000	1: 3	6000	18000
Salaries and General Expenses	128000	1: 3	32000	96000
Preliminary Expenses	10000	Only Post		10000
Donation to political party	10000	Only Post		10000
Total Expenses	**209200**		**38720**	**170480**
C) Net Profit [A – B]	**181600**			
To be transferred to General Reserve				**181240**
To be transferred to Capital Reserve			**360**	

Question No. 3

Note: It is to be understood that Land & building, Plant and Machinery and Office equipment closing balance given in the problem is before providing depreciation.

Trading a/c of Moonlight Traders for the year ending 31.3.14						
To Opening Stock		**165000**	By Sales	- Cash	250000	
[Balancing figure]						
To Purchases	- Cash	360000		- Credit	1000000	1250000
[540000 x 40/60]						
	- Credit	540000	[250000 x 80/20]			
To Gross Profit		250000				
[25% on cost or 20% on sales]			By Closing stock			65000
[1250000 x 20%]						
		1315000				1315000

Profit and Loss a/c of Moonlight Traders for the year ending 31.3.14

To Office expenses	42000		By Gross Profit	250000
Add: Current due	15000		By Discount received	4500
Less: Last Year due	20000	37000		
To Salary		32000		
To Selling expenses		15000		
To Discount allowed		5500		
To Bad debts		4500		
To Depreciation				
- Land & Building		25000		
- Plant & Machinery		23750		
- Office equipment		12750		
To Provision for tax		30000		
To Loss on sale of machine		15000		
To Interest on Loan		15000		
To Net Profit [Balancing figure]		**39000**		
		254500		254500

Balance Sheet of Moonlight Traders as on 31.3.14					
	Liabilities		**Assets**		
Capital	895500		Debtors	225000	
Add: Net Profit	39000	934500	Less: Bad debts	4500	220500
			Stock		65000
Creditors for office expenses		15000	Land & building [w.n.5]		475000
Loan from SBI		100000	Plant & Machinery (w.n.6)		308250
Provision for tax		30000	Office equipment (W.n. 7)		72250
Creditors for purchases		105500	Bank		44000
		1185000			**1185000**

W.N. 1	**Statement of Affairs as on 31.3.13**				
	Liabilities			Assets	
Creditors for purchases		95000	Land & Building		500000
Creditors for office expenses		20000	Plant & Machinery		220000
Long term loan from SBI @ 12%		125000	Office equipment		105000
Provision for tax		35000	Debtors		155500
Capital		**895500**	Stock		165000
[Balancing figure]			Bank		25000
		1170500			1170500

W.N. 2	**Cash Book**		
To Balance b/d	25000	By Creditor for purchases	525000
To Debtors a/c	925000	By Payment for office expenses	42000
To Sales	250000	By Salary	32000
To Plant & Machinery	23000	By Selling expenses	15000
To Bank	105000	By Plant & Machinery	150000
		By purchases	360000
		By Bank	85000
		By Taxation	35000
		By Loan from SBI	25000
		By Interest on loan	15000
		[125000 x 12%]	
		By Balance c/d	**44000**
		(Balancing figure)	
	1328000		1328000

W.N. 3	Debtors a/c		
To Balance b/d	**155500**	By Bank a/c	925000
[Balancing figure]		By Discount allowed	5500
To Sales	1000000	By Balance c/d	225000
	1155500		1155500

W.N. 4	Creditors a/c			
To Bank a/c		525000	By Balance b/d	95000
To discount received		4500	By Purchases	540000
To Balance c/d		**105500**		
[Balancing figure]				
		635000		635000

W.N. 5	Land & Building a/c		
To Balance b/d	500000	By Depreciation	25000
		[500000 x 5%]	
		By Balance c/d	**475000**
		[Balancing figure]	
	500000		500000

W.N. 6	Plant & Machinery a/c		
To Balance b/d	220000	By Bank	23000
To Bank a/c	150000	By P & L (Loss)	15000
		By Depn (on machine sold)	2000
		By Depn (on old machine)	18000
		[180000x10%]	
		By Depn [on new machine]	3750
		[150000 x 10% x 3/12]	
		By Balance c/d	**308250**
		[Balancing figure]	
	370000		370000

Book value of machine as on 1.4.13	220000
Less: book value of machine sold	40000
Balance book value	180000
Book value as on 31.3.14 (before depreciation)	330000
Hence Additions during the year	150000
[330000 - 180000]	

Book value of machine sold as on 1.4.13	40000
Less: Depn for 6 months	2000
[40000 x 10% x 6/12]	
Book value on 1.10.13	38000
Loss on sale	15000
Sale value	23000

W.N. 7	**Office equipment a/c**			
To Balance b/d	105000	By Bank		105000
to Bank	85000	By depreciation		12750
		[85000 x 15%]		
		By Balance c/d		**72250**
		[Balancing figure]		
	190000			190000

Book value of machine sold as on 1.4.13	105000
Sale value	105000
Profit/Loss	Nil

W.N. 8	**Loan from SBI @ 12%**		
To Bank	25000	By Balance b/d	125000
[Balancing figure]			
To Balance c/d	100000		
	125000		125000

W.N. 9	**Provision for Tax a/c**		
To Bank	35000	By Balance b/d	35000
To Balance c/d	30000	By P & L	30000
	65000		65000

Note: It is assumed that last year provision is paid during current year.

Question No. 4

W.N.1 Calculation of Purchase Consideration:		
Equity Shares	[450000 x 15]	6750000
Cash Payment	[30 lacs/10] x 2.5	750000
Total Purchase Consideration		**7500000**

Closing the Books of Srishti Ltd.

	Realisation a/c		
To Goodwill	500000	By 9% Debentures	500000
to Tangible Fixed assets	3000000	By Trade creditors	100000
To stock	1040000	By Anu Ltd.	7500000
To Debtors	180000	By Anu Ltd. (Reimbursement)	50000
To Cash & Bank (Creditors)	100000		
To Cash & Bank (Expenses)	75000		
To Equity shareholders	3255000		
[Balancing figure]			
	8150000		**8150000**

	Cash & Bank a/c		
To Balance b/d	280000	By Realisation	100000
To Anu Ltd.	750000	By Realisation	75000
To Anu Ltd.	50000	By Equity shareholders a/c	905000
		[Balancing figure]	
	1080000		**1080000**

	Equity shareholders a/c		
To Preliminary expenses	50000	By Balance b/d	3000000
To Equity shares in Anu Ltd.	6750000	By Export profit reserves	850000
To Realisation	905000	By general reserves	50000
		By Profit and Loss account	550000
		By Realisation	3255000
	7705000		**7705000**

	Anu Ltd.		
To Realisation a/c	7500000	By Equity Shares in Anu Ltd.	6750000
To Realisation a/c	50000	by Cash	750000
		By Cash	50000
	7550000		**7550000**

	Equity Shares in Anu Ltd.		
To Anu ltd.	6750000	By Equity Shareholders	6750000
	6750000		6750000

	9% Debentures a/c		
To Realisation a/c	500000	By Balance b/d	500000
	500000		500000

Journal Entries in the books of Anu Ltd.

1	Business Purchase a/c Dr.	7500000	
	To Liquidator of Shristi Ltd.		7500000
	[Being business of Srishti Ltd acquired by Anu Ltd.)		
2	Tangible Fixed Assets a/c Dr.	6000000	[3000000 x 100%]
	Stock a/c Dr.	710000	
	Debtors a/c Dr.	180000	
	Goodwill a/c Dr.	1219000	
	To Provision for doubtful Debts		9000
	[180000 x 5%]		
	To 9% Debentures a/c in Srishti Ltd.		600000
	To Business Purchase		7500000
	W.N. Debentures:		
	Book value of 9% Debentures in Srishti Ltd.		500000
	Redemption value		600000
	[500000 x 120%]		
	Premium on Redemption		100000
	Issue Price [600000 / 96%]		625000
	Discount on Issue of Debenture		25000
	[625000 - 600000]		
3	Liquidator of Srishti Ltd. a/c Dr.	7500000	
	To Equity Share capital		4500000 [450000 x 10]

	To Securities premium		2250000 [450000 x 5]
	To Bank a/c		750000
4	Amalgamation Adjustment a/c dr.	850000	
	To Export profit reserves a/c		850000
	[Being export profit reserve in the form of statutory reserves are		
	maintained for 1 more year]		
5	9% Debentures in Srishti Ltd. a/c Dr.	600000	
	Discount on Issue of Debenture a/c Dr.	25000	
	To 8% Debenture		625000
	[Being 8% debenture were issued against 9% debentures in Srishti Ltd. @ discount]		
6	Securities Premium a/c Dr.	25000	
	To Discount on Issue of Debenture a/c		25000
	[Being Discount on issue of debenture written off against securities premium		
	as per Sec. 78 of Companies Act, 1956].		
	Alternatively, it can be written off over the life of debentures on straight line		
	basis.		
7	Goodwill a/c Dr.	50000	
	To Bank a/c		50000
	[Being cost of liquidation met by Srishti Ltd. and reimbursed by Anu Ltd.]		

Question No. 5

Total Interest = HP Price - Cash Price	
	= 180000 - 150000
	= 30000

Since interest rate is not given, it is assumed total interest for all the four years will be spread on the basis of opening balance of each year.

HP Price	180000
Less: Down payment	30000
Loan amount	150000

Year	Opening Balance	Installment	Closing Balance
1	150000	50000	100000
2	100000	50000	50000
3	50000	30000	20000
4	20000	20000	0

Interest will be in the ratio of opening balance i.e. 15: 10:5: 2

Year	Interest	
1	14063	[30000 x 15/32]
2	9375	[30000 x 10/32]
3	4688	[30000 x 5/32]
4	1875	[30000 x 2/32]
	30000	

In the books of Happy Valley Florists Ltd.

		Van a/c			
1.4.10	To Cash	30000	31.3.11	By Depreciation	15000
	To Ganesh enterprises	120000		[150000 x 10%]	
				By Balance c/d	135000
		150000			**150000**
1.4.11	To Balance b/d	135000	31.3.12	By Depreciation	13500
				[135000 x 10%]	
				By Balance c/d	121500
		135000			**135000**
1.4.12	To Balance b/d	121500	31.3.13	By Depreciation	12150
				[121500 x 10%]	
				By Balance c/d	109350
		121500			121500
1.4.13	To Balance b/d	109350	31.3.14	By Depreciation	10935
				[109350 x 10%]	
				By Balance c/d	98415
		109350			109350

		Happy Valley Florists a/c			
31.3.11	To Bank a/c	50000	1.4.10	By Van a/c	120000
	To Balance c/d	84063	31.3.11	By Interest a/c	14063
		134063			134062.5
31.3.12	To Bank a/c	50000	1.4.11	By Balance b/d	84063
	To Balance c/d	43438	31.3.12	By Interest a/c	9375
		93438			93438
31.3.13	To Bank a/c	30000	1.4.12	By Balance b/d	43438
	To Balance c/d	18125	31.3.13	By Interest a/c	4688
		48125			48125
31.3.14	To Bank a/c	20000	1.4.13	By Balance b/d	18125
			31.3.14	By Interest a/c	1875
		20000			20000

Question No. 5 (b)

In the books of Smart Investments

12% State Government Bonds a/c									
Date	**Particulars**	**Nominal**	**Interest**	**Cost**	**Date**	**Particulars**	**Nominal**	**Interest**	**Cost**
1.4.13	To Balance b/d	120000		126000	30.6.13	By Bank a/c		19200	
1.4.13	To Accrued Interest		3600		[320000 x 12% x 6/12				
	[120000 x 12%x3/12]								
2.5.13	To Bank a/c	200000	8000	192000	30.9.13	By Bank a/c	150000	4500	157500
	[200000x12%x4/12]					[150000 x 12% x 3/12]			
30.9.13	To P & L a/c			8437					
					31.12.13	By Bank a/c		10200	
						[170000 x 12% x 6/12]			

					31.3.14	By Accured Interest		5100	
						[170000 x 12% x 3/12]			
31.3.14	To P & L a/c		27400		31.3.14	By Balance c/d	170000		168937
		320000	39000	326437			320000	39000	326437

W.N. 1					
Date	**Particulars**	**Nominal**	**Cost**	**Sale**	**Profit/Loss**
1.4.13	Opening Balance	120000	126000		
2.5.13	Purchases	200000	192000		
	Balance	320000	318000		
30.9.13	Sale of cum rights	150000	149063	157500	8437
		[150000x318000/320000]			
	Balance	170000	168937		

			Equity Shares of X Ltd.						
Date	**Particulars**	**Nominal**	**Dividend**	**Cost**	**Date**	**Particulars**	**Nominal**	**Dividend**	**Cost**
15.4.13	To Bank a/c	50000		1010000	22.8.13	By Bank			12000
3.6.13	Bonus Issue	20000			16.9.13	By Bank -Pre acquisition			7500
	[50000 x 2/5]					[50000 x 15%]			
31.8.13	To Bank a/c	8000		200000	15.12.13	By Bank	30000		891000
15.12.13	To Bank a/c			433115	15.1.14	By bank (W.N.6)		4467	
31.3.14	To P & L a/c		**4467**		31.3.14	by Balance c/d	**48000**		**732615**
		78000	4467	1643115			78000	4467	1643115

W.N. 2						
Date	**Particulars**	**Nominal**	**Cost**	**Sale**	**Profit/Loss**	
15.4.13	Purchases	50000	1010000			
3.6.13	Bonus Issue	20000				
	Balance	70000	1010000			

22.8.13	Sale of Rights		12000			
	[70000/10] x [1/7] x 20% x 60					
	Balance	70000	998000			
31.8.13	Purchase of right share	8000	200000			
	[70000/10] x [1/7] x 80%x10					
	[70000/10] x [1/7] x 80%x250					
	Balance	78000	1198000			
16.9.13	Pre-acquisition dividend		7500			
	Balance	78000	1190500			
15.12.13	Sale of shares	30000	457885	891000	433115	
		[30000x1190500/78000]				
	Balance	48000	732615			

Note: 3		
15.4.13 Purchase of Share		
Face value of shares bought	50000	[5000 x 10]
Cost of shares	1000000	[5000 x 200]
Add: Brokerage @ 1%	10000	
Total Cost	1010000	

Note: 4

No dividend is to be computed on Bonus issue and Rights Issue. Since dividend is declared for the year ending 31.3.13, entire balance of 50000 (nominal amount) of shares (excluding bonus and rights) were treated as pre-acquisition dividend. Hence it is credited to investment account.

Note: 5		
Face value of shares sold	30000	[3000 x 10]
Sale value	900000	[3000 x 300]
Less: Brokerage @ 1%	9000	[900000 x 1%]
Sale value (excl brokerage)	891000	

Note: 6		
Face value of shares as on 15.1.14	48000 (W.N. 2)	
Dividend for Bonus share	2000	[20000 x 10%]
Dividend for Rights share	467	[8000 x 10% x 7/12]
Dividend for the balance	2000	[48000-20000-8000]x10%
Total Interim Dividend	4467	

For bonus, dividend for whole year is considered. For Rights issue dividend is considered only for proportionate period i.e. from 1.9.13 to 31.3.14.

Note: 7		
Cost of 4800 shares ason 31.3.14	732615	
Market value	1056000	[4800 x 220]
Since cost is lower than market value, investments are to be recorded at cost.		

Question No. 6

W.N. 1

New Ratio	
Old Ratio	3: 2 : 1
Share of old partners in the new firm	Equal
Let share of old partner in new firm be	x
Then new ratio will be	x : x : x : 1
Dev's share is	1/5
1/5 = 1/[x + x + x + 1]	
1/5 = 1/[3x + 1]	
3x + 1 = 5	
3 x = 4	
x = 4/3	
Hence, New ratio is 4/3 : 4/3 : 4/3 : 1 or 4 : 4 : 4 : 3	

W.N. 2

	Revaluation a/c			
To Furniture		22000	By Machinery	56000
[150000 - 128000]			[206000 - 150000]	
To Provision for doubtful debts		4000		
[80000 x 10%]- 4000				
To Amit's Current a/c	15000			
To Bhushan's current a/c	10000			
To Charan's current a/c	5000			
		30000		
		56000		56000

	Memorandum Revaluation a/c			
To Machinery a/c	56000	By Furniture a/c		22000
		By Provision for doubtful debts		4000
		By Amits current a/c	8000	
		By Bhushan's current a/c	8000	

		By Charan' current a/c	8000	
		By Dev's current a/c	6000	30000
	56000			56000

W.N. 3	**Capital Contribution**			
	Cash a/c Dr.	150000		
	To Dev's capital a/c		150000	
	[Being capital contributed by Dev]			

W.N. 4	**Raise of Goodwill:**		
	Goodwill a/c Dr.	60000	
	To Amit's current a/c		30000
	To Bhushan's current a/c		20000
	To Charan's current a/c		10000
	(being goodwill raised for old partners in old ratio 3:2:1)		

Writing off Goodwill		
Amit's current a/c Dr.	16000	
Bhushan's current a/c Dr.	16000	
Charan's current a/c Dr.	16000	
Dev's current a/c Dr.	12000	
To Goodwill a/c		60000
(being goodwill written off for all partners in new ratio)		

W.N. 5	New Capital		
	Dev's Capital	150000	
	Dev's share	1/5th	
	Total Capital by keeping Dev's capital as base	750000	[150000 x 5/1]
	Amits proportionate capital	200000	[750000 x 4/15]
	Bhushan's proportionate capital	200000	[750000 x 4/15]
	Charan's proportionate capital	200000	[750000 x 4/15]

		Capital a/c							
	Amit	**Bhushan**	**Charan**	**Dev**		**Amit**	**Bhushan**	**Charan**	**Dev**
					By Balance b/d	180000	160000	140000	
To Balance c/d	200000	200000	200000	150000	By Bank a/c				150000
					By	20000	40000	60000	

					Current a/c				
					(Balancing figure)				
	200000	200000	200000	150000		200000	200000	200000	150000

					Current a/c				
	Amit	**Bhushan**	**Charan**	**Dev**		**Amit**	**Bhushan**	**Charan**	**Dev**
To Balance b/d			10000		By Balance b/d		16000		
To Capital a/c	20000	40000	60000		By Revaluation a/c	15000	10000	5000	
To Memorandum Revaluation a/c	8000	8000	8000	6000	By Goodwill a/c	30000	20000	10000	
To Goodwill a/c	16000	16000	16000	12000					
To Balance c/d	1000				By Balance c/d		18000	79000	18000
	45000	64000	94000	18000		45000	64000	94000	18000

Balance Sheet of New Firm after admission						
	Liabilities			**Assets**		
Capital				Machinery		150000
	Amit	200000		Furniture		150000
	Bhushan	200000		Debtors	80000	
	Charan	200000		Less; Provision	4000	76000
	Dev	150000	750000	Stock		210000
				Cash		170000
Amits current a/c			1000	[20000 + 150000]		
Creditors			120000	Current a/c		
				Bhushan		18000
				Charan		79000
				Dev		18000
			871000			**871000**

Question No. 7 (a)

		Income & Expenditure a/c (Extract)			
			By Subscription received	29000	
			Add; Current year outstanding	4000	
			Less: Last year outstanding	4000	
			Add: Last Year received in advance	5000	
			Less: Current year received in advance	5000	
			Income from subscription for 2013 - 14		29000

Balance sheet ason 31.3.14 (extract)			
Liabilities		**Assets**	
Advance Subscription		Arrear Subscription	
For 2014 -15	5000	For 2012 - 13	1000
		For 2013 - 14	4000

Question No. 7 (b)

Transactions	**Treatment**
Loans and Advances given to the following and interest earned on them	
a. To suppliers	Operating Activity – Inflow
b. To employees	Operating Activity – Inflow
c. To its subsidiaries companies	Investing Activity – Inflow
Investment made in subsidiary Smart Ltd. and dividend received	Investing Activity – Inflow
Dividend paid for the year	Financing Activity – Outflow
TDS on interest income earned on investments made	Investing Activity – Outflow (Income earned will be shown net off TDS)
TDS on interest earned on advance given to suppliers	Operating Activity – Outflow (Income earned will be shown net off TDS)
Insurance claim received against los of fixed asset by fire	Investing Activity – Inflow

Question No. 7 (c)

Average Due date is one on which the net amount payable can be settled without causing loss of interest either to the borrower or the lender.

It can be used:

a. Where amount is lent in various installments but repayment is made in a single installment
b. Amount is lent in one installment but repayment is made by various installments.

c. Calculating interest on drawings made by proprietors or partners of a business firm at several points of time.

Question. 7 (d)

As per AS 6, Depreciable assets are assets which
(i) are expected to be used during more than one accounting period; and
(ii) have a limited useful life; and
(iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

AS 6 does not apply to land; unless it has a limited useful life for the enterprise. Because, usually land is expected to be appreciable and not depreciable.

Question. 7 (e)

Existing Number of shares	4500	
Bonus ratio	1: 3	
Bonus shares to be issued	1500	[4500 x 1/3]
Reserves required for bonus	150000	[1125 x 100]

Capital Redemption Reserve a/c Dr.	30000	
Securities premium a/c Dr.	40000	
Capital Reserve a/c Dr.	40000	
General Reserve a/c Dr.	40000	(balance)
To Bonus to Shareholders		150000
(Being bonus sanctioned to shareholders in the ratio 1 : 3)		

Bonus to Shareholders a/c Dr.	150000	
To Equity Share Capital a/c		150000
(being bonus shares issued)		

Note: Capital reserve realised in cash only to be taken for bonus issue. Hence Rs.40,000 is considered which represent profit on sale of asset in cash form.