

PAPER – 1: ADVANCED ACCOUNTING

Question No. 1 is compulsory.

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

Working notes should form part of the answer.

Wherever necessary, suitable assumption(s) may be made by the candidates.

Question 1

- (a) A building costing ₹ 12,00,000 is depreciated for three years on straight line basis, assuming 10 years working life and ₹ 2,00,000 residual value. At the beginning of fourth year, the building was revalued upwards by ₹ 3,00,000. Residual value also revalued upwards by ₹ 1,00,000. The remaining useful life was reassessed as 10 years. Find depreciation to be charged for the fourth year onwards.
- (b) A accepted following several bills falling due on different dates, now desires to have these bills cancelled and to accept a new bill for the whole amount payable on the average due date:

S. No.	Date of Bill	Amount (₹)	Usance of Bill
1.	1 st February, 2011	4,00,000	1 month
2.	14 th February, 2011	6,00,000	3 months
3.	2 nd March, 2011	7,50,000	2 months
4.	10 th March, 2011	5,00,000	4 months
5.	18 th March, 2011	9,00,000	1 month

From above, find the average due date, on which A can pay the whole amount.

- (c) From the information given below, find out the amount of provision to be shown in the Profit and Loss Account of a Commercial Bank:

Assets	(₹ in lakhs)
Standard	4,500
Sub-standard	3,000
Doubtful for more than three years (Fully Secured)	250
Loss Assets	750

- (d) ABC (P) Limited ordered 10,000 kg. of certain material at ₹ 100 per kg. The purchase price includes excise duty ₹ 10 per kg., in respect of which full CENVAT credit is admissible. Freight, loading and unloading charges incurred amounted to ₹ 40,800. Normal Transit Loss is 2%. The enterprise actually received 9,760 kg. and consumed 9,500 kg. Determine cost of inventory and allocation of material cost as per AS 2 "Valuation of Inventory".
(4 x 5 =20 Marks)

Answer

$$(a) \text{ Depreciation per year} = \frac{(\text{Cost of the asset} - \text{Residual value})}{\text{Estimated useful life}}$$

$$= (\text{₹ } 12,00,000 - \text{₹ } 2,00,000) / 10 \text{ years} = \text{₹ } 1,00,000$$

$$\text{Depreciation charged for first three years} = \text{₹ } 1,00,000 \times 3 \text{ years} = \text{₹ } 3,00,000$$

Book value of the building at the end of third year

$$= \text{₹ } 12,00,000 - \text{₹ } 3,00,000 = \text{₹ } 9,00,000$$

Value of the building after upward revaluation

$$= \text{₹ } 9,00,000 + \text{₹ } 3,00,000 = \text{₹ } 12,00,000$$

$$\text{New residual value} = \text{₹ } 2,00,000 + \text{₹ } 1,00,000 = \text{₹ } 3,00,000$$

Remaining useful life as per previous estimate = 7 years

Remaining useful life as per revised estimate = 10 years

Depreciation from the fourth year onwards

$$= (\text{₹ } 12,00,000 - \text{₹ } 3,00,000) / 10 \text{ years} = \text{₹ } 90,000 \text{ per year.}$$

(b) Calculation Average Due Date taking base date as 4th March, 2011

S. No	Date of bill	Usance of bill	Due date of bill	Amount (₹)	No. of days from base date	Product
1.	1 st February, 2011	1 month	4 th March 2011	4,00,000	0	0
2	14 th February, 2011	3 months	17 th May, 2011	6,00,000	74	4,44,00,000
3	2 nd March, 2011	2 months	05 th May, 2011	7,50,000	62	4,65,00,000
4	10 th March, 2011	4 months	13 th July, 2011	5,00,000	131	6,55,00,000
5	18 th March, 2011	1 month	21 st April, 2011	<u>9,00,000</u>	48	<u>4,32,00,000</u>
			Total	<u>31,50,000</u>		<u>19,96,00,000</u>

$$\text{Average due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}}$$

$$= 4^{\text{th}} \text{ March } 2011 = \frac{19,96,00,000}{31,50,000}$$

$$= 4^{\text{th}} \text{ March } 2011 + 63.37 \text{ or } 63 \text{ days}$$

$$= 6^{\text{th}} \text{ May, } 2011$$

The new bill of ₹ 31,50,000 will be payable on 6th May, 2011.

(c) Calculation of Provision on Non-Performing Assets

Assets	Amount (₹ in lakhs)	% of provision **	Provision (₹ in lakhs)
Standard	4,500	0.40	18
Sub-standard	3,000	10*	300
Doubtful for more than three years (Fully secured)	250	100	250
Loss assets	<u>750</u>	100	<u>750</u>
Total	<u>8,500</u>		<u>1,318</u>

*It is assumed that sub-standard assets are fully secured.

Note: If sub-standard assets are assumed as unsecured then rate of provision applied on it would be 20% i.e. provision on sub-standard asset will be ₹ 600 lakhs and in such a case total amount of provision would be ₹ 1,618 lakhs instead of ₹ 1,318 lakhs.

(d) Determination of Normal Cost per Kg

	Amount (₹)
Purchase price (10,000 kg. x ₹ 100)	10,00,000
Less: CENVAT credit (10,000 kg. x 10)	<u>(1,00,000)</u>
	9,00,000
Add : Freight, loading and unloading charges	<u>40,800</u>
Total material cost	<u>9,40,800</u>
Number of units after normal loss (i.e. 98% of 10,000 kg.)	9,800 kg.
Normal cost per kg. $\frac{\text{₹ } 9,40,800}{9,800}$	₹ 96

Allocation of Material Cost

	Kg.	₹ / Kg.	Amount (₹)
Material consumed	9,500	96	9,12,000
Closing inventory (₹ 9,760 – ₹ 9,500)	260	96	24,960
Abnormal Loss (₹ 9,800 – ₹ 9,760)	<u>40</u>	<u>96</u>	<u>3,840</u>
Total material cost	<u>9,800</u>	<u>96</u>	<u>9,40,800</u>

** RBI vide its notification RBI 2010-11/529 DBOD. No. BP.BC.94/21.04.048/2011-12 dated May 18, 2011 has enhanced provisioning rates on sub-standard and doubtful assets.

Question 2

XYZ (P) Limited was incorporated on 01.08.2010 to take over the business of M/s Rank & Co. from 01.04.2010. The Profit & Loss Account as given by XYZ (P) Limited for the year ending 31.03.2011 is as under:

Dr.		Profit & Loss Account for the year ending 31.03.2011		Cr.	
Particulars	₹	Particulars	₹		
To Advertisement	99,000	By Gross profit b/d	9,45,000		
To Audit fee	15,000	By Interest on investment	16,000		
To Bad debts (related to sales)	27,000				
To Depreciation	21,000				
To Discount	9,000				
To Interest on debentures	80,000				
To Preliminary expenses	12,000				
To Rent	1,40,000				
To Salaries	4,48,000				
To Underwriting commission	20,000				
To Net Profit	90,000				
	9,61,000				9,61,000

Prepare Profit & Loss Account showing allocation of pre-incorporation and post-incorporation profits after considering the following information:

- (1) Gross profit ratio was constant throughout the year.
- (2) Sales for August 2010 to November 2010 were $1\frac{1}{2}$ times the average monthly sales while for December, 2010 to March, 2011 were 2 times the average sales.
- (3) Company had to occupy additional space from 01st December, 2010 for which rent was ₹ 5,000 per month.
- (4) Bad debts are shown after adjusting a recovery of ₹ 9,000 of bad debts for a sale made in July, 2010.
- (5) Salary of one manager was increased by ₹ 2,000 p.m. from August, 2010. Salary of other employees remains unchanged.
- (6) All investments were sold in May, 2010 at a profit of ₹ 27,000. Profit on sale of investment inadvertently included to sales and ultimately to gross profit. (16 Marks)

Answer

In the books of XYZ (P) Limited
Profit and Loss Account for the year ending 31st March, 2011

Particulars	Basis	Pre-Inc ₹	Post Inc. ₹	Total	Particulars	Basis	Pre-Inc ₹	Post Inc. ₹	Total
To Advertisement	Sales ratio	22,000	77,000	99,000	By Gross profit b/d	W.N.3	2,04,000	7,14,000	9,18,000
To Audit fee	Time ratio	5,000	10,000	15,000	By Bad debts Recovered	Actual	9,000	-	9,000
To Bad debts	Sales ratio (W.N. 4)	8,000	28,000	36,000	By Profit on sale of investments	Actual	27,000	-	27,000
To Depreciation	Time ratio	7,000	14,000	21,000	By Interest on investments	Actual	16,000	-	16,000
To Discount	Sales ratio	2,000	7,000	9,000					
To Interest on debentures	Of company i.e post	-	80,000	80,000					
To Preliminary expenses	Of company i.e post	-	12,000	12,000					
To Rent	W.N.5	40,000	1,00,000	1,40,000					
To Salaries	W.N.6	1,44,000	3,04,000	4,48,000					
To Underwriting commission	Of company i.e post	-	20,000	20,000					
To Capital reserve		28,000		28,000					
To Net profit			62,000	62,000					
		2,56,000	7,14,000	9,70,000			2,56,000	7,14,000	9,70,000

Working Notes:**1. Calculation of Sales Ratio**

Let us assume average monthly sales be X

Average sales during pre-incorporation period:

April, 2010 – July, 2010 = $4 \times X =$

4X

Average sales during post-incorporation period:

August, 2010 – November, 2010 = $4 \times 1.5X =$

6X

December, 2010 – March, 2011 = $4 \times 2X =$

8X

Total average sales during post-incorporation period =

14X

Ratio of sales between pre incorporation and post incorporation period is 4X : 14X i.e. 4: 14.

2. Calculation of time ratio

4 months : 8 months = 1:2

3. Gross Profit related to Trading Activity

	₹
Gross profit as per Profit & Loss A/c	9,45,000
Less: Profit on sale of investment	<u>(27,000)</u>
Gross profit related to trading activity	<u>9,18,000</u>

Gross profit apportioned in the ratio of sale 4:14 between pre incorporation and post incorporation period i.e. ₹ 2,04,000 and ₹ 7,14,000 respectively.

4. Apportionment of bad debts

	₹
Bad debts as per Profit and Loss A/c	27,000
Add : Bad debts recovered considered separately	<u>9,000</u>
	<u>36,000</u>

Bad debts apportioned in the ratio of sales 4:14 between pre incorporation and post incorporation period i.e. ₹ 8,000 and ₹ 28,000 respectively

5. Apportionment of Rent

	₹
Total rent	1,40,000
Less: Additional rent on new premises for 4 months (December, 2010 to March, 2011)	<u>(20,000)</u>
Rent for old premises for 12 months	<u>1,20,000</u>

	Pre Inc ₹	Post Inc ₹
Rent for old premise in time ratio 1:2	40,000	80,000
Rent for new premise	—	<u>20,000</u>
Apportioned rent	<u>40,000</u>	<u>1,00,000</u>

6. Apportionment of Salary

	₹
Total salary	4,48,000
Less: Increased salary of manager for 8 months @ ₹ 2,000 p.m.	<u>(16,000)</u>
Normal salary for 12 months	<u>4,32,000</u>

	Pre Inc ₹	Post Inc ₹
Normal salary in time ratio 1: 2	1,44,000	2,88,000
Increased salary of manager for post incorporation period only	—	<u>16,000</u>
Apportioned salary	<u>1,44,000</u>	<u>3,04,000</u>

7. Interest on debentures, underwriting commission and preliminary expenses are related to post incorporation period.

Question 3

Crystal Company Limited decided to reconstruct its business as it has accumulated huge losses. The following is the Balance Sheet of the company as on 31.03.2011 before reconstruction:

Balance Sheet as on 31.03.2011

Liabilities	₹	Assets	₹
3,00,000 Equity shares of ₹ 10 each fully paid up	30,00,000	Goodwill	5,20,000
1,60,000, 6% Preference shares of ₹ 10 each fully paid up	16,00,000	Patents	1,50,000
6% Debentures (Secured against land & building)	15,00,000	Land & building	17,00,000
Bank overdraft	5,80,000	Plant & machinery	2,00,000
Sundry creditors	12,00,000	Investments (at cost)	2,20,000
		Sundry debtors	17,40,000
		Stock	17,00,000
		Profit & loss A/c	18,50,000

Provision for income tax	<u>2,00,000</u>	
	<u>80,80,000</u>	<u>80,80,000</u>

Following scheme of reconstruction has been approved by all interested parties and the Court:

- (1) All equity shares are reduced to ₹ 3 each and preference shares to ₹ 7 each.
- (2) Debentureholders agree to take over a part of land and building, book value of which is ₹ 7,00,000, towards their 50% claim. Rate of interest of balance 50% debentures increased to 9%.
- (3) Goodwill and patent will be written off.
- (4) 10% of sundry debtors to be provided for bad debts.
- (5) Stock to be written off by ₹ 2,60,000.
- (6) 50% of balance land & building sold for ₹ 6,00,000 and remaining land & building valued at ₹ 6,00,000.
- (7) Investments to be sold for ₹ 2,00,000.
- (8) There are pending contracts amounting to ₹ 10,00,000. These contracts are to be cancelled on payment of penalty @ 5% of pending contract amount.
- (9) The income tax liability of the company is settled at ₹ 3,06,000. Provision for income tax will be raised accordingly.
- (10) 1/3 of sundry creditors decided to forgo their claim.
- (11) After making all the above adjustments, balance amount available through scheme, will be utilized to write off the value of plant & machinery to that extent.

You are required to pass the journal entries and draw up Balance Sheet of the company after reconstruction. (16 Marks)

Answer

In the books of Crystal Company Limited

Journal Entries

			Dr. (₹)	Cr. (₹)
1.	Equity share capital A/c (₹ 10) To Equity share capital A/c (₹ 3) To Capital reduction A/c (Being reduction of equity share of ₹ 10 each to shares of ₹ 3 each as per the reconstruction scheme)	Dr.	30,00,000	9,00,000 21,00,000
2.	6% Preference share capital A/c (₹ 10) To 6% preference share capital A/c (₹ 7)	Dr.	16,00,000	11,20,000

	To Capital reduction A/c (Being reduction of preference shares of ₹ 10 each to shares of ₹ 7 each as per the reconstruction scheme)			4,80,000
3.	6% Debentures A/c To Land & building A/c To 9% Debentures A/c To Capital reduction A/c (Being 50% claim of debentureholders discharged by transfer of a part of land & building having book value ₹ 7,00,000 and rate of interest of balance 50% debentures increased to 9% as per the reconstruction scheme)	Dr.	15,00,000	7,00,000 7,50,000 50,000
4.	Bank A/c To Land & building A/c To Capital reduction A/c (Being 50% of balance land & building having book value ₹ 5,00,000 sold for ₹ 6,00,000 as per the reconstruction scheme)	Dr.	6,00,000	5,00,000 1,00,000
5.	Land & building A/c To Capital reduction A/c (Being 50% of balance land & building having book value ₹ 5,00,000, valued at ₹ 6,00,000, as per the reconstruction scheme)	Dr.	1,00,000	1,00,000
6.	Bank A/c Capital reduction A/c To Investment A/c (Being all the investments sold as per the reconstruction scheme)	Dr. Dr.	2,00,000 20,000	2,20,000
7.	Sundry creditors A/c To Capital reduction A/c (Being 1/3 of sundry creditors decided to forgo their claim as per the reconstruction scheme)	Dr.	4,00,000	4,00,000
8.	Capital reduction A/c To Goodwill A/c	Dr.	32,10,000	5,20,000

To Patents A/c	1,50,000
To Provision of doubtful debts A/c	1,74,000
To Stock A/c	2,60,000
To Bank A/c	50,000
To Provision for income tax A/c	1,06,000
To Profit & loss A/c	18,50,000
To Plant & machinery A/c (Bal. fig.)	1,00,000
(Being goodwill, patent, profit and loss, part value of stock, plant and machinery, penalty paid for cancellation of contracts written off and provisions made for doubtful debts and income tax, as per the reconstruction scheme)	

Balance Sheet of Crystal Company Ltd. (And Reduced) as on 31.03.2011

Liabilities	₹	Assets		₹
3,00,000 Equity shares of ₹ 3 each fully paid up	9,00,000	Land & building (₹ 5,00,000 + ₹ 1,00,000)		6,00,000
1,60,000 6% Preference shares of ₹ 7 each fully paid up	11,20,000	Plant & Machinery (₹ 2,00,000 – ₹ 1,00,000)		1,00,000
9% Debentures	7,50,000	Sundry debtors	17,40,000	
Sundry creditors (₹ 12,00,000 – ₹ 4,00,000)	8,00,000	Less: Provision for Doubtful Debts	(1,74,000)	15,66,000
Provision for income tax (₹ 2,00,000 + ₹ 1,06,000)	3,06,000	Stock (₹ 17,00,000 – ₹ 2,60,000)		14,40,000
		Cash at bank (Refer W.N.)		<u>1,70,000</u>
	<u>38,76,000</u>			<u>38,76,000</u>

Working Note:

Bank A/c

	₹		₹
To Land & building A/c	5,00,000	By Balance b/d	5,80,000
To Capital reduction A/c	1,00,000	By Capital reduction A/c	50,000
To Investment A/c	<u>2,00,000</u>	By Balance c/d (Bal.fig.)	<u>1,70,000</u>
	<u>8,00,000</u>		<u>8,00,000</u>

Question 4

- (a) From the following particulars as provided by M/s. Thirumala & Co., prepare Debtors Ledger Adjustment A/c and Creditors Ledger Adjustment A/c in General Ledger for the year ending 31st March, 2011:

	₹
Opening balance as on 01.04.2010 of sundry debtors	2,40,000
Opening balance as on 01.04.2010 of sundry creditors	2,77,500
Cash purchases	3,66,300
Credit purchases	14,65,200
Cash sales	4,22,400
Credit sales	16,89,600
Cash paid to creditors	11,18,100
Bills payable accepted	3,50,900
Discount allowed by creditors	4,800
Sundry charges debited by creditors	7,200
Cash received from debtors	12,17,300
Bills receivable received	4,17,700
Discount allowed to debtors	7,750
Bad debts	6,700
Bad debts recovered, written off during earlier financial year	12,800
Provision for doubtful debts	38,500
Returns inward	13,150
Returns outward	9,000

- (b) The premise of Green Limited was partially destroyed by fire on March 01, 2011 and as a result, the business was practically disorganized up to August 31, 2011. The company is insured under a loss of profits policy for ₹ 6,60,000, having an indemnity period of 6 months.

From the information given below, find out claim under the policy:

	₹
Actual turnover from March 01, 2011 to August 31, 2011	3,20,000
Turnover from March 01, 2010 to August 31, 2010	9,60,000
Turnover from March 01, 2010 to February 28, 2011	24,00,000
Net profit for last financial year	3,60,000

Insured standing charges for last financial year	2,40,000
Uninsured standing charges for last financial year	20,000
Turnover for the last financial year	20,00,000

The company incurred additional expenses amount to ₹ 40,000 immediately after fire, which reduced the loss in turnover. Otherwise turnover during the period of dislocation would have been only amount to ₹ 2,20,000. The saving in insured standing charges in consequences of the fire amounted to ₹ 10,800.

There had been a considerable increase in trade since the date of the last annual accounts and it has been agreed that an adjustment of 10% be made in respect of the upward trend in turnover. Assume that, trend adjustment is required on total amount of annual turnover.
(8 + 8 = 16 Marks)

Answer

(a)

In the General ledger

Debtors Ledger Adjustment Account for the year ending 31st March, 2011

Date		₹	Date		₹
1.4.2010	To Balance b/d	2,40,000	1.4.2010	By General ledger	
1.4.2010	To General ledger		to	Adjustment A/c -	
to	Adjustment A/c -		31.3.2011	Cash	12,17,300
31.3.2011	Credit sales	16,89,600		Bills receivable	4,17,700
				Discount	7,750
				Returns inward	13,150
				Bad debts	6,700
				By Balance c/d	2,67,000
		19,29,600			19,29,600

Creditors' Ledger Adjustment A/c for the year ending 31st March, 2011

Date		₹	Date		₹
1.4.2010	To General ledger		1.4.2010	By Balance b/d	2,77,500
to	Adjustment A/c -		to	By General ledger	
31.3.2011	Cash	11,18,100	31.3.2011	Adjustment A/c -	
	Bills payable	3,50,900		Credit purchases	14,65,200
	Discount	4,800		Sundry charges	7,200
	Returns outward	9,000			
	To Balance c/d	2,67,100			
		17,49,900			17,49,900

Note: Following should not be entered either in the Debtors Ledger Adjustment account or Creditors Ledger Adjustment account:

1. Cash purchases
2. Cash sales
3. Bad debts recovered, written off during earlier financial year
4. Provision for doubtful debts.

(b) Computation of Loss of Profit - Insurance Claim

1. Rate of gross profit

	₹
Net profit for last financial year	3,60,000
Add: Insured standing charges for last financial year	<u>2,40,000</u>
	<u>6,00,000</u>
Turnover for the last financial year	<u>20,00,000</u>

Rate of gross profit = $(₹ 6,00,000 / ₹ 20,00,000) \times 100 = 30\%$

2. Short Sales

	₹
Standard turnover	9,60,000
Add: 10% Increasing trend	<u>96,000</u>
	10,56,000
Less: Turnover during disorganized period	<u>(3,20,000)</u>
	<u>7,36,000</u>

3. Annual (Adjusted) turnover

	₹
Annual turnover (March 01, 2010 to February 28, 2011)	24,00,000
Add: 10% Increasing trend	<u>2,40,000</u>
	<u>26,40,000</u>

4. Additional expenses

	₹
i. Actual expenses	40,000
ii. Gross profit on sales generated by additional expenses (₹ 3,20,000 - ₹ 2,20,000) $\times$ 30/100	30,000
iii. [Gross profit on annual (adjusted) turnover / (Gross profit on annual (adjusted) turnover + Uninsured standing charges)] $\times$ Additional expenses	

$[(\text{₹}26,40,000 \times 30\%) / \{(\text{₹}26,40,000 \times 30\%) + \text{₹}20,000\}] \times \text{₹}40,000$	
i.e. $[\text{₹}7,92,000 / \text{₹}8,12,000] \times 40,000$	<u>39,015</u>
Least of the above three figures is allowable i.e.	30,000

5. Claim

	₹
Loss of profit on short sales (Rs.7,36,000 x 30%)	2,20,800
Add: Allowable additional expenses	<u>30,000</u>
	2,50,800
Less: Saving in insured standing charges	<u>(10,800)</u>
Gross claim	<u>2,40,000</u>

Calculation of claim under the policy by applying average clause	
(Gross claim/Gross profit on adjusted turnover) x Policy amount	
$[\text{₹}2,40,000 / (\text{₹}26,40,000 \times 30\%)] \times \text{₹}6,60,000$	2,00,000

Question 5

- (a) P, Q and R were partners sharing profits and losses in the ratio of 2 : 2 : 1. R wants to retire from partnership on 31-3-2011 and S wants to join the partnership on the same date, to which both P & Q agreed. The Balance Sheet of the partnership firm as on 31-03-2011 and other information were as detailed below:

Balance Sheet as on 31-03-2011

Liabilities	₹	Assets	₹
Partners' capital A/cs		Fixed assets	6,00,000
P	4,80,000	Stock in hand	2,00,000
Q	3,20,000	Sundry debtors	2,80,000
R	2,40,000	Cash at bank	1,60,000
General reserve	40,000	Cash in hand	40,000
Sundry creditors	2,00,000		
	<u>12,80,000</u>		<u>12,80,000</u>

P, Q and S agree to share profits and losses in equal ratio in future. Value of goodwill is taken to be ₹1,80,000. Fixed assets are revalued upwards by ₹1,20,000 and stock by ₹40,000. A debtor from whom ₹20,000 was due, become insolvent. No amount will be received from him in future and same is not recorded in the books and balance sheet as above. Claim of R will be settled in full. P, Q and S agree to make their capital proportionate to their new profits sharing ratio. Balance amount receivable from/payable

to partners will be brought in by partners/paid to partners immediately. All these transactions viz., claim of R and amount receivable/payable to partners will be routed through bank only. New partners also want to maintain ₹ 3,20,000 bank balance for working capital requirement. However, they don't want to show goodwill in the books of accounts.

- (i) Revaluation account
 - (ii) Capital accounts of partners and
 - (iii) Balance Sheet of the firm as newly constituted.
- (b) From the following figures of Fire Insurance division of a General Insurance Company, show the amount of claim as it would appear in the Revenue Account for the year ended 31st March, 2011:

	Direct Business	Re-Insurance
	₹	₹
Claims paid during the year	70,05,000	10,50,000
Claims payable		
1 st April, 2010	11,44,500	1,30,500
31 st March, 2011	12,18,000	79,500
Claims received	-	3,45,000
Claims receivable		
1 st April, 2010	-	97,500
31 st March, 2011	-	1,69,500
Expenses of management (includes ₹ 52,500 surveyor's fee and ₹ 67,500 legal expenses for settlement of claims)	3,45,000	

(10 + 6 = 16 Marks)

Answer

(a) **Revaluation A/c**

	₹		₹
To Sundry debtors	20,000	By Fixed assets	1,20,000
To Partners' capital A/cs - Profit on revaluation		By Stock in hand	40,000
P	56,000		
Q	56,000		
R	28,000		
	1,60,000		1,60,000

Partners' Capital A/cs

	P	Q	R	S		P	Q	R	S
	₹	₹	₹	₹		₹	₹	₹	₹
To P, Q, and R (W.N.1)	-	-	-	60,000	By Balance b/d	4,80,000	3,20,000	2,40,000	-
To Bank (Bal. fig.)	1,04,000	-	3,12,000	-	By General reserve	16,000	16,000	8,000	-
To Balance c/d (W.N.2)	4,60,000	4,60,000	-	4,60,000	By Revaluation profit	56,000	56,000	28,000	-
					By S (W.N.1)	12,000	12,000	36,000	-
					By Bank (Bal.fig)	-	56,000	-	5,20,000
	5,64,000	4,60,000	3,12,000	5,20,000		5,64,000	4,60,000	3,12,000	5,20,000

Balance Sheet as on 31.03.2011
(After Retirement of R and admission of S)

Liabilities	₹	Assets	₹
Partners' capital A/cs (Bal. fig.)	13,80,000	Fixed assets	7,20,000
P 4,60,000		Stock in hand	2,40,000
Q 4,60,000		Sundry debtors	2,60,000
S <u>4,60,000</u>		Cash at bank	3,20,000
Sundry Creditors	2,00,000	Cash in hand	40,000
	15,80,000		15,80,000

Working Notes:**1. Adjustment of Goodwill**

	P	Q	R	S	Total
	₹	₹	₹	₹	₹
Credited to old partners in 2:2:1	72,000	72,000	36,000	-	1,80,000
Written off by remaining partners including S in 1:1:1	<u>60,000</u>	<u>60,000</u>	— -	<u>60,000</u>	<u>1,80,000</u>
Cr.	12,000	12,000	36,000		-
Dr.				60,000	-

2. As per balance sheet as on 31.03.2011 (after retirement of R and admission of S), balancing figure of total partners' capital is ₹ 13,80,000 (i.e. Total assets ₹ 15,80,000 – Sundry creditors ₹ 2,00,000). Since partners agree to make their capital proportionate to their new profit sharing ratio i.e. 1:1:1, capital of each partner will be ₹ 4,60,000 (i.e. ₹ 13,80,000/3).

3. Bank A/c

	₹		₹
To Balance b/d	1,60,000	By P's capital	1,04,000
To Q's capital	56,000	By R's capital	3,12,000
To S's capital	5,20,000	By Balance c/d	3,20,000
	7,36,000		7,36,000

(b) **Statement showing the amount of claims
for the year ended 31st March, 2011**

Claim paid on		
Claims paid on direct business (70,05,000 + 52,500 + 67,500)		71,25,000
Add:- Re-insurance	10,50,000	
Add:- Outstanding as on 31.03.2011	79,500	
Less:- Outstanding as on 01.04.2010	<u>(1,30,500)</u>	<u>9,99,000</u>
		81,24,000
Less:- Claims received from Re-insurance	3,45,000	
Add:- Outstanding as on 31.03.2011	1,69,500	
Less:- Outstanding as on 01.04.2010	<u>(97,500)</u>	<u>(4,17,000)</u>
		77,07,000
Add:- Outstanding direct claims as on 31.3.2011		<u>12,18,000</u>
		89,25,000
Less:- Outstanding direct claims as on 1.4.2010		<u>(11,44,500)</u>
Net claims incurred		<u>77,80,500</u>

Question 6

(a) Following is the Balance Sheet of Happy Limited as on March 31, 2011:

Balance Sheet as on 31-3-2011

Liabilities	₹	Assets	₹
Authorised share capital:		Fixed assets	20,00,000
2,00,000 Equity shares of ₹10 each	<u>20,00,000</u>		
Issued and subscribed share capital:		Investment	4,40,000
2,00,000 Equity shares of ₹10 each,		Current assets,	5,60,000
₹7 paid up	14,00,000	loans & advances	
Reserves and Surplus:			
Capital reserve (Profit on sale of fixed assets)	1,30,000		
Securities premium	90,000		
(Includes ₹ 20,000 received otherwise than in cash)			
General reserve	2,40,000		

Profit & loss A/c	5,20,000		
Secured loans:			
12% Fully convertible debentures @ ₹ 100 each	4,00,000		
Current liabilities and provisions	2,20,000		
	30,00,000		30,00,000

On April 01, 2011, company has made final call @ ₹ 3 on 2,00,000 equity shares and received complete call money by April 30, 2011.

The company wants to issue bonus shares to its shareholders @ one share for every four shares held.

12% Debentures are convertible into equity shares of ₹ 10 each fully paid on June 01, 2011. Necessary resolutions were passed and requisite legal requirements were complied with. For issue of bonus shares it was decided that reserves and surplus, other than profit and loss account, should be first capitalized.

Prepare Balance Sheet as on May 15, 2011, date on which all the formalities related to the issue of bonus shares completed. For the purpose of preparation of Balance Sheet, assume that, Balance Sheet items as on March 31, 2011, which are not effected by issue of bonus shares as above, remains unchanged as on May 15, 2011. Also pass necessary Journal Entries in the books of the company related to issue of bonus shares, for the period from April 01, 2011 to May 15, 2011.

- (b) The Income & Expenditure Account of Neo Sports Club for the year ending March 31, 2011 is as follows:

Expenditure	₹	Income	₹
To Salaries	7,20,000	By Subscription	9,00,000
To Depreciation	90,000		
To Bank interest	38,400		
To Audit fee	20,000		
To Insurance	9,000		
To Surplus transferred to balance sheet	22,600		
	9,00,000		9,00,000

Following adjustments have been made while preparing Income & Expenditure A/c as above:

- (1) Subscription outstanding as on 31-03-2010 amounting to ₹ 72,000 and as on 31-03-2011 amounting to ₹ 90,000.

- (2) Subscription received in advance as on 31-03-2010 amounting to ₹ 54,000 and as on 31-03-2011 amounting to ₹ 32,400.
- (3) Salary outstanding as on 31-03-2010 amounting to ₹ 55,000 and as on 31-03-2011 amounting to ₹ 60,000.
- (4) Audit fee is same for financial year 2009-10 and financial year 2010-11. As a standard practice, audit fee of one financial year is paid during next financial year, after completion of audit.
- (5) A loan amounting to ₹ 3,20,000 has been taken from bank by Club on 01-10-2009. Interest on loan is payable @ 12% p.a. Interest of one financial year paid on April, 01 of next financial year. No amount of principal is repaid by the club till 31-03-2011.
- (6) Assets of club as on 31-03-2010 were as under:
- | | |
|--|-------------|
| Land at cost | ₹ 10,00,000 |
| Building at WDV (Original cost ₹ 7,00,000) | ₹ 6,65,000 |
| Sports Equipments WDV (Original cost ₹ 5,00,000) | ₹ 4,50,000 |
- (7) Depreciation on building to be provided @ 5% on straight line basis.
There is no addition to building during financial year 2010-11.
- (8) Depreciation on sports equipments to be provided @ 10% on straight line basis.
Fresh sports equipments purchased during financial year 2010-11 on 01-10-2010.
- (9) Insurance is paid on October 01, during each financial year which remains valid till September 30 of next financial year prepaid insurance as on 31-03-2010 was ₹ 4,200.
- (10) Cash & bank balance as on 31-03-2011 amounting to ₹ 1,56,000 and as on 31-03-2010 amounting to ₹ 1,59,400.

Prepare Receipts and Payments A/c for the year ending on March 31, 2011.

(8+ 8 = 16 Marks)

Answer

(a)

In the books of Happy limited

Balance Sheet as on 15-05-2011

Liabilities	₹	Assets	₹
Authorized share capital: 3,00,000 Equity shares of ₹ 10 each (W.N.1)		Fixed assets	20,00,000
		Investment	4,40,000
Issued and subscribed share capital:	<u>30,00,000</u>	Current assets, loans & advances	11,60,000

		(5,60,000 + 6,00,000)	
2,50,000 Equity shares of ₹ 10 each, fully paid up (out of the above, 50,000 equity Shares issued by way of bonus)	25,00,000		
Reserves and Surplus:			
Securities premium (received otherwise than in cash)	20,000		
Profit & loss A/c (5,20,000 – 60,000)	4,60,000		
Secured Loans:			
12% Fully convertible debentures @ ₹100 each	4,00,000		
Current liabilities and provisions	2,20,000		
	36,00,000		36,00,000

Journal Entries

2011		Dr.	Cr.
		₹	₹
April 01	Equity share final call A/c Dr. To Equity share capital A/c (Being final call of ₹ 3 per share on 2,00,000 equity shares made)	6,00,000	6,00,000
April 30	Bank A/c Dr. To Equity share final call A/c (Being final call money on 2,00,000 equity shares received)	6,00,000	6,00,000
May 15	Capital reserve A/c Dr. Securities premium A/c (90,000 – 20,000) Dr. General reserve A/c Dr. Profit & loss A/c Dr. To Bonus to shareholders A/c (Being bonus issue @ one share for every four shares held, by utilizing various reserves)	1,30,000 70,000 2,40,000 60,000	5,00,000

May 15	Bonus to shareholders A/c To Equity share capital A/c (Being capitalization of reserves and profits)	Dr.	5,00,000	5,00,000
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Working Notes:**1. Authorised Share Capital**

	<i>Number of shares</i>
Existing number of authorised share capital	2,00,000
Add: Issue of bonus shares to existing equity shareholders	50,000
Add: Shares required for conversion of debentures	40,000
Add: Bonus shares to be issued to debentureholders after conversion	<u>10,000</u>
Total authorised share capital as on May 15, 2011 should be	<u>3,00,000</u>

- As per SEBI guidelines, no company can issue bonus shares to its shareholders without extending similar benefit to convertible debentureholders. Pending such conversion, necessary number of shares should be earmarked for convertible debenture holders. Therefore, convertible debentureholders are also entitled to the bonus shares in the same ratio as the equity shareholders on conversion.
- As per SEBI guidelines, securities premium collected in cash can only be utilised for bonus issue.

(b)**In the books of Neo Sports Club****Receipts and Payments A/c for the year ending March 31, 2011**

Receipts	₹	Payments	₹
To Balance b/d	1,59,400	By Salaries	7,20,000
To Subscription (W.N.1)	8,60,400	Add: Outstanding as on 31.03.2010	<u>55,000</u>
			7,75,000
		Less: Outstanding as on 31.03.2011	<u>(60,000)</u>
			7,15,000
		By Sports equipments purchased (W.N.3)	1,00,000
		By Bank interest (W.N. 2)	19,200
		By Audit fee (2009-10)	20,000
		By Insurance (W.N.4)	9,600
		By Balance c/d	1,56,000
	10,19,800		10,19,800

Working Notes:**1. Subscription received during the year 2010-11**

	₹
Subscription as per Income and Expenditure A/c	9,00,000
Add: Outstanding as on 31.03.2010	72,000
Add: Advance as on 31.03.2011	<u>32,400</u>
	10,04,400
Less: Outstanding as on 31.03.2011	(90,000)
Advance as on 31.03.2010	<u>(54,000)</u>
Subscription received during the year	<u>8,60,400</u>

2. Interest on loan from bank

₹

Interest for the financial year 2009-10, paid on 01.04.2010,
for six months from (i.e. 01.10.2009 to 31.03.2010)

$$(\text{₹ } 3,20,000 \times 12\% \text{ p.a.} \times 6/12) \quad 19,200$$

3. Sports equipments purchased during the year

	₹
Depreciation as per Income & Expenditure A/c	90,000
Less: Depreciation on Building @ 5% on ₹ 7,00,000	<u>(35,000)</u>
	55,000
Less: Depreciation on opening sports equipments @ 10% on ₹ 5,00,000	<u>(50,000)</u>
Depreciation on sports equipments purchased on 1.10.2010	<u>5,000</u>

Value of sports equipments purchased on 01.10.2010 will be

(Amount of Depreciation/Rate of Depreciation) x (12 / Period for which sports equipments held during the year)

$$[\text{₹ } 5,000 \times (100/10)] \times (12 / 6) \quad \text{₹ } 1,00,000$$

4. Insurance paid during the year

	₹
Insurance as per Income & Expenditure A/c	9,000
Less: Prepaid as on 31.03.2010 i.e. paid during financial year 2009-10 for the period 01.04.2010 to 30.09.2010	<u>(4,200)</u>
Insurance paid during the financial year, for the period 01.10.2010 to 31.03.2011	4,800
Therefore, insurance paid during the financial year 2010-11, for the period 01.10.2010 to 30.09.2011 therefore will be $[(4,800 / 6) \times 12]$	9,600

Question 7

Answer any **four** of the following:

- (a) List out assets to which AS 6 "Depreciation Accounting" will not be applicable.
- (b) Mr. Y bought a forward contract for three months of US \$ 2,00,000 on 1st December 2010 at 1 US \$ = ₹ 44.10 when the exchange rate was 1 US \$ = ₹ 43.90. On 31-12-2010, when he closed his books, exchange rate was 1 US \$ = ₹ 44.20. On 31st January, 2011 he decided to sell the contract at ₹ 44.30 per Dollar. Show how the profits from the contract will be recognized in the books of Mr. Y.
- (c) Briefly explain advantages of using Customised Accounting Package.
- (d) Books of India Limited could not recover ₹ 8 lakhs from a debtor. The company is aware that the debtor is in great financial difficulty. The accounts of the company were finalized for the year ended 31-03-2011 by making a provision at 20% of the amount due from the said debtor.
- The debtor became bankrupt in April, 2011 and nothing is recoverable from him. Do you advise the company to provide for the entire loss of ₹ 8 lakhs in the books of account for the year ended 31st March, 2011.
- (e) On April 01, 2008, ABC & Associates acquired a Motor Car on hire purchase from MC & Co. The terms of the contract were as follows:
- Cash price of Motor Car was ₹ 2,10,000.
 - ₹ 70,000 were to be paid on signing of the contract and balance in two equal annual installments plus interest, to be paid at the beginning of the onward financial years i.e. on April 01, 2009 and so on.
 - Interest chargeable on the outstanding balance was @ 12% p.a.
 - Depreciation @ 10% p.a. to be written-off using written down value method.
- You are required to prepare Motor Car A/c in the books of ABC & Associates from April 01, 2008 to March 31, 2011. (4 x 4 = 16 Marks)

Answer

(a) AS 6 “Depreciation Accounting” applies to all depreciable assets except

- (i) Forests, plantations and similar regenerative natural resources;
- (ii) Wasting assets including expenditure on the exploration for and extraction of minerals, oils, natural gas and similar non – regenerative resources;
- (iii) Expenditure on research and development;
- (iv) Goodwill
- (v) Livestock.

This statement also does not apply to land unless it has a limited useful life for the enterprise.

(b) As per para 39 of AS 11 ‘Changes in Foreign Exchange Rates’, in recording a forward exchange contract intended for trading or speculation purpose, the premium or discount on the contract is ignored and at each balance sheet date, the value of contract is marked to its current market value and the gain or loss on the contract is recognised. This statement also does not apply to land unless it has a limited useful life for the enterprise.

Since the forward contract was for speculation purposes the premium on forward contract i.e. the difference between the spot rate and the forward contract rate will not be recorded in the books. Only when the forward contract is sold the difference between the forward contract rate and sale rate will be recorded in the Profit & Loss Account.

Sale rate	₹ 44.30
Less: Contract rate	<u>(₹ 44.10)</u>
Profit on sale of contract per US\$	<u>₹ 00.20</u>

Contract Amount US \$ 2,00,000

Total profit (2,00,000 x 0.20) ₹ 40,000

Disclosure:

An enterprise should disclose the following:

- (i) The amount of exchange differences included in the net profit or loss for the period.
- (ii) Net exchange differences accumulated in foreign currency translation reserve as a separate component of shareholder's funds, and a reconciliation of the amount of such exchange differences at the beginning and end of the period.

(c) **Advantage of using customized accounting package:**

- (i) The functional areas that would otherwise have not been covered could be computerized.

- (ii) The input screens can be tailor made to match the input document for ease of data entry.
 - (iii) The reports can be as per the specification of the organization. Many additional MIS reports can be included in the list of reports.
 - (iv) The system can suitably match with the organizational structure of the company.
 - (v) Bar code scanners can be used as input devices suitable for the specific needs of an individual organization.
- (d) As per para 8 of AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

In the given case, bankruptcy of the debtor in April, 2011 and consequent non- recovery of the debt is an event occurring after the balance sheet which materially affects the determination of profits for the year ended 31.03.2011. The debtor was already in a great financial difficulty as on 31.3.2011. Information of a debtor becoming bankrupt is only an extension of the position prevailed at the balance sheet date. Therefore, the company is advised to provide for the entire amount of ₹ 8 lakhs according to AS 4 as on 31.3.2011.

(e) **In the books of ABC & Associates**

Motor Car A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2008-09 April 01	To MC & Co.	2,10,000	2008-09 March 31	By Depreciation A/c By Balance c/d	21,000 1,89,000
		2,10,000			2,10,000
2009-10 April 01	To Balance b/d	1,89,000	2009-10 March 31 March 31	By Depreciation A/c By Balance c/d	18,900 1,70,100
		1,89,000			1,89,000
2010-11 April 01	To Balance b/d	1,70,100	2010-11 March 31	By Depreciation A/c By Balance c/d	17,010 1,53,090
		1,70,100			1,70,100

Note: Value of car will be taken at cash price while preparing Motor Car A/c. No adjustment required for down payment, installment and interest paid, in the Motor Car A/c.