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PAPER – 1 : ADVANCED ACCOUNTING

Question No. 1 is compulsory

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

Working Notes should form part of the answer.

Wherever necessary suitable assumptions should be made by the candidates.

Question 1

- (a) Z Ltd. Purchased a fixed asset for ₹ 75 lakhs, which has the estimated useful life of 5 years with the salvage value of ₹ 7,50,000. On purchase of the asset, government granted it a grant of ₹ 15 lakhs. Pass the necessary journal entries in the books of the company for first two years.

- (b) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 25,00,000 against which payment was made as follows:

Liquidation expenses	₹ 25,000
Secured Creditors	₹ 10,00,000
Preferential Creditors	₹ 75,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

- (c) ABC Ltd. wants to re-classify its investments in accordance with AS-13. Decide and state on the amount of transfer, based on the following information:
- (1) A portion of Current Investments purchased for ₹ 20 lakhs, to be reclassified as Long Term Investment, as the company has decided to retain them. The market value as on the date of Balance Sheet was ₹ 25 lakhs.
 - (2) Another portion of current investments purchased for ₹ 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was ₹ 6.5 lakhs.
 - (3) Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹ 18 lakhs but had been written down to ₹ 12 lakhs to recognize permanent decline as per AS 13.
- (d) An earthquake destroyed a major warehouse of Daya Ltd. On 18.5.20.11. The accounting year of the company ended on 31.3.2011. The accounts were approved on 30.6.2011. The loss from earthquake is estimated at ₹ 45 lakhs. State with reasons, whether the loss due to earthquake is an adjusting or non-adjusting even and how the fact of loss is to be disclosed by the company?
(4 x 5 = 20 Marks)

Answer

- (a) AS 12 states two methods of presentation of grants, related to fixed assets, in the financial statements. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value as follows:

Journal entries in the books of Z Ltd.			
Year	Particulars	₹ (Dr.)	₹ (Cr.)
1st	Fixed Asset Account Dr. 75,00,000 To Bank Account (Being Fixed Asset purchased)	75,00,000	75,00,000
	Bank Account Dr. 15,00,000 To Fixed Asset Account (Being grant received from the government)	15,00,000	15,00,000
	Depreciation Account ₹ (60,00,000-7,50,000)/5 Dr. 10,50,000 To Fixed Asset Account (Being Depreciation charged on Straight line method)	10,50,000	10,50,000
	Profit & Loss Account Dr. 10,50,000 To Depreciation Account (Being depreciation transferred to Profit & Loss Account)	10,50,000	10,50,000
	Depreciation Account Dr. 10,50,000 To Fixed Asset Account (Being Depreciation charged on Straight line method)	10,50,000	10,50,000
2nd	Profit & Loss Account Dr. 10,50,000 To Depreciation Account (Being depreciation transferred to Profit & Loss Account)	10,50,000	10,50,000
	Depreciation Account Dr. 10,50,000 To Fixed Asset Account (Being Depreciation charged on Straight line method)	10,50,000	10,50,000

Note: Alternatively the question may be solved on the basis of the second method as stated in AS 12 where grants related to depreciable assets are treated as deferred income and is recognised in the profit and loss statement over the useful life of the asset.

- (b) **Calculation of Total Remuneration payable to Liquidator**

	Amount in ₹
2% on Assets realised 25,00,000 x 2%	50,000

3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N)		<u>39,255</u>
Total Remuneration payable to Liquidator		<u>91,505</u>

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= ₹25,00,000 – ₹ 25,000 – ₹ 10,00,000 – ₹ 75,000 – ₹ 50,000 – ₹ 2,250 = ₹ 13,47,750.

Liquidator's remuneration on payment to unsecured creditors = $\frac{3}{103} \times ₹ 13,47,750 = ₹ 39,255$

- (c) As per para no. 24 of AS 13 "Accounting for investments", where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

- (1) In the first case, the market value of the investment is ₹ 25 lakhs, which is higher than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. ₹ 20 lakhs.
- (2) In the second case, the market value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. ₹ 6.5 lakhs. The loss of ₹ 8.5 lakhs should be charged to profit and loss account.

As per para no. 23 of AS 13 "Accounting for investments", where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

- (3) In the third case, the book value of the investment is ₹ 12 lakhs, which is lower than its cost i.e. ₹ 18 lakhs. Here, the transfer should be at carrying amount and hence this re-classified current investment should be carried at ₹ 12 lakhs.
- (d) The destruction of warehouse is a significant event occurring after the balance sheet date, but since the earthquake did not exist on the balance sheet date, the destruction by earthquake is a non-adjusting event.

Therefore, the value of property lost by earthquake need not be recognised in the financial statements of 2010-11.

However, Report of the Directors for 2010-11 should disclose the fact of earthquake together with an estimate of loss on earthquake i.e ₹ 45 lakhs.

Also, the fact that whether going concern assumption is still applicable to Daya Ltd. or not should be disclosed, if the loss is huge and material.

Question 2

Ram Limited and Shyam Limited carry on business of a similar nature and it is agreed that they should amalgamate. A new company, Ram and Shyam Limited, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. On 31st March 2011 the Balance Sheets of the two companies were as under:

Ram Limited**Balance Sheet as at 31st March, 2011**

Liabilities	₹	Assets	₹
Issued and Subscribed		Freehold Property, at cost	2,10,000
Share Capital:		Plant and Machinery, at cost less	
30,000 Equity Shares of ₹10		Depreciation	50,000
Each, fully paid	3,00,000	Motor Vehicles, at cost	
General Reserve	1,60,000	Less Depreciation	20,000
Profit and Loss Account	40,000	Stock	1,20,000
Sundry Creditors	1,50,000	Debtors	1,64,000
	—	Cash at Bank	<u>86,000</u>
	<u>6,50,000</u>		<u>6,50,000</u>

Shyam Limited**Balance Sheet as at 31st March, 2011**

Liabilities	₹	Assets	₹
Issued and Subscribed		Freehold Property, at cost	1,20,000
Share Capital:		Plant and Machinery, at cost	
16,000 Equity Shares of ₹10		less Depreciation	30,000
each, fully paid	1,60,000	Stock	1,56,000
Profit and Loss Account	40,000	Debtors	42,000
6% Debentures	1,20,000	Cash at Bank	36,000
Sundry Creditors	64,000		
	<u>3,84,000</u>		<u>3,84,000</u>

Assets and Liabilities are to be taken at book-value, with the following exceptions:

- Goodwill of Ram Limited and of Shyam Limited is to be valued at ₹1,60,000 and ₹60,000 respectively.
- Motor Vehicles of Ram Limited are to be valued at ₹60,000.

- (c) The debentures of Shyam Limited are to be discharged by the issue of 6% Debentures of Ram and Shyam Limited at a premium of 5%.
- (d) The Debtors of Shyam Ltd. realised fully and Bank Balance of Shyam Limited are to be retained by the liquidator and the Sundry Creditors of Shyam Ltd. are to be paid out of the proceeds thereof.

You are required to:

- (i) Compute the basis on which shares in Ram and Shyam Limited will be issued to the Shareholders of the existing companies assuming that the nominal value of each share in Ram and Shyam Limited is ₹10.
- (ii) Draw up a Balance Sheet of Ram and Shyam Limited as of 1st April, 2011, the date of completion of amalgamation.
- (iii) Write up Journal entries, including Bank entries, for closing the books of Shyam Limited.

(16 Marks)

Answer

Calculation of Purchase consideration

	Ram Ltd. ₹	Shyam Ltd. ₹
Purchase Consideration:		
Goodwill	1,60,000	60,000
Freehold property	2,10,000	1,20,000
Plant and Machinery	50,000	30,000
Motor vehicles	60,000	-
Stock	1,20,000	1,56,000
Debtors	1,64,000	-
Cash at Bank	<u>86,000</u>	<u>-</u>
	8,50,000	3,66,000
Less: Liabilities:		
6% Debentures (1,20,000 x 105%)	-	(1,26,000)
Sundry Creditors	<u>(1,50,000)</u>	<u>-</u>
Net Assets taken over	<u>7,00,000</u>	<u>2,40,000</u>
To be satisfied by issue of shares of Ram and Shyam Ltd. @ ₹10 each	<u>70,000</u>	<u>24,000</u>

Balance Sheet of Ram and Shyam Ltd. as at 1st April, 2011

<i>Liabilities</i>	₹	<i>Assets</i>	₹
94,000 shares of ₹10 each	9,40,000	Goodwill (1,60,000+60,000)	2,20,000
Securities Premium A/c (W.N.1)	6,000	Freehold property (2,10,000+1,20,000)	3,30,000
6% Debentures	1,20,000	Plant and Machinery (50,000+30,000)	80,000
Sundry Creditors	1,50,000	Motor vehicles	60,000
		Stock (1,20,000+1,56,000)	2,76,000
		Debtors	1,64,000
		Cash at Bank	86,000
	<u>12,16,000</u>		<u>12,16,000</u>

In the books of Shyam Ltd.**Journal Entries**

		₹	₹
1.	Realisation A/c Dr. To Freehold Property To Plant and Machinery To Stock To Debtors (Being all assets except cash transferred to Realisation Account)	3,48,000	1,20,000 30,000 1,56,000 42,000
2.	6% Debentures A/c Dr. Sundry Creditors A/c Dr. To Realisation A/c (Being all liabilities transferred to Realisation Account)	1,20,000 64,000	1,84,000
3.	Equity Share Capital A/c Dr. Profit and Loss A/c Dr. To Realisation A/c (Being equity transferred to equity shareholders account)	1,60,000 40,000	2,00,000
4.	Ram and Shyam Ltd. Dr. To Realisation A/c (Being purchase consideration due)	2,40,000	2,40,000
5.	Bank A/c Dr. To Realisation A/c (Being cash realized from debtors in full)	42,000	42,000

6.	Realisation A/c To Bank A/c (Being payment made to creditors)	Dr.	64,000	64,000
7.	Shares in Ram and Shyam Ltd. To Ram and Shyam Ltd. (Being purchase consideration received in the form of shares of Ram and Shyam Ltd.)	Dr.	2,40,000	2,40,000
8.	Realisation A/c To Equity shareholders A/c (Being profit on Realisation account transferred to shareholders account)	Dr.	54,000	54,000
9.	Equity shareholders A/c To Shares in Ram and Shyam Ltd. To Bank A/c (Being final payment made to shareholders)	Dr.	2,54,000	2,40,000 14,000

Working Note:**Calculation of Securities Premium balance**

Debentures issued by Ram and Shyam Ltd. to Shyam Ltd. at 5% premium

Therefore, securities premium account will be credited with (₹1,20,000 x 5%)
₹ 6,000.

Question 3

- (a) The following particulars are extracted from the Books of the Commercial Bank Ltd. for the year ending 31st March, 2011.

(i) Interest and Discounts	1,98,64,800
(ii) Rebate on Bills Discounted (balance on 1.4.2010)	70,080
(iii) Bills Discounted and purchased	77,46,400

It is ascertained that proportionate discount not yet earned on the Bills Discounted which will mature during 2011-2012 amount to ₹96,860.

Pass the necessary Journal entries with narration adjusting the above and show:

- (a) Rebate on Bills Discounted Account; and (8 Marks)
- (b) Interest and Discount Account in the ledger of the Commercial Bank Limited.
- (b) On 1st January, 2011 X's account in Y's ledger showed a debit balance of ₹5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2011:

2011			₹
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promissory note from X 3 months date	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200
March	01	X sold goods to Y	5,600
March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2011 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2011, taking interest into account @ 10% per annum. Calculated interest to the nearest multiple of a rupee. (8 Marks)

Answer

(a)

The Commercial Bank Ltd.

Journal Entries

Date		Dr.	Cr.
2011		₹	₹
March 31	Rebate on Bills Discounted A/c Dr. To Interest and Discount A/c (Being the amount of provision for unexpired discount brought forward from the previous year credited to Interest and Discount A/c)	70,080	70,080
March 31	Interest and Discount A/c Dr. To Rebate on Bills Discounted A/c (Being provision for unexpired discount required at the end of the current year)	96,860	96,860
March 31	Interest and Discount A/c Dr. To Profit & Loss A/c (Being transfer of balance to Profit and Loss A/c)	1,98,38,020	1,98,38,020

Rebate on Bills Discounted Account

		₹			₹.
March 31 2011	To Interest and Discount A/c	70,080	April 1 2010	By Balance b/d	70,080

March 31, 2011	To Balance c/d	96,860	March 31, 2011	By Interest Discount A/c (rebate carried forwarded)	
		<u>1,66,940</u>			<u>96,860</u>
					<u>1,66,940</u>

(b) Interest and Discount Account

March 31	To Profit & Loss A/c (transfer)	1,98,38,020	April 1 2010	By Rebate on Bills Discounted A/c (opening balance)	70,080
March 31	To Rebate on Bills Discounted A/c	<u>96,860</u>	March 31	By Bills Discounted & purchased	<u>1,98,64,800</u>
		<u>1,99,34,880</u>			<u>1,99,34,880</u>

(b) In the books of Y**X in Account Current with Y**

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2011 Jan.1	To Balance b/d	₹ 5,000	90	4,50,000	2011 Jan.24	By Promissory Note (due date 27 th April)	₹ 5,000	(27)	(1,35,000)
Jan. 11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000
Mar. 18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar. 31	To Interest	219			Mar. 23	By Purchases	4,000	8	32,000
					Mar. 31	By Balance of Products			7,97,600
					Mar. 31	By Bank	3,019		
		<u>28,619</u>		<u>14,94,600</u>			<u>28,619</u>		<u>14,94,600</u>

Working Note:**Calculation of interest:**

$$\text{Interest} = \frac{7,97,600}{365} \times \frac{10}{100} = ₹ 219 \text{ (approx.)}$$

Question 4

From the following information in respect of a trader, prepare Trading and Profit and Loss Account for the year ended 31st March, 2011 and a Balance Sheet as at that date:

		31-03-2010	31.03-2011
(1)	Liabilities and Assets	₹	₹
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000
	Prepaid expenses	12,000	14,000
	Cash on hand	4,000	3,000
	Bank Balance	20,000	9,500
(2)	Receipts and Payments during 2010-2011:		
	Collections from Debtors (after allowing 2-1/2% discount)		11,70,000
	Payments to Creditors (after receiving 2% discount)		7,84,000
	Proceeds of Bills receivable discounted at 2%)		1,22,500
	Proprietor's drawings		1,40,000
	Purchase of furniture midway through the year		20,000
	4% Government securities purchased at 96% on 1-10-2010		1,92,000
	Expenses		3,50,000
	Miscellaneous Income		10,000
(3)	Sales are effected so as to realize a gross profit of $33\frac{1}{3}\%$ on the sale proceeds.		
(4)	Goods, costing ₹ 18,000, were issued as advertisement articles.		

- (5) During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. Of these, Bills amount to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor.

(6) Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance of 9,500 on 31st March, 2011 (as shown above), is after taking the same into account.

(7) Purchases and Sales are made only on credit.

(16 Marks)

Answer

**Trading and Profit and Loss Account
for the year ended 31st March, 2011**

	Amount		Amount
	₹		₹
To Opening stock	1,60,000	By Sales	13,71,000
To Purchases (W.N.5) 9,12,000		By Closing stock	1,40,000
Less: Advertisement (18,000)	8,94,000		
To Gross profit c/d (Ba.fig.)	<u>4,57,000</u>		
	<u>15,11,000</u>		<u>15,11,000</u>
To Expenses (W.N.7)	3,44,000	By Gross profit b/d	4,57,000
To Discount allowed (W.N.9)	32,500	By Discount received (W.N.10)	16,000
To Advertisement	18,000	By Interest on Govt. Securities (W.N.8)	4,000
To Depreciation on furniture (W.N.1)	13,000	By Miscellaneous income	10,000
To Net profit	<u>79,500</u>		
	<u>4,87,000</u>		<u>4,87,000</u>

Balance Sheet as on 31st March, 2011

Liabilities		Amount ₹	Assets	Amount ₹
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional capital (W.N.2)	1,72,000		4% Government Securities	1,92,000
Add: Profit during the year	<u>79,500</u>		Debtors (W.N.3)	2,99,000
	6,27,500		Bills Receivable(W.N.4)	35,000
Less: Drawings	<u>(1,40,000)</u>	4,87,500	Stock	1,40,000
Creditors		3,00,000	Outstanding interest on Govt. securities (W.N.8)	4,000
Outstanding expenses		36,000	Prepaid expenses	14,000
			Cash on hand	3,000
			Bank balance	<u>9,500</u>
		<u>8,23,500</u>		<u>8,23,500</u>

Working Notes:**1. Furniture account**

	₹		₹
To Balance b/d	1,20,000	By Depreciation (bal.fig.)	13,000
To Bank	<u>20,000</u>	By Balance c/d	<u>1,27,000</u>
	<u>1,40,000</u>		<u>1,40,000</u>

2. Cash and Bank account

	₹		₹
To Balance b/d		By Creditors	7,84,000
Cash	4,000	By Drawings	1,40,000
Bank	20,000	By Furniture	20,000
To Debtors	11,70,000	By 4% Govt. securities	1,92,000
To Bill Receivable	1,22,500	By Expenses	3,50,000
To Miscellaneous income	10,000	By Balance c/d	
To Additional Capital (bal.fig.)	1,72,000	Cash	3,000
		Bank	<u>9,500</u>
	<u>14,98,500</u>		<u>14,98,500</u>

3. Debtors account

	₹		₹
To Balance b/d	3,20,000	By Cash and Bank	11,70,000
To Creditors (Bills receivable dishonoured)	8,000	By Discount	30,000
To Sales (W.N.11)	13,71,000	By Bills Receivable	2,00,000
		By Balance c/d (bal.fig.)	<u>2,99,000</u>
	<u>16,99,000</u>		<u>16,99,000</u>

4. Bills Receivable account

	₹		₹
To Debtors	2,00,000	By Bank	1,22,500
		By Discount	2,500
		By Creditors	40,000
		By Balance c/d (bal. fig.)	<u>35,000</u>
	<u>2,00,000</u>		<u>2,00,000</u>

5. Creditors account

	₹		₹
To Bank	7,84,000	By Balance b/d	2,20,000
To Discount	16,000	By Debtors(Bills receivable dishonoured)	8,000
To Bills receivable	40,000	By Purchases (bal.fig.)	9,12,000
To Balance c/d	<u>3,00,000</u>		
	<u>11,40,000</u>		<u>11,40,000</u>

6. Balance Sheet as on 1st January, 2011

Liabilities		Assets	
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing figure)	3,76,000	Stock	1,60,000
		Prepaid expenses	12,000
		Cash	4,000
		Bank balance	<u>20,000</u>
	<u>6,36,000</u>		<u>6,36,000</u>

7. Expenses

		₹
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on 31.3.2011	36,000	
Prepaid expenses as on 31.3.2010	<u>12,000</u>	<u>48,000</u>
		3,98,000
Less: Outstanding expenses as on 31.3.2010	40,000	
Prepaid expenses as on 31.3.2011	<u>14,000</u>	<u>(54,000)</u>
Expenses incurred during the year		<u>3,44,000</u>

8. Interest on Government securities

$$\left(\frac{1,92,000}{96\%} \times 4\% \times \frac{6}{12} \right) = ₹ 4,000$$

Outstanding interest on Government securities for 6 months = ₹ 4,000

9. Discount allowed

		₹
Discount to Debtors	$\left(\frac{11,70,000}{97.5\%} \times 2.5\% \right)$	30,000
Discount on Bills Receivable	$\left(\frac{1,22,500}{98\%} \times 2\% \right)$	<u>2,500</u>
		<u>32,500</u>

10. Discount received

		₹
Discount to Creditors	$\left(\frac{7,84,000}{98\%} \times 2\% \right)$	16,000

11. Credit sales

Cost of Goods sold = Opening stock + Net purchases – Closing stock

$$= ₹ 1,60,000 + ₹ (9,12,000 - 18,000) - ₹ 1,40,000$$

$$= ₹ 9,14,000$$

$$\text{Sales price} = ₹ 9,14,000 \times \frac{3}{2} = ₹ 13,71,000$$

Question 5

- (a) On 19th May, 2011, the premises of Shri Garib Das were destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained:

	₹
Stock at cost on 1.1.2010	36,750
Stock at cost on 31.12.2010	39,800
Purchases less returns during 2010	1,99,000
Sales less returned during 2010	2,43,500
Purchases less returns during 1.1.2011 to 19.5.2011	81,000
Sales less returns during 1.1.2011 to 19.5.2011	1,15,600

In valuing the stock for the balance Sheet as at 31st December, 2010, ₹ 1,150 had been written off on certain stock which was a poor selling line having the cost ₹ 3,450. A portion of these goods were sold in March, 2011 at a loss of ₹ 125 on original cost of ₹ 1,725. The remainder of this stock was now estimated to be worth the original cost. Subject to the above exceptions, gross profit has remained at a uniform rate throughout. The stock salvaged was ₹ 2,900.

Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from 1-1-2011 to 19-5-2011 for Normal and abnormal items. (8Marks)

(b) X Ltd has three departments A, B and C. From the particulars given below compute:

(a) the values of stock as on 31st Dec. 2011 and

(b) the departmental results

(i)

	A ₹	B ₹	C ₹
Stock (on 1.1.2011)	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual Sales	1,72,500	1,59,400	74,600
Gross Profit on normal selling price	20%	25%	33 1/3%

(ii) During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

	A ₹	B ₹	C ₹
Sales at normal price	10,000	3,000	1,000
Sales at actual price	7,500	2,400	600

(8Marks)

Answer

(a)

Shri Garib Das

Trading Account for the year ended on 31st December, 2010

	₹		₹	₹
To Opening Stock	36,750	By Sales A/c		2,43,500
To Purchases	1,99,000	By Closing Stock :		
To Gross Profit	48,700	As valued	39,800	
		Add : Amount written off to restore stock to full cost	<u>1,150</u>	<u>40,950</u>
	<u>2,84,450</u>			<u>2,84,450</u>

The normal rate of gross profit to sales is = $\frac{48,700}{2,43,500} \times 100 = 20\%$

Memorandum Trading Account upto 19, May, 2011

	Normal items ₹	Abnormal items ₹	Total ₹		Normal ₹	Abnormal items ₹	Total items ₹
To Opening Stock	37,500	3,450*	40,950	By Sales	1,14,000	1,600	1,15,600
To Purchases	81,000	—	81,000	By Loss	—	125	125
To Gross Profit (20% on ₹ 1,14,000)	<u>22,800</u>		<u>22,800</u>	By Closing Stock (bal. fig.)	<u>27,300</u>	<u>1,725</u>	<u>29,025</u>
	<u>1,41,300</u>	<u>3,450</u>	<u>1,44,750</u>		<u>1,41,300</u>	<u>3,450</u>	<u>1,44,750</u>

* at cost.

Calculation of Insurance Claim

	₹
Value of Stock on 19 th May, 2011	29,025
Less : Salvage	<u>(2,900)</u>
Loss of stock	<u>26,125</u>

Therefore, insurance claim will be for ₹ 26,125 only.

(b) 1. Calculation of Departmental Results (Actual Gross Profit):

	A (₹)	B (₹)	C (₹)
Actual Sales	1,72,500	1,59,400	74,600
Add back: Discount (Refer W.N.)	<u>2,500</u>	<u>600</u>	<u>400</u>
Normal sale	<u>1,75,000</u>	<u>1,60,000</u>	<u>75,000</u>
Gross profit % on normal sales	20%	25%	33.33%
Normal gross profit	35,000	40,000	25,000
Less: Discount	<u>(2,500)</u>	<u>(600)</u>	<u>(400)</u>
Actual gross profit	<u>32,500</u>	<u>39,400</u>	<u>24,600</u>

2. Computation of value of stock as on 31st Dec. 2011

Departments	A	B	C
	₹	₹	₹
Stock (on 1.1.2011)	24,000	36,000	12,000
Add: Purchases	<u>1,46,000</u>	<u>1,24,000</u>	<u>48,000</u>

	1,70,000	1,60,000	60,000
Add: Actual gross profit	<u>32,500</u>	<u>39,400</u>	<u>24,600</u>
	2,02,500	1,99,400	84,600
Less: Actual Sales	<u>(1,72,500)</u>	<u>(1,59,400)</u>	<u>(74,600)</u>
Closing stock as on 31.12.2011 (bal.fig.)	<u>30,000</u>	<u>40,000</u>	<u>10,000</u>

Working Note:**Calculation of discount on sales:**

Departments	A ₹	B ₹	C ₹
Sales at normal price	10,000	3,000	1,000
Less: Sales at actual price	<u>7,500</u>	<u>2,400</u>	<u>600</u>
	<u>2,500</u>	<u>600</u>	<u>400</u>

Question 6

Read, Write and Add give you the following Balance Sheet as on 31st March, 2011.

Liabilities	₹	Assets	₹
Read's Loan	15,000	Plant and Machinery at cost	30,000
Capital Accounts:		Fixtures and Fittings	2,000
Read 30,000		Stock	10,400
Write 10,000		Debtors 18,400	
Add <u>2,000</u>	42,000	Less: Provision <u>400</u>	18,000
Sundry Creditors	17,800	Joint Life Policy	15,000
Loan on Hypothecation of		Patents and Trademarks	10,000
Stock	6,200	Cash at Bank	8,000
Joint Life Policy Reserve	12,400		
	<u>93,400</u>		<u>93,400</u>

The partners shared profits and losses in the ratio of Read 4/9, Write 2/9 and Add 1/3. The Firm was dissolved on 31st March, 2011 and you are given the following information:

- Add had taken a loan from insurers for ₹ 5,000 on the security of Joint Life Policy. The policy was surrendered and Insurers paid a sum of ₹ 10,200 after deducting ₹ 5,000 for Add's loan and ₹ 300 as interest thereon.
- One of the creditors took some of the patents whose book value was ₹ 6,000 at a valuation of ₹ 4,500. The balance to that creditor was paid in cash.

- (c) The firm had previously purchased some shares in a joint stock company and had written them off on finding them useless. The shares were now found to be worth ₹ 3,000 and the loan creditor agreed to accept the shares at this value.
- (d) The remaining assets realized the following amount:

	₹
Plant and Machinery	17,000
Fixtures and Fittings	1,000
Stock	9,000
Debtors	16,500
Patents 50% of their book value.	

- (e) The liabilities were paid and a total discount of ₹ 500 was allowed by the creditors.
- (f) The expenses of realization amounted to ₹ 2,300.

Prepare the Realisation Account, Bank Account and Partners Capital Accounts in columnar form.

(16 Marks)

Answer

Realisation Account

	₹		₹
To Plant and machinery	30,000	By Provision for doubtful debts	400
To Fixtures and fittings	2,000	By Loan on hypothecation of stock (W.N.3)	3,000
To Stock	10,400	By Creditors (W.N.2)	500
To Debtors	18,400	By Joint Life Policy A/c (W.N.4)	12,900
To Patents and Trademarks (W.N.5)	5,500	By Bank	
To Bank	2,300	Plant and machinery	17,000
		Fixtures and fittings	1,000
		Stock	9,000
		Debtors	16,500
		Patents and Trademarks	<u>2,000</u>
		By Partners' Capital Accounts	45,500
		Read	2,800
		Write	1,400
		Add	<u>2,100</u>
	<u>68,600</u>		<u>6,300</u>
			<u>68,600</u>

Bank Account

	₹		₹
To Balance b/d	8,000	By Add's Capital A/c-drawings	5,300
To Joint Life Policy	15,500	By Loan on hypothecation of stock	3,200
To Realisation A/c	45,500	By Creditors	12,800
To Add's Capital A/c	5,400	By Realisation A/c (expenses)	2,300
		By Read's Loan A/c	15,000
		By Read's Capital A/c	27,200
		By Write's Capital A/c	<u>8,600</u>
	<u>74,400</u>		<u>74,400</u>

Partners' Capital Accounts

	Read ₹	Write ₹	Add ₹		Read ₹	Write ₹	Add ₹
To Bank			5,300	By Balance b/d	30,000	10,000	2,000
To Realisation A/c	2,800	1,400	2,100	By Bank A/c (bal.fig.)			5,400
To Bank (Bal. Fig.)	<u>27,200</u>	<u>8,600</u>					
	<u>30,000</u>	<u>10,000</u>	<u>7,400</u>		<u>30,000</u>	<u>10,000</u>	<u>7,400</u>

Working Notes:

1.

Read's Loan Account

	₹		₹
To Bank A/c	<u>15,000</u>	By Balance b/d	<u>15,000</u>
	<u>15,000</u>		<u>15,000</u>

2.

Sundry Creditors Account

	₹		₹
To Patents and Trademarks A/c	4,500	By Balance b/d	17,800

To Realisation A/c	500		
To Bank A/c	<u>12,800</u>		<u> </u>
	<u>17,800</u>		<u>17,800</u>

3. **Loan on Hypothecation of Stock Account**

	₹		₹
To Realisation A/c	3,000	By Balance b/d	6,200
To Bank A/c	<u>3,200</u>		<u> </u>
	<u>6,200</u>		<u>6,200</u>

4. **Joint Life Policy Account**

	₹		₹
To Balance b/d	15,000	By Joint Life Policy Reserve A/c	12,400
To Realisation A/c	<u>12,900</u>	By Bank A/c (10,200 + 5,300)	<u>15,500</u>
	<u>27,900</u>		<u>27,900</u>

5. **Patents and Trademarks Account**

	₹		₹
To Balance b/d	10,000	By Creditors A/c	4,500
		By Realisation A/c	1,500
		By Realisation A/c (bal.fig.)	<u>4,000*</u>
	<u>10,000</u>		<u>10,000</u>

Note: *Alternatively, entry of patents being realized in the Patents and Trademarks account may be passed and transferred the balance loss to Realisation account.

Question 7

Answer any **four** of the following:

		₹
(a)	Net profit for the current year	2,00,00,000
	No. of equity shares outstanding	1,00,00,000
	Basic earnings per share	2.00
	No. of 12% convertible debentures of 100 each	2,00,000
	Each debenture is convertible into 10 equity shares	
	Interest expense for the current year	24,00,000
	Tax relating to interest expense (30%)	7,20,000
	Compute Diluted Earnings per Share	

- (b) A trader purchased goods for ₹ 3,40,000. The opening stock of inventory prior to the said purchases was ₹ 60,000. His sale was ₹ 4,20,000. Find out the closing stock of inventory if the Gross profit margin is 25% on cost.
- (c) What are the advantages of outsourcing the accounting functions?
- (d) Perfect Assurance Co. Ltd. received ₹ 11,80,000 as premium on new policies and ₹ 2,40,000 as renewal premium. The company received ₹ 1,80,000 towards reinsurance accepted and paid ₹ 1,40,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium?
- (e) Computer Point sells computers on Hire Purchase basis at cost plus 25%. Terms of sale are ₹ 10,000 down payment and eight monthly instalments of ₹ 5000 for each computer. Two computers were repossessed for non-payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers. (4 x 4 = 16 Marks)

Answer**(a) Calculation of Adjusted Net Profit**

Net profit for the current year		₹ 2,00,00,000
Add: Interest expense for the current year	₹ 24,00,000	
Less: Tax relating to interest expense (30%)	(₹ 7,20,000)	<u>₹ 16,80,000</u>
Adjusted net profit for the current year		<u>₹ 2,16,80,000</u>

Calculation of No. of potential equity shares

No. of equity shares outstanding	1,00,00,000
Add: No. of equity shares resulting from conversion of debentures	<u>20,00,000</u>
No. of potential equity shares	<u>1,20,00,000</u>

$$\text{Diluted earnings per share} = \frac{\text{₹ 2,16,80,000}}{1,20,00,000 \text{ shares}} = \text{₹ 1.81}$$

(b) Computation of closing stock

	₹
Opening stock	60,000
Add: Purchases	<u>3,40,000</u>
	4,00,000
Add: gross profit (W.N)	<u>84,000</u>
	4,84,000
Less: Sales	<u>(4,20,000)</u>
Closing stock (bal.fig.)	<u>64,000</u>

Working Note:

Gross profit is 25% on cost price i.e 20 % sale price = 84,000

Note: Alternatively, the amount of closing stock may be calculated by preparing trading account

(c) Following are the advantages of outsourcing the accounting functions:

- (i) **Saving of Time:** The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.
- (ii) **Expertise of the third party:** The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
- (iii) **Maintenance of data:** Storage and maintenance of the data is in the hand of professional people.
- (iv) **Economical:** The organisation is not bothered about people leaving the organisation in key accounting positions. The proposition is proving to be economically and more sensible as they do not have to train the people again. Hence, the training cost is saved

(d) Calculation of Net Premium Earned

Particulars	Amount in ₹
Premium from new policies	11,80,000
Add: Premium on renewal of policies	2,40,000
Add: Premium on reinsurance accepted	1,80,000
Less : Premium on reinsurance ceded	(1,40,000)
Total Premium Earned	14,60,000

(e) Computation of value of repossessed computers:

Hire purchase price of two repossessed computers = $[\text{₹}10,000 + (8 \times \text{₹} 5,000)] \times 2$ computers
 = ₹1,00,000

Cost price of the repossessed computers = $\frac{\text{₹} 1,00,000}{125} \times 100 = \text{₹} 80,000$

Value of repossessed computers = ₹ 80,000 x 50% = ₹40,000