

PAPER – 1 : ACCOUNTING

Question No. 1 is compulsory

Answer any five questions from the remaining six questions.

Wherever appropriate, suitable assumption/s should be made and indicated in answer by the candidate.

Working notes should form part of the answer.

Question 1

Answer the following questions:

- (a) Calculate the maximum remuneration payable to the Managing Director based on effective capital of a non-investment company for the year, from the information given below:

		(₹ in '000)
(i)	Profit for the year (calculated as per Section 349, 350 & 351 of the Companies Act, 1956)	3,000
(ii)	Paid up capital	18,000
(iii)	Reserves & surplus	7,200
(iv)	Securities premium	1,200
(v)	Long term loans	6,000
(vi)	Investment	3,600
(vii)	Preliminary expenses not written off	3,000
(viii)	Remuneration paid to the Managing Director during the year	600

- (b) M/s Vijoy Electricals sends goods to its customers on sale or returnable basis. The following transactions took place during January to March 2011:

2011		₹
January-10	Sent goods to customers on sale or returnable basis at cost plus 25%	5,00,000
January -30	Goods returned by customers	2,00,000
February -28	Received letter of approval from customers	2,00,000
March -31	Goods with customers awaiting approval	1,00,000

Vijoy Electricals records sale or return transactions as ordinary sales transaction. You are required to pass the necessary journal entries in the books of account assuming that the accounting year closes on 31st March, 2011.

- (c) In the Trial Balance of M/s. Sun Ltd. as on 31-3-2011, balance of machinery appears ₹ 5,60,000. The company follows rate of depreciation on machinery @ 10% p.a. on Straight Line Method*. On scrutiny it was found that a machine appearing in the books on 1-4-2010 at ₹ 1,60,000 was disposed of on 30-9-2010 at ₹ 1,35,000 in part exchange of a new machine costing ₹ 1,50,000.

You are required to calculate:

- (i) Total depreciation to be charged in the Profit and Loss Account.
 - (ii) Loss on exchange of machine.
 - (iii) Book value of machinery in the Balance Sheet as on 31.3.2011.
- (d) A and B are in partnership sharing profits and losses in the ratio of 3:2. The capitals of A and B are ₹ 80,000 and ₹ 60,000 respectively. They admit C as a partner who contributes ₹ 35,000 as capital for $\frac{1}{5}$ th share of profits to be acquired equally from both A & B. The capital accounts of old partners are to be adjusted on the basis of the proportion of C's capital to his share in the business. Calculate the amount of actual cash to be paid off or brought in by the old partners for the purpose and pass the necessary journal entries. (4 x 5 = 20 Marks)

Answer

- (a) Calculation of Effective Capital** of the Company

	₹ in '000
Paid-up capital	18,000
Add: Reserves and surplus	7,200
Securities premium	1,200
Long term loans	<u>6,000</u>
	32,400
Less: Investments	3,600
Preliminary expenses	<u>3,000</u>
Effective capital for the purpose of managerial remuneration	<u>25,800</u>

* 'Straight line method' given in the question should be read as 'Written Down Value method' due to absence of related information for solving the question on the basis of straight line method.

** It is assumed that the company is having inadequate net profit and is not exceeding the ceiling limit of ₹ 24,00,000 p.a.

As effective capital is less than ₹ 5 crores but more than ₹ 1 crore, therefore maximum remuneration payable to the Managing Director should be @ ₹ 1,00,000 per month.

So, maximum remuneration payable to the Managing Director for the year
(₹ 1,00,000 x 12) = ₹ 12,00,000

(b) In the books of M/s. Vijoy Electricals

Journal Entries

Date 2011	Particulars	Debit ₹	Credit ₹
Jan.10	Sundry Debtors Account Dr. To Sales Account (Being the goods sent to customers on sale or returnable basis)	5,00,000	5,00,000
Jan.30	Returns Inward Account* Dr. To Sundry Debtors Account (Being the goods returned by customers as not approved or cancellation of sales on return of goods)	2,00,000	2,00,000
Feb.28	No entry on receiving letter of approval from the customer		
Mar. 31	Sales Account Dr. To Sundry Debtors Account (Being cancellation of original entry at the year end on goods with customer awaiting approval)	1,00,000	1,00,000
Mar. 31	Stock with customer on sale or return Account Dr. To Trading Account (Refer W.N.) (Being the adjustment for cost of goods lying with customers awaiting approval at the year end)	80,000	80,000

* Alternatively, 'Sales account' can be debited in place of 'Returns Inward account'.

Working Note:

$$\text{Cost of goods with customers} = \frac{\text{₹ 1,00,000}}{125} \times 100 = \text{₹ 80,000}$$

(c) (i) Total Depreciation to be charged in the Profit and Loss Account

	₹
Depreciation on old machinery in use [10% of (5,60,000-1,60,000)]	40,000
Add: Depreciation on new machine @ 10% for six months $\frac{1,50,000 \times 10\% \times \frac{6}{12}}{}$	<u>7,500</u>
Total depreciation on machinery in use	47,500
Add: Depreciation on machine disposed of (10% for 6 months) $\frac{1,60,000 \times 10\% \times \frac{6}{12}}{}$	<u>8,000</u>
So, total depreciation to be charged in Profit and Loss A/c	55,500

(ii) Loss on Exchange of Machine

	₹
Book value of machine as on 1.4.2010	1,60,000
Less: Depreciation for 6 months @ 10%	<u>(8,000)</u>
Written Down Value as on 30.9.2010	1,52,000
Less: Exchange value	<u>(1,35,000)</u>
Loss on exchange of machine	<u>17,000</u>

(iii) Book Value of Machinery in the Balance Sheet as on 31.03.2011

	₹
Balance as per trial balance	5,60,000
Less: Book value of machine sold	<u>(1,60,000)</u>
	4,00,000
Add: Purchase of new machine	<u>1,50,000</u>
	5,50,000
Less: Depreciation on machinery in use	<u>(47,500)</u>
	<u>5,02,500</u>

(d) Share of profit taken from A and B each= $\frac{1}{5} \times \frac{1}{2} = \frac{1}{10}$ each

Calculation of New Profit Sharing Ratio

	A	B
Existing ratio	$\frac{3}{5}$	$\frac{2}{5}$
Less: Share of profit transferred to C	<u>($\frac{1}{10}$)</u>	<u>($\frac{1}{10}$)</u>
New share	<u>$\frac{5}{10}$</u>	<u>$\frac{3}{10}$</u>

New profit sharing ratio of A:B:C = 5/10 : 3/10 : 2/10

Calculation of Total Capital of the Reconstituted Firm

Capital brought in by C for 1/5th share = ₹ 35,000

Total Capital = ₹ 35,000 x (5/1) = ₹ 1,75,000

Calculation of Actual Cash to be paid or brought in by old partners

	A (₹)	B (₹)	C (₹)
New capital of ₹ 1,75,000 distributed in the ratio 5:3:2	87,500	52,500	35,000
Less: Adjusted old capital of A & B	<u>(80,000)</u>	<u>(60,000)</u>	<u>-</u>
Cash brought in	<u>7,500</u>		<u>35,000</u>
Cash to be paid		<u>(7,500)</u>	

Journal Entries

Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
Cash A/c Dr. To A's Capital A/c (Being the shortage of capital brought in cash by A)		7,500	7,500
B's Capital A/c Dr. To Cash A/c (Being the excess capital withdrawn by B)		7,500	7,500

Note: Entries for cash brought in and paid off only, have been passed.

Question 2

The Balance Sheet of M/s. Ice Ltd. as on 31-03-2011 is given below:

Liabilities	₹	Assets	₹
1,00,000 Equity shares of ₹10 each fully paid up	10,00,000	Freehold property	5,50,000
		Plant and machinery	2,00,000
4,000, 8% Preference shares of ₹100 each fully paid	4,00,000	Trade investment (at cost)	2,00,000
		Sundry debtors	4,50,000

6% Debentures	4,00,000		Stock-in trade	3,00,000
(secured by freehold property)			Deferred advertisement expenses *	50,000
Arrear interest	<u>24,000</u>	4,24,000	Profit and loss account	4,75,000
Sundry creditors		1,01,000		
Director's loan		3,00,000		
		<u>22,25,000</u>		<u>22,25,000</u>

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective stakeholders:

- (i) Preference shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.
- (ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹ 2 each to be allotted.
- (iii) Debentureholders agreed to take one freehold property at its book value of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.
- (iv) Arrear debenture interest to be paid in cash.
- (v) Remaining freehold property to be valued at ₹ 4,00,000.
- (vi) Investment sold out for ₹ 2,50,000.
- (vii) 75% of Director's loan to be waived and for the balance, equity shares of ₹ 2 each to be allotted.
- (viii) 40% of sundry debtors, 80% of stock and 100% of deferred advertisement expenses to be written off.
- (ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme. (16 Marks)

Answer

In the books of Ice Ltd.

Journal Entries

	Particulars		Debit ₹	Credit ₹
i	8% Preference share capital A/c (₹ 100 each) To 8% Preference share capital A/c (₹ 80 each)	Dr.	4,00,000	3,20,000

* As per para 56 of AS 26, deferred advertisement expenses should not appear in the Balance Sheet.

	To Capital reduction A/c (Being the preference shares of ₹ 100 each reduced to ₹ 80 each as per the approved scheme)			80,000
ii	Equity share capital A/c (₹ 10 each) To Equity share capital A/c (₹ 2 each) To Capital reduction A/c (Being the equity shares of ₹ 10 each reduced to ₹ 2 each)	Dr.	10,00,000	2,00,000 8,00,000
iii	Capital reduction A/c To Equity share capital A/c (₹ 2 each) (Being arrears of preference share dividend of one year to be satisfied by issue of 16,000 equity shares of ₹ 2 each)	Dr.	32,000	32,000
iv	6% Debentures A/c To Freehold property A/c (Being claim settled in part by transfer of freehold property)	Dr.	3,00,000	3,00,000
v	Accrued debenture interest A/c To Bank A/c (Being accrued debenture interest paid)	Dr.	24,000	24,000
vi	Freehold property A/c To Capital reduction A/c (Being appreciation in the value of freehold property)	Dr.	1,50,000	1,50,000
vii	Bank A/c To Trade investment A/c To Capital reduction A/c (Being trade investment sold on profit)	Dr.	2,50,000	2,00,000 50,000
viii	Director's loan A/c To Equity share capital A/c (₹ 2 each) To Capital reduction A/c (Being director's loan waived by 75% and balance being discharged by issue of 37,500 equity shares of ₹ 2 each)	Dr.	3,00,000	75,000 2,25,000

ix	Capital Reduction A/c	Dr.	12,73,000	
	To Profit and loss A/c			4,75,000
	To Sundry debtors A/c			1,80,000
	To Stock-in-trade A/c			2,40,000
	To Deferred advertisement expenses A/c			50,000
	To Bank A/c			30,000
	To Capital reserve A/c			2,98,000
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off, and balance transferred to capital reserve account as per the scheme)			

Balance Sheet of Ice Ltd. (As reduced)

Liabilities	₹	Assets	₹
Share capital		Freehold property	4,00,000
1,53,500 Equity shares of ₹ 2 each	3,07,000	Plant and machinery	2,00,000
(out of which 53,500 shares have been issued for consideration other than cash)		Sundry debtors	2,70,000
4,000, 8% Preference shares of ₹ 80		Stock-in-trade	60,000
each fully paid up	3,20,000	Cash at bank	1,96,000
Capital reserve	2,98,000	(2,50,000 – 24,000 – 30,000)	
6% Debentures	1,00,000		
Sundry creditors	<u>1,01,000</u>		
	<u>11,26,000</u>		<u>11,26,000</u>

Question 3

Bear Bar club was registered in a city and the accountant prepared the following Receipts and Payments Account for the year ended 31st March, 2011 and showed a deficit of ₹ 14,520.

Receipts	Amount ₹	Payments	Amount ₹
Subscriptions	62,130	Premises	30,000
Fair receipts	7,200	Honorarium to Secretary	12,000
Variety show receipt (net)	12,810	Rent	2,400
Interest	690	Rates & taxes	3,780
Bar collection	22,350	Printing & stationary	1,410

Excess cash spent	1,000	Sundry expenses	5,350
Deficit	14,520	Wages	2,520
		Fair expenses	7,170
		Bar purchases payments	17,310
		Repair	960
		New car (less proceeds of old car ₹ 9,000)	37,800
	1,20,700		1,20,700

The following additional information are:

	01-04-2010	31-03-2011
Cash in hand	450	-
Bank balances as per pass book	24,690	10,440
Cheque issued but not presented - for sundry expenses	270	90
Subscriptions due	3,600	2,940
Premises at cost	87,000	1,17,000
Accumulated depreciation on premises	56,400	-
Car at cost	36,570	46,800
Accumulated depreciation on car	30,870	-
Bar stock	2,130	2,610
Creditors for the bar purchases	1,770	1,290

Cash excess spent represent honorarium to secretary not withdrawn due to cash deficit. His annual honorarium is ₹ 12,000.

Depreciation on premises and car is to be provided at 5% and 20% on written down value method.

You are required to prepare the correct Receipts and Payments Account, Income and Expenditure Account and Balance Sheet as on 31st March, 2011. (16 Marks)

Answer

In the books of Bear Bar Club
Receipts & Payments Account for the year ended 31.03.2011

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d		By Honorarium to Secretary (12,000 – 1,000)	11,000
Cash in hand	450		
Bank (W.N.6)	<u>24,420</u>	By Rent	2,400
	24,870		

To Subscriptions	62,130	By Rates & taxes	3,780
To Fair receipts	7,200	By Printing & stationery	1,410
To Variety show receipts	12,810	By Sundry expenses	5,350
To Interest	690	By Wages	2,520
To Bar collection	22,350	By Fair expenses	7,170
To Car sold (old)	9,000	By Bar purchases	17,310
		By Repairs	960
		By Premises	30,000
		By Car (37,800 + 9,000)	46,800
		By Balance c/d	
		Bank (W.N.6)	10,350
	1,39,050		1,39,050

**Income & Expenditure Account
for the year ended 31.03.2011**

<i>Expenditure</i>	<i>Amount ₹</i>	<i>Income</i>		<i>Amount ₹</i>
To Honorarium to secretary	12,000	By Subscription	62,130	
To Rent	2,400	Less: Outstanding as on 1.4.10	(3,600)	
To Rates & taxes	3,780	Add: Outstanding as on 1.3.11	2,940	61,470
To Printing & stationery	1,410	By Fair receipts	7,200	
To Sundry expenses	5,350	Less: Fair expenses	(7,170)	30
To Wages	2,520	By Variety show		12,810
To Repairs	960	By Interest		690
To Depreciation on:		By Profit from bar (W.N.3)		6,000
Premises (1,530+1,500)	3,030	By Profit on sale of car (W.N.5)		3,300
Car	9,360			
To Surplus (excess of income over expenditure)	43,490			
	84,300			84,300

Balance Sheet as on 31.03.2011

<i>Liabilities</i>	<i>Amount</i> ₹	<i>Assets</i>	<i>Amount</i> ₹
Capital fund		Premises	87,000
Opening balance (W.N.1)	65,130	Add: Addition in the year	<u>30,000</u>
Add: Surplus	<u>43,490</u>		1,17,000
Sundry creditors	1,290	Less: Accumulated	
Outstanding Honorarium	1,000	depreciation (W.N.4)	<u>(59,430)</u>
			57,570
		Car	36,570
		Add: Addition in the year	<u>46,800</u>
			83,370
		Less: Book value of the	
		car sold	<u>(36,570)</u>
		Less: Depreciation of	
		new car	<u>(9,360)</u>
			37,440
		Bar stock	2,610
		Subscription due	2,940
		Cash at bank (W.N.6)	10,350
	1,10,910		1,10,910

Working Notes:

1.

Balance Sheet as on 31.03.2010

<i>Liabilities</i>	<i>Amount</i> ₹	<i>Assets</i>	<i>Amount</i> ₹
Capital fund (bal. fig.)	65,130	Premises	87,000
Sundry creditors for bar	1,770	Car	36,570
Accumulated depreciation on		Bar stock	2,130
Premises	56,400	Subscription due	3,600
Car	<u>30,870</u>	Cash at bank (W.N.6)	24,420
	87,270	Cash in hand	450
	1,54,170		1,54,170

2. Creditors for Bar Purchases

	₹		₹
To Bank	17,310	By Balance b/d	1,770
To Balance c/d	1,290	By Purchases (Bal. fig.)	16,830
	18,600		18,600

3. Trading Account (of Bar)

	₹		₹
To Opening stock	2,130	By Bar collections	22,350
To Purchases (W.N.2)	16,830	(Cash)	
To Profit (Bal. fig.)	<u>6,000</u>	By Closing stock	<u>2,610</u>
	<u>24,960</u>		<u>24,960</u>

4. Accumulated Depreciation on Premises

	₹
Opening Balance	56,400
Add: Depreciation on old premises $[(87,000 - 56,400) \times 5\%]$	1,530
Depreciation on new premises $(30,000 \times 5\%)$	<u>1,500</u>
	<u>59,430</u>

5. Profit on sale of car

	₹	₹
Sales price of a car		9,000
Less: Book value of old car sold	36,570	
Less: Accumulated depreciation	<u>(30,870)</u>	<u>(5,700)</u>
Profit on sale		<u>3,300</u>

6. Bank balance as per cash book

	1.4.2010 ₹	31.3.2011 ₹
Bank balance as per Pass book	24,690	10,440
Less: Cheque issued but not presented for payment	<u>(270)</u>	<u>(90)</u>
Bank balance as per cash book	<u>24,420</u>	<u>10,350</u>

Question 4

(a) Balance Sheet of M/s Hero Ltd. as on 31st March, 2010 and 2011 are as follows:

(₹ in '000)					
Liabilities	31-3-10	31-03-11	Assets	31-3-10	31-03-11
Equity share capital	1,000	1,150	Land & buildings	500	480
Capital reserve	-	10	Machinery	750	820
General reserve	250	300	Investments	100	50
Profit and loss A/c	150	180	Stock	300	280
Long term loan from bank	500	400	Sundry debtors	400	420
Sundry creditors	500	400	Cash in hand	200	165
Provision for taxation	50	60	Cash at bank	300	410
Proposed dividends	<u>100</u>	<u>125</u>			
	<u>2,550</u>	<u>2,625</u>		<u>2,550</u>	<u>2,625</u>

Additional information:

- Dividend of ₹ 1,00,000 was paid during the year ended 31st March, 2011.
- Machinery purchased during the year for ₹ 1,25,000.
- Company sold some investment at a profit of ₹ 10,000 which was credited to capital reserve.
- Depreciation written off on land and building ₹ 20,000.
- Income tax provided during the year ₹ 55,000.

From the above particulars, prepare a cash flow statement for the year ended 31st March, 2011 as per AS 3 using indirect method.

- A firm M/s. Alag, which was carrying on business from 1st July, 2010 gets itself incorporated as a company on 1st November, 2010. The first accounts are drawn upto

31st March 2011. The gross profit for the period is ₹ 56,000. The general expenses are ₹ 14,220; Director's fee ₹ 12,000 p.a.; Incorporation expenses ₹ 1,500. Rent upto 31st December was ₹ 1,200 p.a after which it is increased to ₹ 3,000 p.a. Salary of the manager, who upon incorporation of the company was made a director, is ₹ 6,000 p.a. His remuneration thereafter is included in the above figure of fee to the directors.

Give profit and loss account showing pre and post incorporation profit. The net sales are ₹ 8,20,000, the monthly average of which for the first four months is one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored. (10 + 6 = 16 Marks)

Answer

(a) Cash Flow Statement for the year ended on 31st March, 2011

		₹	₹
I	Cash flow from Operating Activities		
	Net profit made during the year (W.N.1)	2,60,000	
	Add: Depreciation on machinery (W.N.2)	55,000	
	Add: Depreciation on land and building	20,000	
	Operating profit before change in working capital	3,35,000	
	Add: Decrease in stock (3,00,000 – 2,80,000)	20,000	
	Less: Increase in sundry debtors (4,20,000 – 4,00,000)	(20,000)	
	Less: Decrease in sundry creditors (5,00,000 – 4,00,000)	(1,00,000)	
	Less: Income tax paid (W.N.3)	(45,000)	
	Net cash generated from operating activities		1,90,000
II	Cash flow from Investing Activities		
	Purchase of machinery	(1,25,000)	
	Sale of investment (50,000 + 10,000)	60,000	
	Net cash used in investing activities		(65,000)
III	Cash flow from Financing Activities		
	Issue of equity shares (11,50,000 – 10,00,000)	1,50,000	
	Repayment of long term loan from bank (5,00,000 – 4,00,000)	(1,00,000)	
	Dividend paid	<u>(1,00,000)</u>	
	Net cash used in financing activities		(50,000)

Net increase in cash and cash equivalent	75,000
Add: Cash and Cash Equivalents at the beginning of the period (2,00,000 + 3,00,000)	<u>5,00,000</u>
Cash and cash equivalents at the end of the period (1,65,000 + 4,10,000)	<u>5,75,000</u>

Working Notes:

- Net profit (before tax) made during the year ₹
 Increase in Profit and Loss A/c balance (1,80,000 – 1,50,000) 30,000
 Add: Transfer to General Reserve (3,00,000 – 2,50,000) 50,000
 Add: Provision for taxation made during the year 55,000
 Add: Provided for proposed dividend during the year (W.N.4) 1,25,000
2,60,000

2. Machinery Account

	₹		₹
To Balance b/d	7,50,000	By Bank (machinery sold) (Bal. Fig.)	55,000
To Bank (machinery purchased)	1,25,000	By Balance c/d	8,20,000
	8,75,000		8,75,000

3. Provision for Taxation

	₹		₹
To Cash (Bal. fig.)	45,000	By Balance b/d	50,000
To Balance c/d	60,000	By Profit & Loss A/c	55,000
	1,05,000		1,05,000

4. Proposed Dividend A/c

	₹		₹
To Bank	1,00,000	By Balance b/d	1,00,000
To Balance c/d	1,25,000	By Profit & Loss A/c (Bal. fig.)	1,25,000
	2,25,000		2,25,000

(b)

Profit & Loss Account for 9 months ended on 31st March, 2011

Particulars	Basis	Pre – incorporati on period	Post- incorporat ion period	Total	Particulars	Basis	Pre- Incorporati on period	Post- Incorporati on period	Total
		₹	₹	₹			₹	₹	₹
To General expenses	Time ratio	6,320	7,900	14,220	By Gross Profit	Sales	16,000	40,000	56,000
To Directors' fee	Actual	-	5,000	5,000		ratio			
To Formation expenses	Actual	-	1,500	1,500					
To Rent (600 + 750)	W.N. 2	400	950	1,350					
To Manager's salary	Actual	2,000	-	2,000					
To Net Profit transfd to:				31,930					
Capital Reserve		7,280	-	-					
P & L Appr. A/c	-	-	24,650	-					
		16,000	40,000	56,000			16,000	40,000	56,000

Working Notes:

1. Calculation of sales ratio

Let the average monthly sales of first four months = 100 and next five months = 200

Total sales of first four months = $100 \times 4 = 400$ and total sales of next five months = $200 \times 5 = 1,000$

The ratio of sales = $400 : 1,000 = 2 : 5$

2. Rent

Till 31st December, 2010, rent was ₹ 1,200 p.a. i.e. ₹ 100 p.m.

So, Pre-incorporation rent = ₹ 100×4 months = ₹ 400

Post-incorporation rent = (₹ 100×2 months) + (₹ 250×3 months) = ₹ 950

Question 5

- (a) A fire occurred in the premises of M/s. Fireproof Co. on 31st August, 2010. From the following particulars relating to the period from 1st April, 2010 to 31st August, 2010, you are requested to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The concern had taken an insurance policy for ₹ 60,000 which is subject to an average clause.

		₹
(i)	Stock as per Balance Sheet at 31-03-2010	99,000
(ii)	Purchases	1,70,000
(iii)	Wages (including wages for the installation of a machine ₹ 3,000)	50,000
(iv)	Sales	2,42,000
(v)	Sale value of goods drawn by partners	15,000
(vi)	Cost of goods sent to consignee on 16 th August, 2010, lying unsold with them	16,500
(vii)	Cost of goods distributed as free samples	1,500

While valuing the stock at 31st March, 2010, ₹ 1,000 were written off in respect of a slow moving item. The cost of which was ₹ 5,000. A portion of these goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock is now estimated to be worth the original cost. The value of goods salvaged was estimated at ₹ 20,000. The average rate of gross profit was 20% throughout.

- (b) Explain the factors to be considered before selecting the pre-packaged accounting software.
(10 + 6 = 16 Marks)

Answer

- (a) Memorandum Trading Account for the period 1st April, 2010 to 31st August, 2010

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock	95,000	5,000	1,00,000	By Sales	2,40,000	2,000	2,42,000
To Purchases (Refer W.N.)	1,56,500	-	1,56,500	By Goods sent to consignee	16,500	-	16,500
To Wages	47,000	-	47,000	By Loss	-	500	500
To Gross profit @ 20%	48,000	-	48,000	By Closing stock (Bal.fig.)	90,000	2,500	92,500
	3,46,500	5,000	3,51,500		3,46,500	5,000	3,51,500

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 31.08.2010	92,500
Less: Stock salvaged	(20,000)
Loss of stock	<u>72,500</u>

Amount of claim to be lodged with insurance company

$$= \text{Loss of stock} \times \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

$$= ₹ 72,500 \times \frac{60,000}{92,500}$$

$$= ₹ 47,027$$

Working Note:

Calculation of Adjusted Purchases

	₹
Purchases	1,70,000
Less: Drawings	(12,000)
Free samples	<u>(1,500)</u>
Adjusted purchases	<u>1,56,500</u>

- (b) Some of the factors to be considered before selecting the pre-packaged accounting software are:
- Fulfillment of business requirements:** The enterprise may try to match his requirement with the available solutions.
 - Completeness of reports:** Some packages might provide extra reports or the reports match the requirements more than the others.
 - Ease of use:** Some packages could be very detailed and cumbersome compare to the others.
 - Cost:** The budgetary constraints could be an important deciding factor.
 - Reputation of Vendor:** Vendor support is essential for any software. A stable vendor with good reputation and track records will always be preferred.
 - Regular updates:** Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

Question 6

(a) Following is the extract from the Balance Sheet of M/s. Yahoo Ltd. as at 31st March, 2011:

	(₹)
Authorised capital:	
50,000, 10% Preference shares of ₹10 each	5,00,000
2,00,000 Equity shares of ₹10 each	20,00,000
Issued and subscribed capital:	
40,000, 10% Preference shares of ₹10 each fully paid	4,00,000
1,80,000, Equity shares of ₹10 each, of which ₹7.50 paid up	13,50,000
Reserves and Surplus:	
General reserve	2,40,000
Capital reserve	1,50,000
Securities premium	50,000
Profit and loss account	3,00,000

On 1st April, 2011, the company has made a final call @ ₹2.50 each on 1,80,000 equity shares. The call money was received by 30th April, 2011. There after the company decided to capitalize its reserves by issuing bonus shares at the rate of one share for every three shares held. Securities premium of ₹50,000 includes a premium of ₹20,000 for shares issued to vendor for purchase of a special machinery. Capital reserve includes ₹60,000 being profit on exchange of plant and machinery.

Show necessary Journal Entries in the books of the company and prepare the extract of the Balance Sheet after bonus issue. Necessary assumption, if any, should form part of your answer.

(b) Mr. Black accepted the following bills drawn by Mr. White:

Date of Bill	Period	Amount (₹)
09-03-2010	4 months	4,000
16-03-2010	3 months	5,000
07-04-2010	5 months	6,000
18-05-2010	3 months	5,000

He wants to pay all the bills on a single date. Interest chargeable is @ 18% p.a. and Mr. Black wants to save ₹150 on account of interest payment. Find out the date on

which he has to effect the payment to save* interest of ₹ 150. Base date to be taken shall be the earliest due date. (8 + 8 = 16 Marks)

Answer

(a) In the books of M/s. Yahoo Ltd.
Journal Entries

Date	Particulars	₹	₹
1.4.2011	Equity share final call A/c Dr. To Equity share capital A/c (Being the final call of ₹ 2.50 per share on 1,80,000 equity shares made)	4,50,000	4,50,000
30.4.2011	Bank A/c Dr. To Equity share final call A/c (Being final call money on 1,80,000 shares received)	4,50,000	4,50,000
30.4.2011	Securities premium A/c (50,000 – 20,000) Dr. Capital reserve A/c (1,50,000 – 60,000) Dr. General reserve A/c Dr. Profit and loss A/c Dr. To Bonus to shareholders A/c (Being utilisation of reserves for bonus issue of one share for every three shares held)	30,000 90,000 2,40,000 2,40,000	6,00,000
30.4.2011	Bonus to equity shareholders A/c Dr. To Equity share capital A/c (Being bonus shares issued)	6,00,000	6,00,000

Extract of Balance Sheet (After bonus issue)

	₹
Authorised capital:	
50,000, 10% Preference shares of ₹ 10 each	5,00,000
2,40,000, Equity shares of ₹ 10 each (refer W.N.)	24,00,000
Issued and subscribed capital:	
40,000, 10% Preference shares of ₹ 10 each fully paid	4,00,000
2,40,000, Equity shares of ₹ 10 each fully paid	24,00,000

* The word 'save' should be read as 'earn' for better understanding of the requirement of the question.

(Out of the above, 60,000 equity shares of ₹ 10 each have been issued by way of bonus)	
Reserves and Surplus:	
Capital reserve	60,000
Securities premium	20,000
Profit and loss A/c (3,00,000 – 2,40,000)	60,000

Assumption:

1. As per SEBI Guidelines, Capital Reserve and Securities Premium collected in cash only can be utilized for the purpose of issue of bonus shares. It is assumed that balance of capital reserve and securities premium is collected in cash only.
2. It is also assumed that necessary resolutions have been passed and requisite legal requirements related to the issue of bonus shares have been complied with before issue of bonus shares.

Working Note:

On the basis of the above assumptions, the Authorised Capital should be increased as under:

Required for bonus issue	₹ 6,00,000
Less: Balance of authorised equity share capital (available)	(₹ 2,00,000)
Authorised capital to be increased	<u>₹ 4,00,000</u>

Total authorised capital after bonus issue (₹ 20,00,000 + ₹ 4,00,000) = ₹ 24,00,000.

(b) Calculation of Average Due Date taking base date as 19.06.2010

Date of Bill	Period	Maturity date	No. of days from the base date	Amount (₹)	Products
09.03.2010	4 months	12.07.2010	23	4,000	92,000
16.03.2010	3 months	19.06.2010	0	5,000	0
07.04.2010	5 months	10.09.2010	83	6,000	4,98,000
18.05.2010	3 months	21.08.2010	63	5,000	3,15,000
				20,000	9,05,000

$$\text{Average due date} = \text{Base date} + \frac{\text{Total of product}}{\text{Total of amount}}$$

$$= 19.06.2010 + \frac{9,05,000}{20,000} = 45 \text{ days (approx.)}$$

$$= 3^{\text{rd}} \text{ August, 2010.}$$

Computation of date of payment to earn interest of ₹ 150

Interest per day = $[\text{₹ } 20,000 \times (18/100)]/365 \text{ days}$

$$= \text{₹ } 3,600/365 = \text{₹ } 10 \text{ per day (approx.)}$$

To earn interest of ₹ 150, the payment should be made 15 days ($\text{₹ } 150 / \text{₹ } 10 \text{ per day}$) earlier to the due date. Accordingly, the date of payment would be:

Date of payment to earn interest of ₹ 150 = 3rd August, 2010 – 15 days
= 19th July, 2010.

Question 7

Answer any four of the following:

- (a) *M/s. Tiger Ltd. allotted 7,500 equity shares of ₹ 100 each fully paid up to Lion Ltd. in consideration for supply of a special machinery. The shares exchanged for machinery are quoted at National Stock Exchange (NSE) at ₹ 95 per share, at the time of transaction. In the absence of fair market value of the machinery acquired, show how the value of the machinery would be recorded in the books of Tiger Ltd.?*
- (b) *M/s. Sea Ltd. recognized ₹ 5.00 lakhs, on accrual basis, income from dividend during the year 2010-11, on shares of the face value of ₹ 25.00 lakhs held by it in Rock Ltd. as at 31st March, 2011. Rock Ltd. proposed dividend @ 20% on 10th April, 2011. However, dividend was declared on 30th June, 2011. Please state with reference to relevant Accounting Standard, whether the treatment accorded by Sea Ltd. is in order.*
- (c) *What disclosures should be made in the first financial statements following the amalgamation?*
- (d) *From the following data, show Profit and Loss A/c (Extract) as would appear in the books of a contractor following Accounting Standard-7:*

	(₹ in lakhs)
Contract price (fixed)	480.00
Cost incurred to date	300.00
Estimated cost to complete	200.00

- (e) *M/s. Son Ltd. charged depreciation on its assets on SLM basis. In the year ended 31st March, 2011, it changed to WDV basis. The impact of the change when computed from the date of the assets putting into use amounts to ₹ 18 lakhs being additional depreciation. Discuss, when should an enterprise change method of charging depreciation and how it should be dealt with in the Profit and Loss Alc. (4 x 4 = 16 Marks)*

Answer

- (a) As per para 11 of AS 10 "Accounting for Fixed Assets", fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value,

or the fair market value of the securities issued, whichever is more clearly evident. Since, in the given situation, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at ₹ 7,12,500 (i.e., 7,500 shares x ₹ 95 per share) being the market price of the shares issued in exchange.

- (b) Para 8.4 of AS 9 "Revenue Recognition" states that dividend from investments in shares are not recognized in the statement of Profit and Loss until the right to receive dividend is established.

In the given case, the dividend is proposed on 10th April, 2011, while it was declared on 30th June, 2011. Hence, the right to receive dividend is established on 30th June, 2011 only. Therefore, on applying the provisions stated in the standard, income from dividend on shares should be recognized by Sea Ltd. in the financial year 2011-2012 only.

Therefore, the recognition of income from dividend of ₹ 5 lakhs, on accrual basis, in the financial year 2010-11 is not in accordance with AS 9.

- (c) Para 24 of AS 14 'Accounting for Amalgamations' states that for all amalgamations (whether for amalgamations accounted for under the pooling of interests method or amalgamations accounted for under the purchase method), the following disclosures are considered appropriate in the first financial statements following the amalgamation:

- Names and general nature of business of the amalgamating companies;
- Effective date of amalgamation for accounting purposes;
- The method of accounting used to reflect the amalgamation; and
- Particulars of the scheme sanctioned under a statute.

- (d) Calculation of Estimated Total Cost

	(₹ in lakhs)
Cost incurred to date	300
Estimate of cost to completion	<u>200</u>
Estimated total cost in completing the contract	<u>500</u>

Percentage of completion $(300/500) \times 100 = 60\%$

Revenue recognised as a percentage to contract price

= 60% of ₹ 480 lakhs = ₹ 288 lakhs

As per para 35 of AS 7 'Construction Contracts', when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Accordingly, expenses to be recognized in the Profit and Loss Account will be

	(₹ in lakhs)
Total foreseeable loss (500-480)	20
Less: Loss for the current year (300-288)	<u>(12)</u>
Expected loss to be recognized immediately as per para 35 of AS 7	<u>8</u>

Profit and Loss A/c (An Extract)

	(₹ in lakhs)		(₹ in lakhs)
To Construction cost	300	By Contract price	288
To Estimated loss on completion of contract	<u>8</u>		<u> </u>
	<u>?</u>		<u>?</u>

- (e) As per para 21 of AS 6 'Depreciation Accounting', an enterprise can change one method of charging depreciation to another method only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.

When such a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts through statement of profit and loss in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss.