

INTERMEDIATE EXAMINATION

(REVISED SYLLABUS - 2008)

GROUP - I

Paper-5 : FINANCIAL ACCOUNTING

Q. 1. State whether following statements are True/False :

- (i) Hire purchase stock represents the installments from Hire Purchase Debtors not yet due.
- (ii) Gaining Ratio is applicable at the time of retirement of a partner.
- (iii) AS 4 deals with prior period adjustments.
- (iv) Issue of Sweat Equity shares is a non-cash transaction.
- (v) For buy back of shares, a company has to open a Current Account with the Bank.
- (vi) As per AS 28 recoverable amount of an asset is lower of Net selling price and Value in use.
- (vii) The hire purchaser can record the asset at its hire purchase price.
- (viii) Depreciation is charged on "Wasting Assets".
- (ix) Income and Expenditure Account is prepared by adopting accrual principle of accounting.
- (x) Depreciation is an item of Expenditure.
- (xi) Short workings is the amount by which the minimum rent falls short of the actual royalty.
- (xii) The debit balance in the Profit & Loss A/c is treated as surplus.
- (xiii) Goodwill is an estimation of the earning power of the capital employed by an entity.
- (xiv) Intrinsic value is $EPS \times PE$ Ratio.
- (xv) Buy back of shares helps to alter the capital structure of a company.

Answer 1.

(i) **True.**

Hire purchase stock represents the installments receivable from hire purchase debtors but yet due
Example : Total Installments for 11 months $\times$ 2,000 p.m out of which current month due but not received

HP Debtors	
Current Month	Not Due- H.P Stock A/c
Installment Due but not received ₹ 2,000	$10 \times ₹ 2,000 = ₹ 20,000$

(ii) **False.**

There may be Gaining Ratio of an old partner even at the time of admission of a partner.

(iii) **False.**

AS -4 deals with Contingencies and Event Occurring after the Balance Sheet Date

(iv) **True.**

Sweat Equity Shares are Equity Shares issued to employees as a non cash incentive.

(v) **True.**

For buy back of shares, a company has to open a Current Account with the Bank.

(vi) **False.**

As per AS 28 recoverable amount of an asset is higher of net selling price and Value in use.

(vii) **False.**

The hire purchaser can record the asset at Cash Price. Cash Price = Payment on the date of signing of contract + (Balance along with the interest in equal installments × Annuity factor).

(viii) **False.**

Depreciation is not charged on Wasting Assets. Depreciation is charged on all assets except the following :

- (a) Forests, Plantation
- (b) Wasting Assets, Minerals and Natural Gas
- (c) Expenditure on research and development
- (d) Goodwill
- (e) Live stock – Cattle, animal Husbandry

(ix) **True.**

Income and Expenditure Account which is prepared for the particular period is used to quantify the surplus (excess income over expenditure) or deficit (excess of expenditure over income) for the particular period.

(x) **True.**

Depreciation is a measure of wearing out, consumption or other loss of value of a depreciable assets arising from use passage of time. Depreciation is nothing but distribution of total cost of assets over its useful life.

(xi) **False.**

Shortworkings is the amount by which the minimum rent exceeds the actual royalty).

(xii) **False.**

Debit balance in the Profit and Loss A/c is treated as loss.

(xiii) **True.**

Goodwill refers to the reputation of a business enterprise which it acquires by its record of successful operations and customers' satisfaction. It is an unidentifiable attribute of a business which enables it to earn more than normal profits to induce the entrepreneurs to remain in business and it is an estimation of earning power of capital employed by an entity.

(xiv) **False.**

Intrinsic Value per share = $\frac{\text{Net Assets}}{\text{No. of Shares Outstanding}}$

(xv) **True.**

Due to buy back of shares the number of shares outstanding gets reduced, accordingly the amount of paid up share capital also gets reduced. Buy back is the indicator of sound financial status of an entity which is exercised by using the excess reserve.

Q. 2. Fill in the blanks :

- (i) Debenture holders are _____ of a company.
- (ii) The terms owners equity and _____ are used interchangeably
- (iii) The contract of insurance is a contract of _____ .
- (iv) Capital is shown on the liability side because of _____ concept.
- (v) Current Ratio is a _____ Ratio.
- (vi) As per Revised Schedule VI of the Companies Act,1956 'unclaimed dividends' are to be shown under the head _____ .
- (vii) AS 13 is related to _____ .
- (viii) Stock Velocity = $\frac{\text{Cost of Goods Sold}}{\text{_____}}$.
- (ix) Minimum partners required for a non-banking partnership firm are _____ .
- (x) Yield method of valuing shares is also known as _____ method.

Answer 2.

- (i) Creditors/Providers of Loan Capital
- (ii) Net worth
- (iii) Guarantee
- (iv) Business Entity
- (v) Solvency
- (vi) Current liabilities
- (vii) Accounting for Investment
- (viii) Average Stock
- (ix) 2
- (x) Earning Capacity

Q. 3. Choose the correct alternative :

- (i) Bank Reconciliation Statement is prepared to :
 - (a) rectify the mistakes in pass book
 - (b) to rectify the mistakes in cash book
 - (c) to arrive at balance as per bank statement
 - (d) to find the reasons to differences in balances as per Cash Book and Bank Statement
- (ii) Which of the following is a Revenue Expenditure?
 - (a) Construction of Factory shed
 - (b) Sales Tax paid in connection with purchase of Office Equipment
 - (c) Legal Expenses in connection with defending a title to firm's property
 - (d) Installation of new Machinery

- (iii) Capital is shown on the liability side because of :
- (a) Business Entity Concept
 - (b) Conservatism Concept
 - (c) Accrual Concept
 - (d) Duality Concept
- (iv) Depreciation is a process of :
- (a) apportionment
 - (b) valuation
 - (c) allocation
 - (d) appropriation
- (v) For Sales Return at Branch, in case of dependent branches, entry to be passed in HO books,
- (a) Debit Branch Debtors A/c, Credit Branch Stock A/c
 - (b) Debit Sales A/c, Credit Branch Debtors A/c
 - (c) Debit Sales A/c, Credit Branch Stock A/c
 - (d) Debit Branch Stock A/c, Credit Branch Debtors A/c
- (vi) Which of the following is treated as contingent liability as per AS 4?
- (a) Obligations under retirement benefit plan
 - (b) Commitments arising from long term lease contract
 - (c) Arrears of fixed cumulative dividends
 - (d) Liabilities of Life and General Insurance out of policies issued by enterprise
- (iii) Which of the following is not a unsecured loan in Balance sheet of a Company?
- a) Acceptance of Fixed Deposits
 - b) Creation of Sinking Funds
 - c) Loans and advances from others
 - d) Short term loans from Banks
- (viii) Any profit prior to incorporation may be :
- a) Credited to Capital Reserve A/c
 - b) Debited to Goodwill A/c
 - c) Debited to Suspense A/c
 - d) None of the above
- (ix) Which of the following terms is related to Accounts of Electricity Companies?
- a) Clear profit
 - b) Work uncertified
 - c) NPA
 - d) Claims outstanding
- (x) Current Ratio is a :
- a) Efficiency Ratio
 - b) Profitability Ratio
 - c) Solvency Ratio
 - d) Yield Ratio

Answer 3.

- (i) (d) to find the reasons of differences in balance as per Cash Book and Bank Statement.
- (ii) (c) Legal Expenses in connection with defending a title to firm's property.
- (iii) (a) Business Entity Concept
- (iv) (c) allocation
- (v) (d) Debit Branch Stock A/c, Credit Branch Debtors A/c.
- (vi) (c) Arrears of fixed cumulative dividends.
- (vii) (b) Creation of Sinking Funds.
- (viii) (a) Credited to Capital Reserve A/c.
- (ix) (a) Clear profit
- (x) (c) Solvency Ratio

Q. 4. (a) State four items which are not to be included in determining the cost of inventories in accordance with paragraph 6 of AS 2?

(b) Briefly describe with reference to Accounting Standard 7 on Accounting for construction contracts, the methods which may be used for recognizing revenue on construction contracts.

(c) Advise D Ltd. about the treatment of the following in the financial statement of the company for the year ended 31st March, 2012.

A claim lodged with the Railways in March, 2010 for loss of goods of ₹ 5 lakhs had been passed for payment in March, 2012 for ₹ 4 lakhs. No entry was passed in the books of the company, when the claim was lodged.

(d) What is meant by Sweat Equity Shares?

(e) State the conditions of buy-back.

Answer 4. (a)

In determining the cost of inventories in accordance with paragraph 6 of AS 2, it is appropriate to exclude certain costs and recognize therein as expenses in the period in which they are incurred. Examples of such cost are—

- (i) abnormal amounts of waste materials, labour or other production costs,
- (ii) storage costs unless those costs are necessary in the production process prior to a further production stage,
- (iii) administrative overheads that do not contribute to bring the inventories to their present location and condition, and
- (iv) selling and distribution cost.

Answer 4. (b)

As per Accounting Standard 7 on "Accounting for Construction Contracts", two methods of accounting are commonly followed by contractors for recognizing revenue on construction contracts : (i) the percentage of completion method and (ii) the completed contract method.

Under **the percentage of completion method**, revenue is recognized as the contract activity progresses based on the stage of completion reached. The costs incurred in reaching the stage of completion are matched with this revenue, resulting in the reporting of results which can be attributed to the proportion

of work completed. Although (as per the principle of 'prudence') revenue is recognized only when realized, under this method, the revenue is recognized as the activity progresses even though in certain circumstances it may not be realized.

Under **the completed contract method**, revenue is recognized only when the contract is completed or substantially completed; that is, when only minor work is expected other than warranty obligation. Costs and progress payments received are accumulated during the course of the contract but revenue is not recognized until the contract activity is substantially completed.

Under both methods, provision is made for losses for the stage of completion reached on the contract. In addition, provision is usually made for losses on the remainder of the contract.

It may be necessary for accounting purposes to combine contracts made with a single customer or to combine contracts made with several customers if the contracts are negotiated as a package or if the contracts are for a single project. Conversely, if a contract covers number of projects and if the costs and revenues of such individual projects can be identified within the terms of the overall contract, each such project may be treated as equivalent to a separate contract.

Answer 4. (c)

The financial statements of the company are prepared for the year ended 31.3.2012.

There was a loss of goods of ₹ 5 lakhs in 2009-10 and the claim was lodged in March 2010 with the Railway authorities. No entry was passed in the books of the company when the claim was lodged and the said treatment was correct in view of AS-9, which states that if uncertainty exists as to collectability, the revenue recognition should be postponed.

Since, the claim is passed for payment of ₹ 4 lakhs in March, 2012, it should be recognized as revenue in the financial statements prepared for the year ended 31.3.2012.

As per AS-5 Revised, the claim amount received will not be treated as extraordinary item. AS-5 Revised further states that when items of income and expense within profit or loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Accordingly, the nature and amount of this item should be disclosed separately.

Answer 4. (d)

The Companies (Amendment) Act, 1999 introduced through section 79A a new type of equity shares called 'Sweat Equity Shares'. The expression 'sweat equity shares' means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions by whatever name called. However, specified guidelines in this respect must be followed.

Answer 4. (e)

As per Section 77A(2) of the Companies Act, 1956 the conditions for buy-back are:

The company's articles should authorize the buy-back. If not, the same has to be amended to include a provision to that effect;

A special resolution should be passed in the general meeting authorizing the buy-back;

- (i) The buy-back should be less than 25% of the total paid-up capital and free reserves of the company;
- (ii) The buy-back of equity shares in any financial year should not exceed 25% of its total paid-up equity capital in that financial year.
- (iii) The Companies (Amendment) Act, 2001 has authorized the buy-back by means of a resolution at the company's Board provided the buy-back does not exceed 10% of the total paid-up equity capital and free reserves of the company. But, there cannot be more than one such buy-back in a period of 365 days.

- (iv) Debt-equity ratio shall not exceed 2:1 after such buy-back. The Central Government may however, prescribe a higher ratio for a class or classes of companies;
- (v) All the shares or other specified securities are fully paid up;
- (vi) The buy-back of the shares or other securities listed on any recognized stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;
- (vii) The buy-back of shares or other securities not listed on any recognized stock exchange is in accordance with the guidelines as may be prescribed.

Q. 5. (a) A Company purchased following machines on different dates as follows :-

- On April 1, 2009 for ₹ 90,000
- On October 1, 2010 for ₹ 60,000
- On July 1, 2005 for ₹ 30,000

The depreciation is to be charged @ 10% p.a. on original cost. On February 1, 2012 it sold one-third of first machine which was bought on April 1, 2009 for ₹ 9,000 and one-half of the second machine bought on October 1, 2010 on 31st March 2012 for ₹ 28,000 because it had become obsolete.

Prepare Machinery Account for 3 years.

Answer 5. (a)

Machinery Account					
Dr.			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009 Jan 1	To Bank A/c (I)	90,000	2010 Mar 31	By Depreciation A/c (I)	9,000
		<u>90,000</u>		By Balance c/d	<u>81,000</u>
					90,000
2010 April 1	To Bank A/c (I)	90,000	2010 Mar 31	By Depreciation A/c	
				I- 9,000	
				II- <u>3,000</u>	12,000
Oct.1	To Balance b/d	81,000		By Balance c/d	
	To Bank (II)			I- 72,000	
		<u>1,41,000</u>		II- <u>57,000</u>	<u>1,29,000</u>
					1,41,000
2011 April 1	To Balance b/d		2012 Feb 1	By Depreciation A/c (I)	2,500
	I- 72,000			By Bank A/c (Sale)	19,000
	II- <u>57,000</u>	1,29,000		By P&L A/c (Loss)	2,500
Mar 31	To P&LA/c	2,500	Mar 31	By Depreciation	3,000
	(Profit on sale			(On half of Machine II)	
	of Machine II)			By Bank (Sale)	28,000
			Mar 31	By Depreciation	
				I- ($\frac{2}{3}$ of Machine-I)	6,000
				II- ($\frac{1}{2}$ of Machine-II)	3,000
				By Balance c/d	
				I- 42,000	
				II- <u>25,500</u>	<u>67,500</u>
		<u>1,31,500</u>			1,31,500

Working Notes :

(i)	Depreciation on Machinery I	$\frac{90,000 \times 10}{100}$	₹ 9,000 p.a.
(ii)	Depreciation on Machinery II	$\frac{60,000 \times 10}{100}$	₹ 6,000 p.a.
(iii)	Calculation of gain or loss on machinery I Depreciation on One- third Machine I till date of Sale for 10 months		₹ 2,500

₹ 9,000 is annual depreciation. One-third is the portion machine sold which is further calculated for 10 months of its use in business in the year 2011-12.

Book value of machine on the date of sale = Opening balance of one third machinery as on 1-4-2011—
Depreciation till date of sale

$$= ₹ \left(\frac{1}{3} \times 72,000 \right) - ₹ 2,500$$

$$= ₹ (24,000 - 2,500) = ₹ 21,500$$

Loss on sale of machine = Sale Proceeds on sale- Value on Sale

$$= ₹ (19,000 - 21,500) = ₹ (2,500)$$

iv. Calculation of gain or loss on sale of Machinery II

Depreciation on One-half of Machinery II till date of sale.

$$₹ 6,000 \times \frac{1}{2} = ₹ 3,000$$

₹ 6,000 is full amount of depreciation divided by as only one- half of the machine is sold.

Book value for one-half machinery on date of sale

$$₹ \left(\frac{1}{2} \times 57,000 \right) - 3,000 = ₹ 28,500 - ₹ 3,000 = ₹ 25,500$$

$$\text{Gain on sale of Machinery II} = ₹ 28,000 - ₹ 25,500 = ₹ 2,500$$

Q. 5. (b) M/s Sadhana Chemicals has imported a machine on 1st July 2010 for \$ 6,000, paid customs duty and freight ₹ 52,000 and incurred rection charges ₹ 20,000. Another local machinery costing ₹ 1,00,000 was purchased on January 1, 2011. On 1st July 2012, a portion of the imported machinery (value one-third) got out of order and was sold for ₹ 34,800. Another machinery was purchased to replace the same for ₹ 50,000. Depreciation is to be calculated at 20% p.a. on straight-line method. Prepare the Machinery Account and Machinery Disposal Account for 2010, 2011 and 2012. Exchange rate is ₹ 38 per \$.

Answer 5. (a)

In the Books of M/s. Sadhana Chemicals

Dr.			Machinery Account			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹			
2010 Jan 1	To Bank—Purchase (6000 × ₹ 38)	2,28,000	2010 Dec. 31	By Depreciation — for 6 months (₹ 3,00,000 ×20/100 ×½)	30,000			
	To Bank—Duty etc.	52,000		By Balance c/d	2,70,000			
	To Bank—Erection charges	20,000			<u>3,00,000</u>			
		<u>3,00,000</u>						
2011 Jan. 1	To Balance b/d	2,70,000	2011 Dec. 31	By Depreciation (i) 3,00,000×20/100 (ii) 1,00,000×20/100	60,000 20,000			
	To Bank—purchase	1,00,000		By Balance c/d	2,90,000			
		<u>3,70,000</u>			<u>3,70,000</u>			
2012 Jan. 1	To Balance b/d	2,90,000	2012 July 1	By Machinery Disposal A/c	70,000			
July 1	To Bank—purchase	50,000	Dec. 31	By Depreciation : (i) 2,00,000×20/100 (ii) 1,00,000×20/100 (iii) 50,000×20/100×½	40,000 20,000 5,000			
		<u>3,40,000</u>		By Balance c/d	2,05,000			
					<u>3,40,000</u>			
Jan. 1	To Balance b/d	2,05,000						

Dr.			Machinery Disposal Account			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹			
2012 July 1	To Machinery A/c	70,000	2012 July 1	By Depreciation (1,00,000 × 20/100×½)	10,000			
				By Bank — sale proceeds	34,800			
				By Profit & Loss A/c	25,200			
		<u>70,000</u>			<u>70,000</u>			

Note: 1. Written down value of Machinery as on July 1, 2012 will be as follows :

	₹
Original cost on July 1, 2010 ($3,00,000 \times 1/3$)	1,00,000
Less: Depreciation for 2010 (for 6 months) ($1,00,000 \times 20/100 \times \frac{1}{2}$)	10,000
	<u>90,000</u>
Less: Depreciation for 2011 ($1,00,000 \times 20/100$)	20,000
	<u>70,000</u>

2. If 'Machinery Disposal Account' is not kept, then, Machinery account for the year 2012 will be prepared as under :

Dr.			Machinery Account (for 2012)			Cr.	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹		
2012 July 1	To Balance b/d To Bank	2,90,000 50,000	2012 July 1	By Depreciation (For 6 months) By Bank — sale proceeds By Profit & Loss A/c Loss on sale (70,000–44,800) By Depreciation By Balance c/d	10,000 34,800 25,200 65,000 2,05,000		
		<u>3,40,000</u>			<u>3,40,000</u>		
2013 Jan. 1	To Balance b/d	2,05,000					

Q. 6. (a) State with reasons whether the following are Capital Expenditure or Revenue Expenditure :

- (i) Expenses incurred in connection with obtaining a licence for starting the factory were ₹ 12,000.
- (ii) ₹ 3,000 paid for removal of stock to a new site.
- (iii) Rings and Pistons of an engine were changed at a cost of ₹ 7,000 to get full efficiency.
- (iv) ₹ 2,500 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.
- (v) ₹ 12,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.
- (vi) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred for the construction of the temporary huts for storing building materials.

Answer 6. (a)

- (i) ₹ 12,000 incurred in connection with obtaining a license for starting the factory is a Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.
- (ii) ₹ 3,000 incurred for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of the asset and it is also required for starting the business on the new site.
- (iii) ₹ 7,000 incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of Rings and Piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.
- (iv) ₹ 2,500 incurred for defending the title to the firm's assets and the suit was not successful hence is a Revenue Expenditure.
- (v) ₹ 12,000 incurred on advertising is to be treated as a Deferred Revenue Expenditure because the benefit of advertisement is available for 4 years, ₹ 3,000 is to be written off every year.
- (vi) Cost of construction of Factory shed of ₹ 1,00,000 is a Capital Expenditure, similarly cost of construction of small huts for storing building materials is also a Capital Expenditure.

Q. 6. (b) Mr. Vinay who was closing his books on 31.03.2012 failed to take the actual Stock which he did only on 09.04.2012, when it was ascertained by him to be worth ₹ 40,500

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31.03.2012 and 09.04.2012 as per Sales day book are ₹ 4,080. Purchases between 31.03.2012 and 09.04.2012 as per purchases day book are ₹ 255, out of these goods amounting to ₹ 120 were not received until after the stock was taken. Goods invoiced during the month of March, 2012 but goods received only on 04th April, 2012 amounted to ₹ 300 rate of gross profit is 25 % on cost.

Ascertain the Value of Physical stock as on 31.03.2012.

Answer 6. (b)**Value of Physical Stock as on 31.03.2012**

Particulars	Amount
Stock on 09.04.2012	40,500
Add : Cost goods sold during 1st to 9th April, 2012	₹
Sales	4,080
Less : Profit (20% of sales)	<u>816</u>
	3,264
	<u>37,236</u>
Less : Goods purchased and received during 1st to 9th April, 2012	
	(255-120)
	<u>135</u>
Value of Stock on 31.03.2012	<u>37,101</u>
Less : Goods purchased before 31.03.2012	
But delivered on 04.04.2012	<u>300</u>
Value of physical stock on 31.03.2012	<u>36,801</u>

It must be noted that physical stock on 31.03.2012 is ₹ 36,801. But value of stock on 31.03.2012 is ₹ 37,101 because ₹ 300 goods delivered on 04.04.2012 are purchases of the year ending on 31st March, 2012 as purchases are entered in the purchases day book once the invoices are received.

Q. 7. (a) Everything Stores Ltd., Delhi, has its branches at Kolkata and Chennai. It charges goods to its Branches at cost plus 25% . Following information is available of the transactions of the Kolkata Branch for the year ended on 31st March 2012.

	₹
Balances on 1.04.2011	
Stock (at invoice price)	30,000
Debtors	10,000
Petty Cash	50
Transactions during 2011-2012 (Kolkata Branch) :	
Goods send to Kolkata Branch (at invoice price)	3,25,000
Goods returned to Head Office (at invoice price)	10,000
Cash Sales	1,00,000
Credit Sales	1,75,000
Goods pilfered (at invoice price)	2,000
Goods lost by fire (at invoice price)	5,000
Insurance Co. paid to H.O. for loss by fire at Kolkata	3,000
Cash sent for petty expenses	34,000
Bad debts at Branch	500
Goods transferred to Chennai Branch under H.O. advice	15,000
Insurance charges paid by H.O.	500
Goods returned by Debtors	500
Balance on 31.03.2012	
Petty Cash	230
Debtors	14,000

Goods worth ₹ 15,000 (included above) sent by Kolkata Branch to Chennai Branch was in transit on 31.03.2012.

Show the following accounts in the books of Everything Stores Ltd. :

- (a) Kolkata Branch Account;
- (b) Kolkata Branch Debtors Account;
- (c) Kolkata Branch adjustment Account;
- (d) Kolkata Profit & Loss Account; and
- (e) Stock Reserve Account.

Answer 7. (a)**In the books of H.O****Dr. Kolkata Branch Stock Account Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Apr. 1	To Balance b/d	30,000	2012 Mar. 31	By Branch Cash A/c	
2012 Mar. 31	To Goods Sent to Branch A/c	3,25,000		Cash Sales 1,00,000	
	To Branch Debtors A/c – Returns Inward	500		Branch Debtors A/c	
				Credit Sales <u>1,75,000</u>	2,75,000
				By Goods Sent to Branch A/c – Return from Branch	10,000
				By Pilferage A/c	2,000
				By Lost by Fire A/c	5,000
				By Chennai Branch A/c – Goods Transferred in transit	15,000
				By Balance c/d	48,500
		<u>3,55,000</u>			<u>3,55,000</u>

Dr. Kolkata Branch Stock Adjustment Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 Mar. 31	To Goods sent to Branch A/c – Load of goods returned $\left(₹ 10,000 \times \frac{1}{2} \right)$	2,000	2012 Mar. 31	By Balance b/d	
	To Branch Stock A/c :			– Loading on Opening Stock $\left(₹ 30,000 \times \frac{1}{5} \right)$	6,000
	To Pilferage A/c	400		By Goods sent to Branch A/c	65,000
	– Loading $\left(₹ 2,000 \times \frac{1}{5} \right)$			– Loading $\left(₹ 3,25,000 \times \frac{1}{5} \right)$	
	To Lost by fire	1,000			
	– Loading $\left(₹ 5,000 \times \frac{1}{5} \right)$				
	To Chennai Branch A/c	3,000			
	– Loading $\left(₹ 15,000 \times \frac{1}{5} \right)$				
	By Branch P & L A/c	54,900			
	– Gross Profit transferred (Bal. fig.)				
	By Balance c/d (-Loading on closing stock $\left(₹ 48,500 \times \frac{1}{5} \right)$)	9,700			
		<u>71,000</u>			<u>71,000</u>

Dr. Branch Profit & Loss Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Mar. 31	To Branch Debtors A/c - Bad Debts - Insurance - Pilferage (at Cost) - Stock lost by fire - Petty Expenses To General P&L A/c - Branch Profit Transferred	 500 500 1,600 1,000 33,820 17,480 <u>54,900</u>	2011 Mar. 31	By Branch Stock Adjustment A/c - Gross Profit	 54,900 <u>54,900</u>

Dr. Stock Reserve Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 Mar. 31	To Stock Adjustment A/c - Transfer To Balance c/d	 6,000 9,700 <u>15,700</u>	2012 Apr. 31 2012 Mar. 31	By Balance b/d By Branch Stock Adjustment A/c	 6,000 9,700 <u>15,700</u>

Dr. Stock Lost by Fire Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 Mar. 31	To Kolkata Branch Stock A/c	 5,000 <u>5,000</u>	2012 Mar. 31	By Branch Stock Adjustment A/c By Bank (Insurance Claim) By Branch P & L A/c (bal. fig.)	 1,000 3,000 1,000 <u>5,000</u>

Dr. Petty Cash Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Apr. 1 2011 Mar. 31	To Balance b/d To Cash - General	 50 34,000 <u>34,050</u>	2012 Mar. 31	By Branch P & L A/c - Expenses (bal. fig.) By Balance c/d	 33,820 230 <u>34,050</u>

Q. 7. (b) Department D sells goods to Department E at a profit of 25% on cost and to Department F at 10% profit on cost. Department E sells goods to D and F at a profit of 15% and 20% on sales, respectively. Department F charges 20% and 25% profit on cost to Department D and E, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

	₹
Department D	1,44,000
Department E	1,08,000
Department F	72,000

Stock lying at different departments at the end of the year are as under :

	Dept. D	Dept. E	Dept. F
Transfer from Department D	—	60,000	44,000
Transfer from Department E	56,000	—	48,000
Transfer from Department F	24,000	20,000	—

Find out the correct departmental Profits after charging Managers' commission.

Answer 7. (b)

Calculation of correct Profit

	Department-D ₹	Department-E ₹	Department-F ₹
Profit after charging managers' commission	1,44,000	1,08,000	72,000
Add back : Managers' commission (1/9)	16,000	12,000	8,000
	<u>1,60,000</u>	<u>1,20,000</u>	<u>80,000</u>
Less : Unrealized profit on stock (Working Note)	16,000	18,000	8,000
Profit before Manager's commission	1,44,000	1,02,000	72,000
Less : Commission for Department Manager @10%	14,400	10,200	7,200
	<u>1,29,600</u>	<u>91,800</u>	<u>64,800</u>

Working Note :

Stock lying with

	Department-D	Department-E	Department-F	Total
Unrealized Profit of :				
Department-D	—	$1/5 \times 60,000 = 12,000$	$1/11 \times 44,000 = 4,000$	16,000
Department-E	$0.15 \times 56,000 = 8,400$	—	$0.20 \times 48,000 = 9,600$	18,000
Department-F	$1/6 \times 24,000 = 4,000$	$1/5 \times 20,000 = 4,000$	—	8,000

Q. 8. A fire occurred in the office premises of lessee Mukta Ltd. in the evening of 31.3.2012 destroying most of the books and records. From the documents saved, the following information is gathered :

Short-working recovered :

2009-10 ₹ 2,000 (towards short-workings which arose in 2005-06)

2010-11 ₹ 4,000 (including ₹ 1,000 for short-working 2006-07)

2011-12 ₹ 1,000

Short-working lapsed :

2008-09 ₹ 1,500

2009-10 ₹ 1,800

2011-12 ₹ 1,000

A sum of ₹ 25,000 was paid to the landlord in 2008-09. The agreement of Royalty contains a clause of Minimum Rent payable for fixed amount and recoupment of short-workings within 3 years following the year in which Short-workings arise.

Information as regards payments to landlord subsequent to the year 2008-09 is not four years ended 31.3.2012.

Answer 8.

Before preparing the respective ledger accounts we are to compute the following information :

Year	Royalty	Short-working recovered	Short-working Lapsed	Short-working	Payment to Landlord
2008-09	—	—	—	1,500	25,000
2009-10	—	—	₹ 2,000 (for 2006-07)	8,800	—
2010-11	—	—	₹ 4,000 (including ₹ 1,000 for 2007-08)	—	—
2011-12	—	—	1,000	1,000	—

From the above statement it is quite clear that :

- (i) Short-working lapsed in 2011-12 ₹ 1,000 which relates to 2008-09 as per terms, short-working should be recouped within three years i.e., 2011-12 is the last year for recoupment. Short-working recovered in 2010-11 ₹ 4,000, out of which ₹ 1,000 for 2007-08 and the balance ₹ 3,000 for the year 2008-09.

Short-working recovered in 2011-12 ₹ 1,000 which is also related to 2008-09 in which year actually is arose.

Thus, the total short-working balance in 2008-09 amounted to ₹ 5,000 (i.e., ₹ 1,000 + ₹ 3,000 + ₹ 1,000).

Now, we can prepare our usual statement as under :

Actual Royalty	= Payment to Landlord + Recoupment – Short-working
2008-09	= ₹ 25,000 + Nil – ₹ 5,000 = ₹ 20,000
2009-10	= ₹ 25,000 + ₹ 2,000 – NIL = ₹ 27,000
2010-11	= ₹ 25,000 + ₹ 4,000 – NIL = ₹ 29,000
2011-12	= ₹ 25,000 + ₹ 1,000 – NIL = ₹ 26,000

Memorandum Royalty Statement

Year	Royalty ₹	Short-working ₹	Recoupment ₹	Tr. to P&L A/c ₹	Payment to Landlord ₹
2008-09	20,000	5,000	—	1,500	25,000
2009-10	27,000	—	2,000	1,800	25,000
2010-11	29,000	—	4,000	—	25,000
2011-12	26,000	—	1,000	1,000	25,000

In the books of Mukta Ltd.**Dr. Royalty Account Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.03.09	To Landlord A/c	20,000	31.03.09	By Profit and Loss A/c	20,000
		<u>20,000</u>			<u>20,000</u>
31.03.10	To Short workings A/c	2,000	31.03.10	By Profit and Loss A/c	27,000
	To Landlord A/c	25,000			<u>27,000</u>
		<u>27,000</u>			<u>27,000</u>
31.03.11	To Short workings A/c	4,000	31.03.11	By Profit and Loss A/c	29,000
	To Landlord A/c	25,000			<u>29,000</u>
		<u>29,000</u>			<u>29,000</u>
31.03.12	To Short workings A/c	1,000	31.03.12	By Profit and Loss A/c	26,000
	To Landlord A/c	25,000			<u>26,000</u>
		<u>26,000</u>			<u>26,000</u>

Dr. Short Working Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.03.09	To Balance b/d	6,300	31.03.09	By Profit and loss A/c	1,500
	To Landlord A/c	5,000		By Balance c/d	9,800
		<u>11,300</u>			<u>11,300</u>
31.03.10	To Balance b/d	9,800	31.03.10	By Royalty A/c	2,000
		<u>9,800</u>		By Profit and Loss A/c	1,800
		<u>9,800</u>		By Balance c/d	6,000
31.03.11	To Balance b/d	6,000	31.03.11	By Royalty A/c	4,000
		<u>6,000</u>		By Balance c/d	2,000
		<u>6,000</u>			<u>6,000</u>
31.03.12	To Balance b/d	2,000	31.03.12	By Royalty A/c	1,000
		<u>2,000</u>		By Balance c/d	1,000
		<u>2,000</u>			<u>2,000</u>

This includes the following :

		₹
Lapsed :	in 2008-09	1,500
	in 2009-10	1,800
Recoupment :	in 2009-10	2,000
	in 2010-11	<u>1,000</u>
		<u>6,300</u>

Q. 9. A machinery is sold on hire purchase. The terms of payment is four annual instalments of ₹ 6,000 at the end of each year commencing from the date of agreement. Interest is charged @ 20% and is included in the annual payment of ₹ 6,000.

Show machinery account and hire purchase vendor account in the books of the purchaser who defaulted in the payment of the third yearly payment whereupon the vendor repossessed the machinery. The purchaser provides depreciation on the machinery @ 10% per annum on written down value basis.

All workings should form part of your answer.

Answer 9.

In the books of Hire Purchaser

Dr.		Machinery Account		Cr.
Particulars	Amount ₹	Particulars	Amount ₹	
1 st Year				
To Hire Purchase Vendor A/c	15,533	By Depreciation A/c	1,553	
	<u>15,533</u>	By Balance c/d	<u>13,980</u>	
			<u>15,533</u>	
2 nd Year				
To Balance b/d	13,980	By Depreciation A/c	1,398	
	<u>13,980</u>	By Balance c/d	<u>12,582</u>	
			<u>13,980</u>	
3 rd Year				
To Balance b/d	12,582	By Depreciation A/c	1,258	
		By Hire Purchase Vendor A/c	11,000	
		By Balance c/d	<u>324</u>	
	<u>12,582</u>		<u>12,582</u>	

Dr.

Hire Purchase Vendor Account

Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c	6,000	1 st year	
To Balance	12,639	By Machinery A/c	15,533
		By Interest A/c	3,106
	<u>18,639</u>		<u>18,639</u>
To Bank A/c	6,000	2 nd year	
To Balance	9,167	By Machinery A/c	12,639
		By Interest A/c	2,528
	<u>15,167</u>		<u>15,167</u>
To Machinery A/c (Repossession vendor)	11,000	3 rd year	
		By Balance b/d	9,167
	<u>11,000</u>	By Interest	1,833
			<u>11,000</u>

Working Notes :

	Installment ₹	Interest ₹	Principal ₹
4 th Instalment	6,000		
Less : Interest $\frac{20}{120} \times 6,000$	<u>1,000</u>	1,000	5,000
	5,000		
Add: 3 rd Instalment	<u>6,000</u>		
	11,000		
Less : Interest $\frac{20}{120} \times 11,000$	<u>1,833</u>	1,833	4,167
	9,167		
Add: 2 nd Instalment	<u>6,000</u>		
	15,167		
Less : Interest $\frac{20}{120} \times 15,167$	<u>2,528</u>	2,528	3,472
	12,639		
Add: 1 st Instalment	<u>6,000</u>		
	18,639		
Less : Interest $\frac{20}{120} \times 18,639$	<u>3,106</u>	3,106	2,894
	15,533	<u>8,467</u>	<u>15,533</u>

Q. 10. Name of the Company Super Star Ltd.

Balance Sheet as at 31st March, 2012

[as per Revised Schedule VI]

₹ in lakhs

<i>Particulars</i>	<i>Note No.</i>	<i>Figures as at the end of current reporting period</i>	<i>Figures as at the end of previous reporting period</i>
I EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share Capital	1	21,000	—
(b) Reserves and Surplus	2	16,200	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities			
(a) Long-term borrowings	3	10,000	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long-term provisions		—	—
(4) Current Liabilities			
(a) Short-term borrowings :			
(b) Trade Payables	4	4,600	—
(c) Other current liabilities		—	—
(d) Short term provisions	5	2,000	—
Total		53,800	—
II. ASSETS			
(1) Non-current assets			
(a) Fixed assets			
(i) Tangible assets		28,000	—
(ii) Intangible assets		—	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment		6,000	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets			
(a) Current investments		—	—
(b) Inventories		—	—
(c) Trade receivables		—	—
(d) Cash and Cash equivalents	6	3,300	—
(e) Short-term loans and advances		—	—
(f) Other Current assets		16,500	—
Total		53,800	—

Annexure**Note 1. Share Capital (₹ in lakhs)**

Particulars	Amount (₹)
10% Redeemable Preference Share of ₹ 10 each fully paid up	5,000
Equity Shares of ₹ 10 each fully paid up	16,000
Total	21,000

Note 2. Reserves and Surplus (₹ in lakhs)

Particulars	Amount (₹)
Capital Redemption Reserve	2,000
Securities Premium	1,600
General Reserve	12,000
Profit & Loss A/c	600
Total	16,200

Note 3. Long-term borrowings (₹ in lakhs)

Particulars	Amount (₹)
9% Debenture	10,000
Total	10,000

Note 4. Trade Payables (₹ in lakhs)

Particulars	Amount (₹)
Sundry Creditors	4,600
Total	4,600

Note 5. Short-term Provisions (₹ in lakhs)

Particulars	Amount (₹)
Sundry Provisions	2,000
Total	2,000

Note 6. Cash and Cash Equivalents (₹ in lakhs)

Particulars	Amount (₹)
Cash at Bank	3,300
Total	3,300

On 1st April, 2012 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹ 20 per share. In order to make cash available, the company sold all the investments for ₹ 6,300 lakh and raised a bank loan amounting to ₹ 4,000 lakhs on the security of the company's plant.

Pass journal entries for all the above mentioned transactions including cash transactions and prepare the company's balance sheet immediately thereafter. The amount of securities premium has been utilized to the maximum extent allowed by law.

Answer 10.

Journals

Particulars		Dr. Amount ₹	Cr. Amount ₹
Bank A/c Dr. To Investment A/c To Profit and Loss A/c (Being sale of investments and profit thereon)		6,300	6,000 300
Bank A/c Dr. To Bank Loan A/c (Being loan taken from bank)		4,000	4,000
10% Redeemable preference Share capital A/c Dr. Premium on redemption of preference shareholder A/c Dr. To Preference shareholder A/c (Being redemption of preference shares)		5,000 500	5,500
Preference shareholders A/c Dr. To Bank A/c (Being payment of amount due to preference shareholders)		5,500	5,500
Securities premium A/c Dr. To Premium on redemption of preference share A/c (Being use of securities premium to provide premium on redemption of preference shares)		500	500
Equity Share capital A/c Dr. Securities premium A/c [1,600 - 500] Dr. General reserves A/c Dr. [(400 × 20) - 4,000 - 1,100] To Equity shareholders A/c (Being buy back of equity shares) Note : Balance of General Reserve [12,000 - 2,900] = ₹ 9,100		4,000 1,100 2,900	8,000

General Reserves A/c To Capital redemption reserve A/c (4,000 + 5,000) (Being creation of capital redemption reserve to the extent of the face value of preference share redeemed and equity shares bought back). Note : Balance in General reserve as on 01.04.03 (9,100 – 9,000) = ₹ 100	Dr.	9,000	9,000
Equity shareholders A/c To Bank A/c (Being payment of amount due to equity shareholders). Note : Cash at Bank [3,300+6,300+4,000-5,500-8,000] = ₹ 100	Dr.	8,000	8,000

Name of the Company **Super Star Ltd.**

Balance Sheet as at 1st April, 2012

[as per Revised Schedule VI]

₹ in lakhs

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital	1	12,000	—
(b) Reserves and Surplus	2	12,000	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings	3	10,000	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings	4	4,000	—
(b) Trade Payables	5	4,600	—
(c) Other current liabilities		—	—
(d) Short term provisions	6	2,000	—
Total		44,600	—

II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets		28,000	—
(ii) Intangible assets		—	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment		—	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories		—	—
(c) Trade receivables		—	—
(d) Cash and Cash equivalents	7	100	—
(e) Short-term loans and advances		—	—
(f) Other Current assets		16,500	—
Total		44,600	—

Annexure**Note 1. Share Capital****(₹ in lakhs)**

Particulars	Amount (₹)
Equity Shares of ₹ 10 each fully paid up	12,000
Total	12,000

Note 2. Reserves and Surplus**(₹ in lakhs)**

Particulars	Amount (₹)
Capital Redemption Reserve	11,000
General Reserve	100
Profit & Loss A/c	900
Total	12,000

Note 3. Long-term borrowings**(₹ in lakhs)**

Particulars	Amount (₹)
9% Debenture	10,000
Total	10,000

Note 4. Short-term borrowings**(₹ in lakhs)**

Particulars	Amount (₹)
Bank Loan	4,000
Total	4,000

Note 5. Trade Payables**(₹ in lakhs)**

Particulars	Amount (₹)
Sundry Creditors	4,600
Total	4,600

Note 6. Short-term Provisions**(₹ in lakhs)**

Particulars	Amount (₹)
Sundry Provisions	2,000
Total	2,000

Note 7. Cash and Cash Equivalents**(₹ in lakhs)**

Particulars	Amount (₹)
Cash at Bank	100
Total	100

Q. 11. OMR Limited recently made a public issue in respect of which the following information is available :

- (a) No. of partly convertible debentures issued 4,00,000; face value and issue price ₹ 100 per debenture
- (b) Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue
- (c) Date of closure of subscription lists 1.5.2011, date of allotment 1.6.2011, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion ₹ 60 (Face Value ₹ 10)
- (d) Underwriting Commission 2.5 %
- (e) No. of debentures applied for 300000
- (f) Interest payable on debentures half-yearly on 30th September and 31st March

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2012 (including cash and bank entries).

Answer 11.

In the books of OMR Ltd.

Journals

Date	Particulars		Dr.	Cr.
			Amount ₹	Amount ₹
1.5.2011	Bank A/c To Debenture Application A/c (Application money received on 3,00,000 debentures @ ₹ 100 each)	Dr.	3,00,00,000	3,00,00,000
1.6.2011	Debenture Application A/c	Dr.	3,00,00,000	
	Underwriters A/c	Dr.	1,00,00,000	
	To 15% Debentures A/c (Allotment of 3,00,000 debentures to applicants and 1,00,000 debentures to underwriters)			4,00,00,000
	Underwriting Commission To Underwriters A/c (Commission payable to underwriters @ 2.5 % on ₹ 4,00,00,000)	Dr.	10,00,000	10,00,000
30.9.2011	Bank A/c To Underwriters A/c (Amount received from underwriters in settlement of account)	Dr.	90,00,000	90,00,000
	Debenture Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 4,00,00,000)	Dr.	20,00,000	20,00,000

30.10.2011	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)	Dr.	2,40,00,000	40,00,000 2,00,00,000
31.3.2012	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year)	Dr.	15,00,000	15,00,000

Working Note :**Calculation of Debenture Interest for the half year ended 31st March, 2012**

On ₹ 1,60,00,000 for 6 months @ 15% = ₹ 12,00,000

On ₹ 2,40,00,000 for 1 months @ 15% = ₹ 300,000
₹ 15,00,000

Q. 12. King Limited issued 10,000 equity shares of ₹ 100 each at premium of ₹ 25 per share. Under the terms of the issue, the shares were to be paid for as follows :

	₹
2012 January 1, on application (including ₹ 25 premium on issue per share)	50
February 1, on allotment	50
April 1, balance of	25

The issue was over subscribed. The applications received are summarised below :

	A	B	C
Number of applicants in categories	40	20	1
Shares Applied for by each applicant in the three categories	200	2000	8000
Shares Issued to each applicant	100	200	2000

One of the conditions of the issue was that amounts over-paid on application were to be retained by the company and used in reduction of further sums due on shares allotted. All surplus contributions were refunded on 15th February, 2012.

Mohan who had subscribed 100 on an application for 200 shares was unable to meet the claim due on April 1. On May 5, the directors forfeited his shares. All other shareholders paid the sums requested on the due dates. On June 10, 2012 the directors re-issued the forfeited shares as fully paid to Gopal, on receiving a payment of ₹ 10,500.

- To prepare a statement as on February 1, 2012, showing the over-payment, under-payment to in respect of category of applicants : and
- To show how the above transactions would appear in the journal of the company.

Answer 12.

(a)

King Ltd.**Statement of Shares Applied, Allotted and Amounts Adjusted**

	Catetories		
	A	B	C
(a) Applied (Nos.)	8,000	40,000	8,000
(b) Allotted (Nos.)	4,000	4,000	2,000
	₹	₹	₹
(c) Application money Received (Applied × Application per share)	4,00,000	20,00,000	4,00,000
(d) Application Money required (Alloted × Application per share)	2,00,000	2,00,000	1,00,000
(e) Excess Application Money to be Adjusted with Allotment [c-d]	2,00,000	18,00,000	3,00,000
(f) Allotment Money Due (Alloted × Allotment per share)	2,00,000	2,00,000	1,00,000
(g) Balance of Excess Application Money for Adjustment with calls [e-f]	Nil	16,00,000	2,00,000
(h) Call Money Due (Allotment × Call per share)	1,00,000	1,00,000	50,000
(i) Excess/(Shortage)	(1,00,000)	15,00,000	1,50,000

In case of shortage, the shareholders will deposit the dues.

(b)

Journals

2012	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jan. 01	Bank A/c Dr. To Equity Share Application A/c (Application money received on 56,000 shares @ ₹ 50 per share)		28,00,000	28,00,000
Feb. 01	Equity Share Application A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being application money on 10,000 shares transferred to share Capital and Securities Premium vide Board's resolution no. dated...)		5,00,000	2,50,000 2,50,000
	Equity Share Application A/c Dr. To Bank A/c (Being excess application money refunded of vide Board's resolution no. dated...)		16,50,000	16,50,000

	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment money due on 10,000 shares @ ₹ 50 per share vide Board's resolution no. dated...)		5,00,000	5,00,000
	Equity Share Application A/c Dr. To Equity Share Allotment A/c (Being excess of Equity share application money adjusted with allotment)		5,00,000	5,00,000
	Equity Share First & Final Call A/c Dr. To Equity Share Capital A/c (Being first & final call money due on 10,000 shares @ ₹ 25 per share vide Board's resolution no. dated...)		2,50,000	2,50,000
Apr. 01	Bank A/c Dr. Calls in Arrear A/c Dr. Equity Share Application A/c Dr. To Equity Share First & Final Call A/c (Being amount received and adjusted, except a holder of 100 share who failed to pay the call)		97,500 2,500 1,50,000	2,50,000
	Equity Share Capital A/c Dr. To Shares Forfeited A/c To Calls in Arrear A/c (Being 100 shares held by Mohan forfeited for non-payment of call @ ₹ 25 per share vide Board's resolution no. dated...)		10,000	7,500 2,500
May 05	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 100 forfeited shares resissued at 10,500)		10,500	10,000 500
	Share Forfeited A/c Dr. To Capital Reserve (Being balance of shares forfeited transferred to capital reserve)		7,500	7,500

Q. 13. The following balances appeared in the books of River Ltd. on 1.04.2011.

- (i) Debenture Redemption Fund Account- ₹ 80,000 represented by investment at cost of an equal amount (nominal value ₹ 1,00,000)
- (ii) The 12% debenture Stood at ₹ 1,80,000

The Company sold ₹ 60,000 investments at ₹ 90 for the purpose of redemption of ₹ 50,000 Debentures at a premium of 2% during the year.

Show (a) 12% Debentures account, (b) Debenture Redemption Fund a/c (c) Debenture Fund Investment A/c for the year ended 31.03.2012.

Answer 13.

In the books of River Ltd.

Dr. **12% Debentures Account for the year ended 31.03.2012** **Cr.**

Particulars	₹	Particulars	₹
To Debenture Holders A/c	50,000	By Balance b/d	1,80,000
To Balance c/d	1,30,000		
	1,80,000		1,80,000

Dr. **Debenture Redemption Fund Account for the year ended 31.03.2012** **Cr.**

Particulars	₹	Particulars	₹
To Premium Payable on Redemption of Debentures A/c	1,000	By Balance b/d	80,000
To General Reserve A/c	53,000	By Debenture Redemption Fund Investment A/c	6,000
To Balance c/d	32,000	(Profit on realization of investments)	
	86,000		86,000

Dr. **Debenture Fund Investment Account for the year ended 31.03.2012** **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d (Nominal Value ₹ 1,00,000)	80,000	By Bank A/c (Sale of ₹ 60,000 investment at ₹ 90)	54,000
To Debenture Redemption Fund A/c	6,000	By Balance c/d	32,000
	86,000		86,000

Dr. **Debenture Holders Account for the year ended 31.03.2012** **Cr.**

Particulars	₹	Particulars	₹
To Bank A/c	51,000	By 12 % debenture A/c	50,000
		By Premium on redemption A/c	1,000
	51,000		51,000

Q. 14. The firm of ABC was dissolved on 31.3.2012 at which date its Balance Sheet stood as :

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	6,00,000	Fixed Assets	1,35,00,000
Bank Loan	15,00,000	Cash at Bank	6,00,000
A's Loan	30,00,000		
Capital :			
A	45,00,000		
B	30,00,000		
C	15,00,000		
	<u>1,41,00,000</u>		<u>1,41,00,000</u>

Partners share profits equally. A firm of Chartered Accountant is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which are to include all expenses is fixed at ₹ 3,00,000. No loss is expected on realization; semi-fixed assets include valuable land and building.

Realisation are :

1. ₹ 15,00,000 (including Cash and Bank); 2. ₹ 45,00,000; 3. ₹ 45,00,000; 4. ₹ 90,00,000.

The Chartered Account firm decided to pay off the partner in High Relative Capital Method.

You are required to prepare a statement showing distribution of Cash with necessary working.

Answer 14.

Computation of Absolute Surplus :

	A ($\frac{1}{3}$)	B ($\frac{1}{3}$)	C ($\frac{1}{3}$)
Capital as per Balance Sheet	45,00,000	30,00,000	15,00,000
Less : Capital as per profit-sharing ratio taken C's capital as basis	<u>15,00,000</u>	<u>15,00,000</u>	<u>15,00,000</u>
	30,00,000	15,00,000	—
Less : Capital as per profit-sharing ratio, Taken B's Capital as basis	<u>15,00,000</u>	<u>15,00,000</u>	
Absolute Surplus	<u>15,00,000</u>		

Statement showing the Distribution

Particulars	Total Realisation ₹	Creditors	Loan	Bank/A's Loan	Capital		
					A ₹	B ₹	C ₹
Amount Due		6,00,000	15,00,000	30,00,000	45,00,000	30,00,000	15,00,000
Payment out of 1st Realisation	15,00,000						
Less: Liquidation Expenses	<u>3,00,000</u>						
Balance to creditors and Bank Loan in 2:5	<u>12,00,000</u>	<u>3,42,858</u>	<u>8,57,142</u>				
		2,57,142	6,42,858				
Payment out of 2 nd Realisation							
₹ 2,52,142 To Creditor							
₹ 6,42,858 To Bank Loan		2,57,142	6,42,858				
₹ 30,00,000 To A's Loan							
₹ 6,00,000 Balance to A				30,00,000	6,00,000		
₹ 45,00,000	<u>45,00,000</u>				39,00,000		
Payment out of 3 rd Realization					<u>9,00,000</u>		
₹ 9,00,000 To A					30,00,000	30,00,000	
₹ 15,00,000 To A					<u>15,00,000</u>	<u>15,00,000</u>	
₹ 15,00,000 To B					15,00,000	15,00,000	15,00,000
₹ 6,00,000 To A, B and C					<u>2,00,000</u>	<u>2,00,000</u>	<u>2,00,000</u>
₹ 45,00,000	<u>45,00,000</u>				13,00,000	13,00,000	13,00,000
Payment out of 4 th Realisation							
₹ 45,00,000 to A,B and C equally	90,00,000				30,00,000	30,00,000	30,00,000
Profit Realisation	90,00,000				17,00,000	17,00,000	17,00,000

Alternatively, applying Maximum possible loss method :

Particulars	₹	Total ₹	Creditors ₹	Loan ₹	Bank/A's ₹	Capital		
						A ₹	B ₹	C ₹
Balance Due		1,41,00,000	6,00,000	15,00,000	30,00,000	45,00,000	30,00,000	15,00,000
Cash at Bank	6,00,000							
(+)1 st Realisation	<u>9,00,000</u>							
	15,00,000							
(-)Liquidation Exp.	<u>3,00,000</u>							
Available Cash	<u>12,00,000</u>	12,00,000	3,42,858	8,57,142	—	—	—	—
To be distributed in o/s liability ratio (30:75)								
		1,29,00,000	2,57,142	6,42,858	30,00,000	45,00,000	30,00,000	15,00,000
2 nd Realisation	45,00,000							
(-) payment to Creditors	3,57,142							
(-) payment of Bank Loan	6,42,858	2,57,142						
Available cash	<u>36,00,000</u>	6,42,858	2,57,142	6,42,858				
		1,20,00,000						
(-)L's Loan	<u>30,00,000</u>	30,00,000			30,00,000			
		90,00,000	Nil	Nil	Nil	45,00,000	30,00,000	15,00,000

Balance Due Available cash	6,00,000	(-)6,00,000						
Maximum Loss (in Capital contribution ratio) i.e. 3:2:1		84,00,000				(42,00,000)	(28,00,000)	(14,00,000)
Payment to Partners						<u>3,00,000</u>	<u>2,00,000</u>	<u>1,00,000</u>
Balance Due	84,00,000					42,00,000	28,00,000	14,00,000
3 rd Realisation	45,00,000							
Maximum Loss (in Capital contribution ratio) i.e. 3:2:1		39,00,000				(19,50,000)	(13,00,000)	(6,50,000)
Payment to Partners						<u>22,50,000</u>	<u>15,00,000</u>	<u>6,50,000</u>
Balance Due	39,00,000					19,50,000	13,00,000	6,50,000
4 th Realisation	90,00,000							
Profit (in Capital contribution ratio) i.e. 3:2:1	51,00,000					25,50,000	17,00,000	8,50,000
						45,00,000	30,00,000	15,00,000

Q. 15. M/s AB Co., having A and B as equal partners, decided to amalgamate with M/s CD Co., having C and D as equal partners on the following terms and conditions :

1. The new firm XY Co. to pay ₹ 12,000 to each firm for Goodwill.
2. The new firm to take over investments at 90% of the value, land at ₹ 66,800, premises at ₹ 53,000, machinery at ₹ 9,000 and only the trade liabilities of both the firms and the debtors at book value.
3. Typewriters, worth ₹ 800, belonging to CD Co., not appearing in the Balance Sheet. That is not taken over by the new firm.
4. Bills payable pertaining to trade transactions only.
5. All the four partners in the new firm to bring in ₹ 1,60,000 as capital in equal shares.

The following were the Balance Sheets of both the firms on the date of amalgamation :

Liabilities	AB Co. ₹	CD Co. ₹	Assets	AB Co. ₹	CD Co. ₹
Trade creditors	20,000	10,000	Cash	15,000	12,000
Bills payable	5,000	-	Investments	10,000	8,000
Bank overdraft	2,000	10,000	Debtors		10,000
A's Loan	6,000	-	Less: Provision	9,000	4,000
Capitals:			Furniture	12,000	6,000
A	35,000	-	Premises	30,000	-
B	22,000	-	Land	-	50,000
C	-	36,000	Machinery	15,000	15,000
D	-	20,000	Goodwill	9,000	9,000
General Reserve	8,000	3,000			
Investment Fluctuation Fund	2,000	1,000			
	1,00,000	80,000		1,00,000	80,000

Assuming immediate discharge of bank overdraft, pass necessary Journal entries to close the books of AB Co. Also pass Journal entries in the books of XY Co. and prepare the Balance Sheet of the firm.

Answer 15.

In the books of AB Company			
Journals		Dr.	Cr.
Date	Particulars	₹	₹
	Bank Overdraft A/c Dr. To Cash A/c (Payment of overdraft)	2,000	2,000
	Realisation A/c Dr. To Cash A/c To Investments A/c To Debtors A/c To Furniture A/c To Premises A/c To Machinery A/c To Goodwill A/c (Transfer of different assets)	99,000	13,000 10,000 10,000 12,000 30,000 15,000 9,000
	Provision for Bad Debts A/c Dr. Trade Creditors A/c Dr. Bills Payable A/c Dr. To Realisation A/c (Transfer of different Liabilities)	1,000 20,000 5,000	26,000
	M/s Lucky & Co. A/c Dr. To Realisation A/c (Note 1) (Purchase consideration due)	80,000	80,000
	A Capital A/c Dr. B Capital A/c Dr. To Realisation A/c (Furniture taken over by the partners)	6,000 6,000	12,000
	General Reserve A/c Dr. Investment Fluctuation Fund A/c Dr. To A Capital A/c To B Capital A/c (Reserve and Surplus distributed)	8,000 2,000	5,000 5,000
	Realisation A/c Dr. To A Capital A/c To B Capital A/c (Profit on realisation transferred)	19,000	9,500 9,500
	A's Loan A/c Dr. To A Capital A/c (A's loan transferred to his Capital A/c)	6,000	6,000
	Cash A/c Dr. To B Capital A/c (Cash brought in by B)	9,500	9,500
	Capital in M/s XY Co. A/c Dr. To M/s XY Co. A/c (Settlement of purchase consideration)	80,000	80,000
	A's Capital A/c Dr. To Capital in XY Co. A/c To Cash A/c (Final adjustment to close the books)	49,500	40,000 9,500
	B's Capital A/c Dr. To B's Cap. In XY Co. A/c (Final adjustment to close the books)	40,000	40,000

Q. 16. P, Q and R were in partnership sharing profits and losses in the ratio of 9 : 4 : 2. B retired from the partnership on 31st March, 2012, when the firm's balance sheet was as under :

₹ in thousand			
	₹		₹
Sundry Creditors	900	Cash and Bank	426
Capital Accounts :		Sundry Debtors	600
P 4,050		Stock	1,200
Q 1,800		Furniture	399
R <u>900</u>	6,750	Plant	1,275
		Land and Building	3,750
	7,650		7,650

Q's share in goodwill and capital was acquired by P and R in the ratio of 1 : 3, the continuing partners bringing in the necessary finance to pay off Q. The partnership deed provides that on retirement or admission of a partner, the goodwill of the firm is to be valued at three times the average annual profits of the firm for the four years ended on the date of retirement or admission. The profits of the firm during the four years ended 31st March, 2012 in thousands of rupees were :

	₹
2008-09	675
2009-10	375
2010-11	900
2011-12	1,050

The deed further provided that goodwill account is not to appear in the books of accounts at all. The continuing partners agreed that with effect from 1st April, 2012, G, son of P is to be admitted as a partner with 25% share of profit.

P gifts to G, by transfer from his capital account, an amount sufficient to cover up 12.5% of capital and goodwill requirement. The balance 12.5% of capital and goodwill requirement is purchased by G from P and R in the ratio of 2 : 1.

The firm asks to you :

- Prepare a statement showing the continuing partners' shares;
- Pass journal entries including for bank transactions; and
- Prepare the balance sheet of the firm after G's admission.

Answer 16.

(i)

Statement showing the partners' shares

	P	Q	R	G
Ratio before retirement of Q	$\frac{9}{15}$	$\frac{4}{15}$	$\frac{2}{15}$	—
Adjustment on retirement	(+) $\frac{1}{15}$	—	(+) $\frac{3}{15}$	—
New ratio before admission of G	$\frac{10}{15}$	—	$\frac{5}{15}$	—

On admission of G Gift by P ($\frac{12.5}{100}$)	$(-)\frac{1}{8}$	—	—	$\frac{1}{8}$
Purchase from P & R *	$(-)\frac{2}{24}$	—	$(-)\frac{1}{24}$	$(+)\frac{3}{24}$
New ratio	$\frac{11}{24}$	—	$\frac{7}{24}$	$\frac{6}{24}$

* Purchase from P i.e. = $2/3 \times 1/8 = 2/24$

Purchase from R i.e. = $1/3 \times 1/8 = 1/24$

(ii)

Journal Entries

			Dr. ₹	Cr. ₹
1.	P's Capital A/c Dr. R's Capital A/c Dr. To Q's Capital A/c (Being purchase of goodwill by P and R from Q)		1,50,000 4,50,000	6,00,000
2.	P's Capital A/c Dr. To G's Capital A/c (Being gift made by P to G)		11,25,000	11,25,000
3.	Bank A/c Dr. To P's Capital A/c To Q's Capital A/c To G's Capital A/c (Being capital brought in by the partners)		46,50,000	11,62,500 20,81,250 14,06,250
4.	Q's Capital A/c Dr. To Bank A/c (Being final payment made to Q on retirement)		24,00,000	24,00,000
5.	G's Capital A/c Dr. To P's Capital A/c To R's Capital A/c (Being goodwill adjusted on admission)		2,81,250	1,87,500 93,750

(iii) **Balance Sheet as on 1st April, 2012**

Liabilities	₹	Assets	₹
Sundry Creditors	9,00,000	Cash and Bank	2676,000
Capital Accounts :		Sundry Debtors	6,00,000
P 4125,000		Stock	12,00,000
R 2625,000		Furniture	399,000
G <u>2250,000</u>		Plant	1275,000
	90,00,000	Land and Building	3750,000
	99,00,000		99,00,000

Working Notes :

(₹ in thousand)

(1) Adjustment of Goodwill on Retirement :

Value of Goodwill = Average Profits × Years of Purchase
Share of Q = $2250 \times \frac{4}{15} = 600$
Average Profits = $\frac{675 + 375 + 900 + 1050}{4}$
∴ Value of Goodwill = $750 \times 3 = 2250$

Adjustment through partners' capital accounts

P : $\frac{1}{4} \times 600 = 150$ (Dr.)
Q : $\frac{4}{15} \times 2250 = 600$ (Cr.)
R : $\frac{3}{4} \times 600 = 450$ (Dr.)

(2) Closing Balances of Capital Accounts

Q's share of capital (including goodwill) = $(1,800 + 600) = 2400$ This represents $\frac{4}{15}$ th share of capital requirement of the firm.Thus, total capital = $2400 \times \frac{15}{4} = 9000$

Hence, closing capital balances (in new profit sharing ratio of 11 : 7 : 6) should be adjusted as follows :

P : $\frac{11}{24} \times 9000 = 4125$
R : $\frac{7}{24} \times 9000 = 2625$
G : $\frac{6}{24} \times 9000 = 2250$
Gift by P to G : $\frac{1}{2} \times 2250 = 1125$

(Debit to P's capital A/c and credit to G's capital A/c)

(3) Adjustment of Goodwill on Admission

Goodwill of the firm = 2250
G's share of goodwill = $\frac{6}{24} \times 2250$
= 562.50
(a) Gift by P = $\frac{1}{2} \times 562.50$
= 281.25

(Included in the gift of 1,125 – see W.N. 3)

(b) Purchase from A and C = 281.25

(in 2 : 1 ratio)

Thus, adjustment of goodwill purchased through capital accounts

P : $\frac{2}{3} \times 281.25 = 187.50$ (Cr.)

R : $\frac{1}{3} \times 281.25 = 93.75$ (Cr.)

G : $\frac{1}{2} \times 562.50 = 281.25$ (Dr.)

(4) Amount brought in by Partners

Dr.

Partners' Capital Accounts

Cr.

(₹ in thousand)

	P ₹	Q ₹	R ₹	G ₹		P ₹	Q ₹	R ₹	G ₹
To Q	150	—	450	—	By Balance b/d	4,050	1,800	900	—
To G	1,125	—	—	—	By P and R	—	600	—	—
To P & R	—	—	—	281.25	By Cash and Bank	1,162.5	—	2,081.25	1,406.25
To Cash and Bank	—	2,400	—	—	(Bal. figure)				
To Balancd c/d	4,125	—	2,625	2250	By P	—	—	—	1,125.00
					By G	187.5	—	93.75	—
	5,400	2,400	3,075	2,531.25		5,400	2,400	3,075	2,531.25

(5) Cash and Bank

₹

Amount given (as on 31.3.2012) 426

Amount brought in by partners 4650

(1162.50 + 2081.25 + 1406.25)

5076

Less : Payment to Q 2400

Balance as on 1.4.2012 2676

Net increase = ₹ 2676

(Equivalent to the value of goodwill)

Q. 17. (a) The partners of Urvashi Enterprises Decided to convert Partnership Firm into a Private limited Company Urvashi (P) Ltd. with effect from 1st January 2011. However, Company could be incorporated only on 1st June 2011. The business was continued on behalf of the company and consideration of ₹ 6,00,000 was settled on that day along with interest at 12% per annum. The Company availed loan of ₹ 9,00,000 at 10% per annum on first June 2011, to pay Purchase Consideration and for Working Capital. The Company closed its accounts for the first time on 31st March 2012, and presents you the following summarized Profit and Loss Account.

You are also informed that sales from June 2011 to Dec 2011 were 2½ times of average sales, which further increased to 3½ times in January to March quarter, 2012. The company recruited additional work force to expand the business. The salaries from July 2011 doubled. The company also acquired additional showroom at monthly rent of ₹ 10,000 from July 2011.

You are required to prepare a Profit & Loss Account showing apportionment of cost and revenue between Pre- Incorporation and Post Incorporation periods. Also suggest how the Pre-Incorporation Profit/ Loss are to be dealt with.

Particulars	₹	₹
Sales		19,80,000
Less:		
Cost of Goods Sold	11,88,000	
Discount to Dealers	46,200	
Directors' Remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office Expenses	1,05,000	
Sales Promotion Expenses	33,000	
Preliminary expenses (to be written off in first year)	15,000	(18,07,200)
		1,72,800

Answer 17. (a)

(i) Computation of Ratios for apportionment purpose

Particulars	Pre- Incorporation	Post- incorporation	Total
(a) Period in Months	1 st Jan to 31 st May = 5 months	1 st June to 31 st Mar = 10 months	5:10 =1:2
(b) Sales per Month Ratio (given)	Say, Re. 1 × 5 months	(₹ 2.5 × 7 months + ₹ 3.5 × 3 months)	
(c) Overall Sales Ratio (a) × (b)	1 × 5 = 5	(2.5 × 7) + (3.5 × 3) = 28	5:28
(d) Salary Ratio	Say, Re. 1	Doubled from July = ₹ 2	
(e) Total salary Ratio (a) × (d)	1 × 5 months = 5	(1 × 1) + (2 × 9) = 19	5:28
(f) Rent for additional showroom	—	10,000 × 9 = 90,000	
(g) So, Balance Rent (1,35,000 – 90,000) in Time Ratio	15,000	30,000	
(h) Total Rent (f) + (g)	15,000	1,20,000	
(i) Interest Charged to Company (9,00,000 × 10% × 10/12)	—	75,000	
(j) So, Balance Interest for Pre-Inc. (1,05,000 - 75,000)	30,000	—	

(ii) Profit & Loss Account for 15 months ended 31st March, 2012

Particulars	1 st Jan to 31 st May ₹	1 st June to 31 st March ₹	Particulars	1 st Jan to 31 st May ₹	1 st June to 31 st March ₹
To Cost of Goods Sold (5:28)	1,80,000	10,08,000	By Sales (5:28)	3,00,000	16,80,000
To Discount to dealers (5:28)	7,000	39,200	By Net Loss prior to incorporation	750	
To Director's Remuneration	–	60,000			
To Salaries (5:19)	18,750	71,250			
To Rent (i)	15,000	1,20,000			
To Interest (i)	30,000	75,000			
To Depreciation (1:2)	10,000	20,000			
To Office Expenses (1:2)	35,000	70,000			
To Sales Promotion Expenses (5:28)	5,000	28,000			
To Preliminary Expenses	–	15,000			
To Net Profit (Post Incorporation Profit) (bal. fig)	–	1,73,550			
Total	3,00,750	16,80,000	Total	3,00,750	16,80,000

Note : It is assumed that Preliminary Expenses are fully written off against Post-Incorporation Profits.

Q. 17. (b) The following is the Profit and Loss Account of the Ambani Paper Ltd. for the year ended 31st March, 2012.

Particulars	Amount ₹	Particulars	Amount ₹
To Admn, Selling & Finance Expenses	5,75,000	By Balance b/d	4,53,000
To National Defence Fund	29,000	By Balance from Trading Account	38,60,400
To Directors Fees	55,000	By Interest on Investment	11,000
To Interest on Debentures	20,750	By Transfer Fee	1,050
To Managing Director's Remuneration	3,80,000	By Profit on Sale of Plant	
To Depreciation of Fixed Assets	4,64,700	Amount realized	40,000
To Provision for Taxation	11,45,000	Less: Book Value	<u>(32,000)</u>
To General Reserve	5,49,000		8,000
To Debenture Sinking Fund	14,000		
To Investment Revaluation Reserve	9,000		
To Balance c/d	10,92,000		
	43,33,450		43,33,450

As an Auditor you are required to comment on the Managerial Remuneration.

Answer 17. (b)**1. Computation of Net Profit under Section 349 of Companies Act 1956**

Particulars	₹	₹
Balance from Trading Account		38,60,400
Add: interest on Investment		11,000
Transfer Fee received		1,050
Profit on Sale of Plant		8,000
Total		38,80,450
Less: Admn, Selling & Finance Expenses	5,75,000	
Contribution to National Defence Fund	29,000	
Directors Fees	55,000	
Interest on Debentures	20,750	
Depreciation of Fixed Assets	4,64,700	11,44,450
		27,36,000

2. Maximum Remuneration Payable to the Managing Director u/s 309

$$= 5\% \text{ of Net Profit u/s 349} = 5\% \times ₹ 27,36,000 = ₹ 1,36,800$$

However, Managing Director's Remuneration as per the above P & L Account is ₹ 3,80,000

3. Maximum Remuneration Payable under Schedule XIII- Inadequate Profit :

By virtue of Section 310, where the Company has no profits or its profits is inadequate, it may pay Remuneration to any Managerial Person, within the limits specified in Schedule XIII, Part II, Section II. The ceiling limits are based on the Effective Capital of the Company. In the above case, the Effective Capital of the Company is not known. However, presuming the basic limit of Effective Capital of "Less than ₹ 1 Crore", the maximum permissible remuneration is ₹ 75,000 per month or ₹ 9,00,000 per annum.

4. Audit Observation: Remuneration of ₹ 3,80,000 paid to Managing Director exceeds the limits u/s 309, but is within the limit specified by Section 310 and Schedule XIII.

Q. 18. (a) Surat Rajya Setu Nigam Ltd. was awarded a contract of construction of a bridge for ₹ 200 Crores on 1.6.2008. Total contract cost estimated was ₹ 160 Crores. The position of the contract cost on 31.03.2011 and 31.03.2012 was under :

	As on 31.03.2011	As on 31.03.2012
Contract Price (₹ Crores)	200	200
Contract Cost incurred up to date (₹ Crores)	50	180 (100 % complete)
Estimated contract cost of completion (₹ Crores)	120	NIL

While closing books of account on 31.03.2012, the chief accountant treated excess cost of ₹ 20 Crores incurred as against estimated of ₹ (50+120)=170 Crores as on 31.03.2011 as mistakes in estimation of cost, hence categorized ₹ 20 Crores (190-170) as prior period expenses. Comment.

Answer 18. (a)

Cost originally estimated by Surat Rajya Setu Nigam Ltd.	₹ 170
Excess Cost incurred	₹ 20
Treatment given by the company	Prior period item

As clearly provided in AS-5, a change in estimate is neither a prior period item nor an extraordinary item. Hence, the treatment given by the company is incorrect.

Q. 18. (b) Raw material was purchased at ₹ 200 per kg. Price of raw materials on the decline . The finished goods in which the raw material is incorporated are expected to be sold at below cost. 10,000 kgs. of raw material is in stock at the year end. Replacement cost is ₹ 160 per Kg. How will you value the inventory?

Answer 18. (b)

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

Q. 18. (c) On 1st December, 2011, Amrit Co. Ltd. undertook a contract to construct a building for ₹ 85 lakhs. On 31st March, 2012 the company found that it had already spent ₹ 64,99,000 on the construction. Prudent estimate of additional cost for completion awes ₹ 32,01,000. What is the additional provision for foreseeable loss, which must be made in the final accounts for the year ended 31st March,2011 as per provision of AS-7 on "Accounting for Construction Contracts".

Answer 18. (c)

Contract Price	₹ 85 Lakhs
Cost Incurred	₹ 64.99 Lakhs
Estimated cost to completion	₹ 32.01 lakhs
Loss to be provided for the year ending 2011-2012	
As per AS-7 31.03.2012	
Loss to be recognised $(64.99/97 \times 100) = (67 / 100 \times 12) =$	₹ 8.04 lakhs
Loss to be provided (provision)	= ₹ 3.96 lakhs.

Q. 19. (a) On December 1, 2012 , BB Co. purchased ₹ 2,00,000 worth of land for a factory site. BB Co. razed an old building on the property and sold the materials it salvaged from the demolition. BB Co. incurred additional costs and realized salvaged proceeds during December 2012 as follows :

	₹
Demolition of old building	25,000
Legal fees for purchase contract and recording ownership	5,000
Title guarantee insurance	6,000
Proceeds from sale of salvaged materials	4,000

In its December 31, 2012 Balance Sheet, BB Co. should report a balance in the land account.

Answer 19. (a)

As per Para 20 of AS-10, The cost of land should include all expenditure incurred preparing it for its ultimate use (such as factory site) is considered part of the cost of land. Before the land can be used as a building site, it must be purchased (involving costs such as purchase price, legal fees, and title insurance) and the old building must be razed (cost of demolition less proceeds from sale of scrap). The total balance in the account should be ₹ 2,32,000.

Computation of total balance in the Land Account

Particulars	₹
Purchase price	2,00,000
Legal Fees	5,000
Title Insurance	6,000
Net cost of demolition (₹ 25,000 – ₹ 4,000)	21,000
	2,32,000

Q. 19. (b) River Ltd. manufacturing machinery used in steel plants. It quotes prices in various tenders issued by steel plants. As per terms of contract, full price of machinery is not released by the steel plants, but 10% thereof is retained and paid after one year if there is satisfactory performance of the machinery supplied. The company accounts for only 90% of the invoice value as sales income and the balance amount in the year of receipt to the extent of actual receipts only.

Answer 19. (b)

Revenue should be recognized for the entire 100%. The 10% withheld is generally termed as retention monies and is a normal practice buyers/contractors resort to in the construction industry to cover the risk of performance. River Ltd. will have to make a provision for expected warranty costs that may be incurred on the machinery during the free warranty period and any anticipated cost of ensuring performance of the plant during the one year performance period.

Q. 19. (c) Explain in brief as how you will deal with the following as the auditor of the company. Based on the exchange rates prevailing as on 31st March, 2012, the value of fixed assets in the books of Utkal Ltd., appears to be lower by ₹ 10 lakhs. Utkal Ltd. has treated the above exchange difference of ₹ 10 lakhs as an addition to its fixed assets during the year and has provided depreciation thereon accordingly.

Answer 19. (c)

M/s Utkal Ltd. has adjusted the Exchange difference of ₹ 10 lakhs in the cost of asset based on the exchange rates prevailing as on 31st March, 2012. As per (revised) AS 11-‘Accounting for the Effects of Changes in Foreign Exchange Rates’ such costs cannot be capitalized henceforth. The auditor will have to qualify the true and fair view and also qualify the compliance with mandatory accounting standards i.e. revised AS-11.

Q. 20. (a) Briefly explain the disclosure requirement of Accounting Standard-6.

Answer 20. (a)

Disclosure requirements: Following information should be disclosed in the financial statements:

- Historical cost or revalued amount of each class of depreciable assets;
- Total depreciation for the period for each class of assets; and
- Accumulated depreciation
- Depreciation methods used; and
- Depreciation rates or useful lives, if different from rates specified in the statute.

Q. 20. (b) Describe briefly the term "Accounting Policies".**Answer 20. (b)**

Accounting policies refers to

- The specific accounting principles (e.g., lower of cost and net realizable value as the basis of valuation of inventories) as well as
- The methods of applying those principles (e.g., cost formula such as FIFO applied in calculating the cost of inventories)
- Adopted by an enterprise in the preparation and presentation of financial statement.

Q. 20. (c) On 30.4.2012 MNC Ltd. obtained a loan from the bank for ₹ 5 Crores to be utilized as under :

- | | |
|------------------------------------|---------------|
| (i) Construction of a factory shed | ₹ 2 Crores. |
| (ii) Purchase of Machinery | ₹ 1.5 Crores. |
| (iii) Working Capital | ₹ 1 Crore. |
| (iv) Advance for Purchase of truck | ₹ 0.5 Crores |

In March 2012, construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ended 31.3.12 was ₹ 90 lakhs. Show the treatment of interest as per AS-16.

Answer 20. (c)

As per AS-16, borrowing cost(interest) should be capitalized if borrowing cost is directly attributable to the acquisition, construction or production of qualifying asset. ₹ 5 crores borrowed from Bank was utilized for four different purposes, only construction of factory shed is a qualifying asset as per AS-16, while the other three payments are not for the qualifying asset. Therefore, borrowing cost attributable to the construction of a factory shed should only be capitalized which will be equal to ₹ 90 lakhs × 2/5 = ₹ 36 lakhs.

The balance of ₹ 54 lakhs (₹ 90 lakhs – ₹ 36 lakhs) should be treated as an expense and debited to Profit and Loss Account.

Q. 21. The Balance Sheet of Delhi City College as at 31st March 2011 was as follows :

Liabilities	₹	Assets	₹
Capital Fund	21,00,000	Land and Building	20,00,000
Building Construction Fund	8,00,000	Furniture	3,00,000
General Fund Outstanding	6,40,000	Laboratory Equipment	2,50,000
Salary (teachers)	1,60,000	Library Books	3,60,000
		Investments	6,50,000
		Accrued Tuition Fee	10,000
		Cash and Bank	1,30,000
	37,00,000		37,00,000

The Receipts and Payments account for the year ended 31st March 2012 was drawn as under :

Particulars	₹	Particulars	₹
To Opening Balance (1.4.2011)	1,30,000	By Salaries & Allowances (teachers)	42,00,000
To Govt . Grants	50,00,000	By Non- teaching staff	20,00,000
To Donation for Building Construction	2,00,000	By Printing & Stationary	80,000
To Tuition fees & session charges	18,20,000	By Lab. Exp	60,000
To Investment Income	70,000	By Lab. Equipment	1,20,000
To Rental Income (College Hall)	40,000	By Library Books	2,50,000
		By Office Equipment	60,000
		By Electricity & Telephone	75,000
		By Audit Fees	2,000
		By Municipal Taxes	1,000
		By Building Repairs	40,000
		By Purchase of Furniture	80,000
		By Games and Sports	20,000
		By Welfare Exp.	30,000
		By New Investments	1,50,000
		By Closing Balance (31.3.2012)	92,000
	72,60,000		72,60,000

Other information :

- (i) Tuition fee outstanding as on 31.3.2012 – ₹ 40,000
- (ii) Salary of teaching staff outstanding for March 2012- ₹ 2,50,000
- (iii) Books received as donations from various parties- ₹ 30,000(valued)
- (iv) Outstanding building repair expenses as on 31.3.2012- ₹ 15,000
- (v) Applicable depreciation rates :

Land and Building	2%
Furniture	8%
Lab. Equipment	10%
Library Books	20%

You are required to prepare the Income and Expenditure A/c for the year ended 31st March 2012 and a Balance Sheet as on that date.

Answer 21.

Delhi City College
Income and Expenditure Account for the year ended 31.3.2012

Particulars	₹	Particulars	₹
To Salaries :		Tuition Fees	18,20,000
Teaching staff	42,00,000	Add: Outstanding	40,000
Add: Outstanding	<u>2,50,000</u>		18,60,000
	44,50,000	Less: Accrued last Year	<u>10,000</u>
Less: Last yr. Liabilities	<u>1,60,000</u>	Revenue Grant	50,00,000
	42,90,000	Investment income	70,000
Non-teaching staff	20,00,000	Rental Income	40,000
Building Repairs	40,000	Value of donation of books	30,000
Add: Outstanding	<u>15,000</u>		
Office Expenses	60,000		
Printing & Stationary	80,000		
Lab. Exp	60,000		
Electricity & Telephone	75,000		
Audit Fee	2,000		
Municipal Tax	1,000		
Games & Sports	20,000		
Welfare Expenses	30,000		
Depreciation : Building	40,000		
Furniture	30,400		
Lab. Equip	37,000		
Book	<u>1,28,000</u>		
	2,35,400		
Excess of Income over Expenditure transferred to General Fund	81,600		
	<u>69,90,000</u>		<u>69,90,000</u>

Dr. Receipts and Payments Account for the year ended 31st Dec.2011 Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	5,000	By Salary (including advance)	7,500
To Admission fee		By Printing and Stationery	2,500
2011 2,500		By Advertising	1,000
2012 <u>13,500</u>	16,000	By Insurance (part for next year)	1,200
To Subscription		By Electricity	500
2011 1,000		By Fixed Asset Purchased	20,000
2012 23,000		By Balance c/d	17,900
2013 <u>2,000</u>	26,000		
To Rent	3,600		
	<u>50,600</u>		<u>50,600</u>

On 1.1.2011 the club had the following assets : Land and Building ₹ 60,000; Sports Equipment Rs.30,000; Furniture ₹ 4,500. Prepare Opening and closing Balance Sheet.

Answer 22.

In the books of Winner Club

Balance Sheet as at 1.1.2012

Liabilities	Amount ₹	Assets	Amount ₹
Capital fund (bal. fig)	1,06,600	Land and building	60,000
		Sports Equipment	30,000
		Furniture	4,500
		Rent receivable	3,600
		Admission Fees Receivable	2,500
		Outstanding Subscription	1,000
		Cash and Bank	5,000
	<u>1,06,600</u>		<u>1,06,600</u>

In the books of Winner Club
Balance Sheet as at 31st December, 2011

Liabilities	Amount ₹	Assets	Amount ₹
Capital Fund	1,06,600	Land and building	60,000
Add: Surplus	<u>21,900</u>	Sports Equipment	30,000
Subscription Received in Advance	2,000	Less: Depreciation	<u>12,000</u>
		Furniture	4,500
		Fixed assets (other)	20,000
		Prepaid Insurance	300
		Prepaid Salary	1,500
		Rent Receivable	4,800
		Outstanding subscription	2,000
		Outstanding Admission Fees	1,500
		Cash and Bank	17,900
	<u>1,30,500</u>		<u>1,30,500</u>

Q. 23. Khush Raho Insurance Co. Ltd. furnishes you the following information :

- (i) On 31.3.2011 it had reserve for unexpired risks to the tune of Rs.100 crore. It comprised of Rs.32 crore in respect of machine insurance business; Rs.40 crore in respect of fire insurance business and Rs.14 crore in respect of miscellaneous insurance business.
- (ii) It is the practice of Khush Raho Insurance Co. Ltd. to create reserve at 100% of net premium income in respect of marine insurance policies and at 50% of net premium in respect of fire and miscellaneous insurance business.
- iii) During the year 31st March , 2012 the following business was conducted :

	Marine ₹ crores	Fire ₹ crores	Miscellaneous ₹ crores
Premia collected from :			
(a) Insured (other than insurance companies) in respect of policies issued	40	84.6	30
(b) Other insurance companies in respect of risks undertaken	16	18	10
Premia paid/payable to other insurance companies on business ceded	13.6	8.6	16

Khush Raho Insurance Co. Ltd. asks you to :

- (i) Pass journal entries relating to “unexpired risks reserve”
- (ii) Show in columnar form Unexpired Risks Reserve Account for the year ended 31st March, 2012.

Answer 23.**Journals**

Date	Particulars	L.F	Dr.	Cr.
			₹ Crore	₹ Crore
2012 March.31	Marine Revenue A/c To Unexpired Risks Reserve A/c (Excess of closing provision for unexpired risks of ₹ 42.40 crore over opening provision of ₹ 32 crore charged to Marine Revenue A/c)	Dr.	10.4	10.4
March.31	Fire Revenue A/c To Unexpired Risks Reserve A/c (Excess of closing provision for unexpired risks of ₹ 47.00 crore over opening provision of ₹ 40.00 crore charged to Fire Revenue A/c)	Dr.	7.00	7.00
March.31	Unexpired Risks Revenue A/c To Miscellaneous Revenue A/c (Excess of opening provision for unexpired risks of ₹ 14.00 crore over the required closing balance of ₹ 12.00 crore in the provision account credited to Miscellaneous Reserve Account.)	Dr.	2.00	2.00

Working Notes :

Required closing balance in Unexpired Risks Reserve Account:

For Marine business = ₹ (40+16-13.6)= ₹ 42.40

For Fire business = $\frac{₹ (84.6 + 9.4)}{2} = ₹ 47.00$

For miscellaneous business = $\frac{₹ (30 + 10 - 16)}{2} = ₹ 12.00$

Dr.**Unexpired Risks Reserve Account****Cr.**

Date	Particulars	Marine	Fire	Misc.	Date	Particulars	Marine	Fire	Misc.
2012		₹ in crore	₹ in crore	₹ in crore	2012		₹ in crore	₹ in crore	₹ in crore
Mar. 31	To, Revenue A/c	—	—	2.00		By, Balance b/d	32.00	40.00	14.00
Mar. 31	To, Balance c/d	42.40	47.00	12.00		By, Revenue A/c	10.40	7.00	—
		42.40	47.00	14.00			42.40	47.00	14.00

Q. 24. (a) Safety Life Insurance Co. furnishes you the following information:

	₹
Life Insurance fund on 31.3.2012	2,60,00,000
Net liability on 31.3.2012 as per actuarial valuation	2,00,00,000
Interim bonus paid to policyholders during intervalation period	15,00,000

You are required to prepare :

- (i) Valuation Balance Sheet;
- (ii) Statement of Net Profit for the valuation period; and
- (iii) Amount due to the policyholders.

Answer 24. (a)

(i)

**Safety Life Insurance Co.
Valuation Balance Sheet as at 31st March, 2012**

Particulars	₹	Particulars	₹
To Net Liability as per actuarial valuation	200,00,000	By Life Assurance Fund	2,60,00,000
To Surplus	60,00,000		
	2,60,00,000		2,60,00,000

(ii)

Statement showing Net Profit for the valuation period

Particulars	₹
Surplus as per Balance Sheet (i.e., Valuation Balance Sheet)	60,00,000
Add: Interim bonus paid	15,00,000
	75,00,000

(iii)

Amount due to policyholders

Particulars	₹
95% of net profit due to policyholders (95% of ₹ 75,00,000)	71,25,000
Less: Interim bonus already paid	15,00,000
Amount due to policyholders	56,25,000

Q. 24. (b) From the following figures of Well Life Assurance Co. Ltd. prepare a Valuation Balance Sheet and Profit Distribution Statement for the year ended 31st March, 2012, also necessary Journal entries to record the above transactions with narration.

	₹ in lakhs
Balance of Life Assurance Fund as on 1.4.2011	167.15
Interim Bonus paid for the valuation period	25.00
Balance of Revenue account for the year ended 31.3.2012	240.00
Net Liability as per Valuer's certificate as on 31.3.2012	165.00

The company declared a reversionary bonus of ₹ 185 per ₹ 1,000 and gave the policyholders an option to take bonus in cash ₹ 105 per ₹ 1,000. Total business conducted by the company was

₹ 600 lakhs. The company issued with profit policy only. 3/5 of the policyholders in value opted for cash bonus.

Answer 24. (b)

Well Life Assurance Co. Ltd.
Valuation Balance Sheet as on 31st March, 2012

₹ in Lakhs.

To, Net Liability	165.00	By, Life Fund as on 31.3.2012	240.00
To, Profit & loss A/c	75.00		
	<u>240.00</u>		<u>240.00</u>

Distribution Statement

₹ in Lakhs.

Profit as per Valuation Balance Sheet	75.00
Add: Interim Bonus paid	25.00
	<u>100.00</u>
Policy holder's share (95%)	95.00
Less: Interim Bonus paid	25.00
	<u>70.00</u>

Journal Entries

₹ in Lakhs

Life Assurance Fund A/c	Dr.	75.00	
To, Profit & Loss A/c			75.00
(Being profit transferred as per Valuation Balance Sheet)			
Profit & Loss A/c	Dr.	37.80	
To, Bonus Payable in Cash A/c			37.80
(Cash bonus payable @ ₹ 105 per 1,000 on 3/5 of 600 lakhs)			
Profit & Loss A/c	Dr.	44.40	
To, Life Assurance Fund A/c			44.40
(Being profits @ of ₹ 185 per 1,000 on 2/5 of 600 lakhs transferred to Life Fund for revisionary bonus)			

Q. 25. The following information is extracted from the accounting records of Mumbai State Electricity Supply Ltd. for the financial year ended 31st March, 2012 :

₹ (in Crores)

Share Capital	120.00
Fixed Assets (tangible) at cost	232.00
Accumulated Depreciation	80.00
Intangible Assets	12.00
Investments:	
Depreciation Reserve Fund	80.00

Contingencies Reserve	8.00
Loan form State Electricity Board	20.00
12% Debentures	40.00
Tariff and Dividend Control Reserve	12.00
Net Profit after Tax	24.40
Customers' Security Deposits	12.00
Monthly average of Current Assets	14.00

The monthly average of current assets includes ₹ 2,00,00,000 (2 Crore) due from customers. Investments yield 10% return p.a. The applicable bank rate is 9% p.a.

You are required to calculate :

- (i) Capital Base;
- (ii) Reasonable Return;
- (iii) Disposal of Profit.

Answer 25.

Calculation of -

	₹	₹
(i) Capital Base :		
Tangible fixed assets at cost	232,00,00,000	
Intangible Assets	12,00,00,000	
Contingency Reserve Investment	8,00,00,000	
Current Assets (Net)	<u>12,00,00,000</u>	264,00,00,000
Deduct :		
Accumulated Depreciation	80,00,00,000	
S.E.B. Loan	20,00,00,000	
12% Debentures	40,00,00,000	
Customer's Security Deposit	12,00,00,000	
Tariff and Dividend Control Reserve	<u>12,00,00,000</u>	<u>164,00,00,000</u>
Capital Base		<u>100,00,00,000</u>
(ii) Reasonable Return :		
Standard Yield on Capital Base 9% +2% =11%	11,00,00,000	
Return on Depreciation Fund Investments		
10% of ₹ 80 Crores	8,00,00,000	
½ on SEB Loan	10,00,000	
½ on Debentures	<u>20,00,000</u>	
	<u>19,30,00,000</u>	
Profit after Tax	24,40,00,000	
Less: Reasonable Return	19,30,00,000	
Disposable Surplus	5,10,00,000	
Excess upto 20% of Reasonable Return	3,86,00,000	
Amount to be credited to Customers"		
Rebate Reserve	<u>1,24,00,000</u>	

Allocation of Surplus of ₹ 3,86,00,000

	₹
(a) $\frac{1}{3}$ for the Company subject to 5% of Reasonable Return	96,50,000
(b) $\frac{1}{2}$ of the balance to Tariff and Dividend Control Reserve	1,44,75,000
(c) $\frac{1}{2}$ of the balance to be credited to Customer's Rebate Reserve	<u>1,44,75,000</u>
	<u>3,86,00,000</u>

Q. 26. The Indian Gas Company rebuilt and re-equipped part of their works at a cost of ₹ 5,00,000.

The part of the old works thus superseded cost ₹ 3,00,000. The capacity of the new works is doubled the capacity of the old work. ₹ 20,000 is realized by the sale of old materials, and old materials worth ₹ 10,000 are used in the construction of the new works and included in the total cost of ₹ 5,00,000 mentioned above. The costs of Labour and Materials are 25% higher than when the old works were built.

Answer 26.**Journal Entries**

Date	Particulars	Dr. ₹	Cr. ₹
	Replacement A/c Dr. 3,75,000	3,75,000	
	New works A/c Dr. 1,15,000	1,15,000	
	To, Bank A/c		4,90,000
	[Being the amount written off i.e. (₹ 3,00,000 + 25%) and the amount capitalised out of the ₹ 4,90,000, spent on reconstruction in cash, i.e. ₹ 5,00,000 – ₹ 10,000]		
	New Works A/c Dr. 10,000	10,000	
	To, Replacement A/c		10,000
	(Being the materials used in the new works)		
	Bank A/c Dr. 20,000	20,000	
	To, Replacement A/c		20,000
	(Being the amount realized by the sale of old materials)		
	Revenue A/c Dr. 3,45,000	3,45,000	
	To, Replacement A/c		3,45,000
	(Being the transfer of balance of Replacement A/c to Revenue A/c)		

Working notes :

	₹
Cost of old works	3,00,000
Add: Increase in cost ₹ $\frac{3,00,000 \times 25}{100}$	<u>75,000</u>
Current cost of old works	<u>3,75,000</u>
Cash cost of new works = 5,00,000 – ₹ 10,000	= ₹ 4,90,000
Account to be capitalised = ₹ 4,90,000 – ₹ 3,75,000	= ₹ 1,15,000.

Q. 27. (a) From the following trial balance and the additional information, prepare a Balance Sheet of Lakshmi Bank Ltd. as at 31st March, 2012:

Debit balance	₹ (in Lakhs)
Cash Credits	1,218.15
Cash in hand	240.23
Cash with Reserve Bank of India	67.82
Cash with other Banks	132.81
Money at call and short notice	315.18
Gold	82.84
Government securities	365.25
Current Accounts	42.00
Premises	133.55
Furniture	95.18
Term Loan	1,189.32
	3,882.33

Credit balance	₹ (in Lakhs)
Share Capital (29,70,000 equity shares of ₹ 10 each, fully paid up)	297.00
Statutory Reserve	346.50
Net Profit for the year (before appropriation)	225.00
Profit & Loss Account (Opening balance)	618.00
Fixed deposit Accounts	775.50
Savings Deposit Accounts	675.00
Current Accounts	780.18
Bills Payable	0.15
Borrowings from other Banks	165.00
	3,882.33

Additional Information :

- (i) Bills for collection : ₹ 18, 10,000
- (ii) Acceptance and endorsements : ₹ 14, 12,000
- (iii) Claims against the bank not acknowledged as debts : ₹ 55, 000
- (iv) Depreciation charged on premises : ₹ 1,10,000 and Furniture : ₹ 78,000

Answer 27. (a)

**Lakshmi Bank Ltd.
Balance Sheet as on 31.3.2012**

Details	Schedule No.	Amount (₹ in Lakhs)
Capital and Liabilities:		
Capital	1	297.00
Reserves and Surplus	2	1,189.50
Deposits	3	2,230.68
Borrowings	4	165.00
Other Liabilities and Provisions	5	0.15
Total		3,882.33

Details	Schedule No.	Amount (₹ in Lakhs)
Assets :		
Cash and Balance with RBI	6	308.05
Balances with Banks and Money at Call and Short Notice	7	489.99
Investments	8	448.09
Advances	9	2,407.47
Fixed Assets	10	228.73
Total		3,882.33
Contingent Liabilities	12	14.67
Bills for Collection		18.10

Schedules**Schedule 1 - Capital****₹ (in lakh)**

Issued, Subscribed and Called – up Capital (29,70,000 @₹ 10)	297.00
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Schedule 2 - Reserves and Surplus

1. Statutory Reserve	346.50	
Add: 20% of ₹ 2,25,00,000	45.00	
(Assumed to be an unscheduled Bank)	391.50	
2. Profit & Loss A/c Opening	6,18,000	
Add: Current Year		
₹ (2,25,00,000 – 45,00,000)	1,80,000	
	798.00	
	1,198.50	1,189.50

Schedule 3 - Deposit

1. Demand Deposits	780.18
2. Savings Bank Deposits	675.00
3. Term Deposit	775.50
	2,230.68

Schedule 4 - Borrowings

Borrowings from other Banks	165.00
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Schedule 5 - Outstandings and Provisions

Bills Payable	0.15
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Schedule 6 - Cash and Balances with RBI

Cash in Hand	240.23
Balances with RBI	67.82
	308.05

Schedule 7 - Balances with Banks and Money at Call and Short Notice

Cash with other Banks	132.81
Money at Call and short Notice	315.18
Current Accounts	42.00
	4,89.99

Schedule 8 - Investment

Government securities	365.25
Gold	82.84
	4,48.09

Schedule 9 - Advances

Cash Credit	1,218.15
Term Loans	1,189.32
	2,407.47

Schedule 10 - Fixed Assets

Premises	1,34,65,000	
Less : Depreciation	(1,10,000)	133.55
Furniture	95,96,000	
Less : Depreciation	(78,000)	95.18
		228.73

Schedule 11 - Other Assets**Schedule 12 - Contingent Liabilities**

Acceptance and Endorsements	14.12
Claims against the Bank not acknowledge as Debts	0.55
	14.67

Q. 27. (b) The following information for the year ended 31st March, 2012 is available for City Bank Ltd. :

	₹	₹
Standard Assets		5,50,00,000
Sub-standard Assets		31,50,000
Doubtful Assets but secured—		
Up to one year	29,00,000	
One to three years	17,00,000	
More than three years	7,00,000	53,00,000
Loss Assets		21,00,000

You are required to ascertain the amount of provision required to be made by the Bank.

Answer 27. (b)**City Bank Ltd.****Statement showing the amount of provision for the year ended 31st March 2012**

	Assets	Amount	Rate of Provision ₹	Amount of Provision ₹
1.	Standard Assets	5,50,00,000	0.004	2,20,000
2.	Sub-standard	31,50,000	0.10	3,15,000
3.	Doubtful Assets :			
	Upto one year	29,00,000	0.20	5,80,000
	One to three years	17,00,000	0.30	5,10,000
	More than three years	7,00,000	1.00	7,00,000
	Loss Assets	21,00,000	1.00	21,00,000
	Total amount of required for provision			44,25,000

(Rates of provision as per Master Circular issued by RBI 'DBOD No. BP. BC. 11/21.04, 048/2005-06 dated November 4, 2005')

Q. 28. Fivestar Ltd. undertook a contract No. 444 for ₹ 7,50,000. The contract account showed the following particulars :**2010 :**

Materials ₹ 30,000, Wages ₹ 25,000, Overheads ₹ 10,000, Plant ₹ 1,00,000 and Materials at site at close ₹ 3,000.

2011 :

Materials ₹ 1,00,000, Wages ₹ 60,000, Overheads ₹ 15,000, Materials returned, ₹ 8,000. The Plant at its depreciated value was transferred to contract No. 88. Uncertified work ₹ 15,000.

2012 :

Materials ₹ 1,60,000, Wages ₹ 1,00,000, Overheads Rs. 28,000 and Materials ₹ 4,000.

The amount of work certified at the end of the first year was ₹ 1,00,000. The work certified upto the end of the second year was ₹ 4,00,000 and the work certified in the third year was ₹ 3,50,000. 80 percent of the certified work was received in cash.

Profit to be taken credit for are one-third and one-half on cash basis in each of the two years respectively.

Depreciate plant by 10 percent on balance at the beginning of each year.

Prepare accounts in respect of the contract at the end of each year.

Answer 28.

Particulars	₹	Particulars	₹
2010		2010	
To Materials	30,000	By Work-n-Progress A/c :	
To Wages	25,000	Materials	3,000
To Overheads	10,000	Plant	90,000
To Plant	1,00,000	Plant	1,00,000
To Balance c/d	28,000		
	1,93,000		1,93,000

Particulars	₹	Particulars	₹
2010		2010	
To Profit & Loss Account	7,467	By Balance b/d	28,000
To Work-in-Progress Account	20,533		
	28,000		28,000
2011:		2011:	
To Work-in-Progress — Opening balance transferred:		By Work-in-Progress — Opening provision transferred	20,533
Materials	3,000	By Materials — returned	8,000
Plant	90,000	By Contract No. 88— Plant transferred	81,000
Certified Work	1,00,000	By Work-in-Progress c/d:	
To Materials	1,00,000	Uncertified Work	15,000
To Wages	60,000	Certified Work	4,00,000
To Overheads	15,000		
To Balance c/d	1,56,533		
	5,24,533		5,24,533
To Profit & Loss Account	62,613	By Balance b/d	1,56,533
To Work-in-Progress	93,920		
	1,56,533		1,56,533
2012:		2012:	
To Work-in-Progress :		By Work-in-Progress	93,920
Uncertified Work	15,000	By Bank — sale of materials	4,000
Certified Work	4,00,000	By Contractee's Account	7,50,000
To Materials	1,60,000	(4,00,000 + 3,50,000)	
To Wages	1,00,000		
To Overheads	28,000		
To Profit & Loss Account	1,44,920		
	8,47,920		8,47,920

Notes :

Profit credited in 2010 and 2011 :	2010 (₹)	2011 (₹)
Accounting Profit	28,000	1,56,533
Cash Profit — on 80% basis	22,400	1,25,226
Proportionate profit to be credited	$\frac{1}{2} \times 22,400$	$\frac{1}{3} \times 1,25,226$
	= 7,467	= 62,613

In absence of specific direction, on profit in 2008 would have been considered as extent of completion was less than one-third.

In 2012 the entire work was certified and hence no provision is necessary.

Q. 29. From the following information relating to Virat Ltd., prepare a Balance Sheet as on 31.3.2012.

Current Ratio	3
Fixed Assets/Shareholders' Networth	0.9
Reserve & Surplus/Share Capital	0.25
Average Debt Collection period	2 months
G.P Ratio	25 %
Cost of Sales/Closing Stock	13.5 times
Net Working Capital	₹ 600,000
Liquid Ratio	2.25

Answer 29.

$$\text{Current Ratio} = \text{CA}/\text{CL}=3$$

$$\text{Or, CA} = 3 \text{ CL}$$

$$\text{Net Working Capital} = \text{CA} - \text{CL} = 6,00,000$$

$$\text{Or, } 3 \text{ CL} - \text{CL} = 6,00,000$$

$$\text{Or, } 2 \text{ CL} = 6,00,000$$

$$\text{Or, CL} = 3,00,000$$

$$\text{Thus, CA} = 9,00,000$$

$$\text{Liquid Ratio} = (\text{CA} - \text{Stock})/\text{CL} = 2.25$$

$$\text{Or, } (9,00,000 - \text{Stock})/3,00,000 = 2.25$$

$$\text{Or, Stock} = 2,25,000$$

$$\text{Cost of Sales/Closing Stock} = 13.5$$

$$\text{Cost Of Sales} = 2,25,000 \times 13.5 = ₹ 30,37,500$$

$$\text{G/P Ratio} = 25\%$$

$$\text{Cost of Sales/Sales} = 75\%$$

$$\text{Sales} = ₹ 30,37,500 / 75\% = ₹ 40,50,000$$

$$\text{Average Debt Collection period} = 2 \text{ months} = 6 \text{ times}$$

$$\text{Or, Sales/Debtors} = 6$$

$$\text{Or, Debtors} = ₹ 40,50,000 / 6 = ₹ 6,75,000$$

$$\text{Fixed Assets/Networth} = 0.9$$

$$\text{Or, Working Capital/ Net worth} = 1 - 0.9 = 0.1$$

$$\text{Or, Networth} = ₹ 6,00,000 / 0.1 = ₹ 60,00,000$$

$$\text{Fixed Asset (Tangible)} = 0.9 \times ₹ 60,00,000 = ₹ 54,00,000$$

$$\text{Reserves & Surplus/Share Capital} = 0.25/1$$

$$\text{Reserves & Surplus + Share Capital} = 1 + 0.25 = 1.25$$

$$\text{Reserves & Surplus} = ₹ 60,00,000 \times 0.25/1.25 = ₹ 12,00,000$$

$$\text{Share Capital} = ₹ 12,00,000/0.25 = ₹ 48,00,000$$

Name of the Company **ST Ltd.**

Balance Sheet as at 31st March, 2012

[as per Revised Schedule VI]

₹ in lakhs

Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital		48,00,000	—
(b) Reserves and Surplus		12,00,000	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings		—	—
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings		—	—
(b) Trade Payables		—	—
(c) Other current liabilities		3,00,000	—
(d) Short term provisions		—	—
Total		63,00,000	—
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets		54,00,000	—
(ii) Intangible assets		—	—
(iii) Capital work-in progress		—	—
(iv)Intangible assets under development		—	—
(b) Non-current Investment		—	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories		2,25,000	—
(c) Trade receivables		6,75,000	—
(d) Cash and Cash equivalents		—	—
(e) Short-term loans and advances		—	—
(f) Other Current assets		—	—
Total		63,00,000	—

Q. 30. Using the following data, complete the Balance Sheet given below :

Gross Profit	₹ 54,000
Shareholders funds	₹ 6,00,000
Gross profit margin	20%
Credit sales to Total sales	80%
Total assets turnover	0.3 times
Inventory turnover	4 times
Average collection period (a 360 days year)	20 days
Current ratio	1.8
Long-term debt to equity	40%

Calculate (i) Credit Sale, (ii) Total Asset and (iii) Debtors

Answer 30.

Calculation of Credit Sales

$$\begin{aligned}
 \text{Gross profit} &= ₹ 54,000 \text{ (given)} \\
 \text{Gross profit margin} &= 20\% \text{ or } 0.20 \text{ (given)} \\
 \text{Gross profit margin} &= \frac{\text{Gross profit}}{\text{Sales}} \\
 \text{Sales} &= \frac{\text{Gross profit}}{\text{Gross profit margin}} \\
 \text{Sales} &= \frac{₹ 54,000}{0.20} = ₹ 2,70,000
 \end{aligned}$$

Calculation of Total Assets

$$\begin{aligned}
 \text{Total assets turnover} &= 0.3 \text{ times (given)} \\
 \text{Total assets turnover} &= \frac{\text{Sales}}{\text{Total assets}} \\
 0.3 &= \frac{₹ 2,70,000}{\text{Total assets}} \\
 \text{Total assets} &= ₹ 2,70,000 / 0.3 = ₹ 9,00,000
 \end{aligned}$$

Calculation of Debtors

$$\begin{aligned}
 \text{Credit sales to Total sales} &= 80\% \text{ (given)} \\
 \text{Credit sales} &= ₹ 2,70,000 \times 80/100 = ₹ 2,16,000 \\
 \text{Average collection period} &= 20 \text{ days (given)} \\
 \text{Debtors turnover} &= \frac{360 \text{ days}}{\text{Average collection period}} \\
 \text{Debtors turnover} &= \frac{360 \text{ days}}{20 \text{ days}} = 18 \\
 \text{Debtors} &= \frac{\text{Credit Sales}}{\text{Debtors turnover}} \\
 \text{Debtors} &= \frac{₹ 2,16,000}{18} = ₹ 12,000
 \end{aligned}$$