# Guideline Answers to May 2013 CA IPCC Exam Accounting

Question 1 is compulsory **(4 × 5 = 20 Marks)**
Answer **any five** questions from the **remaining six** questions **(16 × 5 = 80 Marks).** [Answer any 4 out of 5 in Q.7]

1(a): HP Trading Account M 13 (5 Marks)

Zed Laptop Co. has a Hire–Purchase Department and Goods are sold on Hire–Purchase adding 25% to Cost. From the following information (all figures are at Hire–Purchase Price), prepare Hire–Purchase Trading Account for the year ending 31.03.2013:

| Particulars | Amount |
|---|---|
| 01.04.2012 Goods with customers (installments not yet due) | 80,000 |
| Goods sold on Hire–Purchase during the year | 4,00,000 |
| Cash received during the year from customers | 3,00,000 |
| Installments due but not yet received at the end of the year, customers paying | 10,000 |

**Solution:** **Similar to Pg. A.5.66, Illustration 1**
**Note:** As the Question requires preparation of HP Trading A/c, Debtors Method is to be followed.

**Dr.** **1. Hire Purchase Trading A/c for the year ended 31.03.2012** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening HP Stock | 80,000 | By Opening HP Stock Reserve (80,000 × 25 / 125) | 16,000 |
| To Goods sold on Hire Purchase | 4,00,000 | By Goods sold on HP (4,00,000 × 25 / 125) | 80,000 |
| To Closing HP Stock Reserve (1,70,000 × 25 /125) | 34,000 | By HP Sales | 3,10,000 |
| To HP Profit (tfr. to P&L A/c) **(bal. fig.)** | 62,000 | By Closing HP Stock **(W.N. 2)** | 1,70,000 |
| **Total** | **5,76,000** | **Total** | **5,76,000** |

**Dr.** **2. HP Debtors A/c** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To balance b/d (Instalments ) | NIL | By Bank (Cash Collections) | 3,00,000 |
| To HP Sales **(Bal. Fig.)** | 3,10,000 | By Balance c/d | 10,000 |
| **Total** | **3,10,000** | **Total** | **3,10,000** |

**Working Notes:**

**1. Determination of HP Profit Margin**

| | Particulars | | ₹ |
|---|---|---|---|
| (a) | Cost (assumed) | | 100 |
| (b) | Profit Margin at 25% on Cost | | 25 |
| (c) | HP Price | (a) + (b) | **125** |

**Dr.** **2. Memorandum Hire Purchase Stock A/c** (To determine HP Sales) **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Stock | 80,000 | By HP Sales | 3,10,000 |
| To Goods Sold on HP | 4,00,000 | By Closing Stock **(Bal. Fig.)** | 1,70,000 |
| **Total** | **4,80,000** | **Total** | **4,80,000** |

1(b): Rectification of Errors and Journal Entries M 13 (5 Marks)

M/s Big Systematic Ltd maintains Self–Balancing Ledgers preparing control accounts at the end of each calendar month. On 3rd January, 2013, the accountant of the Company located the following errors in the books of account –

1. An amount of ₹ 8,700 received from customer Mehra was credited to Mehta, another customer.
2. The Sales Book for December, 2012 was undercast by ₹ 1,000.
3. Goods invoiced at ₹ 15,600 were returned to supplier, M/s. Mega Ltd but no entry was made in the books for this return made on 28.12.2012.

Pass necessary journal entries.

**Solution:**

| S.No | Particulars | Debit | Credit |
|---|---|---|---|
| 1. | No effect in the overall totals of Debtors. Hence, no control entry needs to be passed. | | |
| 2. | No effect in the overall totals of Debtors. Hence, no control entry needs to be passed. | | |
| 3. | Debtors Ledger A/c Dr. | 15,600 | |
| | To General Ledger Adjustment Account A/c | | 15,600 |
| | (Being Entry passed to effect the Sales Returns in the books) | | |

1(c): Insurance Claims – Loss of Stock M 13 (5 Marks)

On 15.12.2012, a fire occurred in the premises of M/s OM Exports. Most of the stocks were destroyed. Cost of stock salvaged being ₹ 1,40,000. From the books of accounts, the following particulars were available –

1. Stock at the close of account on 31.03.2012 was valued at ₹ 9,40,000.
2. Purchases from 01.04.2012 to 15.12.2012 amounted to ₹ 13,20,000 and Sales from 01.04.2012 to 15.12.2012 amounted to ₹ 20,25,000.

On the basis of his accounts for the past three years, it appears that average Gross Profit Ratio is 20% on Sales. Compute the amount of the claim, if the Stock were insured for ₹ 4,00,000.

**Solution:** **Similar to Pg. A.5.7, Illustration 7**

**Dr.** **1. Memorandum Trading Account (1st Apr to 15th Dec)** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Opening Stock | 9,40,000 | By Sales | 20,25,000 |
| To Purchases | 13,20,000 | By Stock on the date of Fire **(Bal. Fig.)** | 6,40,000 |
| To Gross Profit (20,25,000 × 20%) | 4,05,000 | | |
| **Total** | **26,65,000** | **Total** | **26,65,000** |

**2. Statement of Insurance Claim**

| | Particulars | ₹ |
|---|---|---|
| | Value of Stock Lost on 15th June **(WN 1)** | 6,40,000 |
| **Less:** | Salvaged Stock | (1,40,000) |
| | **Net Claim** | **5,00,000** |

Since the Policy Amount ₹ 4,00,000 is less than the value of stock on the date of fire (₹ 6,40,000), average clause is applicable. Hence, Net Claim = $5{,}00{,}000 \times \frac{4{,}00{,}000}{6{,}40{,}000}$ = **₹ 3,12,500**

| 1(d): Accounting for Investments (Cum–Interest) | M 13 (5 Marks) |
|---|---|

In 2011, M/s Wye Ltd issued 12% Fully Paid Debentures of ₹ 100 each, Interest being payable half yearly on 30th September and 31st March of every accounting year.

On 01.12.2012, M/s Bull & Bear purchased 10,000 of these Debentures at ₹ 101 Cum–Interest Price, also paying brokerage at 1% of Cum–Interest amount of the Purchase. On 01.03.2013 the firm sold all of these Debentures at ₹ 106 Cum–Interest Price, again paying brokerage at 1% of Cum–Interest amount.

Prepare Investment Account in the books of M/s Bull & Bear for the period 01.12.2012 to 01.03.2013.

**Solution:** **Similar to Pg. A.5.48, Illustration 4**

**Investment in 12% Debentures of M/s Wye Ltd Account**

**Dr.** **Cr.**

| Date | Details | FV | Interest | Cost | Date | Details | FV | Interest | Cost |
|---|---|---|---|---|---|---|---|---|---|
| 01.12.12 | To Bank | 10,00,000 | 20,000 | 10,00,100 | 1.3.13 | By Bank | 10,00,000 | 50,000 | 9,99,400 |
| 31.03.13 | To P&L (Int. Inc.) **(Bal. Fig.)** | | 30,000 | | 31.3.13 | By P&L (Loss on Sale) | | | 700 |
| | **Total** | **10,00,000** | **50,000** | **10,00,100** | | **Total** | **10,00,000** | **50,000** | **10,00,100** |

**Working Notes:**

**1. Computation of Cost of Purchase on 01.12.2012:**

| | Particulars | Amount |
|---|---|---|
| | Amount Paid | 10,10,000 |
| **Less:** | Interest (Cum–Interest Purchase only) (10,00,000 × 12% × 2/12) | (20,000) |
| **Add:** | Brokerage at 1% of amount paid | 10,100 |
| | **Net Cost of Purchase** | **10,00,100** |

**2. Computation of Net Sale Value of Investments on 01.03.2013:**

| | Particulars | Amount |
|---|---|---|
| | Sale Proceeds | 10,60,000 |
| **Less:** | Brokerage @ 1% | (10,600) |
| | **Net Sale Proceeds** | 10,49,400 |
| **Less:** | Interest Received for 30.09.2012 (10,000 × 100 × 12% × 5/12) | (50,000) |
| | **Net Sale Value** | **9,99,400** |

| 2: Partnership Accounts – Death of a Partner | M 13 (16 Marks) |
|---|---|

P, Q and R were carrying on a business in Partnership, sharing Profit and Losses in the ratio of 5:3:2 respectively. The firm earned a Profit of ₹ 3,60,000 for the Accounting Year ended 31.03.2012 on which date the firm's Balance Sheet stood as follows:

| Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| P's Capital | 7,00,000 | Freehold Land and Building | 8,00,000 |
| Q's Capital | 5,70,000 | Machinery | 3,50,000 |
| R's Capital | 4,30,000 | Furniture & Fixtures | 1,02,000 |
| Creditors | 79,400 | Stock | 2,98,800 |
| Outstanding Expenses | 4,900 | Debtors | 1,60,000 |
| | | Cash at Bank | 73,500 |
| Total | 17,84,300 | Total | 17,84,300 |

P died on 31.08.2012. According to Firm's Partnership Deed, in case of death of a Partner –

1. Assets and Liabilities have to be revalued by an Independent Valuer.
2. Goodwill is to be calculated at two years' purchase of Average Profits for the last three completed Accounting Years and the deceased Partner's Capital Account is to be credited with his share of Goodwill.
3. The Share of the Deceased Partner in the Profits for the period between end of the Previous Accounting Year and the date of death is to be calculated on the basis of the Previous Accounting Year's Profits. Post death of P, Q & R will Share Profit in the ratio of 3:2.

Profits for the Accounting Years 2009–2010 and 2010–2011 were as follows –

| Particulars | ₹ |
|---|---|
| For the year ended 31.03.2010 | 2,90,000 |
| For the year ended 31.03.2011 | 3,40,000 |

Drawings by P from 01.04.2012 to the date of his death totaled ₹ 46,000.

On Revaluation, Freehold Land and Building was appreciated by ₹ 1,00,000, Machinery was depreciated by ₹ 10,000 and a Provision for Bad debts was created at 5% on Debtors as on 31.03.2012.

P's sole heir was given ₹ 5,00,000 immediately and the balance along with Interest at 12% p.a. was paid to him on 31.03.2013.

Prepare Revaluation Account, P's Capital Account and P's Heir Account, giving important working notes.

**Solution:**

**Capital Account of Partner "P"**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Drawings | 46,000 | By Balance b/d | 7,00,000 |
| To P's Heir **(Balancing Figure)** | 11,00,000 | By Goodwill A/c **[W.N. 1]** | 3,30,000 |
| | | By Revaluation A/c | 41,000 |
| | | By P&L Suspense A/c **[W.N. 2]** | 75,000 |
| **Total** | **11,46,000** | **Total** | **11,46,000** |

**Revaluation Account**

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Machinery | | 10,000 | By Freehold Land & Building | 1,00,000 |
| To Provision for Doubtful Debts (5% of 1,60,000) | | 8,000 | | |
| To Capital Account | | | | |
| - P (82,000 × 5/10) | 41,000 | | | |
| - Q (82,000 × 3/10) | 24,600 | | | |
| - R (82,000 × 2/10) | 16,400 | **82,000** | | |
| **Total** | | **1,00,000** | **Total** | **1,00,000** |

**P's Heir Account**

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|---|---|---|---|---|---|
| 31.8.12 | To Bank | 5,00,000 | 31.8.12 | By P's Capital | 11,00,000 |
| 31.3.13 | To Bank (Final Settlement) **(Bal. Fig.)** | 6,42,000 | 31.3.13 | By Interest (11,00,000 – 5,00,000) × 12% × 7/12 | 42,000 |
| | **Total** | **11,42,000** | | **Total** | **11,42,000** |

**Working Notes:**

**1. Computation of Goodwill**

| Particulars | ₹ |
|---|---|
| Goodwill = 2 years' purchase of 3 years' average profits = (2,90,000 + 3,40,000 + 3,60,000) × 2/3 | 6,60,000 |
| P's Share of Goodwill (6,60,000 × 5/10) | 3,30,000 |

**Note:** Alternatively, Goodwill may be computed using Weighted Average Profits instead of Simple Average.

**2. Computation of Profit up to P's Death based on Previous year's Profit (1.4.12 – 31.8.12)**

P's share = ₹ 3,60,000 × 5/12 × 5/10 = ₹ **75,000.**

**Note:** It is assumed that the Profit has accrued evenly during the year.

## 3: Internal Reconstruction – Journal Entries and Balance Sheet — M 13 (16 Marks)

The Balance sheet of M/s Cube Limited as on 31.03.2013 is given below –

| Particulars | Note | Amount (₹ Lakhs) |
|---|---|---|
| Equity & Liabilities | | |
| Shareholders' Funds | | |
| Share Capital | 1 | 700 |
| Reserves & Surplus | 2 | (261) |
| Non–Current Liabilities | | |
| Long term Borrowings | 3 | 350 |
| Current Liabilities | | |
| Trade Payables | 4 | 51 |
| Other Liabilities | 5 | 12 |
| Total | | 852 |
| Assets | | |
| Non–Current Assets | | |
| Fixed Assets – Tangible Assets | 6 | 375 |
| Current Assets | | |
| Current Investments | 7 | 100 |
| Inventories | 8 | 150 |
| Trade Receivables | 9 | 225 |
| Cash & Cash Equivalents | 10 | 2 |
| Total | | 852 |

| Notes | Amount (₹ in Lakhs) |
|---|---|
| 1. Share Capital | |
| Authorized | |
| 100 Lakh Equity Shares of ₹10 each | 1,000 |
| 4 Lakh, 8% Preference shares of ₹100 each | 400 |
| Total | 1,400 |
| Issued, Subscribed and Paid–up | |
| 50 Lakh Equity Shares of ₹10 each, fully paid up | 500 |
| 2 Lakh 8% Preference Shares of ₹ 100 each, fully paid–up | 200 |
| Total | 700 |
| 2. Reserves & Surplus – Debit Balance of Profit & Loss Account | (261) |
| 3. Long Term Borrowings | |
| 6% Debentures (secured by Freehold Property) | 200 |
| Director's Loan | 150 |
| Total | 350 |
| 4. Trade Payables – Sundry Creditors for Goods | 51 |
| 5. Other Current Liabilities – Interest Accrued and due on 6% Debentures | 12 |
| 6. Tangible Assets – | |
| Freehold Property | 275 |
| Plant & Machinery | 100 |
| Total | 375 |
| 7. Current Investment – Investment in Equity Investments | 100 |
| 8. Inventories – Finished Goods | 150 |
| 9. Trade receivables – Sundry Debtors for Goods | 225 |
| 10. Cash and Cash Equivalents – Balance with Bank | 2 |

The Board of Directors of the Company decided upon the following Scheme of Reconstruction with the consent of respective Shareholders:

1. Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.
2. Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.
3. Debenture Holders agreed to take one Freehold Property at its Book Value of ₹ 150 Lakhs in part payment of their holding. Balance Debentures to remain as liability to the Company.
4. Interest accrued and due on Debentures to be paid in Cash.
5. Remaining Freehold Property to be valued at ₹ 200 Lakhs.
6. All Investments sold out for ₹ 125 Lakhs.
7. 70% of Directors' Loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.
8. 40% of Sundry Debtors and 80% of Inventories to be written off.
9. Company's contractual commitments amounting to ₹ 300 Lakhs have been settled by paying 5% penalty of Contract value.

You are required to:

(a) Pass Journal entries for all the transactions related to Internal Reconstruction.

(b) Prepare Reconstruction Account and

(c) Prepare notes on Share Capital and Tangible Assets to the Balance Sheet, immediately after implementing the scheme of Internal Reconstruction.

**Solution:** **Similar to Pg. A.10.12, Illustration 6**

**1. Journal Entries in the books of Cube Ltd (₹ in lakhs)**

| S.No | Particulars | | Debit | Credit |
|---|---|---|---|---|
| 1. | 8% Preference Share Capital (₹ 100) A/c | Dr. | 200 | |
| | To 8% Preference Share Capital (₹ 80) A/c | | | 160 |
| | To Reconstruction A/c | | | 40 |
| | (Being 8% Preference Shares written down to ₹ 80 each vide approved Scheme of Reconstruction dated......) | | | |
| 2. | Equity Share Capital (Face Value – ₹ 10) A/c | Dr. | 500 | |
| | To Equity Share Capital (Face Value – ₹ 2) A/c | | | 100 |
| | To Reconstruction A/c | | | 400 |
| | (Being Equity Shares written down to ₹ 2 each vide approved Scheme of Reconstruction dated......) | | | |
| 3. | Reconstruction A/c | Dr. | 16 | |
| | To Equity Share Capital A/c | | | 16 |
| | (Being arrears of Preference Dividend ₹ 96,000 waived to 2/3rd extent, balance settled by issue of 8,000 Equity Shares of ₹ 2 each) | | | |
| 4. | 6% Debentures A/c | Dr. | 150 | |
| | To Freehold Property | | | 150 |
| | (Being Freehold Property taken over by 6% Debenture–holders in part payment) | | | |
| 5. | Arrears of Debenture Interest A/c | Dr. | 12 | |
| | To Bank A/c | | | 12 |
| | (Being Arrears of Debenture Interest paid immediately by Cash / Bank) | | | |
| 6. | Freehold Property A/c | Dr. | 75 | |
| | To Reconstruction A/c | | | 75 |
| | (Being remaining Freehold Property revalued) [₹ 200 – (275 – 150)] = ₹ 75 | | | |
| 7. | Bank A/c | Dr. | 125 | |
| | To Trade Investments A/c | | | 100 |
| | To Reconstruction A/c | | | 25 |
| | (Being Trade Investments sold at a profit of ₹ 50,000) | | | |

| S.No | Particulars | | Debit | Credit |
|---|---|---|---|---|
| 8. | Directors' Loan A/c | Dr. | 150 | |
| | To Reconstruction A/c | | | 105 |
| | To Equity Share Capital A/c | | | 45 |
| | (Being Directors Loan waived to an extent of 70% and for the balance Equity Shares of ₹ 2 each issued, Number of Shares = 22.5 lakh shares) | | | |
| 9. | Reconstruction A/c | Dr. | 471 | |
| | To Sundry Debtors A/c | | | 90 |
| | To Stock A/c | | | 120 |
| | To Profit and Loss A/c | | | 261 |
| | (Being Sundry Debtors, Stock, and Debit Balance of Profit and Loss A/c written off under Reconstruction Scheme) | | | |
| 10. | Reconstruction A/c | Dr. | 15 | |
| | To Bank A/c | | | 15 |
| | (Being 5% Penalty towards Contractual Commitments paid) | | | |
| 11. | Reconstruction A/c | Dr. | 143 | |
| | To Capital Reserve A/c **(WN 2)** | | | 143 |
| | (Being balance in Reconstruction A/c credited to Capital Reserve) | | | |

**2. Reconstruction A/c**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank (Penalty Paid) | 15 | By 8% Preference Shares (reduction) | 40 |
| To Sundry Debtors (written off) | 90 | By Equity Share Capital A/c (reduction) | 400 |
| To Equity Share Capital (Arrears of Dvnd) | 16 | By Freehold Property A/c (revaluation) | 75 |
| To Stock (written off) | 120 | By Trade Investments (Profit on Sale) | 25 |
| To Profit & Loss A/c (written off) | 261 | By Director's Loan (Waiver) | 105 |
| To Capital Reserve **(balancing figure)** | **143** | | |
| **Total** | **685** | **Total** | **645** |

**3. Schedule to Balance sheet as per Revised Schedule–VI**

**Schedule 1: Share Capital**

| Particulars | | This Year | Prev. Yr |
|---|---|---|---|
| **Authorised**: | ....................Equity Shares of ₹ 2 each | | |
| | ....................Preference Shares of ₹ 80 each | | |
| **Issued, Subscribed & Paid up:** | 103.50 Lakh Equity Shares of ₹ 2 each | 161 | |
| | 4 Lakh 8% Preference Shares of ₹ 80 each | 160 | |
| **Total** | | **321** | |

**Schedule 1A: Reconciliation of Share Capital**

| Particulars | | Equity Shares | | 8% Preference Shares | |
|---|---|---|---|---|---|
| | | **Quantity** | **Face Value** | **Quantity** | **Face Value** |
| | Opening Balance | 50.00 | 500 | 2 | 200 |
| **Less:** | Reduction due to scheme of Reconstruction | – | (400) | – | (40) |
| **Add:** | Fresh Issue | 30.50 | 61 | – | – |
| **Total** | | **80.50** | **161** | **2** | **40** |

**Schedule 2: Tangible Assets**

| Particulars | This Year | Prev. Yr |
|---|---|---|
| Freehold Property (275 Lakhs – 150 Lakhs + 75 Lakhs) | 200 | |
| Plant & Machinery | 100 | |
| **Total** | **300** | |

**Note:** The Value of Freehold Property is reduced by 150 Lakhs and increased by 75 Lakhs under the Scheme of Reconstruction approved vide ...

4: Single Entry System M 13 (16 Marks)

A Sole trader requests you to prepare his Trading and Profit & Loss Account for the year ended 31.03.2013 and Balance Sheet as on that date. He provides you the following information –

Statement of Affairs as at 31.03.2012

| Liabilities | | ₹ | Assets | ₹ |
|---|---|---|---|---|
| Bank Over Draft | | 4,270 | Furniture | 96,000 |
| Outstanding Expenses | | | Computer | 24,300 |
| Salaries | 8,000 | | Mobile Phone | 8,000 |
| Rent | 6,000 | 14,000 | Stock | 89,500 |
| Bills Payable | | 22,500 | Trade Debtors | 55,000 |
| Trade Creditors | | 52,500 | Bills Receivable | 15,000 |
| Capital (Balancing Figure) | | 1,97,430 | Unexpired Insurance | 2,400 |
| | | | Stock of Stationery | 200 |
| | | | Cash in Hand | 300 |
| Total | | 2,90,700 | Total | 2,90,700 |

He informs you that there has been no addition to or sale of Furniture, Computer and Mobile Phone during the Accounting Year 2012–2013. The other Assets and Liabilities on 31.03.2013 are as follows –

| Particulars | ₹ | Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|---|---|
| Stock | 95,400 | Stock of Stationery | 250 | Rent Outstanding | 6,000 |
| Trade Debtors | 65,000 | Cash at Bank | 18,000 | Bills Payable | 26,500 |
| Bills Receivable | 20,000 | Cash in Hand | 7,230 | Trade creditors | 76,000 |
| Unexpired Insurance | 2,500 | Salaries Outstanding | 8,300 | | |

He also provides to you the following summary of his Cash transactions –

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| Cash Sales | 5,09,800 | Trade Creditors | 3,06,000 |
| Trade Debtors | 1,51,900 | Bills Payable | 80,000 |
| Bills Receivable | 65,000 | Salaries | 99,000 |
| | | Rent | 72,000 |
| | | Insurance Premium | 10,000 |
| | | Stationery | 1,500 |
| | | Mobile Phone Expenses | 9,000 |
| | | Drawings | 1,20,000 |

It is found prudent to depreciate Furniture at 5%, Computer at 10% and Mobile Phone at 25%. A Provision for Bad Debts at 5% on Trade Debtors is also considered desirable.

**Solution:**

**A. Trading and Profit and Loss Account for the year ended 31.03.2013**

| Particulars | Amount | Particulars | | Amount |
|---|---|---|---|---|
| To Opening Stock | 89,500 | By Sales | | |
| To Purchases – Credit | 4,13,500 | - Cash | 5,09,800 | |
| To Gross Profit **(Bal. Fig.)** | 3,34,100 | - Credit | 2,31,900 | 7,41,700 |
| | | By Closing Stock | | 95,400 |
| **Total** | **8,37,100** | **Total** | | **8,37,100** |
| To Depreciation | | By Gross Profit | | 3,34,100 |
| - Furniture | 4,800 | | | |
| - Computer | 2,430 | | | |
| - Mobile Phone | 2,000 | | | |
| To Provision for Bad Debts (6,50,000 × 5%) | 3,250 | | | |
| To Salaries | 99,300 | | | |
| To Rent | 72,000 | | | |
| To Insurance | 9,900 | | | |
| To Stationery | 1,450 | | | |
| To Mobile Phone Expenses | 9,000 | | | |
| To Net Profits **(Bal. Fig.)** | 1,29,970 | | | |
| **Total** | **3,34,100** | **Total** | | **3,34,100** |

**B. Statement of Affairs as on 31.03.2013**

| Equity and Liabilities | | Amount | Assets | | Amount |
|---|---|---|---|---|---|
| **Capital** | | | **Non–Current Assets:** | | |
| Opening Balance | 1,97,430 | | Furniture | 96,000 | |
| **Add:** Net Profits | 1,29,970 | | **Less:** Depreciation at 5% | (4,800) | 91,200 |
| **Less:** Drawings | (1,20,000) | 2,07,400 | Computer | 24,300 | |
| **Current Liabilities:** | | | **Less:** Depreciation at 10% | (2,430) | 21,870 |
| Outstanding Expenses | | | Mobile Phone | 8,000 | |
| Salaries | 8,300 | | **Less:** Depreciation at 25% | (2,000) | 6,000 |
| Rent | 6,000 | 14,300 | **Current Assets:** | | |
| Bills Payable | | 26,500 | Stock | | 95,400 |
| Sundry Creditors | | 76,000 | Sundry Debtors | 65,000 | |
| | | | **Less:** Provision at 5% | (3,250) | 61,750 |
| | | | Bills Receivable | | 20,000 |
| | | | Unexpired Insurance | | 2,500 |
| | | | Stock of Stationery | | 250 |
| | | | Cash in Hand | | 7,230 |
| | | | Cash at Bank | | 18,000 |
| **Total** | | **3,24,200** | **Total** | | **3,24,200** |

**Working Notes:**

**1. Bank Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Cash **(Bal. Fig.)** | 22,270 | By balance b/d | 4,270 |
| | | By balance c/d | 18,000 |
| **Total** | **22,270** | **Total** | **22,270** |

**2. Rent Outstanding Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Cash | 72,000 | By balance b/d | 6,000 |
| To balance c/d | 6,000 | By P&L **(Bal. Fig.)** | 72,000 |
| **Total** | **78,000** | **Total** | **78,000** |

**3. Sundry Debtors Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To balance b/d | 55,000 | By Bills Receivable | 70,000 |
| To Sales **(Bal. Fig.)** | 2,31,900 | By Cash | 1,51,900 |
| | | By balance c/d | 65,000 |
| **Total** | **2,86,900** | **Total** | **2,86,900** |

**4. Bills Receivable Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To balance b/d | 15,000 | By Cash | 65,000 |
| To Debtors **(Bal. Fig.)** | 70,000 | By balance c/d | 20,000 |
| **Total** | **85,000** | **Total** | **85,000** |

**5. Sundry Creditors Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Cash | 3,06,000 | By balance b/d | 52,500 |
| To Bills Payable | 84,000 | By Purchases **(Bal. Fig.)** | 4,13,500 |
| To balance c/d | 76,000 | | |
| **Total** | **4,66,000** | **Total** | **4,66,000** |

**6. Bills Payable Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Cash | 80,000 | By balance b/d | 22,500 |
| To balance c/d | 26,500 | By Creditors **(Bal. Fig.)** | 84,000 |
| **Total** | **1,06,500** | **Total** | **1,06,500** |

**7. Salaries Outstanding Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Cash | 99,000 | By balance b/d | 8,000 |
| To balance c/d | 8,300 | By P&L **(Bal. Fig.)** | 99,300 |
| **Total** | **1,07,300** | **Total** | **1,07,300** |

**8. Cash Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To balance b/d | 300 | By Creditors | 3,06,000 |
| To Sales | 5,09,800 | By Bills Payable | 80,000 |
| To Sundry Debtors | 1,51,900 | By Salaries | 99,000 |
| To Bills Receivable | 65,000 | By Rent | 72,000 |
| | | By Insurance Premium | 10,000 |
| | | By Stationery | 1,500 |
| | | By Mobile Phone Expenses | 9,000 |
| | | By Drawings | 1,20,000 |
| | | By Bank **(Bal. Fig.)** | 22,270 |
| | | By balance c/d | 7,230 |
| **Total** | **7,27,000** | **Total** | **7,27,000** |

**9. Unexpired Insurance Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To balance b/d | 2,400 | By P&L **(Bal. Fig.)** | 9,900 |
| To Cash | 10,000 | By balance c/d | 2,500 |
| **Total** | **12,400** | **Total** | **12,400** |

**10. Stationery Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To balance b/d | 200 | By P&L **(Bal. Fig.)** | 1,450 |
| To Cash | 1,500 | By Balance c/d | 250 |
| **Total** | **1,700** | **Total** | **1,700** |

5(a): Accounting for Non–Profit Organizations M 13 (10 Marks)

The Receipts and Payments Account, Income and Expenditure Account and additional information of a Sports Club for the year ended 31.03.2013 were as follows –

Receipts and Payments Account for the year ending on 31.03.2013

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Balance b/d | 42,000 | By Secretary Salary | 10,000 |
| To Entrance Fees 2011–2012 | 10,000 | By Printing & Stationery | 26,000 |
| To Entrance Fees 2012–2013 | 1,00,000 | By Advertising | 16,000 |
| To Subscription 2011–2012 | 6,000 | By Fire Insurance | 12,000 |
| To Subscription 2012–2013 | 1,50,000 | By 12% Investments (Purchased on 01.10.2012) | 2,00,000 |
| To Subscription 2013–2014 | 4,000 | By Furniture | 20,000 |
| To Rent Received | 24,000 | By Balance c/d | 58,000 |
| To Interest Received | 6,000 | | |
| Total | 3,42,000 | Total | 3,42,000 |

Income and Expenditure Account for the year ending on 31.03.2013

| Expenditure | ₹ | Income | ₹ |
|---|---|---|---|
| To Secretary Salary | 15,000 | By Entrance Fees | 1,05,000 |
| To Printing and Stationery | 22,000 | By Subscription | 1,56,000 |
| To Advertising | 16,000 | By Rent | 28,000 |
| To Audit Fees | 5,000 | By Interest on Investments | 12,000 |
| To Fire Insurance | 10,000 | | |
| To Depreciation on Sports Equipment | 90,000 | | |
| To Depreciation on Furniture | 5,000 | | |
| To Surplus | 1,38,000 | | |
| Total | 3,01,000 | Total | 3,01,000 |

Additional Information: The Assets and Liabilities as on 31.03.2012 include –

1. Club Grounds & Pavilion ₹ 4,40,000,
2. Sports Equipment ₹ 2,50,000,
3. Furniture & Fixtures ₹ 40,000,
4. Subscription in Arrear ₹ 8,000,
5. Subscription received in advance ₹ 2,000 and
6. Creditors for Printing & Stationery ₹ 5,000.

You are required to prepare the Balance Sheet of the Club as on 31.03.2013.

**Solution:** **Similar to Pg. A.4.62, Illustration 36**

**Balance Sheet as on 31.03.2012**

| Equity and Liabilities | Amount | Assets | Amount |
|---|---|---|---|
| Capital Fund **(Bal. Fig.)** | 7,83,000 | **Non–Current Assets:** | |
| Creditors for Printing and Stationery | 5,000 | Club Ground & Pavilion | 4,40,000 |
| Subscription Received in Advance | 2,000 | Sports Equipment | 2,50,000 |
| | | Furniture & Fixtures | 40,000 |
| | | **Current Assets:** | |
| | | Subscriptions Receivable | 8,000 |
| | | Entrance Fees Receivable | 10,000 |
| | | Cash in Hand | 42,000 |
| **Total** | **7,90,000** | **Total** | **7,90,000** |

**Balance Sheet as on 31.03.2013**

| Equity and Liabilities | | Amount | Assets | Amount |
|---|---|---|---|---|
| **Capital Fund:** | | | **Non–Current Assets:** | |
| | | | Club Ground and Pavilion | 4,40,000 |
| Opening Balance | 7,83,000 | | Sports Equipment (2,50,000 – 90,000) | 1,60,000 |
| **Add:** Surplus during the year | 1,38,000 | 9,21,000 | Furniture & Fixtures (40,000–5,000+20,000) | 55,000 |
| | | | **Current Assets:** | |
| **Current Liabilities:** | | | 12% Investments | 2,00,000 |
| Subscriptions Received in Advance | | 4,000 | Rent Receivable | 4,000 |
| Secretary Salary Due | | 5,000 | Accrued Interest | 6,000 |
| Creditors for Printing (5,000 + 22,000 – 26,000) | | 1,000 | Fire Insurance paid in advance | 2,000 |
| Outstanding Audit Fees | | 5,000 | Entrance Fees receivable | 5,000 |
| | | | Subscription Charges in Arrears | |
| | | | (a) 2011–2012 | 2,000 |
| | | | (b) 2012–2013 | 4,000 |
| | | | Cash in Hand | 58,000 |
| **Total** | | **9,36,000** | **Total** | **9,36,000** |

5(b): Hire Purchase – Repossession of Stock and Resale M 13 (6 Marks)

On 01.04.2012, M/s Power Motors sold on Hire Purchase basis a Truck whose Cash Price was ₹ 9,00,000 to M/s Singh & Singh, a Firm of transporters. The terms of the contract were that the transporters were to pay ₹ 3,00,000 down and 6 four–monthly installments of ₹ 1,00,000 plus Interest on outstanding amount of Cash Price for the intervening 4 months. The installments were payable on 31st July, 30th November & 31st March in each one of the 2 Accounting Years. Interest was calculated at 12% p.a.

M/s Singh & Singh duly paid the installment on 31.07.2012 but failed to pay the installment on 30.11.2012. M/s Power Motors, after legal formalities, repossessed the truck valuing it at ₹ 7,00,000. M/s Power Motors spent ₹ 80,000 on repairs and repainting of the truck and on 07.01.2013 sold it for ₹ 7,50,000 Cash.

Prepare the Account of M/s Singh & Singh and Goods Repossessed Account in the books of M/s Power Motors.

**Solution:**

**Computation of Cash Price and Total Interest**

| Installment | Opg. O/s. Principal | Int. at 12% p.a. | Principal Paid | Instalment Paid | Clg. O/s. Principal |
|---|---|---|---|---|---|
| **(1)** | **(2)** | **(3) = (2)×12%×4/12** | **(4)** | **(5) = (3) + (4)** | **(6) = (2) – (4)** |
| 1 | 6,00,000 | 24,000 | 1,00,000 | 1,24,000 | 5,00,000 |
| 2 | 5,00,000 | 20,000 | 1,00,000 | 1,20,000 | 4,00,000 |
| 3 | 4,00,000 | 16,000 | 1,00,000 | 1,16,000 | 3,00,000 |
| 4 | 3,00,000 | 12,000 | 1,00,000 | 1,12,000 | 2,00,000 |
| 5 | 2,00,000 | 8,000 | 1,00,000 | 1,08,000 | 1,00,000 |
| 6 | 1,00,000 | 4,000 | 1,00,000 | 1,04,000 | 0 |
| | | **84,000** | **6,00,000** | **6,84,000** | |

**Books of M/s Power Motors**

**1. M/s Singh & Singh Account**

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 01.04.2012 | To Hire Purchase Sales | 9,00,000 | 01.04.2012 | By Bank – Down Payment | 3,00,000 |
| 31.07.2012 | To Interest Income | 24,000 | 31.07.2012 | By Bank (Inst. Received) | 1,24,000 |
| 30.11.2012 | To Interest Income | 20,000 | 30.11.2012 | By Repossessed Stock | 7,00,000 |
| 30.11.2012 | TO P&L A/c (Profit on Takeover) | 1,80,000 | | | |
| | **Total** | **11,24,000** | | **Total** | **11,24,000** |

**2. Repossessed Stock Account**

| Particulars | Amount | Particulars | Amount |
|---|---|---|---|
| To Singh & Singh A/c | 7,00,000 | By Bank A/c – Sale | 7,50,000 |
| To Bank A/c – Repairs, Painting | 80,000 | By P&L A/c | 30,000 |
| **Total** | **7,80,000** | **Total** | **7,80,000** |

6(a): Pre–Incorporation and Post Incorporation Profits M 13 (8 Marks)

The promoters of M/s Glorious Ltd took over on behalf of the Company a running business with effect from 01.04.2012. The Company got incorporated on 01.08.2012. The annual accounts were made up to 31.03.2013 which revealed that the Sales for the whole year totaled ₹ 1,600 Lakhs out of which Sales till 31.07.2012 were ₹ 400 Lakhs. Gross Profit Ratio was 25%.

Expenses from 01.04.2012 to 31.03.2013 –

| Particulars | (₹ in lakhs) | Particulars | (₹ in lakhs) |
|---|---|---|---|
| Salaries | 69 | Bad Debts | 4 |
| Rent, Rates and Insurance | 24 | Directors' Fee | 25 |
| Sundry Office Expenses | 66 | Audit Fee | 9 |
| Travellers' Commission | 16 | Depreciation on Tangible Assets | 12 |
| Discount Allowed | 12 | Debenture Interest | 11 |

Prepare a Statement showing the calculation of Profits for the Pre–Incorporation and Post–Incorporation periods.

**Solution:** **Similar to Pg. A.9.4, Illustration 3**

**1. Computation of Ratios**

| Particulars | Pre – incorporation | Post – incorporation | Total |
|---|---|---|---|
| (a) No. of Months | 1st April to 31st July = 4 Months | 1st August to 31st March = 8 Months | 4 : 8 = 1 : 2 |
| (b) Sales Ratio | Sales (Given) = ₹ 400 lakhs | Sales (Given) = 1,600 – 400 Lakhs = 1,200 Lakhs | 400 : 1200 = 1 : 3 |

**2. Profit & Loss Account for the year ending 31st March, 2013 (₹ in Lakhs)**

| Particulars | Pre Inc. | Post Inc. | Particulars | Pre Inc. | Post Inc. |
|---|---|---|---|---|---|
| To Salaries and Wages (1:2) | 23 | 46 | By Gross Profit | 100<br>(400 × 25%) | 300<br>(1,200 × 25%) |
| To Rent, Rates and Insurance (1:2) | 8 | 16 | | | |
| To Sundry Expenses (1:2) | 22 | 44 | | | |
| To Traveller's Commission (1:3) | 4 | 12 | | | |
| To Discount allowed (1:3) | 3 | 9 | | | |
| To Bad Debts (1:3) | 1 | 3 | | | |
| To Director's Fee (Paid by the Company only after incorporation) | – | 25 | | | |
| To Audit Fee (1:3) | 2.25 | 6.75 | | | |
| To Depreciation (1:2) | 4 | 8 | | | |
| To Debenture Interest (Issued after the Company is formed) | – | 11 | | | |
| To Net Profit | 32.75 | 119.25 | | | |
| **Total** | **100** | **300** | **Total** | **100** | **300** |

6(b): AS –3: Cash Flow Statement under Direct Method M 13 (8 Marks)

On the basis of the following information Prepare a Cash Flow Statement for the year ended 31.03.2013 –

1. Total Sales the year was 199 Crores out of which Cash Sales amounted to ₹ 131 Crores.
2. Cash collections from Credit Customers during the year totaled ₹ 67 Crores.
3. Cash paid to Suppliers of Goods and Services and to the Employees of the Enterprise amounted to ₹ 159 Crores.
4. Fully paid Preference Shares of Face Value ₹ 16 Crores were redeemed and Equity Shares of the Face Value of ₹ 16 Crores were allotted as fully paid–up at a Premium of 25%.
5. ₹ 13 Crores were paid by way of Income Tax.
6. Machines of the Book Value of ₹ 21 Crores were sold at a Loss of ₹ 30 Lakhs and a new Machine was installed at a total Cost of ₹ 40 Crores.
7. Debenture Interest amounting to ₹ 1 Crore was paid.
8. Dividends totaling ₹ 10 Crores was paid on Equity and Preference Shares. Corporate Dividend Tax at 17% was also paid.
9. On 31.03.2012 Balance with the Bank and Cash on Hand totaled ₹ 9 Crores.

**Solution:**

**Cash Flow Statement for the year ended 30.03.2013 (In Crores)**

| | Particulars | Amount | Amount |
|---|---|---|---|
| **A.** | **Cash Flow from Operating Activities** | | |
| | Sales | 131 | |
| | Cash Received from Customers | 67 | |
| | Cash Paid to Suppliers & Employees | (159) | |
| | Cash Generated from Operations before Taxes & Extra Ordinary Items | 39 | |
| **Less:** | Taxes Paid | (13) | |
| | **Net Cash Flow from Operating activities** | | **26** |
| **B.** | **Cash Flow from Investing activities** | | |
| | Sale of Machine at a Loss (21 Crores – 0.3 Crore) | 20.7 | |
| | Purchase of new Machinery | (40) | |
| | **Net Cash Flow from Investing Activities** | | **(19.3)** |
| **C.** | **Cash Flow from Financing Activities** | | |
| | Issue of Equity shares (16 Crores + 25%) | 20 | |
| | Redemption Of Preference Shares Worth 16 Crores | (16) | |
| | Debenture Interest paid | (1) | |
| | Dividends paid | (10) | |
| | Corporate Dividend Tax paid (17% on Dividend) | (1.7) | |
| | **Net Cash Flow from Financing Activities** | | **(8.7)** |
| **D.** | Net Increase or Decrease in Cash or Cash Equivalents | | (2) |
| **E.** | Opening Balance of Cash & Cash Equivalents | | 9 |
| **F.** | **Closing Balance of Cash & Cash Equivalents** | | **7** |

**Note:** It is assumed that the Preference shares are settled by Cash and Equity Shares are issued for Cash Consideration.

7(a): Accounting in Computerized Environment M 13 (4 Marks)

What is Enterprise Resource Planning (ERP) software? What are the factors which you will take into consideration while choosing an ERP software?

**Solution:** **Refer Pg. A.1.9, Q.No. 9**

7(b): AS–1: Fundamental Accounting Assumptions M 13 (4 Marks)

What are the 3 fundamental Accounting Assumptions recognized by AS–1? Briefly discuss each one of them.

**Solution:** **Refer Pg. B.1.1, Q.No. 4**

7(c): AS–2: Valuation of WIP M 13 (4 Marks)

On 31.03.2013 a Business Firm finds that Cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2013–2014 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 4% brokerage on Selling Price. The firm seeks your advice regarding –

1. The amount at which the unfinished unit should be valued as at 31.03.2013 for preparation of Final Accounts and
2. The desirability or otherwise of producing the finished unit

**Solution:**

1. As per AS–2, WIP should be valued at actual Cost per unit. Hence, the Company must value the unfinished unit at ₹ 530 for the preparation of final accounts.
2. **Desirability of Further Production –**

| | Particulars | Amount |
|---|---|---|
| | Expenditure incurred till date | 530 |
| **Add:** | Additional Expenses | 310 |
| | **Total Cost of the Product (A)** | **840** |
| | Sale Value (NRV) | 750 |
| **Less:** | Brokerage at 4% | 30 |
| | **Net Sale Proceeds (B)** | **720** |
| | **Profit / (Loss) on further Production (B – A)** | **(120)** |

Hence, the Product may be sold without processing further, if the Sale Value of such unfinished unit is greater than the present Cost i.e., ₹ 530.

7(d): AS–9: Revenue recognition on Sales Returns and Trade Discounts M 13 (4 Marks)

M/s Moon Ltd sold Goods worth ₹ 6,50,000 to Mr. Star. Mr. Star asked for a Trade Discount amounting to ₹ 53,000 and the same was dispatched. On receipt of Goods, Mr. Star found that Goods worth ₹ 67,000 are defective. Mr. Star returned defective goods to M/s Moon Ltd and made payment due amounting to ₹ 5,30,000. The Accountant of M/s Moon Ltd booked the Sale for ₹ 5,30,000. Discuss the contention of the Accountant with reference to AS–9.

1. **Principle:**
   (a) Trade Discounts are discounts related to the volume of the purchase and are given at the time of issue of invoice itself. These are shown as deduction in the Invoice and only the Net Amount is recognised as Revenue
   (b) Goods Returned by the purchaser immediately after the sale is made is considered as Sales Return and should only be shown as sales retuns and not deducted from sales directly.

2. **Analysis:** In the given case, Trade Discount given by the seller need not be included in sales amount, but the goods retuned by the purchaser should be first recorded as sales and then separately recorded as sales returns from the customer. The value of sale entered should be (Sale value ₹ 6,50,000 – Trade discount ₹ 53,000) = ₹ 5,97,000.

3. **Conclusion:** Hence, the contention of the accountant is **incorrect.**

7(e): AS Introduction and Applicability M 13 (4 Marks)

What are the issues with which Accounting Standards deal?

**Solution:** Refer Pg. B.3, Qn. 2

**STUDENTS' NOTES**