PAPER – 1 : ACCOUNTING

QUESTIONS

Profit or Loss Prior to Incorporation

1. A firm which was carrying on business from 1^{st} January, 2009 gets itself incorporated as a company on 1^{st} May, 2009. The first accounts are drawn up to 30^{th} September, 2009. The gross profit for the period is Rs.56,000. The general expenses are Rs.14,220, directors' fee Rs.12,000 p.a.; formation expenses Rs.1,500. Rent up to 30^{th} June is Rs.1,200 p.a., after which it is increased to Rs.3,000 per annum. Salary of the manager, who upon incorporation of the company was made a director, is Rs.6,000 p.a. His remuneration thereafter is included in the above figure of fee to directors.

   Give Profit and Loss Account showing pre-and post-incorporation profits. The net sales are Rs.8,20,000, the monthly average of which, for the first four months of 2009 is half of that of the remaining period, the company earned a uniform profit. Interest and tax may be ignored.

Investment Accounts

2. On 1.4.2009, Shridhar has 2,500 equity shares of 'A' Ltd., at a book value of Rs.15 per share (Face value Rs.10). On 20^{th} June, he purchased another 500 shares of the company @ Rs.16 per share. The directors of A Ltd., announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows:

   Bonus basis 1 : 6 (Date 16^{th} August).

   Rights basis 3 : 7 (Date 31^{st} August) Price Rs.15 per share.

   Due date for payment - 30^{th} September.

   Shareholders can transfer their rights in full or in part. Accordingly, Shridhar sold $33\frac{1}{3}\%$ of his entitlement to Manohar for a consideration of Rs.2 per share and exercised the remaining rights.

   Dividends for the year ended 31^{st} March at the rate of 20% were declared by A Ltd., and received by Shridhar on 31^{st} October. Dividends for shares acquired by him on 2^{nd} June are to be adjusted against the cost of purchase.

   On 15^{th} November, Shridhar sold 2,500 equity shares at a premium of Rs.5 per share.

   Required: Prepare Investment Account in the books of Shridhar.

   For your exercise, assume that the books are closed on 31.12.2009 and shares are valued at average cost.

Accounting for Hire Purchase Instalments

3. From the following information extracted from the books of Perfect Investment Pvt. Ltd. prepare Hire Purchase Trading account for the year ended 31.3.2009, showing the profit in respect of the hire-purchase business of the company:

(i) Instalments due but not received on 1.4.2008 – Rs.60,000.

(ii) Instalments due but not received on 31.3.2009 – Rs.1,00,000.

(iii) Cash received during the financial year 2008-2009 by way of a hire-purchase Instalments Rs.80,00,000.

(iv) Value of Stock 'out' on hire-purchase as at 1.4.2008 at hire-purchase price (loading 20% above cost) Rs.2,40,000.

(v) (a) Cost price of truck 'out' on hire-purchase as at 31.3.2009 - Rs.40,00,000.

(b) Total amount of instalments receivable in respect of v (a) above Rs.48,00,000.

(c) Total amount of instalments received and due up to 31.3.2009 in respect of v (b) above Rs.36,00,000.

(vi) Purchase of trucks during the financial year 2008-09 Rs.80,00,000.

(vii) Sale of trucks, otherwise than on H.P. (at a profit of 6.25% of cost thereof), Rs.8,50,000.

(viii) Body building charges in respect of truck, sold on H.P. Rs.4,00,000.

(ix) Interest paid was Rs.80,000 and unsold trucks on 31.3.2009 at cost price were Rs.1,60,000 (Hire-purchase price Rs.1,92,000).

Insurance Claim for Loss of Stock

4. The premises of Sad Ltd. caught fire on 22nd January, 2010 and the stock was damaged. The firm made up accounts to 31 March each year and on 31st March, 2009 the stock at cost was Rs. 13,27,200 as against Rs. 9,62,200 on 31st March 2008.

Purchases from 1st April, 2009 to the date of fire were Rs. 34,82,700 as against Rs. 45,25,000 for the full year 2008-09 and the corresponding sales figure were Rs. 49,17,000 and Rs. 52,00,000 respectively.

You are given the following further information:

(i) In July, 2009, goods costing Rs. 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2009-2010, a clerk misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs.2000 per week from 1st April, 2009 until the clerk was dismissed on 18th August, 2009.

(iii) The rate of gross profit is constant.

From the above information, make an estimate of the stock in hand on the date of fire.

Managerial Remuneration

5. Calculate the managerial remuneration from the following particulars of Astha Ltd. due to the managing director of the company at the rate of 5% of the profits. Also determine the excess remuneration paid, if any:

	Rs.
Net Profit	2,00,000
Net Profit is calculated after considering the following:	
Depreciation	40,000
Preliminary expenses	10,000
Tax provision	3,10,000
Director's fee	8,000
Bonus	15,000
Profit on sale of fixed assets (original cost: Rs.20,000 written down value:Rs.11,000)	15,500
Provision for doubtful debts	9,000
Scientific research expenditure (for setting up new machinery)	20,000
Managing Director's remuneration paid	30,000
Other information:	
Depreciation allowable under Schedule XIV of the Companies Act	35,000
Bonus liability as per Payment of Bonus Act, 1965	18,000

Self Balancing Ledgers

6. On 1st April, 2009 the details of the balances owed by customers were as following:-

	Rs.
A	1,500
B (Considered to be 60% bad; adequate provision maintained)	2,100
C	1,800
Others	35,600
	41,000
Less: Advance by E	2,000
	39,000

Sales during the month totaled Rs.1,55,500 including Rs.1,11,400 as cash sales; of the credit sale, a sale of Rs.2,600 was to E. A returned goods to the extent of Rs.500 and sent a bill receivable accepted by X for the balance. A sum of Rs.450 was received from B and the balance was written off. On instructions from Y. C's balance was transferred to Y's account in the Creditors Ledger. X's acceptance as dishonoured and noting charges were Rs.10. G sent an advance of Rs.1,800 for supply of goods. Out of the amount due from "others" on April 1, 2009 a sum of Rs.27,300 was received; the customers had earned 2½% discount on the amount paid. Similarly, out of the sales in April, a sum of Rs.9,750 had been received, earning discount at the same rate.

F who owed Rs.1,100 and G who owed Rs.800 turned doubtful; a provision of 50% of the amounts due was created. All other debts were considered good.

Prepare Total Debtors account for April 2009.

Partnership –Admission cum Retirement

7. Glad and Happy, who make up their accounts to 30 September in each year, carried on business in partnership under the firm name of Feelings.

   Their partnership agreement provided:

   (1) Profits and losses should be shared Glad - two-third and Happy - one-third.

   (2) Interest on capital accounts should be allowed at the rate of 6% per annum but no interest should be allowed or charged on current accounts.

   (3) On the retirement or admission of a partner:

      (i) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission is to be arrived at by apportionment on a time basis except where otherwise agreed.

      (ii) No account for goodwill is to be maintained in the firm's books, any adjusting entries for transactions between the partners being made in their capital accounts.

      (iii) Any balance due to an outgoing partner is to carry interest at 8% per annum from the date of his retirement to the date of payment.

   Glad retired from the firm on 31st March 2009 and, on the same day, Happy took into partnership Joy, an employee of the firm. It was agreed that the terms of the previous partnership agreement should apply in all respects except that, as from the date, profits or losses are to be shared: Happy - three-fifth, Joy - two-fifth.

   The trial balance extracted from the books of the firm as on 30th September 2009 was as follows:

Particulars	*Rs.*	*Rs.*
Capital Accounts – 30 September 2009		
Glad	-	8,000
Happy	-	6,000
Current Accounts – 30 September 2009		
Glad	-	2,400
Happy	-	1,600
Joy – Cash introduced 31st March, 2009	-	3,000
Plant and machinery at cost	14,000	-
Plant and machinery: Provision for depreciation -30th September, 2008	-	2,800

Motor vehicles at cost	6,200	-
Motor vehicles: provision for depreciation – 30th September 2008	-	3,400
Purchases	62,000	-
Stock – 30th September 2008	12,400	-
Wages	14,600	-
Salaries	10,800	-
Debtors	4,600	-
Sales	-	96,000
Trade expenses	1,600	-
Creditors	-	6,200
Rent and rates	1,400	-
Bad debts	600	-
Balance at bank	1,200	-
	1,29,400	1,29,400

You are given the following further information:

(1) The value of the firm's goodwill as on 31st March 2009 was agreed to be Rs.12,000.

(2) On 31st March, 2009, Joy had paid Glad Rs.5,000 on account of the balance due to him on retirement. But no entry had been made in the books in respect of this payment. The balance due to Glad after taking into account this payment remained unpaid as on 30th September, 2009.

(3) Glad on retirement had taken over one of the firm's motor vehicles and it was agreed that he should be charged for it at its written down value on the date of his retirement. The vehicle had cost Rs.1,400 and up to 30th September, 2009 depreciation of Rs.625 had been provided on it.

(4) The stock as on 30th September 2009 was valued at Rs.14,200.

(5) Partners' drawings which are included in salaries were as follows:

Glad Rs.1,800; Happy Rs.2,400; Joy Rs.900.

(6) Salaries also included Rs.1,200 paid to Joy prior to his being admitted as a partner and which is to be charged against the half-year profits of the firm.

(7) Professional charges of Rs.250 included in trade expenses are specifically attributable to the second half of the year.

(8) The whole of the charge of Rs.600 for bad debts related to the period upto 31st March, 2009.

(9) A bad debts provision specifically, attributable to the second half of the year of 5% of the total debtors is to be made as on 30th September 2009.

(10) As on 30th September 2009, rent paid in advance amounted to Rs.400 and trade expenses accrued amounted to Rs.180.

(11) Provision is to be made for depreciation on plant and machinery and on motor vehicles at the rates of 10% and 25% per annum respectively, calculated on cost.

You are required to prepare:

(a) The Trading and profit and loss account for the year ended 30th September 2009.

(b) Partner's capital and current accounts for the year ended 30th September 2009, and

(c) The balance sheet as on that date.

Accounting for Not for Profit Organisation

8. The accountant of City Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2009:

	Rs.
Receipts:	
Subscriptions	62,130
Fair receipts	7,200
Variety show receipts (net)	12,810
Interest	690
Bar collections	22,350
Payments:	
Premises	30,000
Rent	2,400
Rates and taxes	3,780
Printing and stationary	1,410
Sundry expenses	5,350
Wages	2,520
Fair expenses	7,170
Honorarium to secretary	11,000
Bar purchases (payments)	17,310
Repairs	960
New car (less proceeds of old car Rs. 9,000)	37,800

The following additional information could be obtained:-

	1.4.2008	*31.3.2009*
	Rs.	*Rs.*
Cash in hand	450	Nil
Bank balance as per cash-book	24,420	10,350

Cheque issued for sundry expenses not presented to the bank (entry has been duly made in the cash book)	270	90
Subscriptions due	3,600	2,940
Premises (at cost)	87,000	1,17,000
Provision for depreciation on premises	56,400	-
Car (at cost)	36,570	46,800
Accumulated depreciation on car	30,870	-
Bar stock	2,130	2,610
Creditors for bar purchases	1,770	1,290

Annual honorarium to secretary is Rs. 12,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended 31.3.2009.

Accounts from Incomplete Records

9. The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2009 and a Balance Sheet as on that date:

(a)

	Balance as on 31st March, 2008	*Balance as on 31st March, 2009*
	Rs.	Rs.
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000
Stocks	–	40,000
Bills payable	28,000	16,000
Cash and Bank balances	1,80,000	1,04,000
Sundry Debtors	1,60,000	–
Bills receivable	32,000	28,000
Sundry Creditors	1,20,000	–

(b) Cash transactions during the year included the following besides certain other items:

	Rs.		*Rs.*
Sale of old papers and miscellaneous income	20,000	Cash purchases	48,000
		Payment to creditors	1,84,000
Miscellaneous Trade expenses (including salaries etc.)	80,000	Cash sales	80,000
Collection from debtors	2,00,000		

(c) Other information:

(i) Bills receivable drawn during the year amount to Rs. 20,000 and Bills payable accepted Rs. 16,000.

(ii) Some items of old furniture, whose written down value on 31st March, 2008 was Rs. 20,000 was sold on 30th September, 2008 for Rs. 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.

(iii) Of the Debtors, a sum of Rs. 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.

(iv) Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.

(v) Outstanding salary on 31st March, 2008 was Rs. 8,000 and on 31st March, 2009 was Rs. 10,000 on 31st March, 2008. Profit and Loss Account had a credit balance of Rs. 40,000.

(vi) 20% of total sales and total purchases are to be treated as for cash.

(vii) Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts.

Average Due Date

10. 'A' lent Rs. 25,000 to 'B' on 1st January, 2009. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2010. Calculate the average due date and interest @ 10% per annum.

Cash Flow Statement

11. MNG Fertilizers presents the following Balance Sheets as at 31.3.2009 and 31.3.2008. You are required to prepare cash flow statement.

Balance Sheet (Rs. in thousand)		*31.3.2009*		*31.3.2008*
Equity share capital	8,500		7,000	
General Reserve	3,800		4,000	
Profit and Loss Account	0		250	
Share Premium Account	1,500		750	
Shareholders' Funds		13,800		12,000
Secured Loans	4,800		5,000	
Unsecured Loans	5,350		4,000	
Loan Funds		10,150		9,000
Sources		23,950		21,000
Fixed Assets				

Gross Block		22,400		21,000	
Less: Accumulated Depreciation		3,450		3,200	
Net Block			18,950		17,800
Capital work-in-progress			1,860		0
Investments			1,650		2,320
Current Assets, Loans and Advances					
Inventories		2,510		2,600	
Debtors		1,090		1,200	
Cash & Bank Balances		120		280	
Loans		1,700		200	
Advance Tax		0		500	
	(A)	5,420		4,780	
Less: Creditors		1,050		1,200	
Outstanding expenses		30		0	
Tax Provision		0		500	
Proposed Dividend		3,400		2,800	
	(B)	4,480		4,500	
Net Current Assets	(A) – (B)		940		280
Miscellaneous Expenditure			550		600
Applications			23,950		21,000

Other information:

(1) Fixed assets costing Rs. 4,00,000, accumulated depreciation Rs. 3,00,000 were sold for Rs.1,50,000.

(2) Actual tax liability for 2008-2009 was Rs. 5,00,000.

(3) Loans represent long term loans given to other companies.

(4) Interest on loan funds for 2009-2010 was Rs. 14,21,000 and interest and dividend income were Rs.4,02,000.

(5) Investments costing Rs. 20,00,000 were sold for Rs. 25,00,000.

Internal Reconstruction of a Company

12. Following is the Balance Sheet of ABC Ltd. as at 31st March, 2007:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Plant and machinery	9,00,000
2,00,000 Equity shares of		Furniture and fixtures	2,50,000
Rs 10 each fully paid up	20,00,000	Patents and copyrights	70,000

6,000 8% Preference shares of Rs. 100 each	6,00,000	Investments (at cost) (Market value Rs. 55,000)	68,000
9% Debentures	12,00,000	Stock	14,00,000
Bank overdraft	1,50,000	Sundry debtors	14,39,000
Sundry creditors	5,92,000	Cash and bank balance	10,000
		Profit and Loss A/c	4,05,000
	45,42,000		45,42,000

The following scheme of reconstruction was finalised:

(i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.

(iii) Stock equal to Rs.5,00,000 in book value will be taken over by sundry creditors in full settlement of their dues.

(iv) Investment value to be reduced to market price.

(v) The company would issue 11% Debentures for Rs.3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet of the company after internal reconstruction.

Amalgamation of Companies

13. Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31.3.2008:

Particulars	*A Ltd.*	*B Ltd.*
Share capital: Equity shares 10 each (fully paid up)	10,00,000	6,00,000
Securities premium	2,00,000	-
General reserve	3,00,000	2,50,000
Profit and loss account	1,80,000	1,60,000
10% Debentures	5,00,000	-
Secured loan	-	3,00,000
Sundry creditors	2,60,000	1,70,000
	24,40,000	14,80,000
Land and building	9,00,000	4,50,000
Plant and machinery	5,00,000	3,80,000
Investment (5,000 shares of B Ltd.)	80,000	-
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Cash at bank	30,000	40,000
	24,40,000	14,80,000

The companies agree on a scheme of amalgamation on the following terms:

(i) A new company is to be formed by name AB Ltd.

(ii) AB Ltd. to take over all the assets and liabilities of the existing companies.

(iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under:

A Ltd. = Rs.18 per share

B Ltd. = Rs.20 per share

(iv) A contingent liability of A Ltd. of Rs.60,000 is to be treated as actual existing liability.

(v) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of Rs.6 per share.

(vi) The face value of shares of AB Ltd. are to be of Rs.10 each.

You are required to:

(i) Calculate the purchase consideration (i.e., number of shares to be issued to A Ltd. and B Ltd.).

(ii) Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.

(iii) Pass journal entries in the books of AB Ltd. for acquisition of A Ltd. and B Ltd.

(iv) Prepare the Balance Sheet of AB Ltd.

Profit and Loss Appropriation Account

14. The Articles of Association of S Ltd. provide the following:

(i) That 20% of the net profit of each year shall be transferred to reserve fund.

(ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied:

(a) in paying 14% on cumulative preference shares.

(b) in paying 20% dividend on equity shares.

(c) one-third of the balance available as additional dividend on preference shares and 2/3 as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 12% on preference shares after making provisions (i), (ii) and (iii) mentioned above. The company has issued 13,000, 14% cumulative participating preference shares of Rs. 100 each fully paid and 70,000 equity shares of Rs. 10 each fully paid up.

The profit for the year 2008 was Rs. 10,00,000 and balance brought from previous year Rs. 80,000. Provide Rs. 31,200 for depreciation and Rs. 80,000 for taxation before making other appropriations. Prepare Profit and Loss Account –below the line.

Partnership- Death of a partner

15. A, B and C were partners of a firm sharing profits and losses in the ratio of 3 : 4 : 3. The Balance Sheet of the firm, as at 31st March, 2008 was as under :

Liabilities		*Rs.*	*Assets*		*Rs.*
Capital Accounts :			Fixed Assets		1,00,000
A	48,000		Current Assets :		
B	64,000		Stock	30,000	
C	48,000	1,60,000	Debtors	60,000	
Reserve		20,000	Cash and Bank	30,000	1,20,000
Creditors		40,000			
		2,20,000			2,20,000

The firm had taken a Joint Life Policy for Rs. 1,00,000; the premium periodically paid was charged to Profit and Loss Account. Partner C died on 30th September, 2008. It was agreed between the surviving partners and the legal representatives of C that :

(i) Goodwill of the firm will be taken at Rs. 60,000.

(ii) Fixed Assets will be written down by Rs. 20,000.

(iii) In lieu of profits, C should be paid at the rate of 25% per annum on his capital as on 31st March, 2008.

Policy money was received and the legal heirs were paid off. The profits for the year ended 31st March, 2009, after charging depreciation of Rs. 10,000 (depreciation upto 30th September was agreed to be Rs. 6,000) were Rs. 48,000.

Partners' Drawings Accounts showed balances as under :

A Rs. 18,000 (drawn evenly over the year)

B Rs. 24,000 (drawn evenly over the year)

C (up-to-date of death) Rs. 20,000

On the basis of the above figures, please indicate the entitlement of the legal heirs of C, assuming that they had not been paid anything other then the share in the Joint Life Policy.

Accounting for Bonus Issue of Shares

16. The following is the Balance Sheet of Trinity Ltd. as at 31.3.2008 :

Balance Sheet of Trinity Ltd. as at 31st March, 2008

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		Fixed Assets	
Authorised		Gross Block	3,00,000
10,000 10% Redeemable Preference Shares of Rs. 10 each	1,00,000	Less : Depreciation	1,00,000

			2,00,000
90,000 Equity Shares of Rs.10 each	9,00,000	Investments	1,00,000
	10,00,000	Current Assets and Loans and Advances	
Issued, Subscribed and Paid-up Capital			
10,000 10% Redeemable Preference Shares of Rs. 10 each	1,00,000	Inventory	25,000
		Debtors	25,000
10,000 Equity Shares of Rs.10 each	1,00,000	Cash and Bank Balances	50,000
(A)	2,00,000	Misc. Expenditure to the extent not written of	20,000
Reserves and Surplus			
General Reserve	1,20,000		
Securities Premium	70,000		
Profit and Loss A/c	18,500		
(B)	2,08,500		
Current Liabilities and Provisions (C)	11,500		
Total (A + B + C)	4,20,000	Total	4,20,000

For the year ended 31.3.2009, the company made a net profit of Rs. 15,000 after providing Rs. 20,000 depreciation and writing off the miscellaneous expenditure of Rs. 20,000.

The following additional information is available with regard to company's operation :

1. The preference dividend for the year ended 31.3.2009 was paid before 31.3.2009.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.2009, was the same as on 31.3.2009.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.2009.
5. To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of Rs. 30,000 after such redemption.
6. Investments were sold at 90% of cost on 31.3.2009.

You are required to

(a) Prepare necessary journal entries to record redemption and issue of bonus shares.

(b) Prepare the cash and bank account.

(c) Prepare the Balance Sheet as at 31st March, 2009 incorporating the above transactions.

Accounting in Computerised Environment

17. Write short note on Pre-packaged Accounting Software.

Short Notes

18. Write short notes on the following:
    - (a) Debtors Method for accounting of Hire Purchase Transactions.
    - (b) Profit and Loss Appropriation Account.
    - (c) Accounting Standards
    - (d) Debtors and Creditors Suspense account

19. Write short notes on the following:
    - (a) Purchase consideration
    - (b) Advantages of self balancing ledgers
    - (c) Features of Hire Purchase Instalment system
    - (d) Provisions of Section 37 of the Indian Partnership Act
    - (e) What is Account current?

Short reasoning based questions

20. (a) If both the sides of a cash book are not tallied i.e. debit side exceeds credit side then what are the possible items for recording the difference?

    (b) The hire purchase price was payable Rs.19,152 on 1.1.20X1 and Rs.15,000 at the end of three successive years. Given the present value of an annuity of Re.1 p.a. @ 5% interest is Rs.2.7232. Calculate the cash price with the help of annuity factor.

    (c) X, Y and Z were partners sharing profits and losses in the ratio of 3:2:1 respectively. X died on 31st March, 2009. Calculate his share of profit during the accounting year 2009, when the partnership deed provided that the share of profit till the date of death be estimated at the sum calculated on the sales till the date of death by applying the ratio of Net Profit to Sales for the last accounting year. Sales from 1.1.2009 to 31.3.2009 amounted to Rs.30,000. Sales and Net Profit for the year 2008 amounted to Rs.3,60,000 and Rs.54,000 respectively.

    (d) Calculate the amount of Insurance claim to be lodged, based on the following information:

Value of stock destroyed by fire	Rs.90,000
Insurance policy amount (subject to average clause)	Rs.65,000
Value of stock salvaged from fire	Rs.40,000

21. (a) Find out the profit of Mr. A from the following information:

Capital at the beginning of the year	Rs.20,00,000
Drawings made by Mr. A	Rs. 2,00,000
Capital at the end of the year	Rs.25,00,000
Additional capital introduced during the year	Rs. 1,00,000

(b) A trader purchased goods for Rs.1,70,000. The opening stock of inventory prior to the said purchase was Rs.30,000. His sales was Rs.2,10,000. Find out the closing stock of inventory if the Gross profit margin is 25% on cost.

(c) X Co. Ltd. having share capital of Rs.50 lakhs divided into equity shares of Rs.10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of Rs.10,00,000 and Profit and Loss account Cr. Rs.5,00,000. Y Co. Ltd. issued 11 equity shares of Rs.10 each for every 10 shares of X Co. Ltd.

How the Journal entry would be passed in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interests method' of amalgamation.

(d) P, N and T are equal partners. The decided to change their profit sharing ratio into 5:4:3. The goodwill is calculated to the extent of Rs.2,40,000. Show Journal entries with narration to give effect for the same.

(e) Give the journal entry to be passed for accounting unrealized profit on stock, under amalgamation.

Accounting Standards

22. (a) Is any specific disclosure under AS 1 required for a company in liquidation?

(b) Inventories are usually written down to NRV on an item-by-item basis. Comment.

(c) Discuss the accounting treatment when the depreciable assets are revalued. The Notes on Accounts of Devi Ltd. reveals that "No depreciation has been provided during the year on fixed asset pursuant to an upward revaluation of fixed assets carried out in the current year". State whether the above viewpoint is correct.

(d) What is the basis for recognition of revenue by way of Interest, Royalties and Dividends?

23. (a) What is meant by accounting estimate? Give two examples for accounting estimate.

(b) Provisions contained in the Accounting Standard in respect of Revaluation of fixed assets.

(c) Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

(d) What are the disclosure requirements of AS-7 (Revised)?

Practical Questions Based on Accounting Standards

24. (a) In order to value the inventory of finished goods, HR Ltd. has adopted the standard cost of raw material, labour and overheads. Income tax officer wants to know the method, as per AS-2, for the valuation of raw material.

(b) X Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2009 it changed to WDV basis. The impact of the change, when computed from the date of the asset coming to use, amounts to Rs. 20 lakhs being additional charge.

Decide how it must be disclosed in Profit and loss account. Also, discuss, when such changes in method of depreciation can be adopted by an enterprise as per AS 6.

(c) X Limited has recognized Rs. 10 lakhs on accrual basis income from dividend on units of mutual funds of the face value of Rs. 50 lakhs held by it as at the end of the financial year 31st March, 2009. The dividends on mutual funds were declared at the rate of 20% on 15th June, 2009. The dividend was proposed on 10th April, 2009 by the declaring company. Whether the treatment is as per the relevant Accounting Standard? You are asked to answer with reference to provisions of Accounting Standard.

(d) Soft and Hardwares Ltd. are finalizing their annual accounts as on 31st March. A few elements in their Profit and loss Account are furnished below:

		Amount (Rs. in lakhs)
(a)	Cost of goods sold (includes loss on sale of assets)	2,740
(b)	Profit on sale of property	200
(c)	PBT	300

Some of the assets, revalued in earlier years, have been sold by the company now, for Rs. 100 lacs (WDV Rs. 250 lacs). Revaluation reserve corresponding to these assets stood at Rs. 200 lacs, now brought to Profit and Loss Account.

Comment on this treatment, and advise action, if any, with reference to relevant accounting standard.

25. (a) Bharat Ltd. wants to re-classify its investments in accordance with AS 13. Decide on the amount of transfer, based on the following information:

1. A portion of Current Investments purchased for Rs. 20 lakhs, to be re-classified as Long Term Investments, as the Company has decided to retain them. The market value as on the date of Balance Sheet was Rs. 25 lakhs.

2. Another portion of current investments purchased for Rs. 15 lakhs, to be re-classified as long term investments. The market value of these investments as on the date of balance sheet was Rs. 6.5 lakhs.

3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these were Rs. 18 lakhs but had been written down to Rs. 12 lakhs to recognise permanent decline, as per AS 13.

(b) Garden Ltd. acquired fixed assets viz. plant and machinery for Rs.20 lakhs. During the same year it sold its furniture and fixtures for Rs.5 lakhs. Ca n the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS-3?

(c) A company took a construction contract for Rs.100 lakhs in January, 2006. It was found that 80% of the contract was completed at a cost of Rs.92 lakhs on the closing date i.e. on 31.3.2007. The company estimates further expenditure of Rs.23 lakhs for completing the contract. The expected loss would be Rs.15 lakhs. Can the company recognise the loss in the financial statements prepared fo r the year ended 31.3.2007?

SUGGESTED ANSWERS/HINTS

1. **Profit and Loss Account for 9 months ended on 30th September, 2009**

	Particulars	*W.N.*	*Total (Rs.)*	*Pre-incorpor-ation*	*Post-incor-poration*		*Particulars*	*W.N.*	*Total Rs.*	*Pre-incorpor--ation*	*Post-incor-poration*
				1.1.2009 to 30.4.2009	*1.5.2009 to 30.9.2009*					*1.1.2009 to 30.4.2009*	*1.5.2009 to 30.9.2009*
To	General expenses	2	14,220	6,320	7,900	By	Gross profit	1	56,000	16,000	40,000
To	Director's fees	3	5,000	-	5,000						
To	Forrmation exp.	4	1,500	-	1,500						
To	Rent	5	1,350	400	950						
To	Manager's salary	6	2,000	2,000	-						
To	Net profit-		31,930	-	-						
	-Capital Reserve		-	7,280	-						

-P&L Appropriation	-	-	24,650			
	56,000	16,000	40,000	56,000	16,000	40,000

Working Notes:

(1) Let the average monthly sales of first four months be Rs.100. Then the average monthly sales of next five months will be Rs.200.

Total sales of first four months = Rs.100 $\times 4$ = Rs.400 and that of next five months = Rs.200 $\times 5$ = Rs.1,000. The ratio of sales = 400:1000 or 2:5

The gross profit is apportioned on the basis of sales, i.e., 2:5. Therefore, the gross profit is apportioned as:

$$\text{Pre} - \frac{\text{Rs.}56{,}000}{7} \times 2 = \text{Rs.}16{,}000; \qquad \text{Post} - \frac{\text{Rs.}56{,}000}{7} \times 5 = \text{Rs.}40{,}000.$$

(2) General expenses accrue evenly throughout the period and are, therefore, divided on the basis of time.

$$\text{Pre} - \frac{\text{Rs.}14{,}220}{9} \times 4 = \text{Rs.}6{,}320; \qquad \text{Post} - \frac{\text{Rs.}14{,}220}{9} \times 5 = \text{Rs.}7{,}900.$$

(3) Directors' fees payable @ Rs.1,000 per month. It is to be found in company only. So Rs.5,000 (5 × Rs.1,000) must naturally be shown in post-period incorporation period.

(4) Formation expenses though incurred in point of time, before the company was in incorporated, are charge against the post incorporation profit.

(5) Rent for first four months = Rs.100 × 4 = Rs.400. For next five months = (Rs.100 × 2) + (Rs.250 × 3) = Rs.950.

(6) Salary to manager is related to pre-incorporation period only. Salary to be charged = Rs.500 × 4 = Rs.2,000.

2. Investment Account [Equity Shares in A Ltd.]

for the year ending on 31st December 2009

Dr. *Cr.*

Date		*Particulars*	*No.*	*Amount Rs.*	*Date*		*Particulars*	*No.*	*Amount Rs.*
01.04.09	To	Balance b/d	2,500	37,500	30.09.09	By	Bank (Sale of rights)		1,000
20.06.09	To	Bank	500	8,000	31.10.09	By	Bank (dividend on shares acquired on 2nd June)		1,000

16.08.09	To	Bonus	500		15.11.09	By	Bank (Sale of shares	2,500	37,500
30.09.09	To	Bank (Rights shares)	1,000	15,000	31.12.09	By	Balance c/d	2,000	26,000
15.11.09	To	P&L A/c profit on sale of shares		5,000					
			4,500	65,500				4,500	65,500

Working Notes:

(i) Bonus Shares $\left[\frac{2,500+500}{6}\right]=500$ shares.

(ii) Rights shares $\left[\frac{2,500+500+500}{7}\times 3\right]$ = 1,500 shares

(iii) Rights shares renounced = [1,500 × $\frac{1}{3}$] = 500 shares

(iv) Dividend received $[2,500\times 10\times 20\%]=$ Rs.5,000.

Dividend on share purchased on 20th June = 500 × 10 × 20% = Rs.1,000 is adjusted to Investment Account.

(v) Cost of Shares on 31st December

$$\left[\frac{(37,500+8,000+15,000-1,000-1,000)}{4,500}\right]=\text{Rs.}13 \text{ per share}$$

2,000 share x Rs.13 = Rs.26,000

(vi) Profit on sale of shares = 37,500 – (2,500 x 13) = Rs.5,000.

3. **Perfect Investment Pvt. Ltd.**

Hire Purchase Trading Account

Dr. *Cr.*

			Rs.			*Rs.*
To	Opening Balance:			By	Bank	80,00,000
	H.P. Stock	2,40,000		By	Stock reserve	40,000
	H.P. Debtors	60,000	3,00,000	By	Trucks send on H.P.	14,08,000
To	Trucks send on H.P.			By	Closing Balance:	

	Purchased during the year	80,00,000		H.P. Stock	12,00,000
	Less: Other sales	8,00,000		H.P. Debtors	1,00,000
		72,00,000			
	Less: Closing Stock	1,60,000			
		70,40,000			
	Add: Loading	14,08,000	84,48,000		
To	Body Building Charges		4,00,000		
To	Bank (Interest paid)		80,000		
To	Stock reserve (20% on cost)		2,00,000		
To	Profit and Loss A/c		13,20,000		
			1,07,48,000		1,07,48,000

Working Notes:

Value of H.P. Stock:

(1)	Cost of trucks in respect of H.P. agreement subsisting as on 31.3.2009	40,00,000
(2)	H.P. price in respect thereof	48,00,000
(3)	Instalments not due (48 lakhs less 36 lakhs)	12,00,000

4. Trading Account for the year ended 31st March, 2009

Dr.					*Cr.*
		Rs.			*Rs.*
To	Opening stock	9,62,200	By	Sales	52,00,000
To	Purchase	45,25,000	BY	Closing stock	13,27,200
To	Gross profit	10,40,000			
		65,27,200			65,27,200

Rate of gross profit to sales = (10,40,000 / 52,00,000) x 100 = 20%

Period from 1st April 2009 to 18th August 2009 has 140 days or 20 weeks.

Hence, amount of defalcation = Rs. 2,000 x 20 = Rs. 40,000

Memorandum Trading Account from 1st April, 2009 to 22nd January, 2010

Dr.							*Cr.*
			Rs.				*Rs.*
To	Opening stock		13,27,200	By	Sales		49,17,000
To	Purchase	34,82,700		By	Unrecorded cash sales		
	Less: Cost of goods used for advertising	1,00,000	33,82,700		- Defalcation		40,000
To	Gross profit - 20% of recorded as well as unrecorded sales		9,91,400	By	Stock on 22nd January, 2010 (Bal. Fig.)		7,44,300
			57,01,300				57,01,300

Stock in hand on the date of fire = Rs. 7,44,300

5. For calculating managerial remuneration, first of all, the profit as per Section 349 have to be calculated in the following manner:

Calculation of Profits for the Purpose of Managerial Remuneration

Particulars	*Rs.*	*Rs.*
Net Profit		2,00,000
Add: Depreciation (to be treated separately)	40,000	
Preliminary expenses	10,000	
Tax provision	3,10,000	
Bonus (to be treated separately)	15,000	
Provision for doubtful debts	9,000	
Scientific research expenditure (W.N.1)	20,000	
Managing Director's remuneration	30,000	4,34,000
		6,34,000
Less: Depreciation allowable under Schedule XIV to the Companies Act	35,000	
Bonus liability as per Payment of Bonus Act, 1965	18,000	
Capital profit on sale of fixed assets (W.N.2)	6,500	59,500
Profit under section 349		5,74,500

Calculation of Managerial Remuneration

Particulars	*Rs.*
Remuneration payable to Managing Director @ 5% of Rs.5,74,500	28,725
Remuneration already paid to Managing Director	30,000
Excess amount paid	1,275

Working Notes:

(1) Cost of setting up new machinery for scientific research is a capital expenditure. Therefore, it will not be treated as allowable expenses for computing managerial remuneration. At the time of calculation of profit, it was deducted from Net Profit. So, it is to be added back.

(2) Calculation of Capital Profit on Sale of Fixed Assets

Particulars	*Rs.*
Sale Price (W.D.V. + Profit on sale, i.e., Rs.11,000 + Rs.15,500)	26,500
Less:Cost price (original)	20,000
Capital Profit	6,500

6. Total Debtors Accounts

Dr. *Cr.*

2009		*Rs.*	*2009*		*Rs.*
Apr. 1	To Balance b/d	41,000	Apr. 1	By Balance b/d	2,000
" 30	To Credit Sales	44,100	" 30	By Cash	39,300
" 30	To Bills Receivable A/c	1,000	" 30	By Discount Account	950
" 30	To Cash (Noting Charges)	10	" 30	By Bad Debts Account	1,650
" 30	To Balance c/d (G)	1,800	" 30	By Returns Inwards A/c	500
			" 30	By Bills Receivable A/c	1,000
			" 30	By Total Creditor A/c (Transfer)	1,800
			" 30	By Balance c/d	40,710
		87,910			87,910
2009			2009		
May 1	To Balance b/d	40,710	May 1	To Balance b/d	1,800

Working Notes:

(i) Cash Received:

		Rs.
From B		450
From G		1,800
	Rs.	2,250
Ex sales before April 1	27,300	

Ex sales during April	9,750	37,050
		39,300

(ii) Discount: Rs.37,050 × 2½ / 97½ = Rs.950

(iii) The creation of the Provision for Doubtful Debts will not affect the Total Debtors Account.

7. Trading and Profit and Loss A/c

for the year ended 30th September, 2009

			Rs.	Rs.
Sales				96,000
Less:	Cost of goods sold:			
	Opening Stock		12,400	
	Purchase		62,000	
			74,400	
	Less:	Closing stock	14,200	60,200
Less:	Wages			14,600
Gross Profit				21,200

	Half year to 31st March 2009		*Half year to 30th September 2009*	
	Rs.	*Rs.*	*Rs.*	*Rs.*
Gross profit allocated on time basis		10,600		10,600
Less: Expenses				
Salaries	3,450		2,250	
Trade expenses	765		1,015	
Rent and rates	500		500	
Bad debts	600		-	
Provision for doubtful debts	-		230	
Depreciation:				
Plant and machinery	700		700	
Motor vehicles	775		600	
Interest on loan	-		540	
		6,790		5,835
		3,810		4,765

Appropriation of profits:

Interest on Capital:

Glad	240			
Happy	180		84	
Joy			96	
		420		180
Remaining profits				
Glad	2,260			
Happy	1,130		2,751	
Joy		3,390	1,834	4,585
		3,810		4,765

(b) Partners' Capital Accounts

		Glad	*Happy*	*Joy*			*Glad*	*Happy*	*Joy*
		Rs.	*Rs.*	*Rs.*			*Rs.*	*Rs.*	*Rs.*
To	Glad		3,200	4,800	By	Balance b/d	8,000	6,000	
To	Glad's Loan A/c	16,000			By	Cash			3,000
To	Balance c/d		2,800	3,200	By	Happy	3,200		
					By	Joy	4,800		
					By	Cash			5,000
		16,000	6,000	8,000			16,000	6,000	8,000

Partners' Current Accounts

	Glad	*Happy*	*Joy*		*Glad*	*Happy*	*Joy*
	Rs.	*Rs.*	*Rs.*		*Rs.*	*Rs.*	*Rs.*
To Car taken over	600	-	-	By Balance b/d	2,400	1,600	
To Drawings	1,800	2,400	900	By Interest on capital	240	264	96
To Transfer to loan account	2,500			By Profit	2,260	3,881	1,834
To Balance c/d		3,345	1,030				
	4,900	5,745	1,930		4,900	5,745	1,930

(c)

Balance Sheet as at 30th September 2009

Assets	*Cost*	*Depreciation*	*Net*
	Rs.	*Rs.*	*Rs.*
Fixed assets:			
Plant and machinery	14,000	4,200	9,800
Motor vehicles	4,800	3,975	825
	18,800	8,175	10,625
Current assets:			
Stock		14,200	
Debtors		4,370	
Prepaid Rent		400	
Balance at bank		1,200	
		20,170	
Less: Current liabilities			
Outstanding Trade expenses		180	
Creditors		6,200	
Net current assets			13,790
			24,415
Financed by	*Happy*	*Joy*	*Total*
	Rs.	*Rs.*	*Rs.*
Capital accounts	2,800	3,200	6,000
Current accounts	3,345	1,030	4,375
Loan – Glad			14,040
			24,415

Working Notes

		Rs.	*Rs.*
1.	Salaries		
	Total as per trial balance		10,800
	Less: Partners' Drawings - Glad	1,800	
	Happy	2,400	
	Joy	900	5,100
			5,700

Allocation

Half-year to 31st March, 2009:

$\frac{1}{2} \times$ (Rs.5,700 – Rs.1,200) + Joy's salary of Rs.1,200 — 3,450

Half-year to 30 September 2009:

$\frac{1}{2} \times$ (Rs.5,700 – Rs.1,200) — 2,250

5,700

2. **Trade Expenses**

Total as per trial balance	1,600
Add: Accrual	180
	1,780

Allocation

Half-year to 31 March 2009:

$\frac{1}{2} \times$ (Rs.1,780 – Rs.250) — 765

Half-year to 30th September 2009:

$\frac{1}{2} \times$ (Rs.1,780 – Rs.250) + professional charges of Rs.250 — 1,015

1,780

3. **Rent and rates**

Total as per trial balance	1,400
Less: Rent paid in advance	400
Allocation: 50 : 50	1,000

4. **Depreciation**

Plant and machinery:

10% per annum on Rs.14,000 – Rs.1,400; Allocated 50:50

Motor vehicles:

Half-year to 31st March 2009: 25% per annum on Rs.6,200 = Rs.775

Half-year to 30th September 2009: 25% per annum on Rs.4,800 = Rs.600

5. **Glad's Loan Account**

	Rs.			*Rs.*
To Cash from Joy	5,000	By	Transfer from capital account	16,000
To Balance c/d	14,040	By	Transfer from current account	2,500

		By Profit and loss account:	
		Interest at 8% p.a. on Rs.13,500 for six months	540
	19,040		19,040
		By Balance b/d	14,040

6. **Car taken over by Glad**

		Rs.	Rs.
Cost			1,400
Depreciation –	to 30th September 2009	625	
	To 31st March, 2009	175	800
			600

7. **Motor vehicles**

		Cost	Depreciation
		Rs.	Rs.
Per trial balance		6,200	3,400
Less:	Vehicle sold	1,400	800
		4,800	2,600
Charge for year to 30th September 2009			1,375
			3,975

8. **Debtors**

		Rs.
Balance per trial balance		4,600
Less:	Provision for bad debts	230
		4,370

8.

City Club
Receipts and Payments Account
for the year ended 31st March, 2009

Receipts	*Rs.*	*Payments*	*Rs.*
To Opening balance:		By Premises	30,000
Cash on hand	450	By Rent	2,400
Bank balance	24,420	By Rates and taxes	3,780
To Subscriptions	62,130	By Printing and stationary	1,410

To Fair receipts	7,200	By Sundry expenses	5,350
To Variety show receipts (net)	12,810	By Wages	2,520
To Interest	690	By Fair expenses	7,170
To Bar collections	22,350	By Honorarium to secretary	11,000
To Sale proceeds of old car	9,000	By Bar purchases (payments)	17,310
		By Repairs	960
		By New Car	46,800
		By Closing balance	
		Cash in hand	Nil
		Bank balance	10,350
	1,39,050		1,39,050

Income and Expenditure Account

for the year ended 31st March, 2009

Expenditure	*Rs.*	*Rs.*	*Income*	*Rs.*	*Rs.*
To Rent		2,400	By Subscriptions	62,130	
To Rates and taxes		3,780	*Add:* Due as on 31.3.09	2,940	
To Printing and stationary		1,410		65,070	
To Wages		2,520	*Less*: Due as on 31.3.08	3,600	61,470
To Honorarium to secretary		12,000	By Surplus from fair:		
To Sundry expenses		5,350	Fair receipts	7,200	
To Repairs		960	*Less:* Fair expenses	7,170	30
To Depreciation on			By Surplus from variety show		12,810
Premises @ 5%	3,030		By Interest		690
Car @20%	9,360	12,390	By Profit from bar (W.N.2)		6,000
To Excess of income over expenditure		43,490	By Profit from sale of car (W.N. 3)		3,300
		84,300			84,300

Working Notes:

1. Calculation of bar purchases

Bar Creditors Account

Dr.			Cr.
	Rs.		Rs.
To Bank A/c	17,310	By Balance b/d	1,770
To Balance c/d	1,290	By Bar purchases	16,830
	18,600		18,600

2. Profit from bar:

	Rs.	Rs.
Bar collections		22,350
Less: Bar stock consumed-		
Opening stock	2,130	
Add: Purchases	16,830	
	18,960	
Less: Closing stock	2,610	16,350
		6,000

3. Profit on sale of car:

Sale proceeds of old car	9,000
Less: W.D.V. of old car (Rs. 36,570-Rs. 30,870)	5,700
	3,300

9. Trading and Profit and Loss Account of Mr. Shiv Kumar for the year ended 31st March, 2009

		Rs.			Rs.
To	Opening stock (balancing figure)	80,000	By	Sales	4,00,000
			By	Closing stock	40,000
To	Purchases	2,40,000			
To	Gross profit c/d @ 30% on sales	1,20,000			
		4,40,000			4,40,000
To	Miscellaneous expenses (Rs.80,000 – Rs.8,000 + Rs.10,000)	82,000	By	Gross profit b/d	1,20,000
			By	Miscellaneous receipts	20,000
			By	Net loss transferred to Capital A/c	25,840

	Particulars	Rs.	Particulars	Rs.
To	Depreciation: Building Rs. 36,000 Furniture Rs. 7,800 (Rs.6,800 + Rs.1,000) Motor Car Rs. 16,000	59,800		
To	Loss on sale of furniture	11,000		
To	Bad debts	8,000		
To	Provision for doubtful debts	5,040		
		1,65,840		1,65,840

Balance Sheet of Mr. Shivkumar

as on 31st March, 2009

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital as on 1st April, 2008		7,16,000	Building	3,20,000	
			Add: Addition during the year	40,000	
Profit and Loss A/c Opening balance	40,000			3,60,000	
			Less: Provision for depreciation	36,000	3,24,000
Less: Loss for the year	25,840	14,160	Furniture	60,000	
Sundry creditors		1,12,000	*Less:* Sold during the year	20,000	
Bills payable		16,000		40,000	
Outstanding salary		10,000	*Add:* Addition during the year	28,000	
				68,000	
			Less: Depreciation	6,800	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	16,000	64,000
			Stock in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	5,040	2,46,960

	Bills receivable		28,000
	Cash in hand and at bank		1,04,000
8,68,160			8,68,160

Working Notes:

Sundry Debtors Account

		Rs.			Rs.
To	Balance b/d	1,60,000	By	Cash/Bank A/c	2,00,000
To	Sales A/c	3,20,000	By	Bills Receivable A/c	20,000
			By	Bad debts A/c	8,000
			By	Balance c/d (balancing fig.)	2,52,000
		4,80,000			4,80,000

Sundry Creditors Account

		Rs.			Rs.
To	Cash/Bank A/c	1,84,000	By	Balance b/d	1,20,000
To	Bills Payable A/c	16,000	By	Purchases A/c	1,92,000
To	Balance c/d (balancing figure)	1,12,000			
		3,12,000			3,12,000

Bills Receivable Account

		Rs.			Rs.
To	Balance b/d	32,000	By	Cash/ Bank A/c (balancing figure)	24,000
To	Sundry Debtors A/c	20,000			
			By	Balance c/d	28,000
		52,000			52,000

Bills Payable Account

		Rs.			Rs.
To	Cash/Bank A/c (balancing figure)	28,000	By	Balance b/d	28,000
			By	Sundry Creditors A/c	16,000
To	Balance c/d	16,000			
		44,000			44,000

Furniture Account

		Rs.			Rs.
To	Balance b/d	60,000	By	Bank/Cash A/c	8,000
To	Bank A/c	28,000	By	Depreciation A/c	1,000
			By	Profit and loss A/c (loss on sale)	11,000
			By	Depreciation A/c	6,800
			By	Balance c/d	61,200
		88,000			88,000

Cash/Bank Account

		Rs.			Rs.
To	Balance b/d	1,80,000	By	Misc. trade expenses A/c	80,000
To	Miscellaneous receipts A/c	20,000	By	Purchases A/c	48,000
To	Sundry Debtors A/c	2,00,000	By	Furniture A/c (balancing figure)	28,000
To	Sales A/c	80,000	By	Sundry Creditors A/c	1,84,000
To	Furniture A/c (sale)	8,000	By	Bills Payable A/c	28,000
To	Bills Receivable A/c	24,000	By	Building A/c	40,000
			By	Balance c/d	1,04,000
		5,12,000			5,12,000

Opening Balance Sheet of Mr. Shivkumar

as on 31st March, 2008

Liabilities	*Rs.*	Assets	*Rs.*
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Stock in trade	80,000
Outstanding salary	8,000	Sundry Debtors	1,60,000
		Bills Receivable	32,000
		Cash in hand and at bank	1,80,000
	9,12,000		9,12,000

10. Calculation of sum of periods from the date of each transaction:

1st payment is made after 12 months from the date of loan.

2nd payment is made after 18 months from the date of loan.

3rd payment is made after 24 months from the date of loan.

4th payment is made after 30 months from the date of loan.

5th payment is made after $\frac{36}{120}$ months from the date of loan.

Average due date = Date of loan+ $\frac{\text{Sum of months from 1st January, 2009 to the date of each installment}}{\text{Number of installments}}$

=1st January, 2009 + $\frac{120 months}{5}$

=1st January, 2009+ 24 months

=1st January, 2011

Interest = Rs. 25,000 x 10/100 x 2 years

= Rs. 5,000

11.

Cash flow from Operating Activities	*(Rs. in thousand)*	
Change in general reserve	–200	
Change in profit and loss account	–250	
Proposed dividend	3,400	
Provision for tax	0	
Profit before tax		2,950
Add: Depreciation	550	
Add: Miscellaneous Expenses	50	
Add/(Less): Profit /(loss) on sale of fixed assets	–50	
Add/(Less): Profit /(loss) on sale of investments	–500	50
Funds flow from operations		3,000
Add: Interest paid		1,421
Less: Interest and Dividend Received		–402
Add/(Less): Working Capital Adjustment		
Inventories	90	
Debtors	110	
Creditors	–150	
Outstanding expenses	30	80
Cash flow from Operating Activities (before Tax)		4,099

Less: Advance tax for 2009-2010		0
Cash flow from operating Activities (after tax)		4,099
Cash flow from Financing Activities		
Issue of shares		
Face value	1,500	
Premium	750	2,250
Repayment of Secured Loans	–200	
Raising of Unsecured Loans	1,350	
Net loan		1,150
Interest payment		–1,421
Dividend payment for 2009		–2,800
		–821
Cash flow from Investment Activities		
Purchase of Fixed Assets	–1,800	
Sale of Fixed Assets	150	
Capital WIP	–1,860	
Fixed Assets (Net)		–3,510
Purchase of Investments	–1,330	
Sale Proceeds of Investments	2,500	
Investments (Net)		1,170
Loans		–1,500
Interest and Dividend Income		402
		–3,438
Cash Flow Statement		
Cash flow from Operating Activities (after tax)		4,099
Cash flow from Financing Activities		–821
Cash flow from Investment Activities		–3,438
Increase/decrease in Cash and Bank Balance (120 – 280)		–160

12. In the Books of ABC Ltd.

Journal Entries

Particulars		*Rs.*	*Rs.*
8% Preference share capital A/c	Dr.	6,00,000	
To Preference shareholders A/c			4,20,000

To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital]			
Preference shareholders A/c	Dr.	4,20,000	
To 11% Debentures A/c			4,20,000
[Being the issue of debentures to preference shareholders]			
9% Debentures A/c	Dr.	12,00,000	
To Debenture holders A/c			12,00,000
[Being transfer of 9% debentures to debenture holders A/c]			
Debenture holders A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Sundry creditors A/c	Dr.	5,92,000	
To Stock A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving stocks]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

Capital Reduction Account

		Rs.			Rs.
To	Investments A/c	13,000	By	Preference share capital A/c	1,80,000
To	Profit and loss A/c	4,05,000	By	9% Debenture holders A/c	3,00,000
To	Capital reserve A/c	1,54,000	By	Sundry creditors A/c	92,000
		5,72,000			5,72,000

Balance Sheet of ABC Ltd. (And Reduced)

As on 31st March 2007

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital		Plant & machinery (9,00,000 – 9,00,000)	Nil
2,00,000 Equity shares of Rs.10 each fully paid-up	20,00,000	Furniture & fixtures	2,50,000
Capital reserve	1,54,000	Patents & copyrights	70,000
11% Debentures (Rs.4,20,000 + Rs.3,00,000)	7,20,000	Investments (Rs.68,000 – Rs.13,000)	55,000
		Stock (Rs.14,00,000 – Rs.5,00,000)	9,00,000
		Sundry debtors	14,39,000
		Cash at bank (refer W.N.)	1,60,000
	28,74,000		28,74,000

Working Note:

Cash at bank = Opening balance + 11% Debentures issued – Bank overdraft paid

= Rs.10,000 + Rs.3,00,000 – Rs.1,50,000

= Rs.1,60,000

13. (i) Statement showing calculation of purchase consideration

(Number of shares)

	A Ltd.	*B. Ltd.*
Existing shares	1,00,000	60,000
Less: Shares held by A Ltd.		5,000
	1,00,000	55,000
Value per share	*Rs.18*	*Rs.20*
Total value	Rs.18,00,000	Rs.11,00,000

No. of shares to be issued at a premium of Rs.6 per share i.e. Rs.16 (10+6)	1,12,500 shares	68,750 shares
	Rs.	*Rs.*
Share capital	11,25,000	6,87,500
Add: Securities premium	6,75,000	4,12,500
Total purchase consideration	18,00,000	11,00,000

(ii) Journal Entries in the books of A Ltd.

		Rs.	Rs.
Realisation A/c	Dr.	24,40,000	
To Land & building A/c			9,00,000
To Plant & machinery A/c			5,00,000
To Stock A/c			5,20,000
To Sundry debtors A/c			4,10,000
To Investments A/c			80,000
To Bank A/c			30,000
(Being assets transferred to Realisation A/c)			
Profit and loss A/c	Dr.	60,000	
To Creditors A/c			60,000
(Being contingent liability treated as real liability)			
10% Debentures A/c	Dr.	5,00,000	
Creditors A/c	Dr.	3,20,000	
To Realisation A/c			8,20,000
(Being transfer of liabilities to Realisation A/c)			
AB Ltd.	Dr.	18,00,000	
To Realisation A/c			18,00,000
(Being the purchase consideration accounted for)			
Share in AB Ltd. A/c	Dr.	18,00,000	
To AB Ltd.			18,00,000
(Being purchase consideration received)			

Share Capital A/c	Dr.	10,00,000	
Securities premium A/c	Dr.	2,00,000	
General Reserve A/c	Dr.	3,00,000	
Profit and Loss A/c	Dr.	1,20,000	
Realisation A/c	Dr.	1,80,000	
To Shareholders A/c			18,00,000
(Being transfer of balances to shareholders' account)			
Shareholders A/c	Dr.	18,00,000	
To Shares in AB Ltd.			18,00,000
(Being closure of shareholders a/c)			

(iii) Journal Entries in the Books of AB Ltd.

		Rs.	*Rs.*
Land & building A/c	Dr.	9,00,000	
Plant & machinery A/c	Dr.	5,00,000	
Stock A/c	Dr.	5,20,000	
Debtors A/c	Dr.	4,10,000	
Bank A/c	Dr.	30,000	
Goodwill A/c	Dr.	2,60,000	
To 10% Debentures A/c			5,00,000
To Sundry creditors A/c			3,20,000
To Liquidator of A Ltd. A/c			18,00,000
(Being the purchase consideration of A Ltd. accounted for)			
Land & building A/c	Dr.	4,50,000	
Plant & machinery A/c	Dr.	3,80,000	
Stock A/c	Dr.	3,50,000	
Debtors A/c	Dr.	2,60,000	
Bank A/c	Dr.	40,000	
Goodwill A/c	Dr.	90,000	
To Secured loan A/c			3,00,000
To Sundry creditors A/c			1,70,000
To Liquidator of B Ltd. A/c			11,00,000
(Being purchase consideration of B Ltd. accounted for)			

Liquidator of A Ltd. A/c	Dr.	18,00,000	
To Equity share capital A/c			11,25,000
To Securities premium A/c			6,75,000
(Being shares issued to Liquidator of A Ltd.)			
Liquidator of B Ltd. A/c	Dr.	11,00,000	
To Equity share capital A/c			6,87,500
To Securities premium A/c			4,12,500
(Being shares issued to Liquidator of B Ltd.)			

(iv) Balance Sheet of AB Ltd.

(After amalgamation of A Ltd. & B Ltd.)

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Goodwill (2,60,000 + 90,000)	3,50,000
1,81,250 Equity shares of Rs.10 each fully paid up	18,12,500	Land & building	13,50,000
(above shares have been issued for consideration other than cash)		Plant & machinery Stock	8,80,000 8,70,000
Securities premium	10,87,500	Sundry debtors	6,70,000
10% Debentures	5,00,000	Cash at bank	70,000
Secured loan	3,00,000		
Sundry creditors	4,90,000		
	41,90,000		41,90,000

14. Profit and Loss Account –(below the line)

for the year ended 2008

		Rs.			*Rs.*
To	Depreciation	31,200	By	Profit	10,00,000
To	Provision for income tax	80,000			
To	Net profit c/d	8,88,800			
		10,00,000			10,00,000
To	Reserve fund	1,77,760	By	Balance b/f	80,000
To	Proposed preference dividend (1,82,000 + 93,450)	2,75,450	By	Net profit b/d	8,88,800

To	Proposed equity dividend (1,40,000 + 1,86,900)	3,26,900	
To	Bonus to employees (14,000 + 18,690)	32,690	
To	Balance c/d	1,56,000	
		9,68,800	9,68,800

Working Note:

Balance of amount available for Preference and Equity shareholders and Bonus for Employees	*Rs.*
Credit Side	9,68,800
Less: Dr. side [1,77,760 + 1,82,000+1,40,000+14,000 + 1,56,000]	6,69,760
	2,99,040

Suppose remaining balance will be = x

Suppose preference shareholders will get share from remaining balance = $x \times \frac{1}{3} = \frac{1}{3}x$

Equity shareholders will get share from remaining balance = $x \times \frac{2}{3} = \frac{2}{3}x$

Bonus to Employees = $\frac{2}{3}x \times \frac{10}{100} = \frac{2}{30}x$

Now, $\frac{2}{3}x + \frac{1}{3}x + \frac{2}{30}x = 2{,}99{,}040$

32 x = 89,71,200

x = 89,71,200/32 = Rs.2,80,350

Share of preference shareholders - Rs. 2,80,350 $\times \frac{1}{3}$ = Rs.93,450

Share of equity shareholders - Rs.2,80,350 $\times \frac{2}{3}$ = Rs.1,86,900

Bonus to employees - Rs.2,80,350 $\times \frac{2}{30}$ = Rs.18,690

15. Computation of entitlement of legal heirs of C

(1) Profits for the half year ended 31st March, 2009

	Rs.
Profits for the year ended 31st March, 2009 (after depreciation)	48,000
Add : Depreciation	10,000
Profits before depreciation	58,000
Profits for the first half (assumed : evenly spread)	29,000
Less : Depreciation for the first half	6,000
Profits for the first half year (after depreciation)	23,000
Profits for the second half (i.e., 1st October, 2008 to 31st March, 2009)	29,000
Less : Depreciation for the second half	4,000
Profits for the second half year (after depreciation)	25,000

(2) Capital Accounts of Partners as on 30th September, 2008

Dr. Cr.

	A	B	C		A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Fixed Assets (loss on revaluation)	6,000	8,000	6,000	By Balance b/d	48,000	64,000	48,000
To Drawings	9,000	12,000	20,000	By Reserve	6,000	8,000	6,000
To C Executor's A/c			52,000	By Goodwill	18,000	24,000	18,000
To Balance c/d	57,000	76,000	–	By P & L Appropriation A/c (Interest on Rs. 48,000 @ 25% for 6 months)	—	—	6,000
	72,000	96,000	78,000		72,000	96,000	78,000

(3) Application of Section 37 of the Partnership Act

Legal heirs of C have not been paid anything other than the share in joint life policy. The amount due to the deceased partner carries interest at the mutually agreed upon rate. In the absence of any agreement, the representatives of the deceased partner can receive at their option interest at the rate of 6% per annum or the share of profit earned for the amount due to the deceased partner.

Thus, the representatives of C can opt for

Either,

(i) Interest on Rs. 52,000 for 6 months @ 6% p.a. = Rs. 1,560

Or

(ii) Profit earned out of unsettled capital (in the second half year ended 31st March, 2009)

$$\text{Rs. } 25{,}000 \times \frac{52{,}000}{57{,}000 + 76{,}000 + 52{,}000} = \text{Rs. } 7{,}027 \text{ (approx.)}$$

In the above case, it would be rational to assume that the legal heirs would opt for Rs. 7,027.

(4) **Amount due to legal heirs of C**

	Rs.
Balance in C's Executor's account	52,000
Amount of profit earned out of unsettled capital [calculated in (3)]	7,027
Amount due	59,027

16. **Journal Entries in the Books of Trinity Ltd.**

		Dr. *Rs.*	*Cr.* *Rs.*
Securities Premium A/c	Dr.	10,000	
To Premium on Redemption of Preference shares			10,000
(Being amount of premium payable on redemption of preference shares)			
10% Redeemable Preference Capital	Dr.	10,00,000	
Premium on redemption of Preference Shares	Dr.	10,000	
To Preference Shareholders			1,10,000
(Being the amount payable to preference shareholders on redemption)			
General Reserve A/c	Dr.	1,00,000	
To Capital Redemption Reserve			1,00,000
(Being transfer to the latter account on redemption of shares)			
Bank A/c	Dr.	45,000	
Profit and Loss A/c	Dr.	5,000	

To Investments			50,000
(Being amount realised on sale of Investments and loss thereon adjusted)			
Preference shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Being payment made to preference shareholders)			
Capital Redemption Reserve A/c	Dr.	1,00,000	
To Bonus to Shareholders			1,00,000
(Amount adjusted for issuing bonus share in the ratio of 1 : 1.)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital			1,00,000
(Balance on former account transferred to latter)			

(b) Cash and Bank A/c

Dr.				*Cr.*
		Rs.		*Rs.*
To Balance b/d		50,000	By Preference Dividend	10,000
To Cash from operations:			By Preference shareholders	1,10,000
Profit	15,000		By Balance c/d	30,000
Add : Depreciation	20,000			
Add : Miscellaneous Expenditure written off	20,000	55,000		
To Investments		45,000		
		1,50,000		1,50,000

(c) Balance Sheet of Trinity Limited

as at 31st March, 2009 (after redemption)

Liabilities	*Rs.*	*Assets*		*Rs.*
Share Capital		Fixed Assets		
Authorised Capital	10,00,000	Gross Block	3,00,000	
Issued, Subscribed and Paid-up		*Less* : Depreciation		

Capital			upto 31.3.2008	1,00,000		
20,000 Equity Share						
of Rs. 10 each fully paid		2,00,000	For the year	20,000	1,20,000	1,80,000
(10,000 shares have been						
allotted as Bonus Shares			Investments			
by capitalising capital			(Market Value Rs. 45,000)			50,000
Redemption Reserve)			Current Assets, Loans and Advances			
Reserves and Surplus						
General Reserve	20,000		Inventory		25,000	
Securities Premium	60,000		Debtors		25,000	
Profit and Loss A/c	18,500	98,500	Cash and Bank Balance		30,000	80,000
Current Liabilities and Provisions						
Sundry Creditors		11,500				
		3,10,000				3,10,000

Working Notes:

(i) Profit and Loss Account for the year ending 31st March, 2009

			Rs.
Balance as on 1.4.2008		18,500	
Add : Profit for the year		15,000	33,500
Less : Preference Dividend		10,000	
	Loss on sale of investments	5,000	15,000
Balance as on 31.3.2009			18,500

(ii)	General Reserve	1,20,000
	Less : Transfer to Capital Redemption Reserve	1,00,000
	Balance as on 31.3.2009	20,000
(iii)	Securities Premium	70,000
	Less : Premium on Redemption of Preference shares	10,000
	Balance as on 31.3.2009	60,000
(iv)	Capital Redemption Reserve	1,00,000
	Less : Transfer for Bonus Shares	1,00,000
	Balance as on 31.3.2009	NIL

(v) Sale of Investments:

Cost of Investments	50,000
Less : Cash Received	45,000
Loss on Sale of Investments	5,000
Total Investments:	1,00,000
Less : Cost of Investments sold	50,000
Cost of Investments on hand	50,000
Market value (90% of Rs. 50,000)	45,000

17. Prepackaged accounting softwares are easy to use, relatively inexpensive and readily available. The installation of these softwares are very simple. An installation diskette or CD is provided with the software which can be used to install the soft ware on a personal computer. A network version of this software is also generally available which needs to be installed on the server and work can be performed from the various workstations or nodes connected to the server. Along with the software an user manual is provided which guides the user on how to use the software. After installation of the software, the user should check the version of the software to ensure that they have been provided with the latest. The vendor normally provides regular updates to take care of the changes of law as well as add features to the existing software. These softwares normally have a section which provides for the creation of a company. The name, address, phone numbers and other details of the company like VAT registration number, PAN and TAN numbers are feeded into the system. The accounting period has to be set by inserting the first and the last day of the financial year. The next step in the use of this software could be the creation of accounts. This is done by adding the accounts along with their codes into the master file files. Each account has to be classified into whether it is an asset or liability or an income or expenditure account. Whether the account has other subsidiary ledgers under it needs to be indicated to the system. The opening balances are to be entered into the master file files. The company parameters need to be set at this point of time so that the accounts which are the cash, bank, sundry debtors, sundry creditors, etc are known to the system. The customers name, address and other basic details are also entered in the customer master file. Similarly, the creditors details are entered into the creditor master file files. Product details are entered through the product master file files. Here the unit of measurement and the opening stock quantities including the values are provided. The system of valuation of stock like the FIFO, LIFO, Weighted average, etc are defined in the product master file files.

18. (a) In the Debtors method, Hire purchase Trading account is prepared. The objective of preparing Hire Purchase Trading Account is to measure the profitability of the Hire Purchase division separately. The following are the steps to be followed while preparing a Hire Purchase Trading Account:

(1) Credit all down payments and instalments falling due to hire purchase sales account. Transfer balance in Hire Purchase Sales Account to Hire Purchase

Trading Account.

(2) Transfer cost of all transactions to Hire Purchase Trading Account.

Hire Purchase Trading A/c Dr.

To Shop Stock A/c

(3) Charge any special expenses to Hire Purchase Trading Account.

(4) Treat instalments not yet due as stock lying with customers and transfer to Hire Purchase Trading Account.

(5) Charge appropriate stock reserve.

(b) Profit and Loss Appropriation Account: Profit and Loss Appropriation Account is prepared by a partnership firm to distribute the net profit among the partners in accordance with the partnership deed. Any interest on drawing is added to the net profit and thereafter out of such total profit, interest on partners' capital, salaries, commission, rent etc. are distributed as per agreement. Lastly, the balance of profit is distributed among the partners at the profit sharing ratio.

(c) Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in the company's economic performance. Accounting Standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises.

Accounting Standards deal with the issues of

(i) recognition of events and transactions in the financial statements,

(ii) measurement of these transactions and events,

(iii) presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

(iv) the disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

Accounting Standards standardize diverse accounting policies with a view to eliminate, to the maximum possible extent,

(i) the non-comparability of financial statements and thereby improving the reliability of financial statements, and

(ii) to provide a set of standard accounting policies, valuation norms and disclosure requirements.

(d) A company taking over a running business may also agree to collect its debts as an agent for the vendors and may further undertake to pay the creditor on behalf of the vendors. In such a case, the debtors and creditors of the vendors will be included in the accounts for the company by debit or credit to separate Total Accounts in the General Ledger to distinguish them from the debtors and creditors of the business and contra entries will be made in corresponding Suspense Accounts. Also details of debtors' and creditors' balance will be kept in separate ledgers. In order that the collections from debtors and payments of creditors of vendors may not get mixed up with those of the company, it is a desirable procedure further to distinguish them by having separate columns for them in the Cash Book.

19. (a) AS-14 'Accounting for Amalgamations'. Para 3(*g*) of AS-14 defines the term purchase consideration as the "aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company". Therefore purchase consideration does not include the sum which the transferee company will directly pay to the creditors of the transferor company. The purchase consideration essentially depends upon the fair value of its elements. For example, when the consideration includes securities, the value fixed by the statutory authority may be taken as the fair value. In case of other assets, the fair value may be determined by reference to the market value of the assets given up or in the absence of market value, book value of the assets are considered.

Sometimes adjustments may have to be made in the purchase consideration in the light of one or more future events. When the additional payment is probable and can be reasonably estimated it is to be included in the calculation of purchase consideration.

(b) The advantages of this system are:

(i) It fixes the responsibility of the ledger keeper, as to the balancing of the ledger or ledger under his/her charge and the person responsible for the mistake can be called upon to work overtime to locate it. Errors are localised.

(ii) It enables preparation of interim accounts without personal ledgers having to be balanced.

(iii) The figures of total debtors or creditors is readily available.

(c) Features of Hire Purchase Instalment system

1. *Possession:* The hire vendor transfers only possession of the goods to the hire purchaser immediately after the contract for hire purchase is made.

2. *Instalments:* The goods is delivered by the hire vendor on the condition that a hire purchaser should pay the amount in periodical instalments.

3. *Down Payment:* The hire purchaser generally makes a down payment on signing the agreement.

4. *Constituents of Hire purchase instalments:* Each instalment consists partly of a finance charge (interest) and partly of a capital payment.

5. *Ownership:* The property in goods is to pass to the hire purchaser on the payment of the last instalment and exercising the option conferred upon him under the agreement.

6. *Repossession:* In case of default in respect of payment of even the last instalment, the hire vendor has the right to take the goods back without making any compensation.

(d) Where any member of a firm has died or otherwise ceased to be a partner, and the surviving or continuing partners carry on the business of the firm with the property of the firm without any final settlement of accounts as between them and the outgoing partner or his estate, then, in the absence of a contract to the contrary, the outgoing partner or his estate is entitled at the option of himself or his representatives to such share of the profits made since he ceased to be a partner as may be attributable to the use of his share of the property of the firm or to interest at the rate of six per cent per annum on the amount of his share in the property of the firm :

Provided that where by contract between the partners an option is given to surviving or continuing partners to purchase the interest of a deceased or outgoing partner, and that option is duly exercised, the estate of the deceased partner, or the outgoing partner or his estate, as the case may be, is not entitled to any further or other share of profits; but if any partner assuming to act in exercise of the option does not in all material respects comply with the terms thereof, he is liable to account under the foregoing provisions of this section. This way, the outgoing partner has the option to receive, interest at the rate of 6% p.a. or the share of profit earned on the unsettled amounts for the period till his dues are settled by the firm in the absence of any contract made to the contrary.

It may be noted that the outgoing partner is not bound to make election until the share of the profit that would be payable to him has been ascertained.

(e) Account current is a running statement of transactions between par ties, maintained in the form of a ledger account, for a given period of time and includes interest allowed or charged on various items. It is prepared when transactions regularly take place between two parties. An account current has two parties – one who renders the account and the other to whom the account is rendered.

20. (a) If debit side exceeds credit side then the difference may be any of the following item:

(i) Closing cash balance or bank balance; or

(ii) Opening bank overdraft;

(iii) Cash purchase; or

(iv) Payment to creditors; or

(v) Bills Payable discharged; or

(vi) Drawings; or

(vii) Purchase of fixed assets; or

(viii) Sundry expenses; or

(ix) Cash embezzlement by cashier.

(b)

Cash Price	=	Down Payment + Present Value of Instalments
	=	Rs.19,152 + Rs. 15,000 x 2.7232
	=	Rs.19,152 + Rs.40,848
	=	Rs.60,000

(c)

Estimated Profits for the period from 1.1.2009 to 31.3.2009

$= \frac{\text{Rs.30,000}}{\text{Rs.3,60,000}} \times 54{,}000$	4,500
Share of X $\left(\text{Rs.4,500} \times \frac{3}{6}\right)$	2,250

(d) $\text{Amount of claim} = \frac{\text{Stock destoyed by fire}}{\text{Total stock before fire}} \times \text{Amount of Policy}$

$$= \frac{90{,}000}{1{,}30{,}000} \times 65{,}000 = \text{Rs.}45{,}000$$

21.

(a) **Statement showing Profit earned during the year**

	Rs.
Capital at the end of the year	25,00,000
Add: Drawings	2,00,000
	27,00,000
Less: Additional Capital	(1,00,000)
	26,00,000
Less: Capital at the beginning of the year	(20,00,000)
Profit earned during the year	6,00,000

(b) **Calculation of Closing Stock:**

Cost of goods sold = Sales – Gross Profit

$$= 2.10,000 - 2,10,000 \times \frac{25}{125} = \text{Rs.}1,68,000$$

Total stock available = Opening Stock + Purchases

= 30,000 + 1,70,000

= Rs.2,00,000

Closing Inventory = Total stock available – Cost of goods sold

= Rs.2,00,000 – 1,68,000

= Rs.32,000

(c) In the books of Y Co. Ltd.

Journal Entry

		Rs.	*Rs.*
Liquidator of X Co. Ltd.	Dr.	50,00,000	
General Reserve (of X Co. Ltd.)	Dr.	5,00,000	
To Equity Share Capital A/c			55,00,000
(The excess of shares issued over the existing value in the books of X Co. Ltd. adjusted in carrying value of General Reserve).			

(d) Journal Entries

		Dr. (Rs.)	*Cr. (Rs.)*
A's Capital A/c	Dr.	20,000	
To C's Capital A/c			20,000
(Being adjusting entry passed for goodwill on change in profit and loss sharing ratio)			

(e) Journal entry to be passed for accounting unrealized pProfit on stock:

Under amalgamation in the nature of merger:

General Reserve/Profit and Loss A/c	Dr.
To Stock A/c (Stock Reserve A/c)	
(Being amount adjusted for unrealized profit on stock)	

OR

If amalgamation is in nature of purchase, Journal entry would be:

Goodwill or Capital Reserve A/c   Dr.

    To Stock A/c (Stock Reserve A/c)

(Being adjustment for unrealized profit on stock)

22. (a) For a company under liquidation, the fundamental accounting assumption of "going concern" is apparently not valid. The assets and liabilities would stand appropriately adjusted to reflect the realizable value, by way of carrying amounts. This information will be required to be disclosed by the company under AS 1 on Disclosure of Accounting Policies.

(b) Inventories are usually written down to Net Realisable Value on an item-by-item basis. They should not be valued at Net Realisable Value on-

1. Wholistic basis i.e. all items of inventory taken together and
2. Classification basis e.g. all finished goods, or all inventories in a particular business segment.

Exceptions: In special circumstances, it may be appropriate to group similar or related items, viz.,

1. Inventory items relating to the same product line that have similar purposes or end uses;
2. produced and marketed in the same geographical area; and
3. Cannot be practicably evaluated separately from other items in the product line.

(c) Where the depreciable assets are revalued, the provision for depreciation should be based on the revalued amount and on the estimate of the useful lives of such assets.

If revaluation has a material effect on the amount of depreciation, the same should be disclosed separately in the year in which revaluation is carried out.

(d) *Interest*: On time proportion basis considering the amount outstanding and rate of interest.

Royalties: On accrual basis in accordance with the terms of relevant agreement.

Dividends: When the owner's right to receive payment is established.

23. (a) As a result of the uncertainties in business activities, many financial statement items cannot be measured with precision but can only be estimated. These are called accounting estimates. Therefore, the management makes various estimates and assumptions of assets, liabilities, incomes and expenses as on the date of preparation of financial statements. This process of estimation involves judgements based on the latest information available.

Examples of estimation in some fields are:

(i) Estimation of useful life of depreciable assets.

(ii) Estimation of provision to be made for bad and doubtful debts.

(b) (i) Revaluation of fixed Assts

According to Accounting Standard 10 on "Accounting for Fixed Assets"

(a) When fixed assets are revalued in financial statements, the basis of selection should be an entire class of assets or the selection should be done on a systematic basis. The basis of selection should be disclosed.

(b) The revaluation of any class of assets should not result in the net book value of that class being greater than the recoverable amount of that class of assets.

(c) The accumulated depreciation should not be credited to profit and loss account.

(d) The net increase in book value should be credited to a revaluation reserve account.

(e) On disposal of a previously revalued item of fixed asset, the difference between net disposal proceeds and the net book value should be charged or credited to the profit and loss account except that to the extent to which such a loss is related to an increase and which has not been subsequently reversed or utilised may be charged directly to that account.

(c) As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

(i) The Pooling of Interest Method

Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

(ii) The Purchase Method

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company.

(d) According to paragraphs 38, 39 and 41 of AS 7, an enterprise should disclose:

(a) the amount of contract revenue recognized as revenue in the period;

(b) the methods used to determine the contract revenue recognized in the period; and

(c) the methods used to determine the stage of completion of contracts in progress.

In case of contract still in progress the following disclosures are required at the reporting date:

(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;

(b) the amount of advances received; and

(c) the amount of retentions.

An enterprise should also present:

(a) the gross amount due from customers for contract work as an asset; and

(b) the gross amount due to customers for contract work as a liability.

24. (a) The use of standard cost of elements of cost of production has been suggested by AS-2 as a matter of convenience only. In fact, AS-2 aims to suggest the use of absorption costing based on normal capacity. AS-2 says that standard cost system may be used for convenience if the results approximate the actual cost. If the company can adopt absorption costing for value of inventory, then the standard cost systems need not be adopted.

(b) The company should disclose the change in method of depreciation adopted for the accounting year. The impact on depreciation charge due to change in method must be quantified and reported by the enterprise.

Following aspects may be noted in this regard as per AS 6 on Depreciation Accounting.

(a) The depreciation method selected should be applied consistently from period to period.

(b) A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.

(c) When such a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed.

(d) In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss.

(e) In case the change in the method results in surplus, the surplus should be credited to the statement of profit and loss. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

(c) Paragraph 8.4 and 13 of Accounting Standard 9 on Revenue Recognition states that dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established.

In the given case, the dividend is proposed on 10th April, 2009, while it is declared on 15th June, 2003. Hence, the right to receive payment is established on 15th June, 2009. As per the above mentioned paragraphs, income from dividend on units of mutual funds should be recognised by X Ltd. in the financial year ended 31st March, 2010.

The recognition of Rs. 10 lakhs on accrual basis in the financial year 2008-2009 is not as per AS 9 'Revenue Recognition'.

(d) As per para 14.4, and para 32 of AS 10 loss of Rs. 150 lakhs should be taken to Revaluation reserve corresponding to these assets. Surplus of revaluation reserve following the retirement or disposal of an asset which relates to that asset may be transferred to general reserve. (Debit profit on sale of property, and credit loss on sale, and credit general reserve).

25. (a) The transfers should be made at lower of (a) Cost, and (b) Fair value at the date of transfer.

1. In this case, the transfer should be made at cost (being lower of Rs. 20 lakhs and Rs. 25 lakhs) and hence the long term investments should be carried at Rs. 20 lakhs.

2. In the second case, the transfer should be made at Market Value (being lower of Rs. 15 lakhs and Rs. 6.5 lakhs) and hence the long term investments should be carried at Rs. 6.50 lakhs. The loss of Rs. 15 – Rs. 6.5 = Rs. 8.5 lakhs should be provided for in the profit and loss account.

3. Here, the transfer should be made at carrying amount (being lower of Rs. 18 lakhs and Rs. 12 lakhs) and hence these reclassified current investments should be carried at Rs. 12 lakhs.

(b) According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard.

Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furniture and fixtures.

(c) As per paragraphs 31 and 35 of AS 7 on Construction Contracts, an expected loss on the construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work has commenced on the contract; or (ii) the stage of completion of the contract; or (iii) the amount of profits expected to arise in other contracts.

Hence, the company must recognize the loss immediately

PAPER – 1 : ACCOUNTING

QUESTIONS

Answer the following (give adequate working notes in support of your answer):

1. (i) A firm which was carrying on business from 1st January 2009, gets itself incorporated as a company on 1st May, 2009. The net sales are Rs. 49,00,000, the monthly average of which for the first four months of 2009 is one half of that of the remaining period. Calculate the sales ratio for the purpose of pre and post incorporation profit when the accounting year ends on 30th September, 2009.

   (ii) P and Q are partners sharing profit in the ratio of 4:1. P surrenders 1/4th of his share and Q surrenders ½ of his share in favour of R, a new partner. What is the sacrificing ratio and the new profit sharing ratio of all the partners?

   (iii) A, B and C are partners sharing profits and losses in the ratio of 3:2:1 with a minimum guaranteed profit of Rs.12,000 payable to C. If any amount payable to C is in excess of Rs.12,000 as his share of profit in any year then firm had a right to recoup it. During 2008-09 and 2009-2010 profits were Rs.39,000 and Rs.81,000. Calculate the amount to be distributed as profit to A & B in these two years.

   (iv) The closing capital of Mr. B as on 31.3.2010 was Rs.4,00,000. On 1.4.2009 his capital was Rs.3,50,000. His net profit for the year ended 31.3.2010 was Rs.1,00,000. He introduced Rs.30,000 as additional capital in February, 2010. Find out the amount drawn by Mr. B for his domestic expenses.

   (v) A trader purchased goods for Rs.1,70,000. The opening stock of inventory prior to the said purchase was Rs.30,000. His sales was Rs.2,10,000. Find out the closing stock of inventory if the Gross profit margin is 25% on cost.

2. (i) X Co. Ltd. having share capital of Rs.50 lakhs divided into equity shares of Rs.10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of Rs.10,00,000 and Profit and Loss account Cr. Rs.5,00,000. Y Co. Ltd. issued 11 equity shares of Rs.10 each for every 10 shares of X Co. Ltd.

   Explain how the difference will be adjusted in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interests method' of amalgamation.

   (ii) For the purpose of consequential loss claim, calculate profit on short sale from the following information:

   1. Date of fire: 1st September, 2009;
   2. Period of disruption : 1st September, 2009 to 1st February, 2010;
   3. Standard turnover i.e. for corresponding months (1st September,2008 to 1st February, 2009) in the year preceding the date of fire Rs. 2,25,000;

4. Turnover during the disruption period Rs. 67,500.
5. Rate of Gross profit 18%
6. Special clause stipulated:
   a. Increase in rate of G.P. = 2%
   b. Increase in turnover (standard and annual) = 10%

(iii) Y Ltd. used certain resources of X Ltd. In return, X Ltd. receives Rs. 10 lakhs and Rs. 15 lakhs as interest and royalties respectively, from Y Ltd. during the year 2009 – 10. State on what basis X Ltd. should recognize their revenue, as per AS 9.

(iv) Cash profit of a organization will be effected by providing lower depreciation on fixed assets. State with reasons whether the given statement is true or false.

(v) Computer point sells computers on Hire-purchase basis at cost plus 25%. Terms of Sale are Rs.5,000 down payment and eight monthly instalments of Rs.2,500 for each computer.

Two Computers on which five instalments were due and two instalments not yet due were repossessed out of Sales effected during current year. Repossessed stock is valued at 50% of cost. Calculate the value of repossessed computers.

Preparation of Financial Statements of Companies

3. The following items were extracted from the Balance Sheet of Xansa Ltd. as on 1st April, 2009:

	Rs.
13½% Preference Share capital	4,00,000
Equity Share Capital fully paid up	5,00,000
Equity Share Capital 60% partly paid up	3,00,000
Securities Premium	7,00,000
15% Debentures	10,00,000

Profit before interest on debentures and before payment of tax @ 30% is Rs. 11,50,000 for the year ended 31st March, 2010.

The Board of Directors of the Company proposed a dividend of 15% on equity capital and capitalisation of profits for making partly paid-up shares into fully paid up. Corporate dividend tax is payable @ 15%.

Pass the necessary Journal entries to incorporate the Board's recommendations and show how the items concerned would be shown on the liabilities side of the Balance Sheet of Xansa Ltd. as on 31st March, 2010.

Cash Flow Statement

4. The Balance Sheets of a Company as on 31st March, 2009 and 2010 are given below:

Liabilities	31.3.09 Rs.	31.3.10 Rs.	Assets	31.3.09 Rs.	31.3.10 Rs.
Equity Capital	15,00,000	17,00,000	Fixed Assets	15,30,000	20,60,000
General Reserve	1,80,000	2,10,000	9% Investments (Long term)	90,000	2,40,000
Profit & Loss A/c	1,50,000	6,00,000	Debtors	1,20,000	2,25,000
12% Debentures	3,00,000	4,50,000	Stock	5,70,000	5,55,000
Creditors	60,000	2,25,000	Cash in hand	1,80,000	5,40,000
Bills payables	60,000	50,000	Underwriting Commission	7,500	9,000
Bank overdraft	30,000	25,000	Discount on issue of debentures	22,500	6,000
Proposed dividend	1,80,000	2,25,000			
Provision for tax	30,000	60,000			
Provision for doubtful debts	30,000	45,000			
Unpaid interest on debentures		35,000			
Unpaid dividend		- 10,000			
Total	25,20,000	36,35,000	Total	25,20,000	36,35,000

Additional information:

During the year ended 31st March, 2010 :

(i) A machine costing Rs. 2,10,000 (depreciation provided thereon Rs. 90,000) was sold for Rs. 75,000. Depreciation charged during the year was Rs. 2,10,000.

(ii) New shares and debentures were issued on 31st March, 2010.

(iii) Tax paid during the year was Rs. 15,000.

(iv) An interim dividend @ 15% was paid on equity shares.

(v) On 31st March, 2010 some investments were purchased for Rs. 2,70,000 and some investments were sold at a profit of 20% on sale.

You are required to prepare cash flow statement as per AS 3.

Profit or Loss Prior to Incorporation

5. Fresh Look Ltd. was incorporated on 1.7.2009 and it took over the business of a vendor w.e.f. 1.4.2009. Following information was made available for the year ended 31.3.2010:

   Gross profit Rs.98,000, Commission Rs.2,625, Advertisement Rs.5,250, Discount Rs.350, Directors Fees Rs.9,000, Salaries Rs.18,000, Depreciation Rs.2,800. Insurance Rs.600, Preliminary Expenses Rs.700, Rent and Taxes Rs.3,000, Bad Debts Rs.1,250, Interest to vendor (upto 1.10.2009) Rs.2,000, Audit Fee Rs.2,000 and Bad Debts recovered (on 1.5.2009) Rs.500.

   Following additional information was provided:

   1. Average monthly turnover from September onwards was double than that of average monthly turnover of the first four months. However, in August, 2009, the turnover was 150% of the turnover in the following month.
   2. Rent for the first three months was paid @ Rs. 20 per month and thereafter, it was increased by Rs. 50 per month.
   3. Bad debts for the period from September 1, 2009 to March 31, 2010 amount to Rs.350 only.
   4. Audit fee was allocated on time basis.

   You are required to find out the amount of profit for pre and post incorporation period, clearly showing, the basis of allocation.

Accounting for Bonus Issue

6. The Balance Sheet of Assured Ltd. as at 31.3.2010 is as follows:

Balance Sheet as at 31.3.2010

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital:		Sundry Assets	17,00,000
1,50,000 Equity Shares of Rs. 10 each	15,00,000		
Issued, Subscribed and Paid-up			
80,000 Equity Shares of Rs. 7.50 each			
called up and paid up	6,00,000		
Reserves and surplus: Capital			
Redemption Reserve Plant	1,50,000		
Revaluation Reserve Securities	20,000		
Premium Account Development	1,50,000		
Rebate Reserve Investment	2,30,000		
Allowance Reserve	2,50,000		
General Reserve	3,00,000		
	17,00,000		17,00,000

The company wanted to issue bonus shares to its share holders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with.

(a) You are required to give effect to the proposal by passing journal entries in the books of Assured Ltd.

(b) Show the Balance Sheet (after bonus issue).

Internal Reconstruction

7. Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2010:

Liabilities	Rs.	Assets	Rs.
6,000 shares of Rs. 60 each,		Property, machinery	
Rs. 30 paid up		and plant etc. (Cost	
First debentures	3,00,000	Rs. 3,90,000)	
Second debentures	6,00,000	Estimated at	1,50,000
Unsecured creditors	4,50,000	Cash in hand of	
		the receiver	2,70,000
		Charged under debentures	4,20,000
		Uncalled capital	1,80,000
			6,00,000
		Deficiency	7,50,000
	13,50,000		13,50,000

A holds the first debentures for Rs. 3,00,000 and second debentures for Rs. 3,00,000. He is also an unsecured creditor for Rs. 90,000. B holds second debentures for Rs. 3,00,000 and is an unsecured creditor for Rs. 60,000.

The following scheme of reconstruction is proposed:

1. A is to cancel Rs.2,10,000 of the total debt owing to him, to bring Rs. 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for Rs. 5,10,000 in satisfaction of all his claims.
2. B is to accept Rs. 90,000 in cash in satisfaction of all claims by him.
3. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of Rs. 7.50 each, fully paid against their claim for each share of Rs.60. The balance of 25% is to be postponed and to be payable at the

end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.

4. Uncalled capital is to be called up in full and Rs. 52.50 per share cancelled, thus making the shares of Rs. 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, Give necessary journal entries.

Amalgamation of Companies

8. Roshni and Jyoti have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called Ujala Ltd.

Following is the Balance Sheet of Roshni and Jyoti as at 31.3.2010:

Liabilities	Roshni	Jyoti	Assets	Roshni	Jyoti
	Rs.	Rs.		Rs.	Rs.
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following are the additional information:

(i) The authorised capital of the new company will be Rs.25,00,000 divided into 1,00,000 equity shares of Rs.25 each.

(ii) Liabilities of Roshni includes Rs.50,000 due to Jyoti for the purchases made. Jyoti made a profit of 20% on sale to Roshni.

(iii) Roshni has goods purchased from Jyoti, cost to him Rs.10,000. This is included in the Current asset of Roshni as at 31st March, 2010.

(iv) The assets of Roshni and Jyoti are to be revalued as under:

	Roshni	Jyoti
	Rs.	Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(v) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of Rs. 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	Roshni	Jyoti
	Rs.	Rs.
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

(c) Issue 12% preference shares of Rs.10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2010 after revaluation of assets of Roshni and Jyoti respectively.

You are required to:

(i) Compute the amount of equity and preference shares issued to Roshni and Jyoti.

(ii) Prepare the Balance Sheet of Ujala Ltd. immediately after amalgamation.

Average Due Date

9. Rs. 20,000 is lent by Aaj to Kal on 1 January 2006. The loan is repayable in five equal instalments commencing from 1 January 2008. Calculate the average due date and interest at 12% p.a.

Account Current

10. The following are the transactions that took place between You and Me during the half year ended 30 June, 2010:

		Rs.
1 January	Balance due to You by Me	3,010
7 January	Goods sold by You to Me	4,430
16 February	Goods purchased by You from Me	6,480
18 February	Goods returned by You to Me (out of the purchases of 16 February)	560
24 March	Goods sold by Me to You	3,560
22 April	Goods purchased by Me	1,500
29 April	Cash paid by You to Me	2,500
17 May	Goods sold by You to Me	2,710
22 June	Goods sold by Me to You	2,280

Draw up an account current to be rendered by Me to You charging interest at 10% per annum.

Self Balancing Ledgers

11. The details of the balances owed by customers were as follows as on 1st April 2010:

	Rs.
X	15,000
Y (6% considered to be bad; adequate provision maintained)	21,000
Z	18,000
Other customers	3,56,000
	4,10,000
Less: Advance by P	20,000
	3,90,000

Sales during the month amounted to Rs. 5,55,000 including a cash sale of Rs. 1,14,000; of the credit sales, Rs. 26,000 was to P. X returned goods to the extent of Rs. 6,000 and sent a bill receivable for the balance. A sum of Rs. 4,500 was received from Y and the balance was written off. On instructions from B, Z's balance was transferred to B's account in the creditors ledger. The acceptance of X was dishonoured and noting charges paid were Rs. 150. D sent an advance of Rs. 18,000 for supply of goods, Out of the amount due from "Other Customers" on 1st April 2010, Rs. 2,73,000 was received; the customers had earned 2½% discount on the gross amount paid. Similarly, out of the sale in April, a sum of Rs. 97,500 has been received, earning discount at same rate.

Q, who owed Rs. 11,000 and H who owed Rs. 8,000, turned doubtful; a provision of 50% of the amounts due was created. Other debts were considered all good.

Prepare Total Debtors Account for April 2010.

Accounts for Not-for Profit Organization

12. The following details related to the affairs of the Fun Club for the year ending 31st December 2009:

As on 31.12.2008

Creditors Rs. 10,000; Subscriptions for 2009 Rs. 3,000; Liabilities for Salaries Rs. 7,000; Arrears of Subscriptions 2007 Rs. 19,000; Arrears of Subscriptions 2008 Rs. 30,000; Investments 4% Bonds Rs. 15,000; Stock Rs. 6,000.

As on 31.12.2009:

Creditors Rs. 5,000; Subscriptions for 2010 Rs.4,000; Cash at Bank Rs.17,700; Arrears of Subscriptions for 2008 Rs.10,000; Arrears of Subscriptions for 2009 Rs. 27,000; Members' arrears for provisions sold Rs. 4,000.

Details of Transaction during 2009:

Arrears of 2007 collected Rs. 18,000; Arrears of 2008 collected Rs. 17,000; Cash sales of provisions Rs. 12,000; Salaries paid Rs. 40,000; Interest received Rs. 450; 4% Bonds purchased Rs. 10,000 on 1.1.2009; Cash purchases of provision Rs. 9,000; Credit sale of provision to members Rs.90,000.

Other details:

Demand of Subscription during 2009 was Rs. 70,000; Total purchase of provision Rs.1,09,000; Profit on Provisions Rs. 12,000; the salaries for the year 2009 were Rs.45,000 and Rent Rs. 2,000.

From the above information prepare:

(a) Opening Balance Sheet,

(b) Closing Balance Sheet,

(c) Receipts and Payments Account for the year 2009, and

(d) Income and Expenditure Account for the year 2009.

Accounts from Incomplete Records

13. Shri Ram furnishes you with the following information relating to his business :

(a)

Assets and liabilities as on	1.1.2009	31.12.2009
	Rs.	Rs.
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

(b) Receipts and payments during 2009:

Collections from debtors, after allowing discount of Rs. 1,500 amounted to Rs. 58,500. Collections on discounting of bills of exchange, after deduction of discount of Rs. 125 by the bank, totalled to Rs. 6,125. Creditors of Rs. 40,000 were paid Rs. 39,200 in full settlement of their dues. Payment for freight inwards Rs.3,000. Amount withdrawn for personal use Rs.7,000. Payment for office furniture Rs.1,000. Investment carrying annual interest of 4% was purchased at Rs. 96 on 1st July, 2009 and payment made there for. Expenses including salaries paid Rs. 14,500. Miscellaneous receipts Rs. 500.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 10,000. Of these, bills of exchange of Rs. 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 400 was dishonoured.

(d) Goods costing Rs. 900 were used as advertising materials.

(e) Goods are invariably sold to show a gross profit of $33\frac{1}{3}$% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction by Shri Ram.

(g) Provide at 2.5% for doubtful debts on closing debtors.

Shri Ram asks you to prepare Trading and Profit and Loss A/c for the year ended 31st December, 2009 and the balance sheet as on that date.

Hire Purchase Transactions

14. Sun Moon Corporation sells goods on hire-purchase basis. The hire-purchase price is cost plus 50%. From the following information, prepare Hire-purchase Trading Account for the year ended 31st March, 2010:

	Rs.
Hire-purchase stock reserve on 1.4.2009	1,20,000
Instalments due on 1.4.2009	30,000
Goods sold on hire-purchase during the year	8,40,000
Instalments due on 31.3.2010	70,000
Hire-purchase stock reserve on 31.3.2010	1,80,000

Investment Accounts

15. Anshu invests and disinvests from time to time in 10% Non-convertible Debentures (NCD) of Zero Ltd. on FIFO basis. From the following transactions, prepare Investment account as it would appear in her books:

15.6.2009	Purchased	3,000 NCD, ex-interest @ Rs. 96 each
15.9.2009	Sold	3,000 NCD, ex-interest @ Rs. 100 each
15.12.2009	Purchased	2,000 NCD, cum interest @ Rs. 99 each
15.2.2010	Sold	2,000 NCD, cum interest @ Rs. 102 each

Opening balance of NCD of Rs. 100 each was Rs. 2,00,000 on 1.4.2009 and Cost of acquisition was Rs. 1,80,000. Interest payment dates on NCD are 30th June and 31st December. Anshu follows financial year as accounting year.

Insurance Claim (Loss of Profit)

16. A fire occurred in the premises of Jogi Sons on 15th October, 2009 and normal business operations were restored on 1st April, 2010. The company had taken loss of profit policy for Rs. 1,50,000 with indemnity period of six months and a clause for adjustment of 20% to be made in respect of the expected incremental turnover.

From the following information compute amount of claim under "Loss of Profit" policy:

	Rs.
Actual turnover from 15th October, 2009 to 31st March, 2010	1,20,000
Turnover during the corresponding period of previous year	2,40,000
Turnover from 15th October, 2008 to 14th October, 2009	4,80,000
Net profit for the last financial year	90,000
Insured standing charges for the last financial year	67,500
Turnover for the last financial year	4,50,000

Partnership Accounts

17. X, Y and Z are in partnership sharing Profits and Losses in the ratio 2 : 2: 1. Partnership deed provides that all the partners are entitled to interest @ 9% per annum on fixed capital of Rs. 2,00,000 contributed in profit sharing ratio. Z is entitled for 10% commission of net profit after such commission, for special performance.

    On 1.9.2009, it was decided to retire X on health grounds and admit A, the son of X as partner with 1/5th share in Profit and Loss. Other decisions taken on this date were as follows:

    (a) Firm's fixed capital to be raised to Rs. 3,00,000 and partners to maintain fixed capital in profit sharing ratio. Hence forth, interest on capital shall be paid @ 10% per annum.

    (b) No commission to be paid to Z from 1.9.2009.

    (c) Goodwill is assessed at Rs. 60,000 not to be shown in the books.

    (d) X was paid Rs. 50,000 in cash on retirement.

    (e) Balance claim payable to X was to be credited to A's fixed capital account and current account.

    (f) Profit for the accounting year 2009-10 before interest on capital, Z's commission and depreciation was Rs. 1,80,000. Depreciation for the year amounted to Rs.18,500 (inclusive of depreciation of Rs.6,000 upto 1.9.2009)

    You are required to prepare:

    (i) Profit and Loss Appropriation account of the firm for the year ended 31st March, 2010.

    (ii) Partners' Current accounts.

Accounting in Computerized Environment

18. Write a short note on a prepackaged accounting software?

Insurance Claim (Loss of Stock)

19. On 30 June, 2010, accidental fire destroyed a major part of the stocks in the godown of Nidhi Associates. Stocks costing Rs. 30,000 could be salvaged but not their stores

ledgers. A fire insurance policy was in force under which the sum insured was Rs.3,50,000. From available records, the following information was retrieved:

(i) Total of sales invoices during the period April-June amounted to Rs. 30,20,000. An analysis showed that goods of the value of Rs. 3,00,000 had been returned by the customers before the date of the fire.

(ii) Opening stock on 1.4.2010 was Rs. 2,20,000 including stocks of the value of Rs. 20,000 being lower of cost and net realizable value subsequently realised.

(iii) Purchases between 1.4.2010 and 30.6.2010 were Rs. 21,00,000.

(iv) Normal gross profit rate was 33-1/3% on sales.

(v) A sum of Rs. 30,000 was incurred by way of fire fighting expenses on the day of the fire.

Partnership –Profit and Loss Appropriation Account

20. Ankur, Aarav and Aarush are partners in a firm. Their fixed capitals as on 1st April, 2009 were Rs.60,000, Rs.60,000 and Rs.90,000 respectively. They have decided mutually that interest on capital @ 15% per annum and salary Rs.1,000 per month to each partner is to be given. Aarush has deposited Rs.25,000 as loan on 1st September, 2009 in the firm, in respect of which interest rate has not been decided. Each partner's annual drawings were Rs.10,000, on which no interest is to be charged.

First Rs.35,000 of divisible profits, are to be distributed in their capital ratio; next Rs.20,000 in the ratio of 2:3:5 and profits over Rs.55,000 are to be distributed equally. Profits of accounting year ending 31st March, 2010 were Rs.1,47,850 in which no adjustment has been done in respect of interest, salary etc. The balances of current accounts of partners as on 1st April, 2009 were Rs.2,000 (Cr.), Rs.1,000 (Dr.) and Rs.3,000 (Cr.) respectively. Prepare Profit and Loss Appropriation Account and Partners' Current Account on the basis of above information.

Accounting Standards

21. (a) What are the three major considerations for the selection of any accounting principles and policies?

(b) Whether interest paid on loan utilized for acquiring inventory be capitalized to the cost of inventory?

(c) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3 (revised).

22. (a) Write short notes on the advantages and disadvantages of setting of Accounting Standards.

(b) Write short note on Effect of Uncertainties on Revenue Recognition.

23. (a) What will be the value of asset acquired in exchange for another asset as per AS 10?

    (b) Mention four assets, in respect of which AS 6 (revised) is not applicable.

    (c) Mention two categories of investments defined by AS 13 and also state their valuation principles.

24. (a) Nidhi Ltd. purchased raw materials at a basic price of Rs.10,000 on which excise duty of Rs.1500 is paid. Cost of inventory (of raw materials) at this stage would be Rs.11,500. The material is thereafter processed. For this purpose conversion costs (labour and direct overheads, and other fixed production overheads) amounting to Rs.1,800 are incurred. Excise duty liability on finished goods amounting Rs.1,700 is being paid by the company. Company is entitled for a CENVAT credit of Rs.1,500. Compute the value of inventory.

    (b) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:

		Rs. (in lacs)	Rs.(in lacs)
Net Profit			60,000
Add:	Sale of Investments		70,000
	Depreciation on Assets		11,000
	Issue of Preference Shares		9,000
	Loan raised		4,500
	Decrease in Stock		12,000
			1,66,500
Less:	Purchase of Fixed Assets	65,000	
	Decrease in Creditors	6,000	
	Increase in Debtors	8,000	
	Exchange gain	8,000	
	Profit on sale of investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	
	Interest paid	945	1,07,045
			59,455
Add:	Opening cash and cash equivalent		12,341
Closing cash and cash equivalent			71,796

(c) X Co negotiates with Indian Oil for construction of "franchisee retail petrol, outlet stations". Based on proposals submitted to different Zonal offices of Indian Oil, the final approval for one outlet each in Berhampore, Salem, Vadodara and Warangal is awarded to X Co. Agreement (in single document) is entered into with Indian Oil for Rs.245 lacs. The agreement lays down values for each of the four outlets (Rs. 44 + 66 + 80 + 55 lacs) in addition to individual completion time. Comment whether X Co. will treat it as a single contract or four separate contracts?

25. (a) TVSM company has taken a Transit Insurance Policy. Suddenly in the year 2009-2010 the percentage of accident has gone up to 7% and the company wants to recognise insurance claim as revenue in 2009-2010 in accordance with relevant Accounting Standards. Do you agree?

(b) A 1100 cc motor car provides a mileage of 14 km per litre of petrol. The car is put to use for five years. The assessed level of performance is 10 km per litre. A sum of Rs.23,000 is spent on the engine to improve its performance. The performance improves to 14 km per litre. The company wants to expense the amount of Rs.23,000, Comment.

(c) A machinery costing Rs.10 lakhs has useful life of 5 years. After the end of 5 years, its scrap value would be Rs.1 lakh. How much depreciation is to be charged in the books of the company as per Accounting Standard 6?

(d) A manufacturing company purchased shares of another company from stock exchange on 1st May, 2007 at a cost of Rs.5,00,000. It also purchased Gold of Rs.2,00,000 and Silver of Rs.1,50,000 on 1st April, 2005. How will you treat these investments as per the applicable AS in the books of the company for the year ended on 31st March, 2008, if the values of these investments are as follows:

	Rs.
Shares	2,00,000
Gold	4,00,000
Silver	2,50,000

PAPER – 1 : ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. **(i)** Let the average monthly sales of first four months be Rs. 100 per month.

Then the average monthly sales of next five months will be Rs.200 per month.

Total sales of first four months= Rs.100 x 4 = Rs.400

And that of next five months = Rs.200 x 5 = Rs.1,000.

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

(ii) P surrenders $\frac{1}{4} th$ of $\frac{4}{5}$ in favour of R.

It means P has surrendered $\frac{1}{4} \times \frac{4}{5} = \frac{1}{5}$ out of his share in favour of R.

Q surrenders $\frac{1}{2} of \frac{1}{5}$ in favour of R. It means Q has surrendered

$\frac{1}{2} \times \frac{1}{5} = \frac{1}{10}$ out of his share in favour of R.

Therefore, sacrificing ratio = P: $\frac{1}{5}$: Q $\frac{1}{10}$ or 2:1

New Profit sharing ratio : P's new share =$\frac{4}{5}\ \ \frac{1}{5} = \frac{3}{5}$

Q's new share = $\frac{1}{5}\ \ \frac{1}{10} = \frac{1}{10}$

R's new share = $\frac{1}{5} + \frac{1}{10} = \frac{3}{10}$

Therefore, the new ratio of P, Q and R = $\frac{3}{5} : \frac{1}{10}\ \frac{3}{10}$ or 6:1:3.

Hence, the new ratio will be = 11:9:5.

(iii) (1) **Distribution of Profits for 2008-09**

Total profits are Rs.39,000 and the ratio of distribution is 3:2:1. Hence, the share of A, B and C will be Rs.19,500, Rs.13,000 and Rs.6,500 respectively. But minimum guaranteed profit payable to C is Rs.12,000. Hence, the balance of Rs.27,000 will be distributed between A and B in the ratio of 3:2. Therefore, the share A and B will be Rs.16,200 and Rs.10,800 respectively.

(2) **Distribution of Profits for 2009-2010**

Total profits are Rs.81,000 and the ratio of distribution is 3:2:1. Hence, the share of A, B and C will be Rs.40,500, Rs.27,000 and Rs.13,500. But C will get only Rs.12,000 and the balance of Rs.69,000 will be distributed between A and B in the ratio of 3:2. Hence, the share of A and B will be Rs.41,400 and Rs.27,600 respectively.

(iv)

	Rs.
Opening Capital (01-04-2009)	3,50,000
Add: Net Profit	1,00,000
	4,50,000
Add: Additional Capital introduced in February, 2010	30,000
	4,80,000
Less: Drawings by Mr. 'B' for domestic expenses (Bal.Fig.)	80,000
Closing Capital (31.3.2010)	4,00,000

(v) Calculation of Closing Stock:

Cost of goods sold = Sales – Gross Profit

$$= 2.10,000 - 2,10,000 \times \frac{25}{125} = \text{Rs.}1,68,000$$

Total stock available = Opening Stock + Purchases

= 30,000 + 1,70,000

= Rs.2,00,000

Closing Inventory = Total stock available – Cost of goods sold

= Rs.2,00,000 – 1,68,000

= Rs.32,000

2. (i)

	Rs
Purchase consideration = 5,00,000 × 11/10 = 55,000 shares of Rs. 10 each	55,00,000
Less: Share capital of X Co. Ltd.	50,00,000
Adjusted through General Reserve	5,00,000

(ii) (a) Calculation of Short Sales:

	Rs.
Standard turnover of 1st September to 1st October (preceding)	2,25,000
Add: Increase of 10% due to upward trend	22,500
Adjusted turnover	2,47,500
Less: Actual turnover during disruption period i.e. 1st September to 1st October (following)	67,500
	1,80,000

(b) Agreed Rate of G.P. = 18% + 2%

= 20% on sales.

(c) Loss of Profit on Short Sales:

= 20% of Rs.1,80,000 = Rs.36,000.

(iii) As per AS 9, interest of Rs.10 lakhs should be recognized on the basis of proportionate time period, whereas royalty of Rs.15 lakhs should be recognized on accrual basis as per the agreement.

(iv) False: Providing higher or lower depreciation on Fixed Assets will not affect the cash profit because depreciation is a non-cash expenditure.

(v) Value of repossessed computers:

H.P. Price of two repossessed computers

= [Rs.5,000 + (8 x Rs. 2,500)] x 2 computers

= Rs.50,000

Cost price of the repossessed computers $= \frac{\text{Rs.}50{,}000}{125} \times 100 =$ Rs. 40,000

Value of repossessed computers = Rs.40,000 x 50% = Rs.20,000

3. Journal Entries

		Rs.	Rs.
Profit and Loss A/c	Dr.	1,50,000	
To Debenture Interest A/c			1,50,000
(Being transfer of debenture interest to profit and loss account)			

Profit and Loss A/c	Dr.	3,00,000	
To Provision for Taxation A/c			3,00,000
(Being provision for tax made @ 30% on Rs. 10,00,000 i.e. 11,50,000 – 1,50,000)			
Profit and Loss A/c	Dr.	7,00,000	
To Profit and Loss Appropriation A/c			7,00,000
(Being transfer of net profit to profit and loss appropriation account)			
Profit and Loss Appropriation A/c	Dr.	35,000	
To General Reserve A/c			35,000
(Being creation of general reserve @ 5% of net profit, as rat of dividend is 15% as per section 205 (2A) of the Companies Act read with the Companies (Transfer of Profits to Reserves) Rules, 1975)			
Profit and Loss Appropriation A/c	Dr.	54,000	
To Proposed preference share dividend A/c			54,000
(Being preference share dividend payable @ 13½% on Rs. 4,00,000)			
Profit and Loss Appropriation A/c	Dr.	1,20,000	
To Proposed equity share dividend A/c			1,20,000
(Being equity share dividend payable @ 15% on Rs. 8,00,000)			
Profit and Loss Appropriation A/c	Dr.	26,100	
To Provision for corporate dividend tax A/c			26,100
(Being provision made for corporate dividend tax @ 15% on total dividend of Rs.1,74,000)			
Profit and Loss Appropriation A/c	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being partly paid equity shares converted to fully paid up, by capitalization of profit)			

Balance Sheet (Extracts) as on 31st March, 2010

Share capital:		Rs.
13½% preference share capital		4,00,000
Equity share capital fully paid up		10,00,000

Reserves and Surplus:		
Securities Premium		7,00,000
General Reserve		35,000
Profit and Loss Appropriation Account		2,64,900
Secured Loan:		
15% Debentures		10,00,000
Provisions:		
Corporate Income-tax		3,00,000
Proposed Dividend:		
Preference	54,000	
Equity	1,20,000	1,74,000
Corporate Dividend Tax		26,100

Note: It is assumed that debenture interest has been paid.

4. Cash Flow Statement

				Rs
I.	**Cash flow from operating activities**			
	Closing Balance as per Profit and Loss A/c		6,00,000	
	Less: Opening Balance as per Profit & Loss A/c		1,50,000	
	Profit during the year		4,50,000	
	Add: Proposed dividend during the year		2,25,000	
	Add: Interim dividend paid during the year		2,25,000	
	Add: Transfer to general reserve		30,000	
	Add: Provision for Tax (W.N. 3)		45,000	
	Add: Depreciation		2,10,000	
	Add: Interest on debentures		36,000	
	Add: Discount on issue of debentures (written off)		16,500	
	Add: Loss on Sale of machine		45,000	
				12,82,500
	Less: Income on Investment	(8,100)		
	Profit on Sale of Investment	(30,000)		(38,100)
	Funds from Operation			12,44,400
	Add: Decrease is Current Assets or Increase in Current Liabilities			
	Decrease in Stock		15,000	

Increase in Creditors	1,65,000	
Increase in Provision for doubtful debts	15,000	1,95,000
Less: Increase in Current Assets		14,39,400
Debtors	1,05,000	
Decrease in B/P	10,000	1,15,000
		13,24,400
Less: Tax Paid		(15,000)
Net Cash From Operating Activities		13,09,400
II Cash Flows from Investing Activities		
Sale of Machine	75,000	
Sale of Investment	1,50,000	
Income on investment	8,100	
Purchase of Fixed Assets (W.N.1)	(8,60,000)	
Purchase of Investment (W.N.2)	(2,70,000)	
Cash used in Investing Activities		(8,96,900)
III. Cash flow from Financing Activities		
Issue of share capital (2,00,000 – 1,500)	1,98,500	
Issue of debentures	1,50,000	
Less: Interest paid on debentures (36,000 – 35,000)	(1,000)	
Interim dividend paid	(2,25,000)	
Final dividend paid (1,80,000 –10,000)	(1,70,000)	
Cash used in Financing Activities		(47,500)
Net Cash Flow		3,65,000
Add : Cash and cash equivalents at the beginning of the period (1,80,000 – 30,000)		1,50,000
Cash and cash equivalents at the end of the period (5,40,000 – 25,000)		5,15,000

Working Notes:

1. Fixed Assets A/c

	Rs.		Rs
To Balance b/d	15,30,000	By Bank	75,000
To Bank (Purchase) (Bal.fig.)	8,60,000	By P & L A/c (loss on sale)	45,000

Underwriting commission is given in the form of shares only. It means that shares issued against cash will be of Rs.1,98,500 only.

		By Depreciation	2,10,000
		By Balance c/d	20,60,000
	23,90,000		23,90,000

2. Investment A/c

	Rs.		Rs.
To Balance b/d	90,000	By Bank (W.N.4)	1,50,000
To Bank	2,70,000	By Balance c/d	2,40,000
To Profit & Loss (W.N.4)	30,000		
	3,90,000		3,90,000

3. Provision for Tax A/c

	Rs.		Rs.
To Bank	15,000	By Balance b/d	30,000
To Balance c/d	60,000	By Profit & Loss A/c (Provision) (Bal.fig.)	45,000
	75,000		75,000

4. Cost of investment sold =(Rs.90,000+Rs.2,70,000) – Rs.2,40,000 = Rs.1,20,000.

Sales price = 1,20,000 x (100/80) = Rs.1,50,000

Profit on sale = Rs.1,50,000 – Rs.1,20,000

5. Profit and Loss Account

showing calculation of pre-incorporation and post-incorporation profit

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
		Rs.	Rs.			Rs.	Rs.
To Commission	(1:6)	375	2,250	By Gross Profit	(1:6)	14,000	84,000
To Advertisement	(1:6)	750	4,500	By Bad Debts Realised	Actual	500	-
To Discount	(1:6)	50	300				
To Directors Fees	Actual	-	9,000				
To Salaries	(1:3)	4,500	13,500				
To Depreciation	(1:3)	700	2,100				
To Insurance	(1:3)	150	450				
To Preliminary Expenses	Actual	-	700				
To Rent	(W.N.3)	60	630				
To Taxes	(W.N.3)	578	1,732				

To	Bad Debts	(W.N.4)	386	864				
To	Interest to vendor (upto 1-10-2009)	(1:1)	1,000	1,000				
To	Audit Fees	(1:3)	500	1,500				
To	Capital reserve		5,451					
To	Net profit			45,474				
			14,500	84,000			14,500	84,000

Working Notes:

1. **Calculation of Sales Ratio:**

   Let average monthly turnover during first four months (April, May, June and July) = 100

   Average monthly turnover from September onwards = 100 x 2 = 200

   Monthly turnover during August = 150% of 200 = 300

   Turnover during pre-incorporation period = 100 x 3 = 300

   Turnover during post-incorporation period (for July + August + September to March)

   = 100 + 300 + (200 x 7) = 1,800

   Sales Ratio = 300: 1,800 = 1:6

2. **Calculation of Time ratio:**

   April 2009 to June 2009 : July 2009 to March 2010

   3 months : 9 months or 1:3

3. **Break-up of Rent and Taxes:**

   Rent = (20 x 3) + (70 x 9) = Rs. 690

   Taxes = 3,000 – 690 = 2,310.

4. **Allocation of Bad Debts:**

   Bad Debts from April to August = 1,250-350 = Rs. 900

   Sales ratio upto August (i.e. April, May and June): (July and August)

   (100 + 100 + 100) : (100 + 300) = 3:4

   Rs. 900 allocated in the ratio of 3:4 is Rs. 386 and Rs. 514

   Post-incorporation bad debts = 514 + 350 = Rs. 864

   and Pre-incorporation bad debts = Rs. 386

6. **In the Books of Assured Ltd.**

Journal Entries

			Rs.	Rs.
(i)	Share Final Call A/c	Dr.	2,00,000	
	To Share Capital A/c			2,00,000
	(Being the final call of Rs. 2.50 each on 80,000 equity shares made)			
(ii)	Bank A/c	Dr.	2,00,000	
	To Share Final Call A/c			2,00,000
	(Being the amount due on final call received)			
(iii)	General Reserves	Dr.	3,00,000	
	Securities Premium A/c	Dr.	1,00,000	
	To Bonus to Share holders A/c			4,00,000
	(Being the appropriation made to facilitate issue of fully paid up bonus shares in the ratio of one share for every two shares held)			
(iv)	Bonus to Shareholders A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being the issuance of 40,000 fully paid up shares of Rs. 10 each by way of bonus)			

Balance Sheet (after bonus issue)

Liabilities	Amount Rs.	Assets	Amount Rs.
Authorised Share Capital		Sundry Assets	17,00,000
1,50,000 equity shares of Rs. 10 each	15,00,000	Bank	2,00,000
Issued and Subscribed			
1,20,000 Equity Shares of Rs. 10 each fully paid up	12,00,000		
(Of the above, 40,000 equity shares are allotted as fully paid up by way of bonus shares)			
Reserves and Surplus			
Capital Redemption Reserve	1,50,000		

Plant Revaluation Reserve	20,000		
Securities Premium	50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
	19,00,000		19,00,000

7. **Journal Entries**

Particulars		Debit (Rs.)	Credit (Rs.)
First debentures A/c	Dr.	3,00,000	
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	90,000	
To A's A/c			6,90,000
(Being A's total liability ascertained)			
A's A/c	Dr.	2,10,000	
To Reconstruction A/c			2,10,000
(Being cancellation of debt upto Rs.2,10,000)			
Bank A/c	Dr.	30,000	
To A's A/c			30,000
(Being cash received in course of settlement)			
A's A/c	Dr.	5,10,000	
To First debentures A/c			5,10,000
(Being liability of A, discharged against first debentures)			
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	60,000	
To B's A/c			3,60,000
(Being B's liability ascertained)			
B's A/c	Dr.	3,60,000	
To Bank A/c			90,000
To Reconstruction A/c			2,70,000
(Being B's liability discharged)			

Unsecured creditors A/c	Dr.	3,00,000	
To Equity share capital A/c			1,12,500
To Loan (Unsecured) A/c			75,000
To Reconstruction A/c			1,12,500
(Being settlement of unsecured creditors)			
Share final call A/c	Dr.	1,80,000	
To Share capital A/c			1,80,000
(Being final call money due)			
Bank A/c	Dr.	1,80,000	
To Share final call A/c			1,80,000
(Being final call money received)			
Share capital A/c (Face value Rs.60)	Dr.	3,60,000	
To Share capital (Face value Rs. 7.50)			45,000
To Reconstruction A/c			3,15,000
(Being share capital reduced to Rs.7.50 each)			
Reconstruction A/c	Dr.	8,70,000	
To Profit and loss A/c			8,70,000
(Being reconstruction surplus used to write off losses)			

Working Notes:

1.	**Settlement of claim of remaining unsecured creditors**	Rs.
	75% of Rs.3,00,000	2,25,000
	Considering their claim for share of Rs.60 each	
	2,25,000/60 =3,750 shares	
	Less: Number of shares to be issued	
	3,750 x 4= 15,000 shares of Rs.7.5 each	
	Total value= 15,000 x 7.50	1,12,500
	Transferred to Reconstruction A/c	1,12,500

2. Ascertainment of profit and loss A/c debit balance at the time of reconstruction.

Liabilities	Rs.	Asset	Rs.
Share capital	1,80,000	Fixed assets	3,90,000
1st Debenture	3,00,000	Cash	2,70,000
2nd Debenture	6,00,000	Profit and loss A/c	8,70,000
Unsecured creditors	4,50,000		
	15,30,000		15,30,000

8. (i) Calculation of amount of equity shares issued to Roshni and Jyoti

Profits of	Roshni	Jyoti
	Rs.	Rs.
Ist year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability

	Roshni	Jyoti
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of amount of 12% Preference shares issued to Roshni and Jyoti

	Roshni	Jyoti
	Rs.	Rs.
Capital employed (Refer working note 1)	8,40,000	9,24,000
8% return on capital employed	67,200	73,920
12% Preference shares to be issued $\left[67,200 \times \frac{100}{12}\right]$	Rs. 5,60,000	
$\left[73,920 \times \frac{100}{12}\right]$		Rs. 6,16,000

Total Purchase Consideration

	Roshni	Jyoti
	Rs.	Rs.
Equity Shares	2,85,000	3,15,000
12% Preference shares	5,60,000	6,16,000
Total	8,45,000	9,31,000

(ii) Balance Sheet of Ujala Ltd. (after amalgamation)

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Fixed assets:	
1,00,000 Equity Share of Rs.25 each	25,00,000	Goodwill (W.N.1)	14,000
Issued and subscribed share capital:		Plant and Machinery	12,00,000
24,000 Equity Shares of Rs.25 each	6,00,000	Building	14,23,000
1,17,600 12% Preference shares of Rs.10 each	11,76,000	Current Assets (W.N.2)	2,70,100
(All of the equity and preference shares have been issued for consideration other than cash)			
Current Liabilities (W.N. 3)	11,31,100		
	29,07,100		29,07,100

Working Notes:

1. Goodwill

	Roshni	Jyoti
	Rs.	Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
	14,63,500	14,81,600
Less: Current liabilities	6,23,500	5,57,600
Net assets (capital employed)	8,40,000	9,24,000
Less: Purchase consideration	8,45,000	9,31,000
Goodwill	5,000	7,000

Total purchased goodwill		
Add: Unrealised profit of Rs.10,000 @ 20% = Rs.2,000 is adjusted from current assets and from goodwill (since P & L A/c is not given)		
Total Goodwill		

2. Current Assets

	Roshni Rs.	Jyoti Rs.
Balances before amalgamation	1,63,500	1,58,600
Less: Liabilities of Roshni due to Jyoti	-	50,000
Less: Unrealised Profit on stock i.e.Rs.10,000 x 20%	2,000	
Total	1,61,500	1,08,600
Grand Total		2,70,100

3. Current Liabilities

	Roshni Rs.	Jyoti Rs.
Balances before amalgamation	6,23,500	5,57,600
Less: Liabilities of Roshni due to Jyoti	50,000	-
Total	5,73,500	5,57,600
Grand Total		11,31,100

9. Statement showing calculation of average due date

Instalments	Due Dates	Years since 1 January 200
1	1 January 2008	2
2	1 January 2009	3
3	1 January 2010	4
4	1 January 2011	5
5	1 January 2012	6
		20

Average Due Date $= \text{Date of Loan} + \frac{20}{5}$

= 1 January, 2006 + 4 years = 1 January, 2010

Interest $= \frac{20{,}000 \times 12 \times 4}{100} = \text{Rs. } 9{,}600$

10. **In the books of Me**

You in Account Current with Me

As on 30 June, 2010

Date 2010	Particulars	Debit Amount Rs.	Credit Amount Rs.	Dr. or Cr.	Balance Rs.	Days	Debit Products Rs	Credit Products Rs.
Jan. 1	By Balance b/d		3,010.00	Cr.	3,010.00	7		21,070
Jan. 7	By Purchases		4,430.00	Cr.	7,440.00	40		2,97,600
Feb. 16	To Sales	6,480.00		Cr.	960.00	2		1,920
Feb. 18	By Returns Inward		560.00	Cr.	1,520.00	34		51,680
Mar. 24	To Sales	3,560.00		Dr.	2,040.00	29	59,160	
Apr. 22	By Purchases		1,500	Dr.	540.00	7	3,780	
Apr. 29	By Cash		2,500.00	Cr.	1,960.00	18		35,280
May 27	By Purchases		2,710.00	Cr.	4,670.00	36		1,68,120
June 22	To Sales	2,280.00		Cr.	2,390.00	8		19,120
June 30	Balance of products						5,31,850	
June 30	By Interest on balance of Products: $\left(\frac{5{,}31{,}850 \times 10}{100 \times 365}\right)$		145.71	Cr.	2,535.71			
June 30	To Balance c/d	2,535.71	—					
		14,855.71	14,855.71					
July 1	By Balance b/d		2,535.71	Cr.	2,535.71			

11. **Total Debtors Account**

Date 2010	Particulars	Amount Rs.	Date 2010	Particulars	Amount Rs.
Apr.1	To Balance b/d		Apr.1	By Balance b/d	20,000
				— Advanced by P	
	(15,000 + 21,000 + 18,000 +3,56,000)	4,10,000		By Cash A/c (W.N.1)	3,93,000
30.	To Sales (credit) A/c	4,41,000	30.	By Discount Allowed A/c (W.N.2)	9,500
	(5,55,000 – 1,14,000)			By Bad Debts A/c	16,500
	To Bills Receivable A/c	9,000		By (21,000 – 4,500)	
	— Dishonoured of X			By Returns Inward A/c	6,000
	To Cash A/c—Noting Charges	150		— by X	
	To Balance c/d— D	18,000		By Bill Receivable A/c	9,000
				— by X	
				By Transfer to Total Creditors A/c	18,000
				— Z's balance	
				By Balance c/d	
				X - 9,150	
				B – 18,000	
				Others - 3,79,000	4,06,150
		8,78,150			8,78,150
May1	To Balance b/d	4,06,150	May1	By Balance b/d -D	18,000

Working Notes:

1. Amount received from Customers

	Rs.
From Y	4,500
D (advance)	18,000
Add: From other customers before April 1	2, 73,000
From sales during the month of April	97,500
	3,93,000

2. Discount allowed @ $2\frac{1}{2}$ % on gross amount

Then, net value in % = 97½ (100 - $2\frac{1}{2}$)

So, discount on Rs. 3,70,500 (i.e. 2,73,000 + 97,500) will be

$$= \text{Rs. } 3{,}70{,}500 \times \frac{2\frac{1}{2}}{97\frac{1}{2}}$$

= Rs. 9,500

12. **Balance Sheet**

as at 1st January 2009

Liabilities	Rs.	Assets	Rs.
Capital fund (bal. fig.)	54,250	Investment in 4% Bonds	15,000
Creditors	10,000	Stock	6,000
Subscription received in Advance for 2009	3,000	Outstanding Subscriptions	
Outstanding Salaries	7,000	for 2007	19,000
		for 2008	30,000
		Balance at Bank	4,250
	74,250		74,250

Balance Sheet

as at 31st December 2009

Liabilities		Rs.	Assets	Rs.
Capital fund :			Investments 4% Bonds	25,000
on 1.1.2009	54,250		Accrued Interest	550
Surplus for 2009	33,000	87,250		
Creditors for Provisions		5,000	Stock (W.N.1)	25,000
Subscription received in Advance for 2010		4,000	Debtors of Provisions	4,000
Outstanding Salaries		12,000	Outstanding Subscriptions	
Outstanding Rent		2,000	2007	1,000
			2008	10,000
			2009	27,000
			Balance at Bank	17,700
		1,10,250		1,10,250

Receipts and Payments Account

for the year ended 31st December 2009

	Receipts	Rs.		Payments	Rs.
To	Balance in hand (bal. fig.)	4,250	By	Salaries	40,000
To	Subscriptions:		By	Investment purchased	10,000
	2007	18,000	By	Purchase of provisions	9,000
	2008	17,000	By	Creditors (W.N.3)	1,05,000
	2009 (W.N.4)	40,000	By	Balance in hand	17,700
To	Cash Sales	12,000			
To	Interest	450			
To	Debtors (W.N.2)	86,000			
To	Subscriptions for 2010	4,000			
		1,81,700			1,81,700

Income and Expenditure Account

for the year ended 31st December 2009

	Expenditures	Rs.		Incomes		Rs.
To	Salaries	45,000	By	Subscriptions for 2009		70,000
To	Rent	2,000	By	Interest	450	
To	Bad Debts (W.N.4) (Subscriptions for 2008)	3,000		Add: Accrued interest	550	1,000
To	Excess of income over expenditure	33,000	By	Profit on Provision		12,000
		83,000				83,000

Working Notes:

1. Provisions Account

		Rs.			Rs.
To	Opening Stock	6,000	By	Sales- Credit Rs.90,000	
To	Purchases	1,09,000		Cash Rs.12,000	1,02,000
To	Profit	12,000	By	Closing Stock	25,000
		1,27,000			1,27,000

2. **Debtors Account**

	Rs.		Rs.
To Sale of Provisions	90,000	By Cash (Bal.fig.)	86,000
		By Balance c/d	4,000
	90,000		90,000

3. **Creditors Account**

	Rs.		Rs.
To Cash (Bal.fig.)	1,05,000	By Balance b/d	10,000
To Balance c/d	5,000	By Provisions	1,00,000
	1,10,000		1,10,000

4. **Subscription Account**

	2007 Rs.	2008 Rs.	2009 Rs.		2007 Rs.	2008 Rs.	2009 Rs.
To Balance b/d	19,000	30,000	-	By Balance b/d	-	-	3,000
To Income and Expenditure A/c	-	-	70,000	By Cash A/c	18,000	17,000	40,000*
				By Bad Debts A/c	-	3,000	-
				By Balance c/d	1,000*	10,000	27,000
	19,000	30,000	70,000		19,000	30,000	70,000

* means balancing figure.

13. **Trading and Profit and Loss Account of Shri Ram for the year ended 31st December, 2009**

		Rs.		*Rs.*
To Opening Stock		8,000	By Sales	73,050
To Purchases	45,600		By Closing stock	7,000
Less : For advertising	900	44,700		
To Freight inwards		3,000		
To Gross profit c/d		24,350		
		80,050		80,050
To Sundry expenses		14,200	By Gross profit b/d	24,350

To Advertisement		900	By Interest on investment $\left\{\text{Rs.}100\times\frac{4}{100}\times\frac{1}{2}\right\}$	2
To Discount allowed –				
Debtors	1,500		By Discount received	800
Bills Receivable	125	1,625	By Miscellaneous income	500
To Depreciation on furniture		650		
To Provision for doubtful debts		486		
To Net Profit		7,791		
		25,652		25,652

Balance Sheet as on 31st December, 2009

Liabilities		*Amount Rs.*	*Assets*		*Amount Rs.*
Capital as on 1st January, 2009	18,800		Furniture	6,000	
Less : Drawings	7,904		Additions during the year	1,000	
	10,896			7,000	
Add : Net Profit	7,791	18,687	*Less :* Depreciation	650	6,350
Sundry creditors		15,000	Investment		96
Outstanding expenses		1,800	Interest accrued		2
			Closing Stock		7,000
			Sundry debtors	19,450	
			Less : Provision for doubtful debts	486	18,964
			Bills receivable		1,750
			Cash in hand and at bank		625
			Prepaid expenses		700
		35,487			35,487

Working Notes :

(1) Capital on 1st January, 2009

Balance Sheet as on 1st January, 2009

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital (Balancing figure)	18,800	Furniture (w.d.v.)	6,000
Creditors	11,000	Stock at cost	8,000
Outstanding expenses	2,000	Debtors	16,000
		Cash in hand and at bank	1,200
		Prepaid expenses	600
	31,800		31,800

(2) Purchases made during the year

Creditors Account

	Rs.		*Rs.*
To Cash and bank A/c	39,200	By Balance b/d	11,000
To Discount received A/c	800	By Debtors A/c	400
To Bills Receivable A/c	2,000	By Purchases A/c (Bal.fig.)	45,600
To Balance c/d	15,000		
	57,000		57,000

(3) Sales made during the year

		Rs.
Opening stock		8,000
Purchases	45,600	
Less : For advertising	900	44,700
Freight inwards		3,000
		55,700
Less : Closing stock		7,000
Cost of goods sold		48,700
Add : Gross profit (@ 50% on cost)		24,350
		73,050

(4) Debtors on 31.12.2009

Debtors Account

	Rs.		Rs.
To Balance b/d	16,000	By Cash and bank A/c	58,500
To Sales A/c	73,050	By Discount allowed A/c	1,500
To Creditors A/c (bill dishonoured)	400	By Bills receivable A/c	10,000
		By Balance c/d (Bal.fig.)	19,450
	89,450		89,450

(5) Additional drawings by Shri Ram

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	1,200	By Freight inwards A/c	3,000
To Sundry debtors A/c	58,500	By Furniture A/c	1,000
To Bills Receivable A/c	6,125	By Investment A/c	96
To Miscellaneous income A/c	500	By Expenses A/c	14,500
		By Creditors A/c	39,200
		By Drawings A/c (Rs.7,000+Rs.904)	7,904
		By Balance c/d	625
	66,325		66,325

(6) Amount of expenses debited to Profit and Loss A/c

Expenses Account

	Rs.		*Rs*
To Prepaid expenses A/c (on 1.1.2009)	600	By Outstanding expenses A/c (on 1.1.2009)	2,000
To Bank A/c	14,500	By Profit and Loss A/c (Balancing figure)	14,200
To Outstanding expenses A/c (on 31.12.2009)	1,800	By Prepaid expenses A/c (on 31.12.2009)	700
	16,900		16,900

(7) Bills Receivable on 31.12.2009

Bills Receivable Account

	Rs.		*Rs.*
To Debtors A/c	10,000	By Creditors A/c	2,000
		By Bank A/c	6,125
		By Discount on bills receivable A/c	125
		By Balance c/d (Bal.fig.)	1,750
	10,000		10,000

Note: As regards investment, it has been assumed that investment purchased for Rs. 96 was of the face value Rs. 100.

14. Hire-Purchase Trading Account for the year ended 31.03.2010

	Rs.		Rs.
To H.P. Stock (Opening)	3,60,000	By H.P. Stock Reserve (Opening)	1,20,000
To Installment due (Opening)	30,000	By Bank (Cash Collected)	6,20,000
To Goods Sold on H.P.	8,40,000	By Goods Sold on H.P. (Loading)	2,80,000
To H.P. Stock Reserve (Closing)	1,80,000	By H.P. Stock (Closing)	5,40,000
To Profit & Loss A/c	2,20,000	By Installments due	70,000
	16,30,000		16,30,000

Working Notes:

(i) Calculation of Opening and Closing H.P. Stock

$$\text{Opening Stock} = \frac{\text{H. P. Stock Reserve} \times 150}{50}$$

$$= \frac{1{,}20{,}000 \times 150}{50}$$

$$= \text{Rs. } 3{,}60{,}000$$

$$\text{Closing Stock} = \frac{\text{H. P. Stock Reserve} \times 150}{50}$$

$$= \frac{1{,}80{,}000 \times 150}{50}$$

$$= \text{Rs. } 5{,}40{,}000$$

(ii) Calculation of installments collected:

	Rs.
H.P. Stock on 01.04.2009	3,60,000
Installments due on 01.04.2009	30,000
Goods sold on H.P. basis	8,40,000
	12,30,000
Less: H.P. Stock on 31.03.2010	5,40,000
	6,90,000
Less: Installment due on 31.03.2010	70,000
Installment collected during the year	6,20,000

15. **In the books of Anshu**

10% Non-Convertible Debentures (NCD) Account

	Particulars	Face Value Rs.	Interest Rs.	Cost Rs.		Particulars	Face Value Rs.	Interest Rs	Cost Rs
April 1	To Balance b/d	2,00,000	5,000	1,80,000	June 30	By Bank		25,000	
June 15	To Bank	3,00,000	13,750	2,88,000	Sept. 15	By Bank	3,00,000	6,250	3,00,000
Sept. 15	To P&L A/c			24,000	Dec. 31	By Bank		20,000	
Dec. 15	To Bank	2,00,000	9,167	1,88,333	Feb. 15	By Bank	2,00,000	2,500	2,01,500
Feb. 15	To P&L A/c			9,500	Mar.31	By balance c/d	2,00,000	5,000	1,88,333
Mar.31	To P&L A/c (Bal. fig.)		30,833						
		7,00,000	58,750	6,89,333			7,00,000	58,750	6,89,333

Working Notes

(i) **Profit/Loss on sale of NCD**

Sold on 15.09.2009	Rs.
Selling price (3,000 x 100)	3,00,000
Less: Cost of purchases	
2000 x 90 (opening)	1,80,000
1000 x 96 (purchases)	96,000
Profit	24,000

Sold on 15.02.2010

Selling price (2,000 x 102)	2,04,000
Less: Interest included	2,500
	2,01,500
Less: Cost of purchases (2000 x 96)	1,92,000
Profit	9,500

(ii) As the disinvestment is done on FIFO basis, NCDs purchased on 15.12.2009 remained in stock on 31.03.2010 at a cost of Rs. 1,88,333

(iii) **Interest calculation on various dates:**

Rs.

(a) On 1.4.09:

$$2{,}00{,}000 \times 10\% \times \frac{3}{12} \rightarrow (1.1.09 \quad 31.3.09) \quad = \quad 5{,}000$$

(b) On 15.6.09:

$$3{,}00{,}000 \times 10\% \times \frac{5.5}{12} \rightarrow (1.1.09 \quad 15.6.09) \quad = \quad 13{,}750$$

(c) On 30.6.09:

$$5{,}00{,}000 \times 10\% \times \frac{6}{12} \rightarrow (1.1.09 \quad 30.6.09) \quad = \quad 25{,}000$$

(d) On 15.9.09:

$$3{,}00{,}000 \times 10\% \times \frac{2.5}{12} \rightarrow (1.7.09 \quad 15.9.09) \quad = \quad 6{,}250$$

(e) On 15.12.09

$$2{,}00{,}000 \times 10\% \times \frac{5.5}{12} \rightarrow (1.7.09 \quad 15.9.09) \quad = \quad 9{,}167$$

(f) On 31.12.09:

$$4{,}00{,}000 \times 10\% \times \frac{6}{12} \rightarrow (1.7.09 \quad 31.12.09) \quad = \quad 20{,}000$$

(g) On 15.2.2010:

$$2{,}00{,}000 \times 10\% \times \frac{1.5}{12} \rightarrow (1.1.10 \quad 15.2.10) \quad = \quad 2{,}500$$

(h) On 31.3.2010:

$$2{,}00{,}000 \times 10\% \times \frac{3}{12} \rightarrow (1.1.10 \quad 31.3.10) \quad = \quad 5{,}000$$

16. Computation of the amount of claim for the loss of profit

		Rs.
(i)	**Ascertainment of turnover:**	
	Turnover from 15th October, 2008 to 31st March, 2009	2,40,000
	Add: 20% expected increase	48,000
		2,88,000
	Less: Actual turnover from 15th October, 2009 to 31st March, 2010	1,20,000
	Reduction in turnover due to fire	1,68,000
	Gross profit on reduction in turnover @ 35% (see working note)	58,800

(ii) Claim amount:

Amount of claim without application of average clause Rs. 58,800

Application of average clause

$$= \frac{\text{Amount of Policy}}{\text{G.P. on Turnover}} \text{ X Amount of claim}$$

$$= \frac{1,50,000}{2,01,600} \text{ X } 58,800$$

$=$ Rs. 43,750

Therefore, amount of claim = Rs. 43,750

Working Notes:

(i)

Rate of Gross Profit for last financial year:	Rs.
Net Profit	90,000
Add: Insured standing charges	67,500
	1,57,500
Turnover for the last financial year	4,50,000

$$\text{Rate of Gross Profit} = \frac{1,57,000}{4,50,000} \text{ X } 100$$

$= 35\%$

(ii)

Adjusted Annual Turnover:	Rs.
Turnover from 15th October, 2008 to 14th October, 2009	4,80,000
Add: 20% expected increase	96,000
	5,76,000
Gross Profit @ 35% on incremental turnover	2,01,600

17.

Profit & Loss Appropriation Account
for the year ended 31st March, 2010

	For the period			For the period	
	1.4.09 to 31.8.09	1.9.09 to 31.3.10		1.4.09 to 31.8.09	1.9.09 to 31.3.10
	Rs.	Rs.		Rs.	Rs.
To Interest on capital	7,500	17,500	By Net Profit	75,000	1,05,000
To Depreciation	6,000	12,500			
To Z's Commission	5,591	-			
To Transfer to current A/c					
X	22,364	-			
Y	22,363	40,000			
Z	11,182	20,000			
A	-	15,000			
	75,000	1,05,000		75,000	1,05,000

Partners' Current Account

	X	Y	Z	A		X	Y	Z	A
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
From 1.4.09 to 31.8.09									
To X	-	16,000	8,000		By X's capital A/c (Transfer)	80,000	-	-	
To Cash	50,000	-	-	-	By Interest on Capital	3,000	3,000	1,500	
To A's Capital A/c	60,000	-	-	-	By commission	-	-	5,591	

To A's Current A/c	19,364				By Y	16,000			
To Balance c/d		9,363	10,273		By Z	8,000			
					By P/L Appropriation Account	22,364	22,363	11,182	
	1,29,364	25,363	18,273			1,29,364	25,363	18,273	
From 1.9.09 to 31.3.10									
To Y		-	-	8,000	By Balance b/d		9,363	10,273	
To Z				4,000	By X's Current A/c		-	-	19,364
To Balance c/d		66,696	38,940	25,864	By Interest on Capital		9,333	4,667	3,500
					By A		8,000	4,000	-
					By P/L Appropriation A/c		40,000	20,000	15,000
		66,696	38,940	37,864			66,696	38,940	37,864

Working Notes:

(i) New Profit sharing ratio and proportionate partners' capital as per new ratio:

Fixed capital of the firm Rs. 3,00,000

New profit sharing ratio:

A is given 1/5 share

Balance share $1 - \frac{1}{} \square \frac{4}{}$

$\text{Y's share} \square \frac{4}{5} \square \frac{2}{3} \square \frac{8}{15}$

$\text{Z's share} \square \frac{4}{5} \square \frac{1}{3} \square \frac{4}{15}$

New ratio

Y		Z		A	
$\frac{8}{15}$	:	$\frac{4}{15}$	:	$\frac{1}{15}$	or 8:4:3

Fixed capital of partners in profit sharing ratio will be

Y □ $\frac{3,00,000 \times 8}{15}$ □ 1,60,000

Z □ $\frac{3,00,000 \times 4}{15}$ □ 80,000

A □ $\frac{3,00,000 \times 3}{15}$ □ 60,000

(ii) Goodwill adjustment at the time of retirement of X

	X Rs.	Y Rs.	Z Rs
Goodwill as per old ratio 2:2:1	24,000	24,000	12,000
Less : Goodwill in 2:1	——	40,000	20,000
	24,000	(16,000)	(8,000)

Goodwill adjustment at the time of admission of A

	Y Rs.	Z Rs.	A Rs.
Goodwill in 2:1 (before admission)	40,000	20,000	——
Less : Goodwill in 8:4:3	32,000	16,000	12,000
	8,000	4,000	(12,000)

(iii) Interest on partners' capital

For the period from 1.4.09 to 31.8.2009 (5 months)

X's capital Rs. 80,000 x 9% x $\frac{5}{12}$ □ Rs. 3,000

Y's capital Rs. 80,000 x 9% x $\frac{5}{12}$ □ Rs. 3,000

Z's capital Rs. 40,000 x 9% x $\frac{5}{12}$ □ Rs. 1,500

Total = Rs. 7,500

For the period from 1.9.2009 to 31.3.2010 (7 months)

Y's capital Rs. 1,60,000 x 10% x $\frac{7}{12}$ □ Rs. 9,333

Z's capital Rs. 80,000 x 10% x $\frac{7}{12}$ □ Rs. 4,667

A's capital Rs. 60,000 x 10% x $\frac{7}{12}$ □ Rs. 3,500

Total = Rs. 17,500

(iv) Commission payable to Z

Profit for the period 01.04.2009 to 31.8.2009 = 1,80,000 x $\frac{5}{12}$ = Rs. 75,000

Less: Depreciation for the period	Rs. 6,000	
Interest on capital for the period	Rs. 7,500	Rs. 13,500
		Rs. 61,500

Commission to Z @ 10%

Net profit before commission = Rs. 61,500

Profit after 10% commission = $\frac{61,500 \times 100}{110}$

= Rs. 55,909

Commission @ 10% = Rs. 5,591

18. There are several prepackaged accounting softwares which are available in the market and are used extensively for small and medium sized organisations. These softwares are easy to use, relatively inexpensive and readily available. The installation of these softwares are very simple. An installation diskette or CD is provided with the software which can be used to install the software on a personal computer. A network version of this software is also generally available which needs to be installed on the server and work can be performed from the various workstations or nodes connected to the server. Along with the software an user manual is provided which guides the user on how to use the software. After installation of the software, the user should check the version of the software to ensure that they have been provided with the latest. The vendor normally provides regular updates to take care of the changes of law as well as add features to the existing software. These softwares normally have a section which provides for the creation of a company. Once the basic parameters are set and the master files are updated, the system is ready for use.

19. **Memorandum Trading Account**

For the period from 1.4.2010 to 30.6.2010

		Rs.			Rs.
To	Opening Stock: 2,20,000 Less: Abnormal Item 20,000	2,00,000	By	Sales 30,20,000	
To	Purchases	21,00,000		Less: Abnormal Item (20,000)	
To	Gross Profit (1/3 of Rs. 27,00,000)	9,00,000		Returns (3,00,000)	27,00,000

		By Stock at the end (Bal.Fig.)	5,00,000
	32,00,000		32,00,000

Statement of Insurance Claim

	Rs.
Stock on the date of fire	5,00,000
Less: Stock Salvaged	30,000
	4,70,000
Add: Fire fighting expenses	30,000
	5,00,000

Insurance Claim: $\frac{\text{Policy Amount}}{\text{Stock on the date of fire}} \times \text{Total Loss}$

$\frac{3,50,000}{5,00,000}$ x 5,00,000= Rs. 3,50,000

20. Profit and Loss Appropriation Account

For the year ended 31st March, 2010

	Rs.	Rs.		Rs.
To Partner's Salaries			By Balance b/d (Net Profit)	1,47,850
Ankur (1,000 × 12)	12,000			
Aarav (1,000 × 12)	12,000			
Aarush (1,000 × 12)	12,000	36,000		
To Interest on Loan: Aarush		875		
$\left\{25,000 \times \frac{6}{12} \times \frac{7}{12}\right\}$				
To Interest on Capital:				
Ankur	9,000			
Aarav	9,000			
Aarush	13,500	31,000		
To Current Account:				
(Share of Profit)				
Ankur	22,325			

Aarav	24,325			
Aarush	33,325	79,975		
		1,47,850		1,47,850

Working Note:

Distribution of profit:

Divisible Total Profit = (1,47,850 – 68,375) = Rs.79,975

	Ankur Rs.	Aarav Rs.	Aarush Rs.
First Rs.35,000 (Capital Ratio 2:2:3)	10,000	10,000	15,000
Next Rs.20,000 (2:3:5)	4,000	6,000	10,000
Balance Rs.24,975 (1:1:1)	8,325	8,325	8,325
	22,325	24,325	33,325

Partners' Current Accounts

Particulars	X Rs.	Y Rs.	Z Rs.	Particulars	X Rs.	Y Rs.	Z Rs.
To Balance b/d	-	1,000	--	By Balance b/d	2,000		3,000
To Drawings	10,000	10,000	10,000	By Salaries	12,000	12,000	12,000
To Balance c/d	35,325	34,325	52,700	By Interest on Loan	---	----	875
				By Interest on capital	9,000	9,000	13,500
				By P/L Appropriation A/c	22,325	24,325	33,325
	45,325	45,325	62,700		45,325	45,325	62,700

21. (a) Three major considerations for the selection of any accounting principles and policies are :

(a) **Prudence :** Prudence is the inclusion of a degree of caution in the exercise of judgments needed in making estimates required under conditions of uncertainty.

By exercising prudence, an enterprise does not recognise profits on the basis of anticipation. These are recognized only when realised though not necessarily in cash. However, all known losses are anticipated and provided for.

For example, in determining the carrying amount of inventory, the profit margins are ignored and yet, the realisable value if less than cost is taken cognizance of.

(b) **Substance over form** If information is to represent faithfully the transactions or events, it is essential that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

For example, where rights and interests in a property stands transferred while legal documentation for the transfer is yet to be completed, the transaction should be recorded as a sale in the books of transferor and acquisition .in the books of transferee.

(c) **Materiality:** The relevance of information is affected by its materiality. Information is material if its misstatement, i.e. omission or erroneous statement, could influence the economic decisions taken by the user, based on such financial statements. Accordingly, financial statements should disclose all material items, i.e., knowledge of which might influence the decision of the financial statements.

Other qualitative characteristics of accounting information, such as (i) relevance, (ii) neutrality, (iii) completeness, and (iv) reliability are equally critical to users in order that financial statements are meaningful. In the selection and adoption of accounting policies these aspects should also be kept in view

(b) AS 2 provides that interest and other borrowing costs are usually considered as not relating to bringing the inventory to its present location and condition. Therefore, such costs are: usually not included.

(c) As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

(a) the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statement of profit and loss for:

(i) changes during the period in inventories and operating receivables and payables:

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealized foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

22. (a) The Accounting Standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in companies' economic performance. The setting of accounting standards has the following advantages:

(i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards practised in different countries.

However, there are some disadvantages of setting of accounting standards:

(i) Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.

(ii) There may be a trend towards rigidity and away from flexibility in applying the accounting standards.

(iii) Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

(b) Para 9 of AS 9 on "Revenue Recognition" deals with the effect of uncertainties on Revenue Recognition. The para states:

1. Recognition of revenue requires that revenue is measurable and at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.

2. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc. revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise, revenue only when it is reasonably certain that the ultimate collection will be made. When there is uncertainty as to ultimate collection, revenue is recognised at the, time of sale or rendering of service even , though payments are made by instalments.

3. When the uncertainty relating to collectability arises subsequent to the time of sale or rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

4. An essential criterion for the recognition of revenue is that the consideration receivable for the sale of goods, the rendering of services or from the use by others of enterprise resources is reasonably determinable. When such consideration is not determinable within reasonable limits; the recognition of revenue is postponed.

5. When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognised.

23. (a) As per para 11 of AS 10, when a fixed asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.

(b) AS 6 on 'Depreciation Accounting', is not applicable in respect of following assets:

(1) Forest, plantations and similar regenerative natural resources.

(2) Goodwill.

(3) Livestock.

(4) Wasting assets or land (if it has unlimited useful life for the enterprise).

(c) As per para 7 and 8 of AS 13 on 'Accounting for Investments', there are two categories of investments, viz., Current Investments and Long Term Investments. According to para 14 of the standard, the carrying amount for current investments is the lower of cost and fair value whereas para 17 states that Long Term Investments are valued at cost less permanent diminutions in value of investment. For current investments, para 16 of the standard states that, any reduction to fair value and any reversals of such reductions are included in the profit and loss statement.

24. (a) Since Nidhi Ltd. is entitled to a CENVAT credit of Rs.1,500, excise duty payable on finished goods is notionally adjusted against excise duty paid on materials consumed. Thus, CENVAT related excise duty cannot be included as a part of the cost of inventory. The cost of inventory would thus be valued at Rs.13,500 (11,500 + 1,80,000 + 1,700 – 1,500) only.

(b) **Cash Flow Statement**

Cash flows from operating activities		(Rs. in lacs)
Net profit		60,000
Less: Exchange gain		(8,000)
Less: Profit on sale of investments		(12,000)
		40,000
Add: Depreciation on assets		11,000
Change in current assets and current liabilities		51,000
(-) Increase in debtors	(8,000)	
(+) Decrease in stock	12,000	
(-) Decrease in creditors	(6,000)	(2,000)
Net cash from operating activities		49,000

Cash flows from investing activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	
Net cash from Investing activities		5,000
Cash flows from financing activities		
Issue of preference shares	9,000	
Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
Dividend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		59,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		71,796

(c) In this situation, each asset will be treated as a "single contract not withstanding the fact that there is only one document of contract. Four contract accounts have to be recorded in the books of X Co. For each contract account, principles of revenue and cost recognition have to be applied separately, and net income determined for each asset.

25. **(a)** AS 9 on Revenue Recognition defines revenue as 'gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of the enterprise from the sale of goods, from the rendering of services and from the use by others of enterprise resources yielding interest, royalties and dividends'.

To recognise revenue AS 9 requires that revenue arises from ordinary activities and that it is measurable and there should be no uncertainty. As per para 9.2 of the Standard, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made.

In the given case, TVSM company wants to suddenly recognise Insurance claim because it has increased over the previous year. But, there are uncertainties involved in the settlement of the claim. Also, the claim does not seem to be in the course of ordinary activity of the company.

Hence, TVSM company is not advised to recognise the Insurance claim as revenue.

(b) Since the amount spent increases the future performance of the asset, beyond its previously assessed level of performance, therefore, the amount of Rs.23,000 should be capitalized.

(c) As per paragraph 20 of AS 6 'Depreciation Accounting', the depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset. In the given case, the depreciation amount can be calculated as follows:

	Rs.
Cost of machinery	10,00,000
Less: Scrap value at the end of useful life	1,00,000
Amount to be written off during useful life of machinery	9,00,000
Useful life of the asset	5 years
Depreciation to be provided each year (Rs.9,00,000 / 5 years)	Rs.1,80,000

(d) As per para 32 of AS 13 on 'Accounting for Investments', any investment of long term period is shown at cost. Hence, the investment in Gold and Silver (purchased on 1st April 2005) shall continue to be shown at cost i.e., Rs.2,00,000 and Rs.1,50,000 respectively as their value have increased.

Also as per AS 13, for investment in shares - if the investment is for short-term period then the loss of Rs.3,00,000 is to be charged to profit & loss account for the year ended 31st March, 2008. If investment is of long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

Note: AS 1, 2, 3, 6, 7, 9, 10, 13 & 14 are applicable for November, 2010 Examination.

PAPER – 1 : ACCOUNTING

QUESTIONS

Cash Flow Statement

1. From the following Balance Sheets of Mr. Shyam, prepare a Cash Flow Statement as per AS 3 for the year ended 31.3.2010:

Balance Sheets of Mr. Shyam

	As on 1.4.2009	As on 31.3.2010
	Rs.	Rs.
Liabilities:		
Shyam's Capital Account	5,00,000	6,12,000
Sundry creditors	1,60,000	1,76,000
Mrs. Shyam's loan	1,00,000	--
Long term loan from bank	1,60,000	2,00,000
	9,20,000	9,88,000
Assets:		
Land	3,00,000	4,40,000
Plant and Machinery	3,20,000	2,20,000
Stock	1,40,000	1,00,000
Debtors	1,20,000	2,00,000
Cash	40,000	28,000
	9,20,000	9,88,000

Additional information:

A machine costing Rs.40,000 (accumulated depreciation there on Rs.12,000) was sold for Rs.20,000. The provision for depreciation on 1.4.2009 was Rs.1,00,000 and on 31.3.2010 was Rs.1,60,000. The net profit for the year ended on 31.3.2010 was Rs.1,80,000.

Profit or Loss Prior to Incorporation

2. ABC Ltd. took over a running business with effect from st April, 2009. The company was incorporated on 1st August, 2009. The following Profit and Loss Account has been prepared for the year ended 31.3.2010:

		Rs.		Rs.
To	Salaries	48,000	By Gross Profit	3,20,000
To	Stationery	4,800		
To	Travelling expenses	16,800		

To	Advertisement	16,000		
To	Miscellaneous trade expenses	37,800		
To	Rent (office buildings)	26,400		
To	Electricity charges	4,200		
To	Director's fees	11,200		
To	Bad debts	3,200		
To	Commission to selling agents	16,000		
To	Audit fees	6,000		
To	Debenture interest	3,000		
To	Interest paid to vendors	4,200		
To	Selling expenses	25,200		
To	Depreciation on fixed assets	9,600		
To	Net Profit	87,600		
		3,20,000		3,20,000

Additional information:

(a) Total sales for the year, which amounted to Rs.19,20,000 arose evenly upto the date of 30.9.2009. Thereafter they spurted to record an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ Rs.2,000 per month upto September, 2009 and thereafter it was increased by Rs.400 per month.

(c) Travelling expenses include Rs.4,800 towards sales promotion.

(d) Depreciation include Rs.600 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2009 by issuing equity shares of Rs.10 each.

Prepare the P & L A/c in columnar form showing distinctly the allocation of expenses between pre and post incorporation periods.

Accounting for Bonus Issue

3. Following is the extract of the Balance Sheet of Omega Ltd., a listed company as at March 31, 2010:

	Rs.
Authorised Capital:	
40,000, 12% Preference shares of Rs.10 each	4,00,000
4,00,000, Equity shares of Rs.10 each	40,00,000
	44,00,000

Issued and Subscribed Capital:	
32,000, 12% Preference shares of Rs.10 each fully paid	3,20,000
3,60,000 Equity shares of Rs.10 each fully paid-up	36,00,000
Reserves and Surplus:	
Revaluation reserves	80,000
General reserve	5,00,000
Capital reserve	3,00,000
Securities premium	1,00,000
Profit & Loss (Cr.)	7,00,000
Secured Loan:	
12% Partly convertible debentures @ Rs.100 each	20,00,000

On April 30, 2010, the company decided to capitalise its reserves by way of Bonus at the rate 1:4. Securities premium of Rs.1,00,000 includes a premium of Rs.20,000 for shares issued pursuant to a scheme of amalgamation. Capital reserve includes Rs.1,60,000, being profit on sale of Plant and Machinery. 20% of 12% Debentures are convertible into Equity shares of Rs.10 each fully paid on April 30, 2010.

State with reason on the following:

(i) Whether Revaluation Reserve be capitalised?

(ii) How much amount of Capital reserve can be capitalised?

(iii) How much amount of 'Securities Premium A/c' can be capitalised?

(iv) Are the convertible debentureholders entitled to Bonus shares?

(v) The minimum number of Equity shares to be issued by way of Bonus as on 30th April, 2010.

(vi) What should be the minimum amount of authorised capital, if the decision to issue Bonus shares gets implemented?

Internal Reconstruction

4. The following scheme of reconstruction has been approved for Win Limited:

(i) The shareholders to receive in lieu of their present holding of 1,00,000 shares of Rs.10 each, the following:

(a) New fully paid Rs.10 equity shares equal to 3/5th of their holding.

(b) 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.

(c) Rs.40,000, 8% Debentures.

(ii) An issue of Rs.1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.

(iii) Goodwill which stood at Rs.1,40,000 was completely written off.

(iv) Plant and machinery which stood at Rs.2,00,000 was written down to Rs.1,50,000.

(v) Freehold property which stood at Rs.1,50,000 was written down by Rs.50,000.

You are required to draw up the necessary journal entries in the books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

Amalgamation of Companies

5. The following are the Balance Sheets of A Ltd. and B Ltd. as on 31.3.2010:

	(Rs. in thousands)	
Liabilities	A Ltd.	B Ltd.
Share capital:		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	---
10% Debentures	500	---
Loans from Banks	250	450
Bank overdrafts	---	50
Sundry creditors	300	300
Proposed dividend	200	---
Total	4,050	1,800
Assets		
Tangible assets/fixed assets	2,700	850
Investments (including investments in B Ltd.)	700	---
Sundry debtors	400	150
Cash at bank	250	---
Accumulated loss	---	800
Total	4,050	1,800

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of Rs.60 thousands of B Ltd.

(ii) B Ltd. will reduce its shares to Rs.10 per share and then consolidate 10 such shares into one share of Rs.100 each (new share).

(iii) Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

(iv) Proposed dividend of A Ltd. will be paid after merger to shareholders of A Ltd.

(v) Sundry creditors of B Ltd. includes Rs.100 thousands payable to A Ltd.

(vi) A Ltd. will cancel 20% holding in B Ltd. as investment, which was held at a cost of Rs.250 thousands.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger.

Average Due Date

6. Calculate the average due date and interest at 10% p.a. on the basis of the following details:

Rs. 60,000 was given on 1 January 2006 is to be repaid as under:

Rs.			
5,500	on	1 January	2007
9,500	on	1 January	2009
20,000	on	1 January	2010
7,000	on	1 January	2012
18,000	on	1 January	2014

Self-Balancing Ledgers

7. Mr. Ready maintains his ledgers on self-balancing system. The transactions from January 1 to April 30, 2010 are given below. You are required to prepare the General Ledger Adjustment Account as it will appear in the Debtors Ledger:

(1) Opening Balance (January 1, 2010):

Debtors Ledger Rs. 78,000 (excluding advance by a customer of Rs.2,000)

(2) Cash Sales Rs. 12,000 (being 10% of total sales).

(3) Collection from customers (other than collections on Bills Receivable) amounted to Rs. 1,10,000 which included the following:

(a) A sum of Rs. 3,000 realised from the estate of an insolvent customer @ 0.60 paise per rupee.

(b) Rs. 6,500 received from a customer as advance for sale.

(c) Rs. 4,000 received from a debtor after adjustment of an advance of Rs. 2,000 which was received in December 2009.

(d) Rs. 1,250, received from a party whose account was written off in earlier years.

(4) Interest charged to customers on overdue account Rs. 2,600.

(5) Bills Receivable drawn during the period Rs. 18,500.

(6) Bills receivable collected during the period Rs. 10,600 (including Rs. 5,900 collected on Bills Receivable drawn during November and December 2009).

(7) Bills Receivable dishonoured on maturity Rs. 1,700.

(8) Bills Receivable endorsed to suppliers Rs. 6,000. Out of which Bills Receivable for Rs. 2,000 was discounted by Creditors at 5% duly met at maturity. Bills Receivable for Rs. 3,000 was dishonoured on maturity (noting charge being Rs. 20) and Bills Receivable amounting to Rs. 1,000 will mature in May 2010.

(9) Returns Inward Rs. 11,600.

(10) Transfer from Creditors ledger to Debtors ledger Rs. 6,900.

Financial Statements of Not-for-Profit Organisations

8. The managing committee of a Social Club are concerned about the financial position of the club, following the sudden absence of the treasurer from 31st Dec. 2010, the date on which the annual accounts are closed.

On 31st Dec. 2009, the Balance Sheet of the club was as follows:

Balance Sheet

as at 1st January 2010

Liabilities	Rs.	Assets	Rs.
Capital Fund:	2,66,980	Fixtures and Equipments	
Sundry Liabilities	22,920	At Cost 1,34,000	
Subscription received in advance	600	*Less*: Depreciation 64,000	70,000
		Stock of Provisions	46,480
		Subscriptions Due	1,200
		Bank Balance	1,69,440
		Cash in hand	3,380
	2,90,500		2,90,500

On examination of the records, papers etc. you obtain the following information:

(1) Members pay an annual subscription of Rs. 100. An examination of duplicates of receipts books showed that during the year ended 31st Dec. 2010, 540 members had paid for the year 2010 and 5 members paid in advance for 2011. Two members have resigned without paying previous year's subscription and at the end of the year there were 550 members on the register.

(2) The Cash Book has not been written-up but an analysis of the Petty Cash Vouchers showed the following:

	Rs.
Purchase of stores and Provision	58,240
Sundry expenses	9,520
Repairs and Renewals	4,200
Casual labour charges	64,200
Postage and Stationery	4,000

(3) The refreshment room incharge has handed over the collection daily to the treasurer with bill rolls, which could not be found. He, however, informed that the average gross profit on sales would be 45%. The stock of stores and provisions on 31st Dec. 2010 was Rs. 52,960 and Cash left was Rs. 200.

(4) A summary of the bank statement for the year showed the following:

	Rs.		Rs.
Opening Balance	1,69,440	Payment for Stores and Provisions	4,18,320
Bank Deposits	6,86,540	Wages	2,09,040
		Rent and Rates	1,09,240
		Light and Power	22,000
		Telephone	1,600
		Repairs and Renewals	32,400
		Dish-washing machine	10,400
		Balance on 31.12.2010	52,980
	8,55,980		8,55,980

(5) A bundle of unpaid bills have been found in the treasurer's desk, which have been summarised as follows:

	Rs.
Stores and Provisions purchased	1,09,440
Electricity Bills	3,200
Printing and Stationery	3,800
Telephone	800

(6) Depreciation is to be provided on Fixtures and Equipment @ 20% on cost including year of acquisition.

You are required to prepare:

(a) Cash Account for the year ended 31st Dec. 2010.

(b) An Income and Expenditure Account for the year ended 3st Dec. 2010.

(c) A Balance Sheet as on that date.

Accounts from Incomplete Records

9. Somesh, who keeps books by single entry, had submitted his income-tax returns to income-tax authorities showing his incomes to be as follows:

	Rs.
Year ending March 31, 2005	33,075
Year ending March 31, 2006	33,300
Year ending March 31, 2007	35,415
Year ending March 31, 2008	61,875
Year ending March 31, 2009	54,630
Year ending March 31, 2010	41,670

The Income-tax officer is not satisfied as to the accuracy of the incomes returned. You are appointed as a consultant to assist in establishing correctness of the incomes returned and for that purpose you are given the following information:

(a) Business liabilities and assets at March 31, 2004 were:

Creditors: Rs.32,940, Furniture & Fittings: Rs.22,500, Stock : Rs.24,390 (at selling price which is 25% above cost), Debtors: Rs.11,025, Cash at Bank and in hand Rs.15,615.

(b) Somesh owed his brother Rs.18,000 on March 31, 2004. On February 15, 2007 he repaid this amount and on April 1, 2009, he lent his brother Rs.13,500.

(c) Somesh owns a house which he purchased in 1999 for Rs.90,000 and a car which he purchased in October, 2005 for Rs.33,750. In January, 2009, he bought debentures in X Ltd. having face value of Rs.40,000 for Rs.33,750.

(d) In May, 2009 a sum of Rs.13,500 was stolen from his house.

(e) Somesh estimates that his living expenses have been 2004-05 – Rs.13,500; 2005-06 – Rs.18,000; 2006-07 – Rs.27,000; 2007-08, 2008-09 and 2009-10 – Rs.31,500 p.a. exclusive of the amount stolen.

(f) On March 31, 2010 business liabilities and assets were: Creditors Rs.37,800, Furniture, Fixtures and Fittings Rs.40,500, Stock Rs.54,330 (at selling price with a gross profit of 25%), Debtors Rs.26,640, Cash-in-Hand and at Bank Rs.29,025.

From the information submitted, prepare statements showing whether or not the incomes declared by Somesh are correct.

Accounting for Hire Purchase Transaction

10. Modern Ltd. has a hire-purchase department which fixes hire-purchase price by adding 40% to the cost of the goods. The following additional information is provided to you :

	Rs.
On 1st April, 2009 :	
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Instalments due	14,000
Transactions during the year :	
Hire-purchase price of goods sold	9,80,000
Instalments received	8,12,000
Value of goods repossessed due to defaults (hire-purchase instalments unpaid Rs. 5,600)	7,800
On 31st March, 2010:	
Goods out on hire-purchase (at hire-purchase price)	3,78,000

You are required to prepare Hire-purchase Trading Account, ascertaining the profit made by the department during the year ended 31st March, 2010.

Investment Accounts

11. The following transactions Mr. Malamaal took place during the year ended 31st March, 2010:

1st April	Purchased Rs.12,00,000 8% bonds @ Rs.80.5 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of Rs.10 each in X Ltd. for Rs.40,00,000.
1st May	Received half year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Malamaal sold 1,25,000 bonus shares @ Rs.20 each.
1st October	Sold Rs.3,00,000 8% bonds @ Rs.81 ex-interest.
1st November	Received half year's bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment accounts in the books of Mr. Malamaal for the year ended 31st March, 2010.

Insurance Claims for Loss of Stock and Loss of Profit

12. A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	Rs.
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of Rs.31,250.

Partnership Accounts - Profit and Loss Appropriation Account

13. A, B and C run a business sharing profits and losses in proportion of 2:2:1. On 1st January, 2008 their respective capitals were Rs.96,000, Rs.90,000 and Rs.84,000.

On 30th June, 2008 the following was the position:

	Rs.
Creditors	30,000
Furniture	9,000
Book debts	1,80,000
Stock	90,000
Cash in hand and at bank	36,000

The drawings of the partners respectively were Rs.12,000, Rs.9,000 and Rs.6,000 during the half-year. Each partner is entitled to an interest at the rate of 5% p.a. on capital. Interest on drawings was calculated as Rs.600 for A, Rs.450 in case of B and Rs.300 in case of C.

You are required to prepare:

(i) A statement of affair as on 30th June, 2008.

(ii) Calculate the profits for the half-year ending on 30th June, 2008 and allocate the same amongst the partners. Also calculate capital of each partner as on 30th June, 2008.

Accounting in Computerised Environment

14. A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

Partnership Accounts- Admission cum Retirement

15. Isha, Misha, and Disha were partners in a firm sharing profits in the proportions of 1/2, 1/3, and 1/6 respectively. The Balance Sheet of the firm on 3st March 2010 was as follows:

Liabilities	*Rs.*	*Assets*		*Rs.*
Trade Creditors	15,000	Cash at Bank		5,000
Employees' Provident Fund	6,000	Debtors	40,000	
Reserve Fund	18,000	*Less:* Provision	2,000	38,000
Isha's Capital	65,000	Stock		30,000
Misha's Capital	30,000	Investments		15,000
Disha's Capital	20,000	Patents		10,000
		Plant & Machinery		50,000
		Advertisement Expenditure		6,000
	1,54,000			1,54,000

The firm had a Joint Life Policy for Rs. 40,000. The surrender value of the policy was Rs. 4,800 as on 31st March 2010.

Disha retired on the above date on the following terms:

(a) Goodwill of the firm was valued at Rs. 30,000 but it was not to remain in the books of the new firm.

(b) Value of patents was to be reduced by 20% and that of Plant and Machinery to 90%.

(c) Provision for doubtful debts was to be raised to 6%.

(d) Disha took over the investments at a value of Rs. 17,600.

(e) Liability on account of Provident Fund was only Rs. 2,400.

(f) Liability for workmen compensation to the extent of Rs. 375 is to be created.

(g) Trade Creditors to the extent of 2-1/2% are not likely to claim their dues.

(h) Amount due to Disha is to be settled on the following basis:

50% on retirement, out of the remaining, 50% within one year and the balance by a Bill of Exchange (without interest) at 3 months.

Show the necessary journal entries for the treatment of Goodwill and Joint Life Policy, prepare Revaluation account, Capital accounts of the partners and the Balance Sheet of Isha and Misha after Disha's retirement.

Introduction to Accounting Standards

16. Explain in brief the reasons for convergence of Indian Accounting Standards towards global standards.

Accounting Standards

17. (a) Explain the concept of 'materiality' in brief.

(b) A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

Comment on the valuation of the stocks by the company.

(c) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3(AS 3) revised.

18. (a) Mr. 'X' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'X' will receive an additional Rs.2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. X wants to recognize this revenue since in the past he has been able to meet similar targets very easily.

Is X correct in his proposal? Discuss.

(b) SM company has taken a Transit Insurance Policy. Suddenly in the year 2009-2010 the percentage of accident has gone up to 7% and the company wants to recognize insurance claim as revenue in 2009-2010 in accordance with relevant Accounting Standards. Do you agree? Explain in brief, as per the relevant Accounting Standards.

(c) Explain the disclosure requirement for fixed assets as per AS 10.

19. (a) You are required to value the inventory per kg of finished goods consisting of:

	Rs. per kg.
Material cost	200
Direct labour	40
Direct variable overhead	20

Fixed production charges for the year on normal working capacity of 2 lakh kgs is Rs.20 lakhs. 4,000 kgs of finished goods are in stock at the year end.

(b) Mr. X set up a new factory in the backward area and purchased plant for Rs. 500 lakhs for the purpose. Purchases were entitled for the CENVAT credit of Rs. 10 lakhs and also Government agreed to extend the 25% subsidy for backward area development. Determine the depreciable value for the asset.

(c) M/s Prima Co. Ltd. sold goods worth Rs. 50,000 to M/s Y and Company. M/s Y and Co. asked for discount of Rs. 8,000 which was agreed by M/s Prima Co. Ltd. the sale was effected and goods were despatched. After receiving, goods worth Rs. 7,000 was found defective, which they returned immediately. They made the payment of Rs. 35,000 to M/s Prima Co. Ltd. Accountant booked the sales for Rs. 35,000. Please discuss.

20. (a) During the year 2008-09, P Limited incurred the following expenses on machinery:

Rs.2.50 lacs as routine repairs and Rs.75,000 on partial replacement of a part. Rs.7 lacs on replacement of part of machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

(b) An unquoted long term investment is carried in the books at a cost of Rs. 2 lakhs. The published accounts of the unlisted company received in May, 2010 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31st March, 2010?

SUGGESTED ANSWERS/ HINTS

1. **Cash Flow Statement of Mr. Shyam for the year ended 31.3.2010**

			Rs.
(i)	**Cash flow from operating activities**		
	Net Profit (given)		1,80,000
	Adjustments for		
	Depreciation on Plant & Machinery (W.N.2)	72,000	
	Loss on Sale of Machinery (W.N.1)	8,000	80,000
	Operating Profit before working capital changes		2,60,000
	Decrease in Stock	40,000	
	Increase in Debtors	(80,000)	
	Increase in Creditors	16,000	(24,000)
	Net cash from operating activities		2,36,000
(ii)	**Cash flow from investing activities**		
	Sale of Machinery	20,000	
	Purchase of Land (4,40,000 – 3,00,000)	(1,40,000)	
	Net cash used in investing activities		(1,20,000)
(iii)	**Cash flow from financing activities**		
	Repayment of Mrs. Shyam's Loan	(1,00,000)	
	Drawings (W.N.3)	(68,000)	
	Loan from Bank	40,000	
	Net cash used in financing activities		(1,28,000)
	Net decrease in cash		(12,000)
	Cash balance as on 1.4.2009		40,000
	Cash balance as on 31.3.2010		28,000

Working Notes:

1. Plant & Machinery A/c

	Rs.		*Rs.*
To Balance b/d (3,20,000 + 1,00,000)	4,20,000	By Bank – Sales	20,000
		By Provision for Depreciation A/c	12,000
		By Profit & Loss A/c – Loss on Sale (40,000 – 20,000 – 12,000)	8,000
		By Balance c/d (2,20,000+1,60,000)	3,80,000
	4,20,000		4,20,000

2. Provision for depreciation on Plant and Machinery A/c

	Rs.		*Rs.*
To Plant and Machinery A/c	12,000	By Balance b/d	1,00,000
To Balance c/d	1,60,000	By Profit & Loss A/c (Bal.fig.)	72,00
	1,72,000		1,72,000

3. Mr. Shyam's drawings

	Rs.
Opening Capital	5,00,000
Add: Net Profit	1,80,00
	6,80,000
Less:Closing Capital	(6,12,000)
Drawings (Bal. fig.)	68,000

2. Profit and Loss Account of ABC Ltd.

for the year ended 31.3.2010

Particulars	*Pre-incorpo-ration period Rs.*	*Post-incorporation period Rs.*	*Particulars*	*Pre-incorpo-ration period Rs.*	*Post-incorpo-ration period Rs.*
To Salaries (1:2)	16,000	32,000	By Gross Profit (1:3)	80,000	2,40,000
To Stationery (1:2)	1,600	3,200			
To Advertisement (1:3)	4,000	12,000			
To Travelling expenses (W.N.3)	4,000	8,000			

To Sales promotion expenses (W.N.3)	1,200	3,600			
To Misc. Trade expenses (1:2)	12,600	25,200			
To Rent (office building) (W.N.2)	8,000	18,400			
To Electricity charges (1:2)	1,400	2,800			
To Director's fees	-	11,200			
To Bad debts (1:3)	800	2,400			
To Selling agents commission (1:3)	4,000	12,000			
To Audit fees (1:2)	2,000	4,000			
To Debenture interest	-	3,000			
To Interest paid to vendor (2:1) (W.N.4)	2,800	1,400			
To Selling expenses (1:3)	6,300	18,900			
To Depreciation on fixed assets (W.N.5)	3,000	6,600			
To Capital reserve	12,300	-			
To Net profit	-	75,300			
	80,000	2,40,000		80,000	2,40,000

Working Notes:

Pre incorporation period = 1st April, 2009 to 31st July, 2009

i.e. 4 months

1. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.2009 to 30.09.09) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.09 to 31.3.2010) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3}x \times 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs.19,20,000/16 = Rs.1,20,000

Sales for pre-incorporation period = Rs.1,20,000 x 4 = Rs.4,80,000

Sales for post incorporation period = Rs.19,20,000 – Rs.4,80,000

= Rs.14,40,000

Sales Ratio = 4,80,000 : 14,40,000 = 1 : 3

2. Rent

		Rs.
Rent for pre-incorporation period (Rs.2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,2009 & September, 2009 (Rs.2,000 x 2)	4,000	
October,2009 to March,2010 (Rs.2,400 x 6)	14,400	18,400 (post)

3. Travelling expenses

	Pre Rs.	Post Rs.
Traveling expenses Rs.12,000 (i.e. Rs.16,800-Rs.4,800) distributed in 1:2 ratio	4,000	8,000
Sales promotion expenses Rs.4,800 distributed in 1:3 ratio	1,200	3,600
	5,200	11,600

4. Interest paid to vendor till 30th September, 2009

	Pre Rs.	Post Rs.
Interest for pre-incorporation period ($\frac{Rs.4,200}{6}$ - 4)	2,800	
Interest for post incorporation period i.e. for August, 2009 & September, 2009 = ($\frac{Rs.4,200}{6}$ - 2)		1,400

5. Depreciation

		Pre Rs.	Post Rs.
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	600		600
	9,000		
Depreciation for pre-incorporation period [9,000 x$\frac{4}{12}$]		3,000	
Depreciation for post incorporation period [9,000 x$\frac{8}{12}$]		—	6,000
		3,000	6,600

3. (i) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 "Reserves created by Revaluation of fixed assets can not be capitalized."

(ii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, 'Capital Reserve' realized in cash can be utilized for issue of fully paid Bonus shares. Therefore, Rs. 1,60,000 being profit on sale of plant, is a capital profit which has been realized in cash, can be utilized for issue of the bonus shares. For remaining balance in capital reserve account, no further details of its constituents have been given. Therefore, no comment on it can be made.

(iii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, Securities Premium collected in cash only can be utilized for Bonus issue, therefore Rs. 80,000 (i.e. Rs.1,00,000 – Rs. 20,000) can be utilized for Bonus issue.

(iv) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, no company can issue bonus shares to its shareholders without extending similar benefit to convertible debentureholders. Pending such conversion, necessary number of shares should be earmarked for convertible debentureholders. Therefore, convertible debentureholders are also entitled to the bonus shares in the same ratio as the equity shareholders.

(v) **Minimum number of Equity shares to be issued as bonus shares**

	In shares
Issue of Bonus Shares to existing Equity Shareholders	90,000
Add: Number of bonus shares to be issued after conversion of debentures $\left(\frac{20,00,000 - 20\%}{10}\right) \times \frac{1}{4}$	10,000
Total bonus issue through equity shares	1,00,000

(vi) **Minimum Authorised Share Capital**

	Shares	*Rs.*
Equity share capital		
Existing Equity Shares	3,60,000	36,00,000
Bonus to Equity Shareholders	90,000	9,00,000
20% conversion of 12% Debentures	40,000	4,00,000
Bonus shares to be issued to Debentureholders after conversion	10,000	1,00,000
Authorised Equity Share Capital	5,00,000	50,00,000
Preference share capital		
12% Preference Shares	40,000	4,00,000
Minimum Authorised Capital		54,00,000

4. Journal Entries

		Rs.	Rs.
Equity Share Capital (old) A/c	Dr.	10,00,000	
To Equity Share Capital (Rs.10) A/c			6,00,000
To 10% Preference Share Capital A/c			1,20,000
To 8% Debentures A/c			40,000
To Reconstruction A/c			2,40,000
(Being new equity shares, 10% Preference Shares and 8% Debentures issued against old equity shares and the balance transferred to Reconstruction account as per the scheme)			
Bank A/c	Dr.	1,00,000	
To 10% First Debentures Application & Allotment A/c			1,00,000
(Being amount received on issue of 10% First Debenture for application and allotment Account)			
10% First Debentures Application and Allotment A/c	Dr.	1,00,000	
To 10% First Debentures Account			1,00,000
(Being allotment of 10% first Debentures)			
Reconstruction A/c	Dr.	2,40,000	
To Goodwill Account			1,40,000
To Plant and Machinery Account			50,000
To Freehold Property Account			50,000
(Being Reconstruction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)			

5. Calculation of purchase consideration

One share of B Ltd. will be issued in exchange of every share of A Ltd. (i.e. 20,000 equity shares of B Ltd will be issued against 20,000 equity shares of A Ltd.)	20,000 shares
Less: Shares already held (20% of 10,000 shares) 2,000 shares converted in new equity shares	200 shares
Number of shares to be issued by B Ltd to shareholders of A Ltd.	19,800 shares

Journal Entries in the books of B Ltd.

Date			(Rs. in thousands)	
2010			Dr.	Cr.
March,31	Loan from bank A/c	Dr.	60	
	To Reconstruction A/c			60
	(Being loan from bank waived off to the extent of Rs. 60 thousand)			
	Equity share capital A/c (Rs.100)	Dr.	1,000	
	To Equity share capital A/c (Rs.10)			100
	To Reconstruction A/c			900
	(Being equity shares of Rs. 100 each reduced to Rs.10 each)			
	Equity share capital A/c (Rs.10)	Dr.	100	
	To Equity share capital A/c (Rs.100 each)			100
	(Being 10 equity shares of Rs. 10 each consolidated to one share of Rs.100 each)			
	Reconstruction A/c	Dr.	960	
	To Profit and loss A/c			800
	To Capital reserve A/c			160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)			
	Business purchase A/c	Dr.	1,980	
	To Liquidator of A Ltd.			1,980
	(Being purchase of business of A Ltd.)			
	Fixed asset A/c	Dr.	2,700	
	Investment A/c (700 – 250)	Dr.	450	
	Sundry debtors A/c	Dr.	400	
	Cash at bank A/c	Dr.	250	
	To Sundry creditors A/c			300
	To Proposed dividend A/c			200
	To Loans from bank A/c			250
	To 10% Debenture A/c			500
	To Business purchase A/c			1,980

	To Reserves A/c (800 – 230)		570
	(Being assets, liabilities and reserves taken over under pooling of interest method)		
	Liquidator of A Ltd. A/c Dr.	1,980	
	To Equity share capital A/c		1,980
	(Being payment made to liquidators of A Ltd. by allotment of 19,800 new equity shares)		
	Sundry creditors A/c Dr.	100	
	To Sundry debtors A/c		100
	(Being mutual owing cancelled)		
	Proposed dividend A/c Dr.	200	
	To Bank A/c		200
	(Being dividend paid off)		

Balance Sheet of B Ltd. after merger as on 31.3.2010

Liabilities	*Rs. in thousands*	*Assets*	*Rs. in thousands*
20,800, Equity shares of Rs.100 each fully paid	2,080	Fixed assets (2,700 + 850)	3,550
(Out of the above, 19,800 shares have been issued for consideration other than cash)		Investments	450
Capital reserve	160	Sundry debtors (400+150-100)	450
General reserve	570	Cash at bank (250 – 200)	50
10% Debentures	500		
Loan from bank (250 +450 -60)	640		
Bank overdraft	50		
Sundry creditors (300+300-100)	500		
	4,500		4,500

6. Calculation of Average Due Date

Instalment	*Due Date*	*Years since 1 January 2006*	*Product Rs.*
5,500	1 January 2007	1	5,500
9,500	1 January 2009	3	28,500
20,000	1 January 2010	4	80,000

7,000	1 January 2012	6	42,000
18,000	1 January 2014	8	1,44,000
60,000			3,00,000

$$\text{Average Due Date} = 1\text{ January 2006} + \frac{3,00,000}{60,000}$$

$$= 1\text{ January 2006} + 5\text{ years i.e., 1 January 2011}$$

$$\text{Interest} = \frac{60,000 \times 5 \times 10}{100} = \text{Rs. } 30,000$$

7. **In the Debtors Ledger of Mr. Ready**

General Ledger Adjustment Account

2010			*Rs.*	*2010*			*Rs.*
Jan 1	To	Balance b/d	2,000	Jan. 1	By	Balance b/d	78,000
Jan 1 to Apr.30	To	Debtors Ledger Adjustment A/c:		Jan 1 to Apr. 30	By	Debtors Ledger Adjustment A/c:	
		Cash (Rs. 1,10,000 – Rs. 1,250)	1,08,750			Credit Sales	
		Bad Debts $\left(\text{Rs. } 3,000 \times \frac{40}{60}\right)$	2,000			$\left(\text{Rs. } 12,000 \times \frac{90}{10}\right)$	1,08,000
		Bills Receivable	18,500			Interest	2,600
		Returns Inward	11,600			B/R Dishonoured (1,700 + 3,020)	4,720
		Transfer from Creditors Ledger	6,900				
	To	Balance c/d	50,070		By	Balance c/d	6,500
			1,99,820				1,99,820
2010 May 1	To	Balanced b/d	6,500	2010 May 1.	By	Balance b/d	50,070

8. (a) **In the books of a Social Club**

Cash Account

for the year ended 31st December, 2010

			Rs.	*Rs.*			*Rs*
To	Balance b/d		3,380		By	Purchase of Stores	

					and Provision	58,240
To	Subscriptions:			By	Sundry Expenses	9,520
	2009 (1,200 – 200) (W.N.1)	1,000		By	Repairs and Renewals	4,200
	2010 (W.N.1)	54,000		By	Casual Labour Charges	64,200
	2011 (W.N.1)	500	55,500	By	Postage and Stationery	4,000
To	Refreshment room receipts (W.N.2)		10,12,000	By	Bank A/c – Deposit	6,86,540
				By	Amount defalcated	2,43,980
				By	Balance c/d	20
			10,70,880			10,70,880

(b) **Income and Expenditure Account**

for the year ended 31st December 2010

		Rs.			Rs.
To	Provisions consumed (W.N.2)	5,56,600	By	Sale of Provisions (W.N.2)	10,12,000
To	Wages	2,09,040	By	Subscriptions (W.N.1)	55,000
To	Rent and Rates	1,09,240			
To	Light and Power (22,000 + 3,200)	25,200			
To	Telephone (1,600 + 800)	2,400			
To	Repairs and Renewals (32,400 + 4,200)	36,600			
To	Casual Labour Charges	64,200			
To	Postage and Stationery (4,000 + 3,800)	7,800			
To	Bad Debts	200			
To	Sundry Expenses	9,520			
To	Depreciation on fixtures and equipments (W.N.4)	28,880			
To	Surplus (Excess of income over expenditure)	17,320			
		10,67,000			10,67,000

(c) **Balance Sheet**

as at 31st December 2010

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital Fund:			Fixture and Equipment	1,34,000	
Opening Balance	2,66,980		Additions	10,400	
Add: Surplus	17,320			1,44,400	
	2,84,300		*Less*: Depreciation		
Less: Defalcation of Cash	2,43,980	40,320	(64,000 + 28,880)	92,880	51,520
Creditors for			Closing Stock of Provisions		52,960
Electricity bills	3,200		Subscription Due (W.N.1)		400
Printing and stationery	3,800		Bank Balance		52,980
Telephone	800		Cash in hand		200
Provisions	1,09,440	1,17,240			
Subscription Received					
in Advance (W.N.1)		50			
		1,58,060			1,58,060

Working Notes:

1. **Subscriptions Account**

		No. of Members	Rs.			No. of Members	Rs.
To	Balance b/d	12	1,200	By	Balance b/d	6	600
To	Income & Exp. A/c	550	55,000	By	Cash A/c	555	55,500
To	Balance	5	500		(540 + 10 + 5)		
				By	Income & Exp. A/c:		
				By	Bad Debts A/c	2	200
				By	Balance c/d (550-540-6)	4	40
		567	56,700			567	56,700

2. Refreshment room receipts/ sale of provisions

			Rs.
Opening Stock			46,480
Add: Purchases	Cash	58,240	
	Credit (W.N.3)	5,04,840	5,63,08
			6,09,560
Less: Closing Stock			52,960
Cost of goods sold			5,56,600
Add: Gross Profit 5,56,600 x $\frac{45}{55}$			4,55,400
Sales of Provisions			10,12,000

3. Purchases

Creditors Account

		Rs.			*Rs.*
To	Bank	4,18,320	By	Balance b/d	22,920
To	Balance c/d	1,09,440	By	Purchases (bal. fig.)	5,04,840
		5,27,760			5,27,760

4. Depreciation of fixtures and equipments

= Rs.1,44,400 x 20% = Rs. 28,880

9. Statement of Affairs of 'Somesh'

as on March 31, 2004

Liabilities	Rs.	Assets	Rs.
Creditors	32,940	Furniture, Fixtures & Fittings	22,500
Loan from brother	18,000	Stock (24,390 x 100/125)	19,512
Capital (Bal. fig.)	1,07,712	Debtors	11,025
		Cash-in-Hand and at Bank	15,615
		Building (House)	90,000
	1,58,652		1,58,652

Statement of Affairs of 'Somesh' as on March 31, 2010

Liabilities	*Rs.*	*Assets*	*Rs.*
Creditors	37,800	Furniture, Fixtures & Fittings	40,500
Capital (Bal. fig.)	2,70,112	Stock (54,330 x 75%)	40,747
		Debtors	26,640
		Cash-in-Hand and at Bank	29,025
		Loan to Brother	13,500
		Building (House)	90,000
		Car	33,750
		Debentures in 'X Ltd.'	33,75
	3,07,912		3,07,912

Statement of Profit:

Particulars		*Rs.*
Capital as on March 31, 2010		2,70,112
Add: Drawings		
2004-05	13,500	
2005-06	18,000	
2006-07	27,000	
2007-08	31,500	
2008-09	31,500	
2009-10	31,500	1,53,000
		4,23,112
Add: Amount stolen in May, 2009		13,500
		4,36,612
Less: Opening Capital as on March 31, 2004		(1,07,712)
		3,28,900
Less: Profit as shown by I.T.O.		
For the year ending March 31, 2005	33,075	
For the year ending March 31, 2006	33,300	
For the year ending March 31, 2007	35,415	
For the year ending March 31, 2008	61,875	
For the year ending March 31, 2009	54,630	
For the year ending March 31, 2010	41,670	(2,59,965)
Under-statement of Income		68,935

Note: In the absence of the information regarding depreciation in the question, no depreciation has been provided on Building (house) and Car.

10. **Modern Ltd.**

Hire Purchase Trading Account

		Rs.			Rs.
To	Opening Balances:		By	Opening hire purchase stock reserve	60,000
	Hire purchase stock	2,10,000	By	Bank (Instalments received)	8,12,000
	Instalments due	14,000	By	Goods repossessed	7,800
To	Goods sold on hire purchase	9,80,000	By	Goods sold on hire purchase (Loading) (W.N.2)	2,80,000
To	Closing hire purchase stock reserve (W.N.3)	1,08,000	By	Closing Balances:	
To	Profit and loss Account			Hire purchase stock	3,78,000
	(Transfer of profit)	2,34,200		Instalments due (W.N.4)	8,400
		15,46,200			15,46,200

Working Notes:

			Rs.
(i)	Opening hire purchase stock reserve = Rs.2,10,000- $\frac{40}{140}$		60,000
(ii)	Loading on goods sold = Rs.9,80,000 - $\frac{40}{140}$		2,80,000
(iii)	Closing hire purchase stock reserve = Rs.3,78,000 - $\frac{40}{140}$		1,08,000
(iv)	Closing instalments due:		
	Opening hire purchase stock		2,10,000
	Opening instalments due		14,000
	Goods sent on hire purchase		9,80,000
			12,04,000
	Less: Instalments received	8,12,000	
	Unpaid instalments on repossessed goods	5,600	
	Closing hire purchase stock	3,78,000	(11,95,600)
			8,400

11. **In the books of Mr. Malamaal**

8% Bond Account

Date		Particulars	Nominal Value	Income	Cost	Date		Particulars	Nominal Value	Income	Cost
2009 April 1	To	Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	2009 May 1	By	Bank A/c	--	48,000	---
2010 Mar. 31	To	Profit & Loss A/c:	--			Oct. 1	By	Bank A/c (W.N.4)	3,00,000	10,000	2,43,000
		Int.income	----	84,000		Nov. 1	By	Bank A/c (W.N.5)	---	36,000	---
		Profit on Sale	---		11,500	Mar. 31	By	Balance c/d (W.N.7 & 8)	9,00,000	30,000	6,94,500
			12,00,000	1,24,000	9,37,500				12,00,000	1,24,000	9,37,500

Equity Shares in X Ltd.

Date		Particulars	Nominal Value	Income	Cost	Date		Particulars	Nominal Value	Income	Cost
2009 April 12	To	Bank A/c	10,00,000	-	40,00,000	2009 May 15	By	Bank A/c	12,50,000	---	25,00,000
May 15	To	Bonus Issue A/c (W.N.3)	15,00,000	---	---	Dec. 1	By	Bank (Dividend) (W.N.6)	----	2,25,000	----
2010 Mar. 31	To	Profit & Loss A/c:	--			2010 Mar. 31	By	Balance c/d (W.N.9)	12,50,000	----	20,00,000
		Interest	---	2,25,000	----						
		Profit on Sale (W.N.10)	---	----	5,00,000						
			25,00,000	2,25,000	45,00,000				25,00,000	2,25,000	45,00,000

Working Notes:

1. Cum interest purchased cost of 8% Bond = $\frac{12,00,000}{100}$ - 80.50 = Rs. 9,66,000

   Less: Interest portion 12,00,000 x 8% x $\frac{5}{12}$ = Rs. 40,00

   Rs. 9,26,000

2. Half yearly interest on 8% bond as on 1^{st} May, 2009

   = 12,00,000 x 8% x 6/12 = Rs.48,000

3. Bonus issue of equity shares of X Ltd. = 1,00,000/2 x 3 x 10 = Rs.15,00,000
4. Sales value = 3,00,000/100 x 81 = Rs.2,43,000
5. Half yearly interest on 8% bond as on 1^{st} November, 2009

   = (12,00,000 - 3,00,000)x 8% x 6/12 = Rs.36,000

6. Dividend on equity shares of X Ltd.

   = (10,00,000 + 15,00,000 – 12,50,000) x 18% = Rs.2,25,000

7. Accrued interest = 9,00,000 x 8% x 5/12 = Rs.30,000
8. Closing balance of 8% bond = 9,26,000/12,00,000 x 9,00,000 = Rs.6,94,500
9. Closing balance of equity shares of X Ltd.

   =[40,00,000/(10,00,000+15,00,000)] x 12,50,000 = Rs.20,00,000

10. Profit on sale of equity shares of X Ltd.

Sales value =	Rs.25,00,000
Less: Cost [40,00,000/(10,00,000+15,00,000)] x 12,50,000 =	Rs.20,00,000
	Rs.5,00,000

12. (a) Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} - 100$$

$$= \frac{45,000 + 90,000}{4,50,000} - 100 = 30\%$$

(b) Calculation of policy amount to cover loss of profit

	Rs.
Turnover in the last financial year	4,50,000
Add: 25% increase in turnover	1,12,500
	5,62,500

Gross profit on increased turnover (5,62,500 x 30%)	1,68,750
Add: Additional standing charges	31,25
Policy Amount	2,00,000

Therefore, the trader should go in for a loss of profit policy of Rs. 2,00,000.

13. (i) Statement of Affairs of A, B & C

As at 30th June, 2008

Liabilities	*(Rs.)*	*Assets*	*(Rs.)*
Capital (Bal. Fig.)	2,85,000	Furniture	9,000
Creditors	30,000	Stock	90,000
		Book debts	1,80,000
		Cash in hand and at bank	36,00
	3,15,000		3,15,000

(ii) Statement showing Profit and Loss of A, B and C for the six months ending on 30th June, 2008

Particulars	*Amount (Rs.)*
Capital as on 30th June, 2008	2,85,000
Add: Drawings (12,000 + 9,000 + 6,000)	27,000
Add: Interest on drawings (600 + 450 + 300)	1,350
	3,13,350
Less: Interest on capital (2,400 + 2,250 + 2,100)	6,750
	3,06,600
Less: Capital as on 1st January, 2008 (96,000 + 90,000 + 84,000)	2,70,00
Net Profit	36,600

Statement showing allocation of profits and other adjustments in the capital accounts of A, B and C

Particulars	*A (Rs.)*	*B (Rs.)*	*C (Rs.)*
Capital as on 1st January, 2008	96,000	90,000	84,000
Add: Net profit in the ratio of 2:2:1	14,640	14,640	7,320
Add: Interest on capital @ 5% p.a. for 6 months	2,400	2,20	2,1
	1,13,040	1,06,890	93,420
Less: Drawings	12,000	9,000	6,00
	1,01,040	97,890	87,420
Less: Interest on drawings	600	450	300
Capital as on 30th June, 2008	1,00,440	97,440	87,120

14. The proposals will be evaluated and vendor will be selected considering the following criteria:

1. Quantum of services provided and whether the same matches with the requirements of the hospital.
2. Reputation and background of the vendor.
3. Comparative costs of the various propositions.
4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
5. Assurance of quality, confidentiality and secrecy.
6. Data storage and processing facilities.

15. **Journal Entries**

Particulars		*Dr. (Rs.)*	*Cr.(Rs.)*
Isha's Capital A/c	Dr.	3,000	
Misha's Capital A/c	Dr.	2,000	
To Disha's Capital A/c			5,000
(Being the Disha's share of goodwill credited to her by debiting gaining partners in their gaining ratio of 3 : 2)			
Isha's Capital A/c	Dr.	480	
Misha's Capital A/c	Dr.	320	
To Disha's Capital A/c			800
(Being the Disha's share of surrender value in JLP credited to her by debiting gaining partners in their gaining ratio of 3 : 2)			

Revaluation Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Patents	2,000	By Investments	2,600
To Plant and Machinery	5,000	By Provident Fund	3,600
To Provision for Doubtful debts	400	By Provision for discount on creditors	375
To Liability for Workmen Compensation	375	By Loss on Revaluation transferred to:	
		Isha's Capital A/c	600
		Misha's Capital A/c	400
		Disha's Capital A/c	200
	7,775		7,775

Partners' Capital Account

Particulars	*Isha* *Rs.*	*Misha* *Rs.*	*Disha* *Rs.*	*Particulars*	*Isha* *Rs.*	*Misha* *Rs.*	*Disha* *Rs.*
To Disha's Capital A/c	3,000	2,000	-	By Balance b/d	65,000	30,000	20,000
To Disha's Capital A/c	480	320	-	By Reserve Fund	9,000	6,000	3,000
To Revaluation A/c (loss)	600	400	200	By Isha's Capital A/c	-	-	3,000
To Advertisement Exp.	3,000	2,000	1,000	By Misha's Capital A/c	-	-	2,000
To Investment A/c	-	-	17,600	By Isha's Capital A/c	-	-	480
To Bank A/c	-	-	5,000	By Misha's Capital A/c	-	-	320
To Loan from Disha A/c	-	-	2,500				
To Bills Payable A/c	-	-	2,500				
To Balance c/d	66,920	31,280	-				
	74,000	36,000	28,800		74,000	36,000	28,800

Balance Sheet as on 31st March 2010

Liabilities	*Rs.*	*Assets*		*Rs.*
Trade Creditors	14,625	Cash at Bank (5,000-5,000)		Nil
Liability for Workmen Compensation	375	Debtors	40,000	
Provident Fund	2,400	*Less*: Provision	2,400	37,600
Bills Payable	2,500	Stock		30,000
Loan from Disha	2,500	Patents		8,000
Isha's Capital	66,920	Plant and Machinery		45,000
Misha's Capital	31,280			
	1,20,600			1,20,600

16. Each country has its own set of rules and regulations for accounting and financial reporting. Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin. Therefore translation and re-instatements are of utmost importance in a world that is rapidly globalising in all ways.

The harmonization of financial reporting around the world will help to raise confidence of investors generally in the information they are using to make their decisions and assess their risks.

Also a strong need was felt by legislation to bring about uniformity, rationalization, comparability, transparency and adaptability in financial statements. Having a multiplicity of accounting standards around the world is against the public interest. If accounting for the same events and information produces different reported numbers, depending on the system of standards that are being used, then it is self-evident that accounting will be increasingly discredited in the eyes of those using the numbers. It creates confusion, encourages error and facilitates fraud. The cure for these ills is to have a single set of global standards, of the highest quality, set in the interest of public.

Convergence facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements. It has the potential to create a new standard of accountability and greater transparency, which are values of great significance to all market participants including regulators. It reduces operational challenges for accounting firms and focuses their value and expertise around an increasingly unified set of standards. It creates an unprecedented opportunity for standard setters and other stakeholders to improve the reporting model. For the companies with joint listings in both domestic and foreign country, the convergence is very much significant.

17. (a) Para 17 of AS 1 'Disclosure of Accounting Policies', states that financial statements should disclose all material items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omission or misstatement. From a positive perspective, materiality has to do with the significance of an item or event to warrant attention in the accounting process. From a negative view point, materiality is critical because otherwise a great deal of time might be spent on trivial matters in the accounting process. Individual judgments are required to assess materiality, or to decide what the appropriate minimum quantitative criteria are to be set for given situations. What is material to one organization, may not be material for another organization.

For example, a long term investor is interested in the current value of fixed asset like building, while the banker may not consider it significant for a short-term loan. Similarly a pair of scissors, ball pens, sharpeners, waste-paper baskets could be used for a number of years but still it is treated as an expense and not an asset. The omission of "paise" in the financial statements is also due to their insignificant effect to the users of the financial statement in making a decision.

(b) Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at Net-realisable value."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

(c) As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

(a) the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statement of profit and loss for:

(i) changes during the period in inventories and operating receivables and payables;

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealized foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

18. (a) According to para 14 of AS 7 (Revised) 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when: (i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and (ii) the amount of the incentive payment can be measured reliably. In the given problem, the contract has not even begun and hence the contractor (Mr. X) should not recognize any revenue of this contract.

(b) When to Recognize Revenue:

- Revenue recognition is mainly concerned with the **timing of recognition of revenue** in the profit and loss account.
- Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of services, as the case may be even though payments are made by installments.
- The amount of revenue is usually determined by agreement between the parties to the transaction

It may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made.

In the given case, SM company wants to suddenly recognize Insurance claim because it has increased over the previous year. **But, there are uncertainties involved in the settlement of the claim.** Also, the claim does not seem to be in the course of ordinary activity of the company.

Hence, SM company is not advised to recognize the Insurance claim as revenue.

(c) (i) Disclosure requirement as per AS 10

1. Gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements.
2. Expenditure incurred on account of fixed assets in the course of construction or acquisition.
3. Revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

19. (a) In accordance with paras 8 & 9 of AS 2, the cost of conversion include a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods. The allocation of fixed overheads for the purpose of their inclusion in the cost of conversion is based on normal capacity of the production facilities.

Cost per kg. of finished goods:

		Rs.
Material Cost		200
Direct Labour	40	
Direct Variable Production Overhead	20	
Fixed Production Overhead $\left(\frac{20,00,000}{2,00,000}\right)$	10	70
		270

Hence the value of 4,000 kgs of finished goods = 4,000 kgs x Rs. 270 = Rs. 10,80,000

(b)

Particulars	(Rs. in lakhs)
Cost of the plant	500
Less: CENVAT	10
	490
Less: Subsidy	98
Depreciable Value	392

(c) As per Para 4.1 of AS 9 "Revenue Recognition", revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

In the given case, M/s Prima Co. Ltd. should record the sales at gross value of Rs.50,000. Discount of Rs.8,000 in price and goods returned worth Rs.7,000 are to be adjusted by suitable provisions. M/s Prime Co. Ltd. might have sent the credit note of Rs. 15,000 to M/s Y & Co. to account for these adjustments. The contention of the accountant to book the sales for Rs.35,000 is not correct.

20. (a) As per Para 12.1 of AS 10 "Accounting for Fixed Assets" expenditure that increases the future benefits from the existing assets, is included in the gross book value.

Hence, in the given case, repairs of Rs.2.50 lacs and partial replacement of the part of the machinery should be charged to Profit & Loss Account. Rs.7 lacs incurred on a part of the machinery, which will increase the efficiency, should be capitalized.

(b) As it is stated in the question that financial statements for the year ended 31st March, 2010 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On this basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to Rs. 20,000 in the financial statements for the year ended 31st March, 2010.

NOTE : Accounting Standards 1, 2, 3, 6, 7, 9, 10, 13, 14, are covered in the syllabus. The study material revised in July, 2010 is relevant for May, 2011 examination.

PAPER – 1 : ACCOUNTING

QUESTIONS

Preparation of Financial Statements of Companies

1. (a) A company can declare and pay dividend out of profit available for distribution. Interpret the distributable profit.

   A company has earned profit before depreciation ` 80 lakhs, depreciation as per books is ` 26 lakhs and depreciation as per section 205 of the Companies Act works out to ` 62 lakhs. Compute the maximum amount that can be paid as dividend for the relevant accounting year.

   (b) A joint stock company, earning adequate profits, has four part-time directors and a whole time director. What is the maximum managerial remuneration it can pay to its (i) Part-time directors taken together and (ii) to wholetime director? What will be your answer if the company had only part-time directors and no whole-time director?

Cash flow Statement

2. From the following summarized cash book of Z Ltd., prepare Cash Flow Statement for the year ended 31st March, 2011 in accordance with AS 3 (Revised), using the direct method:

		` in lakhs
Cash and bank balances on 1st April, 2010		10
Receipts from customers		560
Issue of equity shares		60
Sale of land and building		20
		650
Payments to suppliers	400	
Purchase of machinery	55	
Wages and salaries paid	20	
Payments for overhead expenses	40	
Taxation	35	
Dividend	10	
Repayment of Bank Loan	60	(620)
Cash and bank balances on 31st March, 2011		30

The company does not have any cash equivalents.

Profit or Loss Prior to Incorporation

3. A firm which was carrying on business from 1^{st} January, 2011, gets itself incorporated as a company on 1^{st} May, 2011. The first accounts are drawn upto 30^{th} September, 2011. The gross profit for the period is ` 56,000.

The general expenses are ` 14,220; directors fees ` 12,000 per annum; formation expenses ` 1,500. Rent upto $30^{th}$ June was ` 1,200 per annum, after which it was increased to ` 3,000 per annum. Salary of the Manager, who upon incorporation of the company was made a Director, was ` 6,000 per annum. His remuneration thereafter was included in the above figure of fees to directors.

Give profit and loss account showing pre and post-incorporation profits. The net sales were ` 8,20,000, the monthly average of which for the first four months of 2011 being one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored.

Accounting for Bonus Issue

4. Lavish Limited is a company listed on the Bombay Stock Exchange (BSE). The company is intending to make a bonus issue to all its shareholders to the best extent possible. The Capital Structure & Reserves position of the company as on 31-03-2011 is as under:

	`
Authorised Capital	
10,00,000 Equity shares of ` 10 each (Class A shares)	1,00,00,000
5,00,000 Equity shares of ` 5 each (Class B shares)	25,00,000
Issued, Subscribed & Paid-up Capital	
10,00,000 Equity Shares of ` 10 each fully paid (Class A shares)	1,00,00,000
5,00,000 Equity Shares of ` 5 each ` 2.50 paid up (Class B shares)	12,50,000
Reserves & Surplus	
Securities Premium Account	1,25,00,000
Capital Redemption Reserve Account	25,25,000
Capital Reserve Account	50,00,000
General Reserve	1,40,50,000
Profit & Loss Account	21,75,000
Secured Loans	
10,00,000, 8% FCD (Fully Convertible Debentures) of ` 10 each	1,00,00,000

The following information is also furnished:

(a) The Class A equity shares were issued in 2005 to shareholders of Poor Ltd. at a premium of ` 10 per share in lieu of their shareholdings in Poor Ltd. as per scheme of Amalgamation approved by the court.

(b) The Class B equity shares of ` 5 each on which ` 2.50 is paid up were issued at a premium of ` 5 each.

(c) Capital Redemption Reserve account represents profits transferred consequent to redemption of the preference shares of the company.

(d) The FCDs are due for conversion to fully paid class A equity shares of ` 10 each 3 months from the date of Balance Sheet (31-03-2011) in the ratio of 1 : 1.

(e) Capital Reserve represents surplus on revaluation of the company's land at Mumbai.

You are required to compute the maximum amount that can be capitalized in the form of Bonus shares of each class of shareholders and also give your advice to Lavish Ltd. on the other formalities it has to go through to complete the Bonus issue.

Amalgamation of Companies

5. The Balance Sheets of Rahul Ltd. and Rohit Ltd. as at 31st March, 2011 were as under:

Liabilities	*Rahul Ltd.*	*Rohit Ltd.*	*Assets*	*Rahul Ltd.*	*Rohit Ltd*
	`	`			
Share Capital in Equity Shares of ` 10 each	3,75,000	3,00,000	Fixed Assets	4,75,000	2,75,000
Reserves	2,25,000	25,000	Current Assets:		
7% Debentures	-	1,00,000	Stock	1,25,000	75,000
Creditors	1,40,000	1,25,000	Debtors	1,50,000	1,00,000
Provision for Taxation	60,000	25,000	Bank	50,000	1,25,000
	8,00,000	5,75,000		8,00,000	5,75,000

It was agreed that Rahul Ltd. should absorb Rohit Ltd. as at 31-3-2011 on the basis of the following information and adjustments:

(i) The adjusted profits for the last three years are:

	Rahul Ltd. `	Rohit Ltd. `
Year ending 31-3-2011	2,25,000	1,50,000
Year ending 31-3-2010	2,40,000	1,35,000
Year ending 31-3-2009	2,35,000	90,000

(ii) The shares of the companies were to be valued on net assets basis, subject to goodwill of Rohit Ltd. being taken at one year's purchase of average profits of three years and no goodwill to be taken for Rahul Ltd.

(iii) 7% Debentureholders are to be repaid on 31-3-2011 at par by Rohit Ltd.

(iv) The fixed assets of Rahul Ltd. are to be valued at ` 6,25,000.

(v) Cost of absorption of ` 5,000 is met by Rahul Ltd.

You are required to calculate the ratio of exchange of shares and draw up resulting Balance Sheet of Rahul Ltd. after absorpition.

Internal Reconstruction

6. The Balance Sheet of Weak Ltd. as on 31st March, 2011 was as under:

Liabilities	`	*Assets*	`
Share Capital:		Goodwill	2,00,000
20,000 Equity Shares of ` 100		Plant & Machinery	18,00,000
each fully paid	20,00,000	Inventories	3,00,000
10,000, 7% Preference		Debtors	7,50,000
Shares of ` 100 each	10,00,000	Cash & Bank Balance	1,50,000
Creditors	7,00,000	Profit & Loss A/c	7,00,000
Rich Bank overdraft	3,00,000	Preliminary Expenses	1,00,000
	40,00,000		40,00,000

The following information is furnished to you:

(1) Preference dividend remains in arrear for 2 years.

(2) Due to adverse performance, the company decided an Internal Restructuring by writing off all losses, intangibles & implementing the following scheme:

(i) Creditors agree to forego 50% of their claims.

(ii) Preference shareholders waive their right to arrears of dividend and agree to reduce their capital by 20% by reducing the nominal value of their shares in consideration for an yield of 9% on their shares post restructuring, provided the sacrifice of equity shareholders is at least 51%.

(iii) Rich Bank agrees to convert the overdraft into a term loan to the extent of ` 2,25,000 and balance to be continued as overdraft.

(iv) Plant & Machinery to be devalued by ` 3,00,000.

(v) Debtors to the extent of ` 3,50,000 are not recoverable.

(vi) Equity shareholders agree to accept shares at lesser nominal value as may be required.

You are required to calculate/prepare:

1. Total sacrifice by the shareholders of Weak Ltd.
2. Share of loss by each class of shareholders.
3. New share capital post the restructuring scheme.
4. Working capital of the restructured entity.
5. A Balance Sheet post restructuring.

Average Due Date

7. Steady, a partner in a firm called 'Ready, Steady and Go' withdraws the following amounts for the year ending on 31st December, 2011. He is to be charged interest on drawings @ 10% p.a. The details of his drawings are:

2011	`	*2011*	`
31 January	1,500	31 July	2,500
28 February	1,000	31 August	1,500
31 March	1,600	30 September	1,200
30 April	2,000	31 October	1,000
31 May	1,400	30 November	1,800
30 June	700	31 December	3,160

Calculate the amount of interest on drawings chargeable to Steady. The average due date may be calculated in months.

Account Current

8. The following are the transactions that took place between G and H during the period from 1st October, 2010 to 31st March, 2011:

2010		`
Oct.1	Balance due to G by H	3,000
Oct. 18	Goods sold by G to H	2,500
Nov. 16	Goods sold by H to G (invoice dated November, 26)	4,000

Dec.7.	Goods sold by H to G (invoice dated December, 17)	3,500
Jan. 3	Promissory note given by G to H, at three months	5,000
Feb. 4	Cash paid by G to H	1,000
Mar. 21	Goods sold by G to H	4,300
Mar.28	Goods sold by H to G (invoice dated April, 8)	2,700

Draw up an Account Current upto March 31st, 2011 to be rendered by G to H, charging interest @10% per annum. Interest is to be calculated to the nearest rupee.

Self Balancing Ledgers

9. M/s Independent keeps its books on sectional balancing system. Prepare the Total Debtors and Total Creditors accounts in the General Ledger for the year ended 31st December, 2011.

	`
Debtors' Balance – 1st January 2011 (Dr.)	20,500
Debtors' Balance – 1st January 2011 (Cr.)	150
Creditors' Balance – 1st January 2011 (Cr.)	15,000
Creditors' Balance – 1st January 2011 (Dr.)	100
Cash paid to creditors	7,600
Discount received thereon	200
Cash received from debtors in full settlement of claim of ` 12,410	12,000
Purchases Sales	8,000
returns Returns to	80
suppliers Bad debts	170
Interest charged to debtors	600
Sales	20
Cash refunded to debtors	9,000
Bills Payable accepted (including renewals)	500
Bills Payable withdrawn (upon renewal)	600
Interest on bills payable renewed	300
Bills Receivable received	15
Bills Receivable endorsed	3,000
Bills Receivable dishonoured (out of endorsed)	700
Bills Receivable discounted	100
	200

Bills Receivable dishonoured (as discounted)	50
Transfer from purchase ledger to sales ledger	400
Debtors' Balance on 31st December 2011 (Cr.)	500
Creditors' Balance on 31st December 2011(Dr.)	200

Financial Statements of Not-for-Profit Organisation

10. (a) Elite Club has 200 members with an annual subscription of ` 3,600 payable by every member. An analysis of subscriptions received by the club during the accounting year ended on 31st March, 2011 revealed the following:

	`
For the year 2009-10	25,200
For the year 2010-11	6,98,400
For the year 2011-12	7,200
	7,30,800

On 31st March, 2011 it was noted that a sum of ` 3,600 was still in arrears for the year ended 31st March, 2010. Calculate the amount of subscriptions that will appear on the credit side of the Club's Income and Expenditure Account for the year ended 31st March, 2011. Also show how items relating to subscriptions will appear in the Balance Sheet dated 31st March, 2011.

(b) The following is the Income and Expenditure Account of Patiala House for the year ended 31st March, 2011:

Income and Expenditure Account for the year ended 31st March, 2011

	`		`
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing To	750		
Insurance To	500		
Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		

Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-3-2010	*31-3-2011*
	`	`
Subscriptions in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	-	150

Book value of furniture sold is ` 7,000. Entrance fees capitalized ` 4,000. On 1st April, 2010 there was no cash in hand but Bank Overdraft was for ` 15,000. On 31st March, 2011. Cash in hand amounted to Rs. 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2011.

Accounts from Incomplete Records

11. Fazal keeps his books of account by single entry system. However, he is able to give you the following lists of his assets and liabilities in the beginning as well as at the end of the year ended 31st March, 2011:

	On 1st April, 2010 `	On 31st March, 2011 `
Cash in hand	1,750	1,400
Cash at bank	20,000	-
Bank Overdraft	-	1,800
Bills Receivable	15,000	25,000
Stock	93,500	98,700
Debtors	60,000	70,000
Furniture and Fittings	65,000	65,000

Creditors	45,000	31,000
Bills Payable	5,000	Nil

Fazal introduced ₹ 10,000 as fresh capital on 1st October, 2010. He also withdrew ₹ 5,000 every month for his household expenses.

During the year, there was no sale or fresh purchase of furniture and fittings. Ascertain the profit earned by Fazal during the year ended 31st March, 2011 after depreciating furniture and fittings @ 10% per annum and creating a provision for bad debts @ 5% on debtors.

Accounting for Hire Purchase Instalment System

12. The under mentioned data pertain to M/s Jograj & Sons for the year ended 31st Dec., 2010 who deal in consumer durables.

	₹
Opening Stock:	
At shop	30,000
With customers at cost	20,000
Purchases	60,000
Hire purchase sales collection	70,000
Opening overdue Installments	10,000
Closing overdue Installments	6,000
Hire purchase expenses	3,000
Details about unmatured installments	
Cost Price	20,000
Sold out price	30,000
Amount of closing Unmatured Installments	18,000
General sales at 10% profit on cost price	22,000
Closing stock at shop	25,000

You are required to prepare the H.P. Trading Account and General Trading Account.

Investment Accounting

13. Alert Holdings P. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 nos. of 13.5% Convertible Debentures of Face Value of ₹ 100 each of Pergot Ltd. on 1st May 2010 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2010 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2010 the company sold 2,000 Debentures @ ₹ 103 each. On 31st December, 2010 the company received 10,000 equity shares of ₹ 10 each in

Pergot Ltd. on conversion of 20% of its holdings. The market value of the debentures and equity shares as at the close of the year were ` 106 and ` 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of Alert Holdings P. Ltd. for the year 2010 on Average Cost Basis.

Insurance Claims

14. A fire engulfed the premises of a business of M/s Danger on the morning of 1st July 2011. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – ` 8,000; Equipment – ` 5,000; Stock – ` 40,000. The cost of salvage amounted to ` 17,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2011:

	`
Sales	23,00,000
Sales Returns	80,000
Purchases	19,00,000
Purchases Returns	25,000
Cartage inward	36,000
Wages	15,000
Stock in hand on 31st December, 2010	3,00,000
Building (valued on 31st December, 2010)	7,50,000
Equipment (valued on 31st December, 2010)	1,50,000
Depreciation provision till 31st December, 2010 on:	
Building	2,50,000
Equipment	45,000

No depreciation has been provided since December 31st 2010. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. On a claim being made on the insurance company, the claim was settled for ` 10,50,000. Give necessary journal entries in this regard.

Partnership - Admission of a Partner

15. (a) Red and Green are partners sharing profits and losses in the ratio of 3:2 after allowing ` 500 p.m. salary for each partner. However, the accounts have not been prepared for the last three years. From the following details, you are required to calculate the distribution of profits between the partners in total for the three years.

	`
Assets as at the end of 3rd year	80,000
Liabilities as at the end of 3rd year	20,000
Drawings for three years in addition to Salaries:	
Red	15,000
Green	11,000
Capital on commencement:	
Red	25,000
Green	20,000
Introduction of fresh capital during three years	
Red	5,000

(b) Teak and Walnut are equal partners in Timber Business. The Balance Sheet of their firm as on 31st of March, 2011 was as under:

Liabilities	*Amount*	*Assets*	*Amount*
Capital Accounts		Fixed Assets	1,25,000
Teak	80,000	Stocks	32,600
Walnut	80,000	Cash & Bank	27,400
Creditors & Sundry payables	25,000		
	1,85,000		1,85,000

On 1st April, 2011, Plywood is admitted as an equal partner. Prior to his admission, the partners agreed to bring into the books of the firm, stocks worth ` 40,000 that was received free of cost from a Business Associate. Consequent to Plywood's entry into the firm the capital base of the firm was expanded to ` 3 lakhs with all the partners agreeing to adopt the proportionate capital principle. Plywood brought in the agreed sum of ` 1,40,000. (` 1,00,000 towards capital and ` 40,000 towards his share of goodwill). The partners decided not to raise goodwill in the books of accounts.

You are requested to show Capital Accounts of the three partners and the Balance Sheet of the Firm as on 1st April, 2011.

Partnership – Retirement of a partner

16. Alpha, Beta and Cheeta were equal working partners in the business of salt and sugar trade. Cheeta decided to retire due to health considerations. Alpha & Beta decided to continue the business with profit sharing ratio of 3 : 2. To compensate Cheeta for his loss of income both continuing partners decided to contribute from their capitals, in the new profit sharing ratio, a sum of ` 5,00,000 in the form of Fixed Deposit (F.D.) in the name of Cheeta. Reserves of the firm were ` 12,00,000 which the partners wished,

should be continued in the books of the firm as such. Show the Journal Entries with appropriate narrations for giving Cheeta his share of Reserves and for the placement of the F.D. Capital balances were ` 30 lakhs, ` 20 lakhs and ` 15 lakhs respectively for Alpha, Beta & Cheeta. The Cash & Bank Balance of the firm stood at ` 1.76 crore.

Accounting in Computerised Environment

17. (a) A large business entity wants to go in for an ERP (Enterprise Resource Planning) package. Which factors should it consider for the choice of an ERP package?

(b) Briefly describe the advantages and disadvantages of using an Enterprise Resource Planning (ERP) software in computerized accounting.

Accounting Standards

AS 2

18. (a) As per Accounting Standard – 2 (Revised) 'Valuation of Inventories', what is meant by the term 'inventories'? Also state the general principle of valuation of inventories laid down by this accounting standard.

AS 3

(b) Describe, very briefly, the benefits of preparing Cash Flow Statement.

AS 6

19. (a) A company has the policy of charging depreciation @ 18% on machinery on Written Down Value method. As on 31st March, 2010, W.D.V. of machinery was ` 10 lakhs and its useful life was assessed 4 years. How much depreciation is to be charged in the accounting year ending 31st March, 2011?

If the above machinery has scrap value of ` 2 lakhs at the end of fourth year, what would be the amount of depreciation for the accounting year ending 31st March, 2011.

AS 7

(b) Galaxy Ltd., has signed on 31st Dec, 2010, the Balance Sheet date, a contract where the total revenue is estimated at ` 15 crores and total cost is estimated at ` 20 crores. No work began on the contract. Is contractor required to give any accounting effect for the year ended December, 31st 2010 in his accounts?

AS 9

(c) Y Co. Ltd., used certain resources of X Co. Ltd. In return, X Co. Ltd. received ` 10 lakhs and ` 15 lakhs as interest and royalties respective from Y Co. Ltd. during the year 2010-11.

You are required to state whether and on what basis these revenues can be recognised by X Co. Ltd.

AS 10

20. (a) Pellets India Ltd. intends to set up a steel pellet plant. The company has acquired a dilapidated factory having area of 5000 acres at a cost of ` 50,000 per acre. The company has incurred ` 1,02,00,000 on demolishing the old factory building thereon. A sum of ` 57,75,525 (including 5% sales tax) was realized from sale of material salvaged from the site. The company also incurred stamp duty and registration charges of 5% of land value, paid legal and consultancy charges ` 5,00,000 for land acquisition and incurred ` 1,50,000 on title guarantee insurance. You are required to compute the value of land acquired.

AS 13

(b) An unquoted long term investment is carried in the books at its cost of ` 5 lakhs. The Published Accounts of the unlisted company received in May, 2010 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than ` 80,000.

State with reasons, how you would deal with them in the Financial Statements.

SUGGESTED ANSWERS/HINTS

1. **(a)** Distributable profits mean profit arrived at after providing for depreciation on assets, not only for the year in which the profits are earned but also for any arrears of depreciation of the past years, calculated in the manner prescribed by Section 205 of the Companies Act, 1956.

Computation of maximum amount that can be paid as Dividend:

	(` in lakhs)
Profit before depreciation	80.00
Less: Depreciation as per Section 205	62.00
Distributable profit	18.00

Therefore, maximum amount which can be paid as dividend would be ` 18.00 lakhs.

(b) A joint stock company, earning adequate profits and having part-time directors as well as whole-time directors can pay the maximum managerial remuneration to them as follows:

(i) The total remuneration to part-time directors taken together should not exceed 1% of the net profits of the company, if there is a managing or whole-time director.

(ii) The total remuneration to a whole-time director should not exceed 5% of the net profits of the company.

If there are only part-time directors and no managing or whole-time director in the company, the maximum managerial remuneration paid to them should not exceed 3% of the net profits of the company.

Note: With the approval of the Central Government, the above limits can be exceeded.

2. **Z Ltd.**

Cash Flow Statement for the year ended 31st March, 2011

	` in lakhs	` in lakhs
Cash flow from operating activities		
Cash receipts from customers	560	
Cash paid to suppliers	(400)	
Cash paid to employees	(20)	
Cash paid for overhead expenses	(40)	
Cash generated from operations	100	
Less: Income tax paid	(35)	
Net cash generated from operating activities		65
Cash flow from investing activities		
Purchase of machinery	(55)	
Proceeds from sale of land and building	20	
Net cash used in investing activities		(35)
Cash flow from financing activities		
Proceeds from issuance of equity share	60	
Repayment of bank loan	(60)	
Dividend paid	(10)	
Net cash used in financing activities		(10)
Net increase in cash and cash equivalents		20
Add: Cash and bank balances as on 1st April, 2010		10
Cash and bank balances as on 31st March, 2011		30

3. **Profit & Loss Account**

(From 1.1.2011 to 30.9.2011)

Particulars	*Pre-Incorp.*	*Post-Incorp.*	*Total*	*Particulars*	*Pre-Incorp*	*Post-Incorp.*	*Total*
	`	`	`		`	`	`
To General Expenses	6,320	7,900	14,220	By Gross Profit	16,000	40,000	56,000
To Directors' Fees	-	5,000	5,000				
To Formation Expenses	-	1,500	1,500				
To Rent	400	950	1,350				
To Manager's Salary	2,000	-	2,000				
To Net Profit	-	24,650	24,650				
To Capital Reserve	7,280	-	7,280				
	16,000	40,000	56,000		16,000	40,000	56,000

Working Notes:

(i) Gross Profit has been apportioned in the sales ratio i.e. 2 : 5 calculated as follows:

The average monthly sales for the first four months are 100.

Therefore, the average monthly sales for the next five months will therefore be (2 x 100) 200.

Hence, the total sales for the first four months are 400 (4 x 100) and those for the next five months (5 x 200) 1,000.

Thus, the sales for the two period are in the ratio of 400 : 1,000 or 2 : 5.

(ii) General expense have been apportioned according to time basis i.e. 4 : 5.

(iii) Rent

		`
Rent for pre-incorporation period		
- 1st January, 2011 to 30th April, 2011	4 months x ` 100	400
Rent for post-incorporation period		
- 1st May, 2011 to 30th June, 2011	2 months x ` 100	200
- 1st July, 2011 to 30th September, 2011	3 months x ` 250	750
		950

(iv) Manager's salary for four months @ ` 500 per month is ` 2,000.

(v) Directors' fees for five months @ ` 1,000 per month.

(vi) The formation expenses have been charged exclusively to post-incorporation period.

4. Maximum amount of reserves available for capitalization as bonus shares

	`
Securities Premium realized in cash	25,00,000
Capital Redemption Reserve built out of profits	25,25,000
General Reserve	1,40,50,000
Profit & Loss Account	21,75,000
Total	2,12,50,000
Amount required for a 1:1 issue	
Existing Class A Equity shareholders	1,00,00,000
Existing Class B shareholders to be made fully paid	12,50,000
Bonus Reservation for FCD holders on conversion	1,00,00,000
Total	2,12,50,000

Available Reserves is ` 2,12,50,000 of which ` 12,50,000 is required to make the partly paid Class B shareholders fully paid which is a statutory requirement. The balance reserves available are ` 2,00,00,000. Hence 1:1 bonus issue for Class A equity shareholders can be made. This will use up reserves to the extent of ` 1,00,00,000 and the remaining reserves of ` 1,00,00,000 will be used for issuing Bonus shares to the FCD holders in the ratio of 1:1 upon conversion of the FCD's into Class A Equity Shares. The reservation to the FCD holders is compulsory as per SEBI rules.

Other formalities are as under:

1. To convert partly paid up shares into fully paid up shares.
2. To increase the Authorized Capital of the company.
3. To ensure compliance with SEBI's (Issue of Capital and Disclosure Requirements) Regulations, 2009.
4. To ensure that the company has necessary authority in its Articles of Association (AOA) to proceed with the Bonus issue or else the AOA is to be amended.
5. To obtain the consent of the BOD to the issue.

5. Calculation of the ratio of exchange of shares

	Rahul Ltd.	Rohit Ltd.
	`	`
Fixed assets as revalued	6,25,000	2,75,000
Goodwill (W.N.2)	-	1,25,000
Stock	1,25,000	75,000
Debtors	1,50,000	1,00,000
Bank	50,000	25,000*
	9,50,000	6,00,000
Less:Creditors	(1,40,000)	(1,25,000)
Provision for taxation	(60,000)	(25,000)
Net assets	7,50,000	4,50,000
Number of shares	37,500 shares	30,000 shares
Value per share	` 20	` 15

Ratio of Exchange of Shares:

Since the intrinsic value of shares of Rahul Ltd. is ` 20 and Rohit Ltd. is ` 15 per share. Therefore, the ratio of exchange will be 3 shares of Rahul Ltd. for 4 shares of Rohit Ltd.

Balance Sheet of Rahul Ltd.

As at 31.3.2011 (after absorption)

Liabilities	`	Assets	
Share Capital		Fixed assets	9,00,000
60,000, Equity shares of ` 10 each fully paid (out of the above 22,500 shares have been issued as fully paid for consideration other than cash)	6,00,000	Current Assets:	
		Stock 2,00,000	
		Debtors 2,50,000	
Securities Premium	2,25,000	Bank 70,00	5,20,000
Capital Reserve (on revaluation of assets) (1)	20,000		
Reserves	2,25,000		
Creditors	2,65,000		
Provision for Taxation	85,000		
	14,20,000		14,20,000

* After discharge of debenture holders.

Working Note:

1. Capital Reserve

		`
Fixed assets of Rahul Ltd. revalued at		6,25,000
Less: Book value of fixed assets of Rahul Ltd.		(4,75,000)
Capital reserve on revaluation of fixed assets		1,50,000
Less: Goodwill on take over of Rohit Ltd. written off	1,25,000	
Cost of absorption adjusted	5,000	(1,30,000)
Balance in Capital Reserve Account		20,00

2. Calculation of Goodwill

	Average Profits
Years ended	
31-3-2009	90,000
31-3-2010	1,35,000
31-3-2011	1,50,000
	3,75,000
Average Profits	1,25,000
Goodwill at one year's purchase i.e.,	1,25,000

3. Bank position of Rahul Ltd. after absorption:

	`
Balance as given	50,000
Add: Bank balance of Rohit Ltd. after payment to debeture holders	25,000
	75,000
Less: Costs of absorption	(5,000)
Balance	70,000

4. Shares issued by Rahul Ltd.

Total shares of Rohit Ltd. = 30,000 shares

No. of shares to be issued by Rahul Ltd. 30,000 x $\frac{3}{4}$ = 22,500 shares.

Since shares of Rahul Ltd. will be issued at ` 20,

` 10 should be treated as securities premium.

6. (1) Loss to be borne by Equity and Preference Shareholders

	`
Profit and loss account (debit balance)	7,00,000
Preliminary expenses	1,00,000
Goodwill	2,00,000
Plant & Machinery	3,00,000
Debtors	3,50,000
Amount to be written off	16,50,000
Less: 50% of Creditors	(3,50,000)
Recorded loss borne by the share holders	13,00,000
Add: Arrears of preference dividend of 2 years forgone by the preference shareholders	1,40,000
Total sacrifice by the shareholders of Weak Ltd.	14,40,000

(2) Share of loss to be borne by the equity and preference shareholders

	`	`
Total recorded loss of `13,00,000		
Preference shareholders' share of loss = 20% of ` 10,00,000	2,00,000	
Add: Arrears of preference dividend	1,40,000	3,40,000
Equity shareholders' share of loss (`13,00,000 – ` 2,00,000) being more than 51% of equity share capital		11,00,000
		14,40,000

(3) New share capital after restructuring

	`
Equity shares:	
20,000 Equity shares of ` 45 each, fully paid up	9,00,000
(` 20,00,000 – ` 11,00,000)	
Preference shares:	
10,000, 9% Preference shares of ` 80 each, fully paid up	8,00,000
(` 10,00,000 – ` 2,00,000)	
	17,00,000

(4) Working capital of the restructured company

	`	`
Current Assets:		
Inventories		3,00,000
Debtors		4,00,000
Cash & Bank		1,50,000
		8,50,000
Less: Current liabilities:		
Creditors	3,50,000	
Bank overdraft (3,00,000-2,25,000)	75,000	(4,25,000)
		4,25,000

(5) Balance Sheet of Weak Ltd. (As reduced)

as on 31st March, 2011

Liabilities	`	*Assets*	`
Share Capital		Plant & Machinery	15,00,000
20,000 Equity shares of ` 45 each fully paid up	9,00,000	Inventories Debtors	3,00,000 4,00,000
10,000, 9% Preference shares of ` 80 each	8,00,000	Cash & Bank	1,50,000
Rich Bank Term Loan	2,25,000		
(3,00,000 – 75,000)			
Rich Bank Overdraft	75,000		
Creditors	3,50,000		
	23,50,000		23,50,000

7. Taking 1st January as zero date, we get:

Date of drawings 2011	Amoun `	Months after 1st January, 2011	Product `
31st January	1,500	1	1,500
28th February	1,000	2	2,000

31st March	1,600	3	4,800
30th April	2,000	4	8,000
31st May	1,400	5	7,000
30th June	700	6	4,200
31st July	2,500	7	17,500
31st August	1,500	8	12,000
30th September	1,200	9	10,800
31st October	1,000	10	10,000
30th November	1,800	11	19,800
31st December	3,160	12	37,920
	19,360		1,35,520

Average Due Date $= \text{Base date} + \dfrac{\text{Total of Products}}{\text{Total of Amount}}$

$= \text{1st January, 2011} + \dfrac{1,35,520}{19,360}$

= 7 months from 1st January 2011 i.e., 31st July 2011

The amount of interest on drawings chargeable to Steady from 1st August, 2011 to 31st December, 2011

= 10% p.a. on ` 19,360 for 5 months

$= \dfrac{19,360 x 10 x 5}{100 x 12}$ = ` 807 (approx.)

8. **In the books of G**

H in Account Current with G

(Interest to 31st March, 2011 @ 10% p.a.)

Date	Due date	Particulars	No., of days till 31.3.11	Amount	Product	Date	Due date	Particulars	No. of days till 31.3.11	Amount	Product
2010	2010			`		2010	2010			`	
Oct. 1,	Oct. 1,	To Balance b/d	182	3,000	5,46,000	Nov. 16	Nov. 20	By Purchases	125	4,000	5,00,000
Oct. 18,	Oct. 18	To Sales	164	2,500	4,10,000	Dec 7	Dec. 17	By Purchases	104	3,500	3,64,000
2011	2011					2011	2011				
Jan. 2	Apr. 6	To Bills payable	(6)	5,000	(30,000)	Mar. 28	Apr. 8	By Purchases	(8)	2,700	(21,600)
Feb. 4	Feb. 4	To Cash	55	1,000	55,000	Mar. 31	Mar. 31	By Balance of product			1,81,600
Mar. 21	Mar. 21	To Sales	10	4,300	43,000			By Balance c/d		5,650	
Mar. 31	Mar. 31	To Interest $\frac{1,81,600 \times 10 \times 1}{100 \times 365}$		50							
				15,850	10,24,000					15,850	10,24,000

9. **In the General Ledger**

Total Debtors Account

2011	`	2011	`
Jan. 1		Jan. 1	
To Balance b/d	20,500	By Balance b/d	150
Till Dec. 31		Till Dec. 31	
To Interest	20	By Cash	12,000
To Sales	9,000	By Discount allowed	410
To Cash Refund	500	By Returns	80
To Total Creditors Account		By Bad Debts	600
(B/R dishonoured as endorsed)	100	By Bills Receivable	3,000
To Bank (B/R dishonoured as discounted)	50	By Transfer from Purchase Ledger	
To Balance c/d	500	to Sales Ledger	400
		By Balance c/d	14,030
		(Bal. Fig.)	
	30,670		30,670
2012		2012	
Jan. 1		Jan. 1	
To Balance b/d	14,030	By Balance b/d	500

Total Creditors Account

2011	`	2011	`
Jan. 1		Jan. 1	
To Balance b/d	100	By Balance b/d	15,000
Till Dec. 31		Till Dec. 31	
To Cash	7,600	By Purchases	8,000
To Discount received	200	By Bills Payable (Withdrawn)	300
To Returns Outwards	170		
To Bills Payable		By Interest on Bills	
(including renewals)	600	Payable (Renewal)	15
To Bills Receivable (Endorsed)	700	By Total Debtors Account	
To Transfer from Purchase		(Bills Receivable)	100

	Ledger to Sales Ledger	400		(Dishonoured as endorsed)	
To	Balance c/d (Bal.Fig.)	13,845	By	Balance c/d	200
		23,615			23,615
Jan. 1, 2012			Jan. 1, 2012		
To	Balance b/d	200	By	Balance b/d	13,845

Notes:

1. Bills Receivable discounted is not shown in the total accounts.
2. Bills Receivable dishonoured (as endorsed) has to be entered both in total debtors and total creditors accounts. It is credited in the total creditors account and debited in the total debtors account.

10. (a) Income and Expenditure Account

for the year ended 31st March, 2011 (An Extract)

		Income	`
		Subscriptions (` 3,600 x 200 members)	7,20,000

Balance Sheet as on 31st March, 2011 (An Extract)

Liabilities	`	*Assets*		`
Subscription received in advance	7,200	Subscription in arrear:		
		For 2009-10	3,600	
		For 2010-11	21,600	25,200

Working Note:

Subscription due for 2010-11 (` 3,600 x 200)	` 7,20,000
Subscription received for 2010-11	` 6,98,400
Subscription in arrear for 2010-11	21,600

(b) Receipts and Payments Account

For the year ended 31-3-2011

To Subscription A/c (W.N.1)	67,050	By Balance b/d (Bank overdraft)		15,000
To Donation A/c	5,000			
To Entrance Fees A/c	4,000	By Salary	19,500	
To Furniture A/c (Sale of		*Add:* Outstanding of last year	1,200	

furniture) (7,000 – 2,500)	4,500	*Less:* Outstanding of this year	(350)	20,350
		By Rent	4,500	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(800)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		By Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment (Purchased) (W.N. 2)		5,000
		By Furniture (Purchased) (W.N. 3)		8,000
		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			80,550

Working Notes:

1. Calculation of subscription received during the year 2010-2011

	`	`
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2010-2011	3,700	
Advance in 2009-2010	1,000	(4,700)
		63,300
Add: Arrears of 2009-2010	2,600	
Advance for 2011-2012	1,500	4,100
		67,400
Less: Written off during 2010-2011		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2010-2011

Sports Equipment A/c

	`		`
To Balance b/d	25,000	By Income & Expenditure A/c (Depreciation)	6,000
To Receipts & Payments A/c	5,000		

(Purchased) (bal. fig.)		By Balance c/d	24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2010-2011

Furniture A/c

	`		`
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c (Purchased)(Bal.fig.)	8,000	By Income & Expenditure A/c (Loss on sale)	2,500
		By Income & Expenditure A/c (Depreciation)	3,100
		By Balance c/d	27,900
	38,000		38,000

11. **Statement of Affairs as on 1st April, 2010**

Creditors	45,000	Cash in Hand	1,750
Bills Payable	5,000	Cash at Bank	20,000
Capital (bal.fig.)	2,05,250	Bills Receivable	15,000
		Stock	93,500
		Debtors	60,000
		Furniture and Fittings	65,000
	2,55,250		2,55,250

Statement of Affairs as on 31st March, 2011

Liabilities	`	*Assets*	`	`
Creditors	31,000	Cash in Hand		1,400
Bank Overdraft	1,800	Bills Receivable		25,000
Capital (bal.fig.)	2,17,300	Stock		98,700
		Debtors	70,000	
		Less: Provision for doubtful debts	(3,500)	66,500
		Furniture and fittings	65,000	
		Less: Depreciation	(6,500)	58,500
	2,50,100			2,50,100

Statement of Profit

	`
Capital as on 31st March, 2011	2,17,300
Add: Drawings (` 5,000 x 12)	60,000
	2,77,300
Less: Additional capital	(10,000)
	2,67,300
Less: Capital as on 1st April, 2010	(2,05,250)
Profits during the year	62,050

12. Hire Purchase Trading Account

Particulars	`	Particulars	`	`
To Opening Stock:		By H.P. Sales:		
With customers	20,000	Collection	70,000	
To General Trading Account	45,000	*Less*: Opening overdue		
To Hire Purchases expenses	3,000	Installments	(10,000)	
To Profit & Loss A/c:			60,000	
H.P. Profit (Bal.fig)	10,000	*Add*: Closing overdue		
		Installments	6,000	66,000
		By Closing Stock: with customers		
		(18,000x20,000/30,000)		12,000
	78,000			78,000

General Trading Account

Particulars	`	Particulars	`
To Opening Stock	30,000	By Goods sold on hire purchase	45,000
To Purchases	60,000	(Bal.fig.)	
To Gross Profit transferred to		By Sales	22,000
Profit and Loss A/c	2,000	By Closing stock	25,000
	92,000		92,000

13. Books of Alert Holdings P. Ltd.

Investment in 13.50% Convertible Debentures in Pergot Ltd. Account

(Interest payable 31st March & 30th September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
		`	`	`			`	`	`
2010					2010				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313		Dec.31	By Equity share	1,10,000		1,12,108
					Dec.31	By Bank (See note1)		3,713	
					Dec.31	By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note 1: ` 3,713 received on 31.12.2010 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in Pergot Ltd. Account

Date	Particulars	Nominal	Dividend	Amount	Date	Particulars	Nominal	Dividend	Amount
		`		`			`		`
2010					2010				
Dec31	To 13.5% Deb.	1,00,000		1,12,108	Dec.31	By P&L A/c			22,108
					Dec.31	By Bal. c/d	1,00,000		90,000
		1,00,000		1,12,108			1,00,000		1,12,108

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

1. Interest paid on ` 5,00,000 purchased on May 1st, 2010 for the month of April 2010, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ` 5,625

2. Interest received on 30th Sept. 2010

   On ` 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ` 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ` 50,625

3. Interest paid on ` 2,50,000 purchased on Aug. 1st 2010 for April 2010 to July 2010 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ` 11,250

4. Loss on Sale of Debentures

   Cost of acquisition

   (` 5,19,375 + ` 2,45,000) x ` 2,00,000/` 7,50,000 = 2,03,833

   Less: Sale Price (2000 x 103) = 2,06,000

   Profit on sale = ` 2,167

5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2010

   1,10,000 x 13.5% x 3/12 = ` 3,713

6. Cost of Debentures converted to Equity Shares

   (` 5,19,375 + ` 2,45,000) x 1,10,000/7,50,000= ` 1,12,108

7. Cost of Balance Debentures

   (` 5,19,375 + ` 2,45,000) x ` 4,40,000/` 7,50,000 = ` 4,48,434

8. Interest on Closing Debentures for period Oct.-Dec. 2010 carried forward (accrued interest)

   ` 4,40,000 x 13.5% x 3/12 = ` 14,850

14. Memorandum Trading Account for the Period from 1.1.2011 to 30.6.2011

		`			`
To Opening Stock (1.1.2011)		3,00,000	By Sales	23,00,000	
To Purchases	19,00,000		*Less:* Sales		
Less: Returns	(25,000)	18,75,000	Returns	(80,000)	22,20,000
To Cartage Inwards		35,000	By Closing Stock		5,60,000
To Wages		15,000	(Bal. Fig.)		

To Gross Profit (25% of ` 22,20,000)	5,55,000		
	27,80,000		27,80,000

Stock Destroyed Account

	`		`
To Trading Account	5,60,000	By Stock Salvaged Account	40,000
		By Balance c/d (For Claim)	5,20,000
	5,60,000		5,60,000

Statement of Claim

Items	*Cost* (`)	*Depreciation* (`)	*Salvage* (`)	*Claim* (`)
A	*B*	*C*	*D*	*(E=B-C-D)*
Stock	5,60,000		40,000	5,20,000
Buildings	7,50,000	2,50,000 + 18,750	8,000	4,73,250
Equipment	1,50,000	45,000 + 11,250	5,000	88,750
Cost of salvage	17,000	-	-	17,000
				10,99,000

Journal Entries

	`	`
Insurance Company Account Dr.	10,99,000	
To Stock Destroyed Account		5,20,000
To Buildings Account		4,73,250
To Equipment Account		88,750
To Cost of Salvage Account		17,000
(Amount of claim submitted)		
Bank Account Dr.	10,50,000	
Profit and Loss Account Dr.	49,000	
To Insurance Company Account		10,99,000
(Amount of claim admitted to the extent of ` 10,50,000; the balance transferred to profit and loss account)		

15. (a) Statement showing distribution of profits between the partners

	₹	₹
Assets at the end of the 3rd year		80,000
Less: Liabilities at the end of the 3rd year		(20,000)
		60,000
Add: Drawings including partnership salary:		
Red [15,000 + (500 x 12 x 3)]	33,000	
Green [11,000 + (500 x 12 x 3)]	29,000	62,000
		1,22,000
Less: Opening Capital:		
Red	25,000	
Green	20,000	(45,000)
		77,000
Less: Introduction of capital:		
Red		(5,000)
Net Profit		72,000

Profit and Loss Appropriation Account for 3 years

Particulars	₹	Particulars	₹
To Partner's Salary		By Net Profit for three years	72,000
Red (500 x 12 x 3)	18,000		
Green (500 x 12 x 3)	18,000		
To Share of Profit			
Red 21,600			
Green 14,400	36,000		
	72,000		72,000

(b) Partners' Capital Accounts

Particulars	Teak	Walnut	Plywood	Particulars	Teak	Walnut	Plywood
	₹	₹	₹		₹	₹	₹
To Teak & Walnut	-	-	40,000	By Balance b/d	80,000	80,000	-
To Bank	20,000	20,000	-	By Bank	-	-	1,40,000

To Balance c/d	1,00,000	1,00,000	1,00,000	By Plywood	20,000	20,000	-
				By Stock A/c	20,000	20,000	
	1,20,000	1,20,000	1,40,000		1,20,000	1,20,000	1,40,000

Balance Sheet of M/s Teak, Walnut & Plywood as on 1st April, 2011

Liabilities	`	*Assets*	`
Capital Accounts		Fixed Assets	1,25,000
Teak	1,00,000	Stocks	72,600
Walnut	1,00,000	Cash & Bank	1,27,400
Plywood	1,00,000		
Creditors & Sundry Payables	25,000		
	3,25,000		3,25,000

Working Note:

Old profit sharing ratio: 1:1

New ratio:1:1:1

Plywood's share of capital = ` 3,00,000/3 = ` 1,00,000

Goodwill = ` 1,40,000 – ` 1,00,000 = ` 40,000 for the 1/3rd share

16. Journal Entries

		`	`
(1) Fixed Deposit (FD) Account for Cheeta	Dr.	5,00,000	
To Bank A/c			5,00,000
(Being the placement of FD for Cheeta from Firm's resources)			
(2) Alpha's Capital Account	Dr.	3,00,000	
Beeta's Capital Account	Dr.	2,00,000	
To FD Account for Cheeta			5,00,000
(Being the FD taken out of firm's resources borne by the continuing partners in the new profit sharing ratio)			
(3) Alpha's Capital A/c	Dr.	3,20,000	
Beta's Capital A/c	Dr.	80,000	
To Cheeta's Capital Account			4,00,000
(Being entry for Cheeta's share of reserve borne by continuing partners in ratio of gain)			

Working Note:

Alpha's Gain = 3/5 – 1/3 = 4/15

Beta's Gain = 2/5 – 1/3 = 1/15

Gaining ratio of Alpha & Beta will thus be 4 : 1

17. (a) The business entity should consider the following factors while choosing an ERP package:

(i) **Functional requirement of the organization**: The ERP that matches most of the requirements of the organization should be preferred to others.

(ii) **Reports available in the ERP:** The organization should visualize the reporting requirements and choose a vendor which fulfils them.

(iii) **Background of the vendors:** The service and deliverable record of a vendor is extremely important in choosing the vendor.

(iv) **Budget of the organization:** The budget constraint and fund position of the enterprise should also be taken into consideration.

(b) The followings are the advantages of using an Enterprise Resource Planning (ERP) software in computerized accounting:

(i) It covers most of the common functions.

(ii) It generates most of the desired reports which are standardize across industries and acceptable to users.

(iii) It being an integrated package, duplication is avoided.

(iv) Much more information is made available by this package than what is available otherwise.

The followings are the disadvantages of ERP:

(i) The user may have to modify his business procedures to use ERP effectively.

(ii) It is often too expensive for small and medium sized organizations.

(iii) There may be implementation hurdles.

(iv) It is a complex software. Large number of modules, parameter settings and configuration makes it a complex.

18. (a) As per Accounting Standard 2 (Revised) 'Valuation of Inventories', inventories mean assets:

(i) held for sale in the ordinary course of business;

(ii) in the process of production for such sale; and

(iii) in the form of materials, spares, or supplies to be consumed in the production process or in rendering of services

The general principle of valuation of inventories is that inventories should be valued at the lower of cost and net realisable value.

(b) The followings are the benefits of preparing Cash Flow Statement:

(i) It gives much more reliable information regarding results of the enterprise than the profit and loss account.

(ii) It gives an idea of the ability of the enterprise to meet its short term cash commitments and to pay dividend.

(iii) It is useful in checking the accuracy of past assessments of future cash flows.

(iv) It is very useful in planning and preparing cash budget for a future period.

(v) It is useful in getting information about changes in cash and cash equivalents over a period.

19. (a) (a)

	(` in lakhs)
W.D.V. as on 31st March, 2010	10.00
Depreciation for 2010-11 (` 10 lakh x 18%)	1.8

(b) Where machinery has scrap value of ` 2,00,000

$$\text{Rate of depreciation as per WDV} = 1 - \sqrt[n]{\frac{\text{Scrap value}}{\text{Cost}}}\,x100$$

$$\text{Rate of depreciation} = [1 - \sqrt[4]{\frac{2,00,000}{10,00,000}}\,]x100 \text{ or } = [1 - \sqrt[4]{\frac{20}{100}}\,]x100$$

After applying the log and antilog table, the rate of depreciation would be

= [1-(1/4 log 20 - 1/4 log 100)] x 100

= [1-(/4 x 1.3010 - 1/4 x 2.0000)] x 100

= [1-(.32525-.5)] x 100

= [1-(-.17475)] x 100

= [1-(Antilog -.17475+1-1)] x 100

= [1-(Antilog bar1.8253)] x 100

= [1-0.6688] x 100 = .3312 x 100 = 33.12%

	(` in lakhs)
W.D.V. as on 31st March, 2010	10
Depreciation to be charged in 2010-11 @ 33.12%	3.312

(b) As per para 35 of AS 7 'Construction Contracts, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. The amount of such loss is determined irrespective of whether or not work has commenced on the contract. Thus, Galaxy Ltd. should recognize loss amounting `5 crores for the year ended 31st December, 2010. The contract should be reviewed at the end of the each accounting period for additional losses to be incurred, if any.

(c) As per para 13 of AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognised when no significant uncertainty as to measurability or collectability exists. These revenues are recognised on the following bases:

(i) Interest: on a time proportion basis taking into account the amount outstanding and the rate applicable.

(ii) Royalties: on an accrual basis in accordance with the terms of the relevant agreement

20. **(a)** Para 20 of AS 10 'Accounting for Fixed Assets' stipulates that the cost of a fixed asset should comprise of its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Further, in para 9, the standard gives examples of attributable costs such as site preparation & professional fees. Subsequently, through para 10.1 the standard also permits elimination of internal profits in arriving at costs. Accordingly the cost of the land will be as under:

		(` in lakhs)
Purchase price @ ` 50,000 per acre:		2,500.000
Stamp Duty & Registration charges @ 5%		125.000
Legal Fees		5.000
Title Guarantee Insurance		1.500
Demolition Expenses	102.00	
Sale of Salvaged materials (net of Tax)	(55.005)	46.995
Cost of Land		(2,678.495)

(b) Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On this basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to ` 80,000 in the financial statements for the year ended 31st March, 2010.

Appendix

Announcements and Notifications applicable for November, 2011 examination

1. Limited Revisions due to Issuance of AS 30 and 31

As per the announcement issued by the Accounting Standard Board of the ICAI regarding applicability of AS 30 (dated 11th February, 2011) in respect of the financial statements, it has been clarified that to the extent of accounting treatments covered by any of the existing notified accounting standards (for eg. AS 11, AS 13 etc,) the existing notified accounting standards would continue to prevail over AS 30.

2. Schedule XIII of the Companies Act 1956 being amended- Unlisted Companies shall not require Government Approval for Managerial Remuneration where they have no Profits

The Ministry of Corporate Affairs issued a notification on Managerial Remuneration in unlisted companies having no profits/inadequate profits.

In the case of unlisted companies so long as the conditions specified in Schedule XIII, including special resolution of shareholders and absence of default on payment to creditors, are fulfilled approval will not be needed hereafter. Accordingly, Schedule XIII of the Companies Act 1956 is being amended to provide that unlisted companies (which are not subsidiaries of listed companies) shall not require Government approval for managerial remuneration in cases where they have no profits/ inadequate profits, provided they meet the other conditions stipulated in the Schedule.

Note: Accounting Standards 1, 2, 3, 6, 7, 9, 10, 13, 14, are covered in the syllabus.

Non- applicability of Announcements and Notifications for November, 2011 examination

1. The MCA has issued 35 converged Indian Accounting Standards (Ind 'AS') without announcing the applicability date. These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards vis-à-vis IFRS. These standards shall be applied for all companies falling under Phase I to Phase III as prescribed under the roadmap issued by the core group. **These Ind ASs are not applicable for the students appearing in November, 2011 Examination.**

2. Non-applicability of Revised Schedule VI for November 2011 Examination

This is to bring to the attention of students that a decision has been taken to defer the applicability of the Revised Schedule VI for CA examination, consequent to which the same will not be applicable for PCC examinations to be held in November, 2011.