

DISCLAIMER

The Suggested Answers hosted in the website do not constitute the basis for evaluation of the students' answers in the examination. The answers are prepared by the Faculty of the Board of Studies with a view to assist the students in their education. While due care is taken in preparation of the answers, if any errors or omissions are noticed, the same may be brought to the attention of the Director of Studies. The Council of the Institute is not in anyway responsible for the correctness or otherwise of the answers published herein.

PAPER – 1 : ACCOUNTING

Question No. **1** is compulsory

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

Wherever necessary, suitable assumption(s) may be made by the candidates.

Working Notes should form part of the answer.

Question 1

- (a) M/s. Zed Laptop Co. has a hire-purchase department and goods are sold on hire-purchase adding 25% to cost. From the following information (all figures are at hire-purchase price), prepare Hire-Purchase Trading Account for the year ending March 31, 2013 :

	₹
April 01, 2012 goods with customers (Instalments not yet due)	80,000
Goods sold on Hire-purchase during the year	4,00,000
Cash received during the year from customers	3,00,000
Instalments due but not yet received at the end of the year, customers paying	10,000

- (b) M/s. Big Systematic Ltd. maintains self-balancing ledgers preparing control accounts at the end of each calendar month.

On 3rd January, 2013 the accountant of the company located the following errors in the books of account:

- (i) An amount of ₹ 8,700 received from customer Mehra was credited to Mehta, another customer.
- (ii) The sales book for December, 2012 was undercast by ₹ 1,000.
- (iii) Goods invoiced at ₹ 15,600 were returned to supplier, M/s Mega Ltd., but no entry was made in the books for this return made on 28th December, 2012.

Pass the necessary Journal Entries to rectify the above mentioned errors.

- (c) On 15th December, 2012, a fire occurred in the premises of M/s. OM Exports. Most of the stocks were destroyed. Cost of stock salvaged being ₹ 1,40,000. From the books of account, the following particulars were available:

- (i) Stock at the close of account on 31st March, 2012 was valued at ₹ 9,40,000.
- (ii) Purchases from 01-04-2012 to 15-12-2012 amounted to ₹ 13,20,000 and the sales during that period amounted to ₹ 20,25,000.

On the basis of his accounts for the past three years, it appears that average gross profit ratio is 20% on sales.

Compute the amount of the claim, if the stock were insured for ₹ 4,00,000.

- (d) In 2011, M/s. Wye Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year.

On 1st December, 2012, M/s. Bull & Bear purchased 10,000 of these debentures at ₹ 101 cum-interest price, also paying brokerage @ 1% of cum-interest amount of the purchase. On 1st March, 2013 the firm sold all of these debentures at ₹ 106 cum-interest price, again paying brokerage @ 1 % of cum-interest amount.

Prepare Investment Account in the books of M/s. Bull & Bear for the period 1st December, 2012 to 1st March, 2013. (4 x 5 = 20 Marks)

Answer

(a)

Hire-Purchase Trading Account
(On the basis of Hire-Purchase Price)
for the year ending 31st March, 2013

Particulars	₹	Particulars	₹
To Balance b/d : H.P stock as on 1.4.2012	80,000	By Bank	3,00,000
To Goods sold on hire purchase A/c	4,00,000	By Goods sold on hire purchase A/c (loading) (1/5 of 4,00,000)	80,000
To Stock reserve (Closing) (1/5 of 1,70,000)	34,000	By Stock reserve (Opening) (1/5 of 80,000)	16,000
To Profit & Loss A/c	62,000	By Balance c/d: H.P Debtors (Instalment due)	10,000
		H.P Stock as on 31.03.2013 (Working Note)	1,70,000
	5,76,000		5,76,000

Working Note:

H.P Stock on 31.03.2013	₹
Stock with customers (Instalment not due) on 1.04.2012	80,000
Goods sold on hire purchase during the year	<u>4,00,000</u>
	4,80,000
Less : Cash received during the year	3,00,000
Instalments due but not received	<u>10,000</u>
H.P Stock on 31.03.2013	<u>(3,10,000)</u>
	<u>1,70,000</u>

(b)

Journal Entries**In the books of M/s Big. Systematic Ltd.**

			₹	₹
(i)	Mehta (In Sales/ Debtors Ledger) Dr. To Mehra (In Sales/ Debtors Ledger) (Being amount received from Mehra was wrongly credited to Mehta, now rectified)		8,700	8,700
(ii)	(a) Suspense Account (In Sales / Debtors Ledger) Dr. To Sales Account (In General Ledger)		1,000	1,000
	(b) Sales/Debtors Ledger Adjustment Account Dr. (In General Ledger) To General Ledger Adjustment Account (In Sales/ Debtors Ledger) (Being rectification of the error resulting from under casting of the Sales Book)		1,000	1,000
(iii)	(a) M/s. Mega Ltd. A/c (In Creditors/Bought Ledger) Dr. To Purchase Returns A/c (In General Ledger)		15,600	15,600
	(b) Creditors/Bought Ledger Adjustment A/c Dr. (In General Ledger) To General Ledger Adjustment A/c (In Creditors/Bought Ledger) (Being goods returned to supplier not recorded earlier, now recorded)		15,600	15,600

(c)

Memorandum Trading Account**For the period 01.04.2012 to 15.12.2012**

Particulars	₹	Particulars	₹
To Opening stock	9,40,000	By Sales	20,25,000
To Purchases	13,20,000	By Closing Stock	6,40,000
To Gross Profit @20%	4,05,000	(Bal. figure)	
	26,65,000		26,65,000

Statement of Claim

	₹
Estimated value of Stock as at date of fire	6,40,000

Less: Value of Salvaged Stock	<u>1,40,000</u>
Estimated Value of Stock lost by fire	<u>5,00,000</u>

As the value of stock is more than insured value, amount of claim would be subject to average clause.

$$\text{Amount of Claim} = \frac{\text{Amount of Policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$$

$$\text{Amount of Claim} = \frac{4,00,000}{6,40,000} \times 5,00,000 = ₹ 3,12,500$$

- (d) **In the books of M/s Bull & Bear**
Investment Account
for the period from 1st December 2012 to 1st March, 2013
(Scrip: 12% Debentures of M/s. Wye Ltd.)

Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)
1.12.2012	To Bank A/c (W.N.1)	10,00,000	20,000	10,00,100	1.03.2013	By Bank A/c (W.N.2)	10,00,000	50,000	9,99,400
1.3.2013	To Profit & loss A/c	-	30,000		1.3.2013	By Profit & loss A/c			700
		10,00,000	50,000	10,00,100			10,00,000	50,000	10,00,100

Working Notes:

(i) Cost of 12% debentures purchased on 1.12.2012 ₹

Cost Value (10,000 × ₹ 101)	=	10,10,000
Add: Brokerage (1% of ₹ 10,10,000)	=	10,100
Less: Cum Interest (10,000 × 100 × 12% × 2/12)	=	(20,000)
Total	=	<u>10,00,100</u>

(ii) Sale proceeds of 12% debentures sold on 31st March, 2013 ₹

Sales Price (10,000 × ₹ 106)	=	10,60,000
Less: Brokerage (1% of ₹ 10,60,000)	=	(10,600)
Less: Cum Interest (10,000 × 100 × 12% × 5/12)	=	(50,000)
Total	=	<u>9,99,400</u>

Question 2

P, Q and R were carrying on a business in partnership, sharing profits and losses in the ratio of 5 : 3 : 2 respectively. The firm earned a profit of ₹ 3,60,000 for the accounting year ended 31st March, 2012 on which date the firm's Balance Sheet stood as follows:

Balance Sheet as at 31st March, 2012

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

P died on 31st August, 2012. According to firm's partnership deed, in case of death of a partner:-

- Assets and Liabilities have to be revalued by an independent valuer.
- Goodwill is to be calculated at two years' purchase of average profits for the last three completed accounting years and the deceased partner's capital account is to be credited with his share of goodwill.
- The share of the deceased partner in the profits for the period between end of the previous accounting year and the date of death is to be calculated on the basis of the previous accounting year's profits. Post death of P, Q & R will share profit in the ratio of 3 : 2.

Profits for the accounting years 2009-2010 and 2010-2011 were as follows :-

	₹
For the year ended 31st March, 2010	2,90,000 .
For the year ended 31st March, 2011	3,40,000

Drawings by P from 1st April, 2012 to the date of his death totalled ₹ 46,000.

On revaluation, Freehold Land and Building was appreciated by ₹ 1,00,000; Machinery was depreciated by ₹ 10,000 and a Provision for Bad Debts was created @ 5% on Debtors as on 31st March, 2012. P's sole heir was given ₹ 5,00,000 immediately and the balance along with interest @ 12% per annum was paid to him on 31st March, 2013.

Prepare Revaluation Account, P's Capital Account and P's Heir Account, giving important working notes. (16 Marks)

Answer**Revaluation Account**

Particulars	₹	₹	Particulars	₹
To Machinery		10,000	By Freehold Land & Building	1,00,000
To Provision for doubtful debts(5% of 1,60,000)		8,000		
To Capital accounts:				
P	41,000			
Q	24,600			
R (Profit transferred)	<u>16,400</u>	<u>82,000</u>		
		<u>1,00,000</u>		<u>1,00,000</u>

P's Capital Account

Particulars	₹	Particulars	₹
To Drawings	46,000	By Balance b/d	7,00,000
To P's heir (Balance transferred)	11,00,000	By Q's capital A/c	1,98,000
		By R's capital A/c	1,32,000
		By Profit and Loss Suspense A/c	75,000
		By Revaluation A/c	<u>41,000</u>
	<u>11,46,000</u>		<u>11,46,000</u>

P's Heir Account

Date	Particulars	₹	Date	Particulars	₹
31.08.2012	To Bank A/c	5,00,000	31.08.2012	By P's Capital A/c	11,00,000
31.03.2013	To Bank A/c	6,42,000	31.03.2013	By Interest A/c $\left(6,00,000 \times 12\% \times \frac{7}{12} \right)$	42,000
		<u>11,42,000</u>			<u>11,42,000</u>

Working Notes:**1. Calculation of gaining ratio of Partners Q and R**

	New share	Old share	Gaining share	Sacrificing share
P		5/10		5/10
Q	3/5	3/10	$\frac{3}{5} - \frac{3}{10} = \frac{6-3}{10} = \frac{3}{10}$	
R	2/5	2/10	$\frac{2}{5} - \frac{2}{10} = \frac{4-2}{10} = \frac{2}{10}$	

2. Calculation of Goodwill

	₹
2009-10	2,90,000
2010-11	3,40,000
2011-12	<u>3,60,000</u>
	<u>9,90,000</u>

$$\text{Average Profit} = 9,90,000/3 = ₹ 3,30,000$$

$$\text{Goodwill} = 3,30,000 \times 2 = ₹ 6,60,000$$

$$\text{Share of P in goodwill} = 6,60,000 \times \frac{5}{10} = ₹ 3,30,000$$

Adjustment for P's share of goodwill through Q's and R's capital accounts (in their gaining ratio 3:2) :

Q's capital A/c (3,30,000 x 3/5)	₹ 1,98,000
R's capital A/c (3,30,000 x 2/5)	₹ 1,32,000

3. Share of P in Profits for the period between 1.4.2012 to 31.8.2012 i.e. till the date of death

$$1^{\text{st}} \text{ April, 2012 to } 31^{\text{st}} \text{ August, 2012} = 5 \text{ months}$$

$$\text{Profit for year 2011-12} = ₹ 3,60,000$$

$$\text{Estimated profit for 5 months} = 3,60,000 \times \frac{5}{12} = ₹ 1,50,000$$

$$\text{Share of P} = 1,50,000 \times \frac{5}{10} = ₹ 75,000$$

Question 3

The Balance Sheet of M/s. Cube Limited as on 31-03-2013 is given below:

Particulars	Note No.	Amount (₹ in lakh)
<u>Equity & Liabilities</u>		
<u>Shareholders' Funds</u>		
Shares' Capital	1	700
Reserves & Surplus	2	(261)

<u>Non-Current Liabilities</u>		
Long term Borrowings	3	350
<u>Current Liabilities</u>		
Trade Payables	4	51
Other Liabilities	5	12
Total		852
Assets		
<u>Non-Current Assets</u>		
<u>Fixed Assets</u>		
Tangible Assets	6	375
<u>Current Assets</u>		
Current Investments	7	100
Inventories	8	150
Trade Receivables	9	225
Cash & Cash Equivalents	10	2
Total		852

Notes to Accounts:

	₹ in Lakhs
(1) <u>Share Capital</u>	
<u>Authorised :</u>	
100 lakh shares of ₹10 each	1,000
4 lakh, 8% Preference Shares of ₹100 each	<u>400</u>
	<u>1,400</u>
<u>Issued, Subscribed and paid up:</u>	
50 lakh Equity Shares of ₹10 each, full paid up	500
2 lakh 8% Preference Shares of ₹100 each, fully paid up	<u>200</u>
Total	<u>700</u>
(2) <u>Reserves and Surplus</u>	
Debit balance of Profit & Loss A/c	(261)

(3) <u>Long Term Borrowings</u>	
6% Debentures (Secured by Freehold Property)	200
Directors' Loan	<u>150</u>
	<u>350</u>
(4) <u>Trade Payables</u>	
Sundry Creditors for Goods	51
(5) <u>Other Current Liabilities</u>	
Interest Accrued and Due on 6% Debentures	12
(6) <u>Tangible Assets</u>	
Freehold Property	275
Plant & Machinery	<u>100</u>
	<u>375</u>
(7) <u>Current Investment</u>	
Investment in Equity Instruments	100
(8) <u>Inventories</u>	
Finished Goods	150
(9) <u>Trade Receivables</u>	
Sundry Debtors for Goods	225
(10) <u>Cash and Cash Equivalents</u>	
Balance with Bank	2

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

- (1) Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.
- (2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.
- (3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 150 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
- (4) Interest accrued and due on Debentures to be paid in cash.

- (5) Remaining Freehold Property to be valued at ₹ 200 lakh.
- (6) All investments sold out for ₹ 125 lakh.
- (7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.
- (8) 40% of Sundry Debtors and 80% of Inventories to be written off.
- (9) Company's contractual commitments amounting to ₹ 300 lakh have been settled by paying 5% penalty of contract value.

You are required to :

- (a) Pass Journal Entries for all the transactions related to internal reconstruction;
- (b) Prepare Reconstruction Account; and
- (c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction. (16 Marks)

Answer

(a) Journal Entries in the books of M/s. Cube Ltd.

	Particulars	Debit (₹ in lakhs)	Credit (₹ in lakhs)
(i)	8% Preference share capital A/c (₹ 100 each) Dr. To 8% Preference share capital A/c (₹ 80 each) To Reconstruction A/c (Being the preference shares of ₹ 100 each reduced to ₹ 80 each as per the approved scheme)	200	160 40
(ii)	Equity share capital A/c (₹ 10 each) Dr. To Equity share capital A/c (₹ 2 each) To Reconstruction A/c (Being the equity shares of ₹ 10 each reduced to ₹ 2 each)	500	100 400
(iii)	Reconstruction A/c Dr. To Equity share capital A/c (₹ 2 each) (Being 1/3 rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of ₹ 2 each)	16	16

(iv)	6% Debentures A/c To Freehold property A/c (Being claim of Debenture holders settled in part by transfer of freehold property)	Dr.	150	150
(v)	Accrued debenture interest A/c To Bank A/c (Being accrued debenture interest paid)	Dr.	12	12
(vi)	Freehold property A/c To Reconstruction A/c (Being appreciation in the value of freehold property)	Dr.	75	75
(vii)	Bank A/c To Investments A/c To Reconstruction A/c (Being investment sold at profit)	Dr.	125	100 25
(viii)	Director's loan A/c To Equity share capital A/c (₹ 2 each) To Reconstruction A/c (Being director's loan waived by 70% and balance being discharged by issue of 22.5 lakhs equity shares of ₹ 2 each)	Dr.	150	45 105
(ix)	Reconstruction A/c To Profit and loss A/c To Sundry debtors A/c (225 x 40%) To Stock-in-trade A/c (150 x 80%) To Bank A/c (300 x 5%) To Capital reserve A/c (Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off, and balance transferred to capital reserve account as per the scheme)	Dr.	629	261 90 120 15 143

(b) **Reconstruction Account**

Dr.		Cr.	
	(₹ in lakhs)		(₹ in lakhs)
To Equity Share Capital	16	By Preference Share Capital	40

To Sundry Debtors	90	By Equity Share Capital	400
To Finished Goods	120	By Freehold Property	75
To Profit & Loss A/c	261	By Bank	25
To Bank A/c	15	By Director's Loan	105
To Capital Reserve	<u>143</u>		
	<u>645</u>		<u>645</u>

(c) Notes to Balance Sheet

	(₹ in lakhs)	(₹ in lakhs)
1. <u>Share Capital</u>		
<u>Authorised:</u>		
100 lakhs Equity shares of ₹ 2 each		200
4 lakhs 8% Preference shares of ₹ 80 each		<u>320</u>
		<u>520</u>
<u>Issued:</u>		
80.5 lakhs equity shares of ₹ 2 each		161
2 lakhs Preference Shares of ₹ 80 each		<u>160</u>
		<u>321</u>
2. <u>Tangible Assets</u>		
Freehold Property	275	
Less: Utilized to pay Debenture holders	<u>(150)</u>	
	125	
Add: Appreciation	<u>75</u>	200
Plant and Machinery		<u>100</u>
		<u>300</u>

Question 4

A sole trader requests you to prepare his Trading and Profit & Loss Account for the year ended 31st March, 2013 and Balance Sheet as at that date. He provides you the following information:

Statement of Affairs as at 31st March, 2012

Liabilities	₹	Assets	₹
Bank Overdraft	4,270	Furniture	96,000

<i>Outstanding Expenses</i>		<i>Computer</i>	24,300
Salaries 8,000		<i>Mobile Phone</i>	8,000
Rent <u>6,000</u>	14,000	<i>Stock</i>	89,500
<i>Bills Payable</i>	22,500	<i>Trade Debtors</i>	55,000
<i>Trade Creditors</i>	52,500	<i>Bills Receivable</i>	15,000
<i>Capital</i>		<i>Unexpired Insurance</i>	2,400
<i>(balancing figure)</i>	1,97,430	<i>Stock of Stationery</i>	200
		<i>Cash in Hand</i>	300
<i>Total</i>	2,90,700	<i>Total</i>	2,90,700

He informs you that there has been no addition to or sale of Furniture, Computer and Mobile Phone during the accounting year 2012-13. The other assets and liabilities on 31st March, 2013 are as follows:

	₹
<i>Stock</i>	95,400
<i>Trade Debtors</i>	65,000
<i>Bills Receivable</i>	20,000
<i>Unexpired Insurance</i>	2,500
<i>Stock of Stationery</i>	250
<i>Cash at Bank</i>	18,000
<i>Cash at Hand</i>	7,230
<i>Salaries Outstanding</i>	8,300
<i>Rent Outstanding</i>	6,000
<i>Bills Payable</i>	26,500
<i>Trade Creditors</i>	76,000

He also provides you the following summary of his cash transactions:

<i>Receipts</i>	₹	<i>Payments</i>	₹
<i>Cash Sales</i>	5,09,800	<i>Trade Creditors</i>	3,06,000
<i>Trade Debtors</i>	1,51,900	<i>Bills Payable</i>	80,000
<i>Bills Receivable</i>	65,000	<i>Salaries</i>	99,000
		<i>Rent</i>	72,000
		<i>Insurance Premium</i>	10,000
		<i>Stationery</i>	1,500

		Mobile Phone Expenses	9,000
		Drawings	1,20,000

It is found prudent to depreciate Furniture @ 5%, Computer @ 10% and Mobile Phone @ 25%. A provision for bad debts @ 5% on Trade Debtors is also considered desirable. (16 Marks)

Answer

Trading and Profit and Loss Account
for the year ended 31st March, 2013

Particulars	₹	Particulars	₹	₹
To Opening Stock	89,500	By Sales:		
To Purchases (W. N. 3)	4,13,500	Credit (W.N. 1)	2,31,900	
To Gross profit c/d (Bal. Fig.)	3,34,100	Cash	5,09,800	7,41,700
		By Closing stock		95,400
	<u>8,37,100</u>			<u>8,37,100</u>
To Insurance (W.N. 5)	9,900	By Gross profit b/d		3,34,100
To Salaries (W. N. 6)	99,300			
To Rent (W.N. 7)	72,000			
To Stationery (W.N. 8)	1,450			
To Mobile Phone expenses	9,000			
To Provision for doubtful debts (5% of 65,000)	3,250			
To Depreciation:				
Furniture	4,800			
Computer	2,430			
Mobile Phone	<u>2,000</u>			
	9,230			
To Net Profit	<u>1,29,970</u>			
	<u>3,34,100</u>			<u>3,34,100</u>

Balance Sheet as on 31st March, 2013

Liabilities	₹	₹	Asset	₹	₹
Capital A/c:			Furniture	96,000	
Opening Balance	1,97,430		Less: Depreciation	<u>(4,800)</u>	91,200
Less :Drawings	<u>(1,20,000)</u>		Computer	24,300	
	77,430		Less: Depreciation	<u>(2,430)</u>	21,870

Add: Net Profit	<u>1,29,970</u>	2,07,400	Mobile Phone	8,000	
Bills Payable		26,500	Less: Depreciation	<u>(2,000)</u>	6,000
Trade Creditors		76,000	Trade Debtors	65,000	
Outstanding expenses:			Less: Provision for doubtful debts	<u>(3,250)</u>	61,750
Salaries		8,300	Bills Receivable		20,000
Rent		6,000	Closing Stock		95,400
			Unexpired Insurance		2,500
			Stock of Stationery		250
			Cash at bank		18,000
			Cash in hand		7,230
		<u>3,24,200</u>			<u>3,24,200</u>

Working Notes:**1. Trade Debtors Account**

	₹		₹
To Balance b/d	55,000	By Cash /Bank	1,51,900
To Credit Sales (bal. fig.)	<u>2,31,900</u>	By Bills Receivable A/c (W.N.2)	70,000
		By Balance c/d (given)	<u>65,000</u>
	<u>2,86,900</u>		<u>2,86,900</u>

2. Bills Receivable Account

	₹		₹
To Balance b/d	15,000	By Cash/Bank	65,000
To Sundry Debtors (bal. fig.)	<u>70,000</u>	By Bal. c/d (given)	<u>20,000</u>
	<u>85,000</u>		<u>85,000</u>

3. Trade Creditors Account

	₹		₹
To Bank/Cash	3,06,000	By Bal. b/d	52,500
To Bills payable A/c (W.N.4)	84,000	By Credit Purchases (bal. fig)	4,13,500
To Bal. c/d(given)	<u>76,000</u>		
	<u>4,66,000</u>		<u>4,66,000</u>

4. Bills Payable Account

	₹		₹
To Cash/Bank A/c	80,000	By Bal. b/d	22,500
To Bal. c/d (given)	<u>26,500</u>	By Sundry Creditors (bal. fig.)	<u>84,000</u>
	<u>1,06,500</u>		<u>1,06,500</u>

5. Insurance expenses for the year 2012-2013

	₹
Insurance paid during the year	10,000
Add: Unexpired Insurance as on 1.4.2012	2,400
Less: Unexpired insurance as on 31.3.2013	<u>(2,500)</u>
	<u>9,900</u>

6. Salaries for the year 2012-2013

	₹
Salaries paid during the year	99,000
Add: Salaries outstanding as on 31.03.2013	<u>8,300</u>
	1,07,300
Less: Salaries outstanding as on 1.4.2012	<u>(8,000)</u>
	<u>99,300</u>

7. Rent expenses for the year 2012-2013

	₹
Rent paid during the year	72,000
Add: Rent outstanding as on 31.03.2013	<u>6,000</u>
	78,000
Less: Rent outstanding as on 1.04.2012	<u>(6,000)</u>
	<u>72,000</u>

8. Stationery expenses for the year 2012-2013

	₹
Stock of stationery as on 1.4.2012	200
Add: Stationery purchased during the year	<u>1,500</u>
	1,700
Less: Stock of stationery as on 31.3.2013	<u>(250)</u>
	<u>1,450</u>

Question 5

- (a) The Receipts and Payments Account, the Income and Expenditure Account and additional information of a sports club for the year ended 31st March, 2013 were as follows:

Receipts & Payments Account**For the year ending on 31st March, 2013**

Receipts	₹	Payments	₹
To Balance b/d	42,000	By Secretary's Salary	10,000
To Entrance Fees 2011-12	10,000	By Printing & Stationary	26,000
To Entrance Fees 2012-13	1,00,000	By Advertising	16,000
To Subscription 2011-12	6,000	By Fire Insurance	12,000
To Subscription 2012-13	1,50,000	By 12% Investments	
To Subscription 2013-14	4,000	(Purchased on 01-10-2012)	2,00,000
To Rent Received	24,000	By Furniture	20,000
To Interest Received	6,000	By Balance c/d	58,000
	3,42,000		3,42,000

Income & Expenditure Account**For the year ending on 31st March, 2013**

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

Additional Information:

The assets and liabilities as on 31st March, 2012 include Club Grounds & Pavilion ₹ 4,40,000, Sports Equipments ₹ 2,50,000, Furniture & Fixtures ₹ 40,000, Subscription in Arrear ₹ 8,000, Subscription received in advance ₹ 2,000 and Creditors for Printing & Stationery ₹ 5,000.

You are required to prepare the Balance Sheet of the Club as on 31st March, 2013. (10 Marks)

- (b) On 1st April, 2012, M/s. Power Motors sold on hire purchase basis a truck whose cash price was ₹ 9,00,000 to M/s. Singh & Singh, a transport firm. The terms of the contract were that the transporters were to pay ₹ 3,00,000 down and six four-monthly instalments of ₹ 1,00,000 plus interest on outstanding amount of cash price for the intervening four months. The instalments were payable on 31st July, 30th November and 31st March in each one of the two accounting years. Interest was calculated @ 12% per annum.

M/s. Singh & Singh duly paid the instalment on 31st July, 2012 but failed to pay the instalment on 30th November, 2012. M/s. Power Motors, after legal formalities, repossessed the truck valuing it at ₹ 7,00,000.

M/s. Power Motors spent ₹ 80,000 on repairs and repainting of the truck and on 7th January, 2013 sold it for ₹ 7,50,000 cash.

You are required to prepare M/s. Singh & Singh's A/c and Goods Repossessed Account in the books of M/s. Power Motors. (6 Marks)

Answer

(a) **Balance Sheet of Sports Club***
As at 31st March 2013

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Fixed Assets:		
Opening Balance (W.N.)	7,83,000		Club, Grounds & Pavilion		4,40,000
Add: Surplus	<u>1,38,000</u>	9,21,000	Furniture & Fixtures	40,000	
Current Liabilities:			Add: Additions	<u>20,000</u>	
Outstanding Salary		5,000		60,000	
(15,000-10,000)			Less : Depreciation	<u>(5,000)</u>	55,000
Outstanding Audit Fees		5,000	Sports Equipments	2,50,000	
Creditors for Printing & Stationery			Less: Depreciation	<u>(90,000)</u>	1,60,000

* It is assumed that the club is not registered under the Companies Act, 1956.

{22,000-(26,000– 5,000)}	1,000		
Subscription received in advance	4,000	Investments :	
		Investment (at cost)	2,00,000
		Accrued Interest [₹ 12,000 - ₹ 6,000]	6,000
		Current Assets:	
		Accrued rent (28,000 - 24,000)	4,000
		Subscription receivable For 2011-12 (8,000-6,000)	2,000
		For 2012-13 {(1,56,000- (1,50,000 + 2,000))}	4,000
		Entrance Fees receivables (1,05,000- 1,00,000)	5,000
		Prepaid Insurance (12,000-10,000)	2,000
		Cash and bank	<u>58,000</u>
	<u>9,36,000</u>		<u>9,36,000</u>

Working Note:**Calculation of Capital Fund as on 1st April, 2012**

**Balance Sheet of Sports Club
As at 31st March 2012**

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Fund (bal.fig.)	7,83,000	Fixed Assets :	
Current Liabilities:		Club, Grounds & Pavilion	4,40,000
Subscription received in advance	2,000	Furniture & Fixtures	40,000
Creditors for Printing and Stationary	5,000	Sports Equipments	2,50,000
		Current Assets:	
		Entrance Fees receivables	10,000
		Subscription receivables	8,000
		Cash and Bank	<u>42,000</u>
	<u>7,90,000</u>		<u>7,90,000</u>

(b)

**In the books of M/s. Power Motors
M/s. Singh & Singh's Account**

Date	Particulars	₹	Date	Particulars	₹
1.04.2012	To Hire Purchase Sales A/c (Cash Price)	9,00,000	1.04.2012	By Bank (Down payment)	3,00,000
31.07.2012	To Interest A/c $(6,00,000 \times .12 \times \frac{4}{12})$	24,000	31.07.2012	By Bank (1,00,000+24,000)	1,24,000
30.11.2012	To Interest A/c $(5,00,000 \times .12 \times \frac{4}{12})$	20,000	30.11.2012	By Goods Repossessed A/c	7,00,000
30.11.2012	To Profit & Loss Account (Bal. fig.)	1,80,000			
		11,24,000			11,24,000

Goods Repossessed Account

Date	Particulars	₹	Date	Particulars	₹
30.11.2012	To Singh & Singh's A/c	7,00,000	7.1.2013	By Bank A/c	7,50,000
7.1.2013	To Bank A/c (Repairs)	80,000	7.1.2013	By By Profit & Loss A/c -loss	30,000
		<u>7,80,000</u>			<u>7,80,000</u>

Question 6

- (a) The promoters of Glorious Ltd. took over on behalf of the company a running business with effect from 1st April, 2012. The company got incorporated on 1st August, 2012. The annual accounts were made up to 31st March, 2013 which revealed that the sales for the whole year totalled ₹ 1,600 lakhs out of which sales till 31st July, 2012 were for ₹ 400 lakhs. Gross profit ratio was 25%.

The expenses from 1st April 2012, till 31st March, 2013 were as follows:

	(₹ in lakhs)
Salaries	69
Rent, Rates and Insurance	24
Sundry Office Expenses	66
Travellers' Commission	16
Discount Allowed	12

Bad Debts	4
Directors' Fee	25
Audit Fee	9
Depreciation on Tangible Assets	12
Debenture Interest	11

Prepare a statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods. (8 Marks)

(b) On the basis of the following information prepare a Cash Flow Statement for the year ended 31st March, 2013:

- (i) Total sales for the year were ₹ 199 crore out of which cash sales amounted to ₹ 131 crore.
- (ii) Cash collections from credit customers during the year, totalled ₹ 67 crore.
- (iii) Cash paid to suppliers of goods and services and to the employees of the enterprise amounted to ₹ 159 crore.
- (iv) Fully paid preference shares of the face value of ₹ 16 crore were redeemed and equity shares of the face value of ₹ 16 crore were allotted as fully paid up at a premium of 25%.
- (v) ₹ 13 crore were paid by way of income tax.
- (vi) Machine of the book value of ₹ 21 crore was sold at a loss of ₹ 30 lakhs and a new machine was installed at a total cost of ₹ 40 crore.
- (vii) Debenture interest amounting ₹ 1 crore was paid.
- (viii) Dividends totalling ₹ 10 crore was paid on equity and preference shares. Corporate dividend tax @ 17% was also paid.
- (ix) On 31st March, 2012 balance with bank and cash on hand totalled ₹ 9 crore. (8 Marks)

Answer

(a) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
	(₹ in lakhs)		(₹ in lakhs)	(₹ in lakhs)
Gross Profit (25% of ₹ 1,600)	400	Sales	100	300
Less: Salaries	69	Time	23	46

Rent, rates and Insurance	24	Time	8	16
Sundry office expenses	66	Time	22	44
Travellers' commission	16	Sales	4	12
Discount allowed	12	Sales	3	9
Bad debts	4	Sales	1	3
Directors' fee	25	Post	-	25
Audit Fees	9	Sales*	2.25	6.75
Depreciation on tangible assets	12	Time	4	8
Debenture interest	<u>11</u>	Post	<u>-</u>	<u>11</u>
Net profit	<u>152</u>		<u>32.75</u>	<u>119.25</u>

Working Notes:**1. Sales ratio**

	(₹ in lakh)
Sales for the whole year	1,600
Sales upto 31st July, 2012	<u>400</u>
Therefore, sales for the period from 1 st August, 2012 to 31 st March, 2013	<u>1,200</u>

Thus, sale ratio = 400:1200
= 1:3

2. Time ratio

1st April, 2012 to 31st July, 2012 : 1st August, 2012 to 31st March, 2013

= 4 months: 8 months = 1:2

Thus, time ratio is 1:2.

* Audit fee has been assumed to be related with tax audit and therefore apportioned into pre and post-incorporation periods on the basis of turnover.

(b)

Cash flow statement
for the year ended 31st March, 2013

	(₹ in crores)	(₹ in crores)
Cash flow from operating activities		
Cash sales	131	
Cash collected from credit customers	67	
Less: Cash paid to suppliers for goods & services and to employees	<u>(159)</u>	
Cash from operations	39	
Less: Income tax paid	<u>(13)</u>	
Net cash generated from operating activities		26.00
Cash flow from investing activities		
Payment for purchase of Machine	(40.00)	
Proceeds from sale of Machine	<u>20.70</u>	
Net cash used in investing activities		(19.30)
Cash flow from financing activities		
Redemption of Preference shares	(16.00)	
Proceeds from issue of Equity shares	20.00	
Debenture interest paid	(1.00)	
Dividend Paid	<u>(11.70)</u>	
Net cash used in financing activities		<u>(8.70)</u>
Net decrease in cash and cash equivalent		(2.00)
Add: Cash and cash equivalents as on 1.04.2012		<u>9.00</u>
Cash and cash equivalents as on 31.3.2013		<u>7.00</u>

Question 7

Answer any **four** out of the following:

- What is an Enterprise Resource Planning (ERP) software? What are the factors which you will take into consideration while choosing an ERP software?
- What are the three fundamental accounting assumptions recognised by Accounting Standard (AS) 1? Briefly describe each one of them.

- (c) On 31st March 2013 a business firm finds that cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2013-14 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 4% brokerage on selling price. The firm seeks your advice regarding:-
- (i) the amount at which the unfinished unit should be valued as at 31st March, 2013 for preparation of final accounts and
 - (ii) the desirability or otherwise of producing the finished unit.
- (d) M/s. Moon Ltd. sold goods worth ₹ 6,50,000 to Mr. Star. Mr. Star asked for a trade discount amounting to ₹ 53,000 and same was agreed to by M/s. Moon Ltd. The sale was effected and goods were dispatched. On receipt of goods, Mr. Star has found that goods worth ₹ 67,000 are defective. Mr. Star returned defective goods to M/s. Moon Ltd. and made payment due amounting to ₹ 5,30,000. The accountant of M/s. Moon Ltd. booked the sale for ₹ 5,30,000. Discuss the contention of the accountant with reference to Accounting Standard (AS) 9.
- (e) What are the issues, with which Accounting Standards deal? (4 x 4 = 16 Marks)

Answer

- (a) An Enterprise Resource Planning (ERP) is an integrated software package that manages the business process across the entire enterprise by integrating informations created by different functional groups of the organisation.

Choice of ERP software depends upon the following factors:

1. **Functional requirement of the organisation:** The ERP that matches most of the requirements of an organisation is preferred over the others.
2. **Reports available in the ERP:** The organisation visualises the reporting requirements and chooses a vendor which fulfils its reporting requirements.
3. **Background of the vendors:** The service and deliverable record of a vendor is extremely important in choosing the vendor.
4. **Cost comparisons:** The budget constraints and fund position of an enterprise often becomes the deciding factor for choosing a particular package.

- (b) Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

- (i) **Going Concern:** The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.
- (ii) **Consistency:** The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the

change is required (i) by a statute, (ii) by an accounting standard or (iii) for more appropriate presentation of financial statements.

- (iii) **Accrual basis of accounting:** Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

(c) Valuation of unfinished unit

	₹
Net selling price	750
Less: Estimated cost of completion	(310)
	440
Less: Brokerage (4% of 750)	30
Net Realisable Value	410
Cost of inventory	530
Value of inventory (Lower of cost and net realisable value)	410

Incremental cost ₹ 310 (cost to complete) is less than incremental revenue ₹ 720 (₹ 750 - ₹ 30). The enterprise will therefore decide to finish the unit for sale at ₹ 750.

Note: The above answer is given on the assumption that partly finished unit cannot be sold in semi finished form and its NRV is zero without processing it further.

- (d) As per AS 9 'Revenue Recognition', revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods. However, trade discounts and volume rebates given in the ordinary course of business should be deducted in determining revenue. Revenue from sales should be recognized at the time of transfer of significant risks and rewards. If the delivery of the sales is not subject to approval from customers, then the transfer of significant risks and rewards would take place when the sale is affected and goods are dispatched.

In the given case, if trade discounts allowed by M/s. Moon Ltd. are given in the ordinary course of business, M/s. Moon Ltd. should record the sales at ₹ 5,97,000 (i.e. ₹ 6,50,000 – ₹ 53,000) and goods returned worth ₹ 67,000 are to be recorded in the form of sales return. However, when trade discount allowed by M/s. Moon Ltd. is not in the ordinary course of business, M/s. Moon Ltd. should record the sales at gross value of ₹ 6,50,000. Discount of ₹ 53,000 in price and return of goods worth ₹ 67,000 are to be adjusted by suitable provisions. M/s Moon Ltd. might have sent the credit note of ₹ 1,20,000 to Mr. Star to account for these adjustments. In both the cases, the contention of the accountant to book the sales for ₹ 5,30,000 is not correct.

- (e) 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) **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.