Q.1.a

Particulars		Amount in ₹
Cost of site preparation and laying foundations	=	47,290
technician salary (15,000 * 2)	=	30,000
Cost of machine	=	5,278,000
Sales Tax (5,278,000 * 4%)	=	211,120
Transport charges	=	18,590
Architect fee **(For 2 months)**	=	10,000
Total cost to be capitalized	**=**	**5,595,000**

Note:

1. Interest charges are in the nature of finance cost and should not be capitalized.
2. Notional profit of Rs.1,500 per month should not take as per AS 10

Q.1.b

Method of depreciation

1. Company may use ***more than one method*** for computing the depreciation.
2. As per AS 6, depreciation ***method selected should be applied consistently*** from period to period.

Conclusion:

The contention of directors is correct as they are continuing with the same method consistently followed by Kaveri Ltd.

Higher rate of depreciation

1. As per AS 6, 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.
2. Useful life of the asset should be based on ***Expected physical wear & tear, Obsolescence, Legal & other limits on the use of assets***
3. Rates contained in Schedule XIV are minimum rates, higher rates can also be allowed if they are justified.
4. Appropriate disclosures should be made in notes to accounts where rates other than Schedule XIV are followed.

Conclusion:

Hence, Narmada Ltd. can charge a higher rates of depreciation

Q.1.c

Revenue from sales should be recognized when

- All significant risks and rewards of **ownership** have been transferred to the buyer from the seller.
- Ultimate **realisability** of receipt is reasonably certain.

In the given case,

- buyer takes ownership in goods and
- there is no uncertainty in realization as total payment was received in advance,

But delivery is delayed at buyer's request

Revenue should be recognised notwithstanding that physical delivery has not been completed.

Conclusion:

Hence, accounting treatment given by A Ltd. was not correct. A Ltd. should recognise Rs.100,000 as sales and pass necessary corrective entries

Q.2

Journal entries in the books of a Firm

On retirement

Amount in ₹

Particulars	**Ledger Folio**	**Debit**	**Credit**
Land & Building A/c…….Dr To Revaluation A/c		2,00,000	 2,00,000
Revaluation A/c………..Dr To Plant & Machinery A/c To Provision for Bad debts A/c To Outstanding repairs A/c		50,000	 46,500 2,000 1,500
Revaluation A/c………..Dr To Pathak capital A/c To Quereshi's capital A/c To Ranjeet capital A/c		1,50,000	 70,000 50,000 30,000
General Reserve A/c…….Dr To Pathak capital A/c To Quereshi's capital A/c To Ranjeet capital A/c		2,25,000	 1,05,000 75,000 45,000
Pathak capital A/c………Dr Ranjeet capital A/c………Dr To Quereshi's capital A/c		70,000 30,000	 1,00,000
Quereshi's capital A/c……..Dr To bank A/c To 12% Quereshi Loan A/c		8,45,000	 4,22,500 4,22,500

On admission

Amount in ₹

Particulars	**Ledger Folio**	**Debit**	**Credit**
Patents A/c……….Dr Cash A/c…………..Dr To Swamy's Capital A/c		20,000 3,80,000	 4,00,000
Swamy's Capital A/c………..Dr To Pathak capital A/c To Ranjeet capital A/c		75,000	 60,000 15,000

On retirement

Capital accounts of partners as on 31.03.2013

in ₹

Debit **Credit**

Particulars	Pathak	Quereshi	Ranjeet	Particulars	Pathak	Quereshi	Ranjeet
To Quereshi Capital A/c	70,000	-	30,000	By B/b/d	850,000	620,000	370,000
To Bank A/c	-	422,500	-	By Revaluation A/c	70,000	50,000	30,000
To 12% Quereshi Loan A/c	-	422,500	-	By General Res A/c	105,000	75,000	45,000
To Bal/c/d	955,000	-	415,000	By Pathak & Ranjeet Capital A/c	-	100,000	-
Total	**1,025,000**	**845,000**	**445,000**	**Total**	**1,025,000**	**845,000**	**445,000**

On admission

Capital accounts of partners as on 1.04.2013

in ₹

Debit **Credit**

Particulars	Pathak	Ranjeet	Swamy	Particulars	Pathak	Ranjeet	Swamy
To Pathak & Ranjeet cap A/c	-	-	75,000	By Balance/b/d	955,000	415,000	-
				By Patents A/c	-	-	20,000
				By cash A/c	-	-	380,000
To Bal/c/d	1,015,000	430,000	325,000	By Swamy cap A/c	60,000	15,000	-
Total	**1,015,000**	**430,000**	**400,000**	**Total**	**1,015,000**	**430,000**	**400,000**

Working notes:

Retirement

Old ratio = 7 : 5 : 3, New ratio = 7 : 3, Gaining ratio = 7 : 3

Quereshi's share of goodwill = 3,00,000 * 5/15 = 1,00,000

Admission

Old ratio = 7 : 3, New ratio = 2:1:1

Sacrificing ratio

	Pathak	Ranjeet	Swamy	Total
Old ratio (Multiplied by 4)	28	12	0	40
New ratio (Multiplied by 10)	20	10	10	40
Gain/Sacrifice	8/40 (Sacrifice)	2/40 (Sacrifice)	10/40 (Gain)	

Sacrificing ratio = 8:2 = 4:1

Swamy's share of goodwill = 3,00,000 * ¼ = 75,000

Q.3.a

Statement of affairs as on 31.3.2012 & 31.03.2013 (Amount in ₹)

Liabilities	31.3.2012	31.03.2013	Assets	31.3.2012	31.03.2013
Capital (Bal. fig.)	241,200	440,700	Furniture (WDV)	50,000	45,000
Loans	90,000	70,000	Building (WDV)	100,000	97,500
Sundry creditors	50,000	80,000	Stock	100,000	250,000
			Sundry debtors	60,000	110,000
			Cash in hand	11,200	13,200
			Cash at bank	60,000	75,000
Total	**381,200**	**590,700**	**Total**	**381,200**	**590,700**

Particulars	Amount	Amount
Closing capital as on 31.03.2013		440,700
Add: Drawings - Jewellery purchase	24,000	
Less: Additional capital – Proceeds of sale of car	(40,000)	(16,000)
Opening capital including profit		424,700
Less: Opening capital as on 31.03.2012		241,200
Profit received by during the year ended 31.03.2013		**183,500**

Working notes:

Depreciation on Furniture = 50,000 * 10% = 5,000

Depreciation on building = 1,00,000 * 2.5% = 2,500

Q.3.b

Cash flow statement of Surya Ltd. from operating activities for the year ended 31.03.2013

Particulars	Amount in ₹	Amount in ₹
Net profit as per Profit & Loss account		808,900
Add:		
Transfer to reserve	87,000	
Proposed dividend	72,000	
Provision for tax	125,000	284,000
Net profit before tax (PBT)		1,092,900
Adjustments for:		
Depreciation	86,700	
Patents written off	35,000	
Profit on sale of investments	(10,000)	111,700
Operating profit before working capital changes		1,204,600
Working capital changes:		
Increase in stock	(40,000)	
Increase in trade debtors	(67,500)	
Increase in trade creditors	63,790	
Decrease in prepaid expenses	2,850	(40,860)
Cash generated from operations		1,163,740
Income tax paid (Working note: 1)		(118,775)
Cash flow from operating activities		**1,044,965**

Working note: 1 : Income tax paid:

Provision for tax A/c

Particulars	Amount	Particulars	Amount
To bank (Bla. Fig)	118,775	By B/b/d	118,775
To B/c/d	125,000	By Profit & Loss A/c	125,000
Total	**243,775**	**Total**	**243,775**

Note:

a. Ignore refund of Tax, as entry for the same is

1. Cash A/c…….Dr 3,000

   To Refund of Tax A/c 3,000

2. Refund of Tax A/c…….Dr 3,000

   To Profit & Loss A/c 3,000

b. Insurance claim received is treated as operating activity

Q.4

Receipts and payments account for the year ended 31.03.2013

Dr. **Cr.**

Receipts	Amount in `	Payments	Amount in `
To Balance/b/d	9,000	By Printing & stationary	21,000
To annual subscription **(Working note:1)**	900,000	By Telephone expenses	45,000
To sale of old news paper	36,000	By repairs & Maintenance	126,000
To 5% interest on investments	27,000	By Garden Upkeep	55,000
To entrance fees	68,000	By electricity charges	36,000
To donation for building	1,800,000		
To proceeds from sale of furniture **(Working note : 2)**	54,000	**By Balance c/d**	**2,611,000**
Total	**2,894,000**	**Total**	**2,894,000**

Income and expenditure account for the year ended 31.03.2013

Dr. **Cr.**

Particulars	Amount in `	Particulars	Amount in `
To Printing & stationary Paid - 21,000 Less: L/y O/s - (1,500) Add: C/y O/s - 2,500	22,000	By annual subscription	918,000
To Telephone expenses	45,000	By sale of old news paper	36,000
To repairs & Maintenance (126,000 – 54,000)	72,000	By 5% interest on investments	27,000
To Garden Upkeep	55,000	By entrance fees	34,000
To electricity charges Paid - 36,000 Add: C/y O/s - 3,200	39,200		
To loss on sale of furniture **(Working note : 2)**	36,000		
To depreciation on sports equipment **(Working note : 3)**	151,200		
To Surplus	**594,600**		
Total	**1,015,000**	**Total**	**1,015,000**

Balance sheet as on 31.03.2013

Liabilities	Amount in `	Assets	Amount in `
Capital Fund 1058,700 **(Working note : 5)** Add: Surplus 594,600 Add: Entrance fees 34,000	1,687,300	Furniture **(Working note : 2)** 5% investments **(Working note :4)** Stock of sports material **(Working note : 3)**	270,000 540,000 36,000
Donation Fund Subscription received in advance Outstanding Printing & Stationary Outstanding electricity charges	1,800,000 18,000 2,500 3,200	Subscription receivable Cash in hand & at bank	54,000 2,611,000
Total	**3,511,000**	**Total**	**3,511,000**

Working note 1: Subscription received

Particulars	Amount in `
Annual subscription for current year	918,000
Add:	
Outstanding of last year received this year	36,000
Subscription received in advance	18,000
Less:	
Subscription received in advance as on 31.03.2012	(18,000)
Subscription receivable	(54,000)
Subscription received	**900,000**

Working note 2: Sale of furniture

Cost of furniture sold = 90,000

Loss on sale =36,000

Sale proceeds received = 54,000

Closing value of furniture = 360,000 – 90,000 = 270,000

Working note 3: depreciation on sports equipment

Particulars	Amount in `
Sports material opening balance	133,200
Purchased during the year	54,000
	187,200
Closing balance	36,000
Depreciation on sports material	**151,200**

Working note 4: Investments

Value of investments = 27,000 * 100/5 = 540,000

Note:

1. *No depreciation was provided on furniture as the rate was not provided in the problem*
2. *Hence nothing is mentioned amount the amount of investments, value is computed based on interest*

Working note 5: Opening balance sheet

Balance sheet as on 31.03.2012

Liabilities	Amount in `	Assets	Amount in `
Capital Fund **(Bal. fig)**	1,058,700	Furniture	360,000
Outstanding Printing & Stationary	1,500	5% investments	540,000
Subscription received in advance	18,000	Stock of sports material	133,200
		Subscription receivable	36,000
		Cash in hand & at bank	9,000
Total	**1,078,200**	**Total**	**1,078,200**

Q.5

Bose and Sen Ltd.

Balance sheet of as on 31.03.2013

Particulars	Note No.	Amount in ₹
I. EQUITY AND LIABILITIES		
(1) Shareholders' funds		
(a) Share capital	1	6,993,000
(b) Reserves and surplus	2	2,156,000
(2) Non-current liabilities		
(a)Long-term borrowings	3	1,697,000
(3) Current liabilities		
(a) Trade payables		1,400,000
(b) Other current liabilities	4	200,000
(c) Short-term provisions	5	816,900
TOTAL		**13,262,900**
II. ASSETS		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	6	7,475,000
(ii) Intangible assets	7	400,000
(2) Current assets		0
(a) Inventories	8	1,750,000
(b) Trade receivables	9	1,400,000
(c) Cash and cash equivalents	10	1,939,000
(d) Short-term loans and advances		298,900
Total		**13,262,900**

Notes to account

		Amount in `	Amount in `
1	**Share capital**		
	Equity share capital		
	Issued, subscribed, Called up and paid up		
	7,00,000 equity shares of Rs. 10 each	7,000,000	
	(of the above,4,20,000 fully paid equity shares were allotted as consideration for land & building)		
	Less: Calls in arrears	(7,000)	
	Total		6,993,000
2	**Reserves and surplus**		
	General Reserve		1,549,100
	Surplus (Profit & Loss A/c)	700,000	
	Less: Preliminary expenses	93,100	606,900
	Total		2,156,000

3	**Long-term borrowings**		
	Secured		
	Term Loan		
	from State Finance Corporation	1,050,000	
	Less: Current maturities of long term debt	200,000	850,000
	(Secured by hypothecation of Plant & Machinery)		
	Unsecured		
	Loan from bank	**200,000**	
	Loans and advances from related parties	**100,000**	
	Other loans and advances	**547,000**	**847,000**
	Total		**1,697,000**
4	**Other current liabilities**		
	Current maturities of long term debt		200,000
5	**Short-term provisions**		
	Provision for taxation		325,500
	Proposed dividend		420,000
	Provision for dividend distribution tax		71,400
	Total		**816,900**
6	**Tangible assets**		
	Land		**1,400,000**
	Buildings		
	Cost	**2,800,000**	
	Less: Depreciation	**750,000**	
	Closing balance		**2,050,000**
	Plant & machinery		
	Cost	**4,900,000**	
	Less: Depreciation	**1,225,000**	
	Closing balance		**3,675,000**
	Furniture & Fixture		
	Cost	**437,500**	
	Less: Depreciation	**87,500**	
	Closing balance		**350,000**
	Total		**74,75,000**
7	**Intangible assets**		
	Patents & Trade marks		**400,000**
8	**Inventories**		
	Raw material		**350,000**
	Finished goods		**1,400,000**
	Total		**1,750,000**
9	**Trade receivables**		
	(Unsecured, considered good)		
	Debts outstanding for a period exceeding six months		380,000
	Other Debts		1,020,000
	Total		**1,400,000**
10	**Cash and cash equivalents**		
	Balances with banks		
	With Schedule banks	1,711,000	
	With others	18,000	1,729,000
	Cash on hand		210,000
	Total		**1,939,000**

<u>Note</u>

- *Bank deposits are included in balances with banks since maturity period is less than 12 months.*
- *There is no requirement in schedule VI to disclose balances with schedule banks. But for better presentation disclosure is made*
- *As per para 56 of AS 26, preliminary expenses are not shown in the balance sheet*

Q.6

1. Short sales **Amount in ₹**

Particulars	Amount in ₹	Amount in ₹
Sales from 16.09.2011 to 15.12.2011		
From 16.09.2011 to 30.09.2011	34,000	
From 1.10.2011 to 31.12.2011	190,000	
Less: From 16.12.2011 to 31.12.2011	(60,000)	164,000
Add: Increase in Trend @ 15% **(Working note: 1)**		24,600
Estimated Turnover		**188,600**
Actual Sales from 16.09.2012 to 15.12.2012		
From 16.09.2012 to 30.09.2012	0	
From 1.10.2012 to 31.12.2012	148,000	
Less: From 16.12.2012 to 31.12.2012	(20,000)	
Actual turnover		**128,000**
Short sales		**60,600**

2. Gross profit ratio

$$\text{Rate of gross profit} = \frac{\text{Net profit of last accounting year + insured standing charges}}{\text{Turnover of last accounting year}} \text{ X } 100$$

$$= \frac{(120{,}000+43{,}990)}{819{,}950} \text{ X } 100 = 20\%$$

3. GP on short sales = 60,600 * 20% = 12,120

4. Annual Adjusted Turnover

Particulars	Amount in `	Amount in `
Annual Turnover from 16.09.2011 to 15.09.2012		
From 16.09.2011 to 30.09.2011	34,000	
From 1.10.2011 to 31.12.2011	190,000	
From 1.1.2012 to 30.09.2012	558,000	
Less: From 15.09.2012 to 30.09.2012	0	782,000
Add: Increase in Trend @ 15% **(Working note: 1)**		117,300
Annual Adjusted Turnover		**899,300**

5. **GP on Annual Adjusted Turnover = 899,300 * 20% = 179,860**

6. **Claim**

Insured amount = 100,000

Insurable amount = GP on AAT = 179,860

Loss of profit = GP on short sales = 12,120

Since insured amount is less than insurable amount Claim is subjected to average clause

Claim = $\frac{Insured\ amount}{Insurable\ amount}$ X Loss

$= \frac{100,000}{179,860}$ X 12,120 = ₹ 6,739

Working note: 1 : Trend in turnover

% if increase in turnover of 2011 over 2010 = $\frac{819,000 - 713,000}{713,000}$ X 100 = 15%

% if increase in turnover of 2010 over 2009 = $\frac{713,000 - 620,000}{620,000}$ X 100 = 15%

Increase in trend = 15%

Q.7.a

In the books of Mr. Mishra

Investment account for the year ended 31.12.2012

Investment in Equity shares of Fillco Ltd. **Amount in ₹**

Date	Particulars	Nominal value	Cost	Date	Particulars	Nominal value	Cost
1.5.2012 31.10.2012 30.11.2012	To bank A/c To bonus shares To P&L A/c	8000 2000	42,080 0 2,984	30.11.2012 31.12.2012	By Bank A/c By Balance c/d	2000 8000	11,400 33,664
	Total	**10,000**	**45,064**		**Total**	**10,000**	**45,064**

Working notes:

1. **Cost of purchase on 1.05.2012 =** (800 * 50) + (40,000 * 5%) +(40,000 * 0.20%) = **Rs. 42,080**

2. **No. of bonus shares issued =** 800/4 = 200 bonus shares

3. **Average cost per share =** 42,080/10,000 = Rs.42.08

4. **Sale proceeds/ Profit or loss on sale of bonus shares**

   Sale proceeds = (200 * 60) – (12,000 * 5%) = 11,400
   Cost of 200 shares = 200*42.08 = 8,416
   Profit on sale = 2,984

5. Carrying amount of shares as on 31.12.2012

		Amount `
Cost	800 * 42.08	33,664
Market value	800 * 60	48,000
Carrying amount	**Lower of cost or market value**	**33,664**

Q.7.b

Amount in ₹

No	Particulars	Ledger Folio	Debit	Credit
(i)	Equity share capital (`10) A/c To Equity Stock A/c To 12% fully convertible debentures (`100) A/c (Being conversion of 2 lakh fully paid equity shares of `10 each into stock & 12% Fully convertible debentures as per the resolution of shareholders passed in the general meeting held on……)		2,000,000	 100,000 19,00,000
(ii)	Equity share capital (` 2.50) A/c To Equity share capital (` 10) A/c (Being consolidation of 40 lakh fully paid equity shares of `2.5 each into 10 lakh fully paid equity shares of `10 each as per the resolution of shareholders passed in the general meeting held on……)		10,000,000	 10,000,000
(iii)	11% Preference share capital (` 50) A/c To 11% Preference share capital (` 10) A/c (Being sub division of 10 lakh fully paid 11% preference shares of `50 each into 50 lakh fully paid 11% preference shares of `10 each as per the resolution of shareholders passed in the general meeting held on……)		50,000,000	 50,000,000
(iv)	12% Preference share capital A/c To 14% Preference share capital A/c To 12% Non-cumulative preference share capital/c (Being conversion of 12% preference shares into 14% preference shares & 12% Non-cumulative preference shares as per the resolution of shareholders passed in the general meeting held on……)		500,000	 300,000 200,000

Note: It has been assumed that the face value of debentures is `100

Q.7.c

Taking 9.07.2013 as base date

For Thick payments

Due date	Amount (1)	No. of days from the base date (2)	Products (1) * (2)
9.07.2013	7,200	0	0
14.08.2013	12,200	22 + 14 =36	439,200
Amount due to Thin	**19,400**	**Sum of products**	**439,200**

For Thin payments

Due date	Amount (1)	No. of days from the base date (2)	Products (2) * (2)
15.07.2013	18,000	15 – 9 = 6	108,000
31.08.2013	16,500	22 + 31 =53	874,500
Amount due to Thin	**34,500**	**Sum of products**	**982,500**

Excess of Thin products over Thick = 982,500 – 439,200 = 543,300

Excess amount due to Thick = 34,500 – 19400 = 15,100

Average due date = Base date + $\frac{Excess\ of\ products}{Excess\ amount\ due}$

= 9.07.2013 + $\frac{543{,}300}{15{,}100}$

= 9.07.2013 + 36 days

= 14.08.2013

To avoid interest loss Thin has to pay `15,100 on 14.08.2013.

Note: Thin loses interest due to early payment i.e before 31.08.2013, but will gain interest due to late payment, i.e. after 15.07.2013. Thus thin or thick neither loss nor gain by payment of `15,100 on 14.08.2013

Q.7.d

Roshan in current account with partnership firm

(interest to 30.09.2012 @ 10% on debit balance & 8% on credit balance)

Amount in ₹

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2012					**2012**				
1/07	To Bal/b/d	75,000	92	6,900,000	14/7	By cash	138,000	78	10,764,000
29/7	To cash	97,000	63	6,111,000	18/8	By cash	22,000	43	946,000
9/09	To cash	11,000	21	231,000	30/9	By Bal/c/d	24,058		
30/9	To Interest **(W.N.1)**	1,058							
Total		**184,058**		**13,242,000**	**Total**		**184,058**		**11,710,000**

Working note1:

Interest on debits = 13,242,000 * 10% * 1/366 = 3,618

Interest on credits = 11,710,000 * 8% * 1/366 = 2,560

Net interest = ₹ 1,058 debit

Note: For opening balances include Opening balance date and due date as it is not a transaction date

Note:

Solution is provided only for the practical questions. Theory questions are not covered. Please let us know your queries.