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PAPER – 1 : ACCOUNTING

Question No. 1 is compulsory.

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

Wherever necessary suitable assumptions should be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *Amna Ltd. contracted with a supplier to purchase a specific machinery to be installed in Department A in two months time. Special foundations were required for the plant, which were to be prepared within this supply lead time. The cost of site preparation and laying foundations were ₹ 47,290. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 15,000 per month. The Technician's services were given to Department A by Department B, which billed the services at ₹ 16,500 per month after adding 10% profit margin.*

The machine was purchased at ₹ 52,78,000. Sales Tax was charged at 4% on the invoice ₹ 18,590 transportation charges were incurred to bring the machine to the factory. An Architect was engaged at a fee of ₹ 10,000 to supervise machinery installation at the factory premises. Also, payment under the invoice was due in 3 months. However, the Company made the payment in 2nd month. The company operates on Bank Overdraft@ 11%.

Ascertain the amount at which the asset should be capitalized under AS 10.

(b) *Narmada Ltd. purchased an existing bottling unit from Kaveri Ltd. Kaveri Ltd. followed straight line method of charging depreciation on machinery of the sold unit whereas Narmada Ltd. followed written down value method in its other units. The directors of Narmada Ltd. want to continue to charge depreciation for the acquired unit in Straight Line Method which is not consistent with the WDV method followed in other units.*

Discuss the contention of the directors with reference to the Accounting Standard. Further during the year, Narmada Ltd. set up a new plant on coastal land. In view of the corrosive climate, the Company felt that its machine life is reducing faster. Can the Company charge a higher rate of depreciation?

(c) *A Ltd. entered into a contract with B Ltd. to despatch goods valuing ₹ 25,000 every month for 4 months upon receipt of entire payment. B Ltd. accordingly made the payment of ₹ 1,00,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth ₹ 50,000 ready for despatch. A Ltd. accounted ₹ 50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to the provisions of Accounting Standard 9.*

(d) *A Ltd. is amalgamating with B Ltd. They are undecided on the method of accounting to be followed. You are required to advice the management of B Ltd. on the method of accounting that can be adopted under AS-14.* *(4 x 5 = 20 Marks)*

Answer

(a) Calculation of Cost of Fixed Asset (i.e. Machine)

Particulars		₹
Purchase Price	Given	52,78,000
Add: Sales Tax at 4%	₹ 52,78,000 x 4%	2,11,120
Site Preparation Cost	Given	47,290
Technician's Salary	Specific/Attributable overheads for 2 months (See Note)	30,000
Initial Delivery Cost	Transportation	18,590
Professional Fees for Installation	Architect's Fees	10,000
Total Cost of Asset		55,95,000

Note:

(i) Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10. It may be noted that overdraft facility is generally used for working capital purpose.

(ii) Internally booked profits should be eliminated in arriving at the cost of Fixed Assets.

(iii) In the absence of information about excise, CENVAT credit has been ignored.

(iv) It has been assumed that the purchase price of ₹ 52,78,000 excludes amount of sales tax.

(b) According to para 12 of AS 6 'Deprecation Accounting', there are several methods of allocating depreciation over the useful life of the assets. The management of a business selects the most appropriate method(s) based on various important factors e.g., (i) type of asset, (ii) the nature of the use of such asset and (iii) circumstances prevailing in the business. A combination of more than one method is sometimes used. A company may adopt different methods of depreciation for different types of assets, provided the same methods are followed consistently. Thus Narmada Ltd. can continue to charge depreciation for the acquired unit as per straight line method.

The statute governing an enterprise may provide the basis for computation of the depreciation. For example, the Companies Act lays down the rates of depreciation in respect of various assets. Where the management's estimate of the useful life of an asset of the enterprise is shorter than that envisaged under the provisions of the relevant statute, the depreciation provision is appropriately computed by applying a higher rate.

Therefore, in the given case, the Company can charge higher rates of depreciation based on its estimate of the useful life of machinery, provided that such estimate is not less than the rate prescribed by the Companies Act, for that class of assets. However, such higher depreciation rates and/or the reduced useful lives of the assets should be disclosed by way of notes to the accounts in the Financial Statements.

(c) As per para 11 of AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. A Ltd. should recognize the entire sale of ₹ 1,00,000 (₹ 25,000 x 4) and no part of the same is to be treated as Advance Receipt against Sales.

(d) An amalgamation may be either – an amalgamation in the nature of merger, or an amalgamation in the nature of purchase. The selection of method of accounting for amalgamation (pooling of interests or purchase method) is to be judged after considering the intentions of the both the companies.

If genuine pooling of all assets, liabilities, shareholders' interest is intended; separate businesses of both the companies are continued and their amalgamation scheme satisfies all the conditions necessary for merger as specified in AS 14 Accounting for Amalgamations, pooling of interests method is adopted.

However, if B Ltd. or A Ltd. wants to acquire the other company, then purchase method needs to be adopted. In that case, the shareholders of the acquired company don't continue to have proportional share in equity of the combined company and the business of the acquired company is not intended to be continued. The object of the purchase method is to account for the amalgamation by applying the same principles as are applied in the normal purchase of assets.

Thus choice of accounting method depends on the fact whether B Ltd. wants to continue its business or not.

Question 2

Pathak, Quereshi and Ranjeet were partners sharing profits in the ratio of 7 : 5 : 3 respectively. On 31st March, 2013 Quereshi retired when the firm's Balance Sheet was as follows :

Liabilities	*₹*	*Assets*		*₹*
Capital Accounts :		*Land and Building*		*10,00,000*
Pathak	*8,50,000*	*Plant and Machinery*		*4,65,000*
Quereshi	*6,20,000*	*Furniture, Fixture and Fittings*		*2,30,100*
Ranjeet	*3,70,000*	*Stock*		*1,82,200*
General Reserve	*2,25,000*	*Trade Debtors*	*2,00,000*	
Trade Creditors	*1,13,000*	*Less : Provision for Bad Debts*	*6,000*	*1,94,000*
		Cash at Bank		*1,06,700*
Total	*21,78,000*	*Total*		*21,78,000*

It was agreed that :

(i) Land & Building be appreciated by 20%.

(ii) Plant & Machinery be depreciated by 10%.

(iii) Provision for Bad Debts be made equal to 4% of Trade Debtors.

(iv) Outstanding repairs bill amounting to ₹1500 be recorded in the books of account.

(v) Goodwill of the firm be valued at ₹ 3,00,000 and Quereshi's capital account be credited with his share of goodwill without raising goodwill account.

(vi) Half of the amount due to Quereshi be immediately paid to him by means of a cheque and the balance be treated as a loan bearing interest @ 12% per annum.

After Quereshi's retirement, Pathak and Ranjeet admitted Swamy as a new partner with effect from 1st April, 2013. Pathak, Ranjeet and Swamy agreed to share profits in the ratio of 2 : 1 : 1 respectively. Swamy brought patents valued at ₹ 20,000 and ₹ 3,80,000 in cash including payment for his share of goodwill as valued by the old firm. The entire amount of ₹ 4,00,000 was credited to Swamy's Capital Account. Adjustments were made in the capital account for Swamy's share of goodwill.

You are required to :

(a) Pass journal entries for all the above transactions without any narration, and

(b) Prepare the capital account of all the partners. *(16 Marks)*

Answer

(a) Journal Entries

31st March, 2013

			₹	₹
1	Land and Building	Dr.	2,00,000	
	To Revaluation A/c			2,00,000
2.	Revaluation A/c	Dr.	46,500	
	To Plants and Machinery			46,500
3	Revaluation A/c	Dr	3,500	
	To Provision for bad debts			2,000
	[(₹ 2,00,000 x 4%) - ₹ 6000]			
	To Provision for Outstanding repair bills			1,500
4	Pathak's Capital A/c	Dr.	70,000	
	Ranjeet's Capital A/c	Dr.	30,000	
	To Quereshi's Capital A/c			1,00,000
5	Revaluation A/c	Dr.	1,50,000	
	To Pathak's Capital A/c			70,000
	To Quereshi's Capital A/c			50,000
	To Ranjeet's Capital A/c			30,000
6	General reserve A/c	Dr.	2,25,000	
	To Pathak's Capital A/c			1,05,000
	To Quereshi's Capital A/c			75,000
	To Ranjeet's Capital A/c			45,000
7	Quereshi's Capital A/c	Dr.	8,45,000	
	To Bank A/c			4,22,500
	To Quereshi's Loan A/c			4,22,500
8	Patents	Dr.	20,000	
	Cash A/c	Dr.	3,80,000	
	To Swamy's Capital A/c			4,00,000
9	Swamy's Capital A/c (₹ 3,00,000/4)	Dr.	75,000	
	To Pathak's Capital A/c			60,000
	To Ranjeet's Capital A/c			15,000

(b) Capital Accounts of partners

	Amount					*Amount*			
	Pathak	*Quereshi*	*Ranjeet*	*Swamy*		*Pathak*	*Quereshi*	*Ranjeet*	*Swamy*
31.3.13					31.3.13				
To Quereshi	70,000		30,000		By Bal. b/d	8,50,000	6,20,000	3,70,000	
					By general reserve	1,05,000	75,000	45,000	
To Bank A/c		4,22,500			By Pathak & Ranjeet		1,00,000		
To Loan A/c		4,22,500			By Revaluation A/c	70,000	50,000	30,000	
To Bal. c/d	9,55,000		4,15,000						
	10,25,000	8,45,000	4,45,000			10,25,000	8,45,000	4,45,000	
1.4.13					1.4.13				
To Pathak				60,000	By Bal. b/d	9,55,000		4,15,000	
To Ranjeet				15,000	By Patents				20,000
To Bal. c/d	10,15,000		4,30,000	3,25,000	By Cash				3,80,000
					By Swamy	60,000		15,000	
	10,15,000		4,30,000	4,00,000		10,15,000		4,30,000	4,00,000

Working Notes:

1. **Calculation of Gaining ratio after retirement of Quereshi on 31st March, 2013**

	Pathak	:	Quereshi	:	Ranjeet		Pathak	:	Ranjeet
Old Ratio	7/15	:	5/15	:	3/15	New Ratio	7/10	:	3/10

Gain of Pathak New Ratio - Old Ratio

7/10 - 7 / 15

(105 – 70) / 150

35 / 150

Gain of Ranjeet 3/10 – 3/15 = (45 – 30)/150 = 15/150

Gaining Ratio = 35 : 15 = 7 : 3

2. **Calculation of Sacrificing ratio of Pathak and Ranjeet at time of admission of Swamy**

1st April, 2013 *7:3 (ratio between old partners)*

New ratio 2:1:1 $\frac{2}{4}-\frac{7}{10}$ $\frac{1}{4}-\frac{3}{10}$

$\frac{10-14}{20}$ $\frac{5-6}{20}$

$=\frac{4}{20}$ $\frac{1}{20}$

Sacrificing ratio 4 : 1

Question 3

(a) *The details of Assets and Liabilities of Mr. 'A' as on 31-3-2012 and 31-3-2013 are as follows:*

	31.3.2012	*31.3.2013*
	₹	₹
Assets:		
Furniture	*50,000*	
Building	*1,00,000*	
Stock	*1,00,000*	*2,50,000*
Sundry Debtors	*60,000*	*1,10,000*
Cash in hand	*11,200*	*13,200*

Cash at Bank	*60,000*	*75,000*
Liabilities :		
Loans	*90,000*	*70,000*
Sundry Creditors	*50,000*	*80,000*

Mr. 'A' decided to provide depreciation on building by 2.5% and furniture by 10% for the period ended on 31-3-2013. Mr. 'A' purchased jewellery for ₹ 24,000 for his daughter in December 2012. He sold his car on 30-3-2013 and the amount of ₹ 40,000 is retained in the business.

You are required to :

(i) Prepare statement of affairs as on 31-3-2012 and 31-3-2013.

(ii) Calculate the profit received by 'A' during the year ended 31-3-2013.

(b) Surya Ltd. has provided you the following particulars. Prepare Cash Flow from Operating Activities by Indirect Method in accordance with AS 3 :

Profit & Loss Account of Surya Ltd.
for the year ended 31st March, 2013

Particulars	*₹*	*Particulars*	*₹*
To Depreciation	*86,700*	*By Operating Profit before depreciation*	*11,01,600*
To Patents written off	*35,000*	*By Profit on Sale on Investments*	*10,000*
To Provision for Tax	*1,25,000*	*By Refund of Tax*	*3,000*
To Proposed dividend	*72,000*	*By Insurance Claim-Major Fire Settlement*	*1,00,000*
To Transfer to Reserve	*87,000*		
To Net Profit	*8,08,900*		
	12,14,600		*12,14,600*

Additional information :

in ₹

	31.3.2012	*31.3.2013*
Stock	*1,20,000*	*1,60,000*
Trade Debtors	*7,500*	*75,000*
Trade Creditors	*23,735*	*87,525*
Provision for Tax	*1,18,775*	*1,25,000*
Prepaid Expenses	*15,325*	*12,475*
Marketable Securities	*11,775*	*29,325*
Cash Balance	*25,325*	*35,340*

Answer

(a) (i) Statement of Affairs

Liablilities	*31.3.12*	*31.3.13*	*Assets*	*31.3.12*	*31.3.13*
	₹	₹		₹	₹
Loans	90,000	70,000	Furniture	50,000	45,000
Creditors	50,000	80,000	Building	1,00,000	97,500
Capital A/c	2,41,200	4,40,700	Stock	1,00,000	2,50,000
			Debtors	60,000	1,10,000
			Cash in hand	11,200	13,200
			Cash at Bank	60,000	75,000
	3,81,200	5,90,700		3,81,200	5,90,700

Working Note:

Dep. on Building ₹ 2,500 (2.5% of ₹ 1,00,000)

Dep. on Furniture ₹ 5,000 (10% of ₹ 50,000)

(ii) Calculation of Profit earned by A during the year ended 31st March, 2013.

Capital Account

	₹		₹
		By bal. b/d	2,41,200
To Drawings	24,000	By Additional Capital (Car sale proceeds)	40,000
To bal. c/d	4,40,700	By P&L A/c. (Bal. figure)	1,83,500
	4,64,700		4,64,700

Note: Interest on drawings and capital has been ignored in the absence of information.

(b) Indirect Method

Cash flow from Operating activities for the year ended 31st March, 2013

		₹
Net Profit as per Profit & Loss A/c		8,08,900
Add: Proposed dividend		72,000
Add: Transfer to reserve		87,000
Add: Provision for Tax made during the Current Year		1,25,000

Less: Refund of tax		(3,000)
Less: Extraordinary items (i.e. Insurance Claim – Major Fire Settlement)		(1,00,000)
Net Profit before taxation, and extraordinary items		9,89,900
Add: Depreciation		86,700
Add: Patents written off		35,000
Less: Profit on sale of investments		(10,000)
Operating profit before working capital changes		11,01,600
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		10,60,740
Income taxes paid (net of refund)		1,15,775
Cash flow before extraordinary item		9,44,965
Insurance claim recovery (major fire settlement)		1,00,000
Net cash from operating activities		10,44,965

Question 4

Highend Club appointed a new accountant for maintaining books of account. He prepared following Receipts and Payments A/c for the year ended as on 31st March, 2013.

Receipts and Payments Account

Receipts	*Amount (₹)*		*Payments*	*Amount (₹)*
To Balance b/d		*9,000*	*By Printing & Stationery*	*21,000*
To Annual subscription for current year	*9,18,000*		*By Telephone Expenses*	*45,000*
			By Repair & Maintenance	
Add : Outstanding of last year received this year	*36,000* *9,54,000*		*Expenses (including payment for sports material ₹54,000)*	*1,26,000*
Less Subscription recd. in			*By Garden Upkeep*	*55,000*
Advance as on 31-03-2012	*18,000*	*9,36,000*	*By Electricity Charged*	*36,000*
To Sale of Old Newspaper		*36,000*	*By Loss on sale of furniture*	*36,000*
To 5% Interest on Investments		*27,000*	*(Cost as per books ₹90,000)*	
			By Balance c/d	*25,57,000*

To Entrance Fees		*68,000*		
To Donation for building		*18,00,000*		
		28,76,000		*28,76,000*

Additional information :

Highend Club had following balances:

	01-04-2012 ₹	*01-04-2013* ₹
Furniture	*3,60,000*	
Stock of Sports material	*1,33,200*	*36,000*
Subscription receivable		*54,000*
Subscription received in advance		*18,000*
Outstanding Printing & Stationery Exp.	*1,500*	*2,500*
Outstanding Electricity Charges		*3,200*

50% Entrance Fees is to be capitalized.

Do you agree with above Receipts and Payments Account ? If not, prepare correct Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2013 and Balance Sheet as on that date. *(16 Marks)*

Answer

Corrected Receipts and Payments Account of Highend Club

for the year ended 31st March, 2013

Receipts		*Amount* ₹	*Payments*	*Amount* ₹
To bal. b/d		9,000	By Printing & Stationery	21,000
To annual subscription	9,18,000		By Telephone expenses	45,000
Less: Receivable on 31.3.2013	(54,000)		By Garden upkeep	55,000
Add: Advance received for year 2013-14	18,000		By Electricity charges	36,000
Add: Receivable as on 31.3.2012	36,000		By Repairs and maintenance	72,000
Less: Advance received on 31.3.2012	(18,000)	9,00,000	(1,26,000 - 54,000)	
To sale of furniture (90,000 - 36,000)		54,000	By Sports material	54,000
To Sale of old newspaper		36,000	By bal. c/d	26,11,000
To Entrance fee		68,000		
To Donation for building		18,00,000		
To Interest on investments		27,000		
		28,94,000		28,94,000

Income & Expenditure Account of Highend Club for the year ended 31st March, 2013

Expenditure	*Amount*	*Income*	*Amount*
	₹		₹
To Printing and Stationery expenses (W.N.1)	22,000	By subscription	9,18,000
To Repairs and Maintenance		By Entrance fee	
(1,26,000 -54,000)	72,000	(50% of 68,000)	34,000
To Telephone expenses	45,000	By Sale of old newspapers	36,000
To Sports material (W.N. 2)	1,51,200	By Interest on investments	27,000
To Garden upkeep	55,000		
To Electricity charges (W.N. 3)	39,200		
To Loss on sale of furniture	36,000		
To Excess of surplus over expenditure	5,94,600		
	10,15,000		10,15,000

Balance sheet of Highed Club as on 31st March, 2013

Liabilities		*Amount*	*Assets*		*Amount*
		₹			₹
Capital Fund (W.N. 4)	10,58,700		Furniture	3,60,000	
Add: Entrance fee capitalized*	34,000		*Less:* sale	90,000	2,70,000
Add: Surplus	5,94,600	16,87,300	Sports material		36,000
Building fund		18,00,000	5% investments		5,40,000
Outstanding Electricity charges		3,200	Cash in hand		26,11,000
Outstanding printing and stationary exp.		2,500	Subscription receivable		54,000
Subscription received in advance		18,000			
		35,11,000			35,11,000

* Alternatively, Entrance fees may be shown separately as liability without being added to Capital Fund.

Working Notes:

1. Printing and Stationary expenses for the year

	₹
Amount paid	21,000
Add: Outstanding as on 31.3.2013	2,500
	23,500
Less: Outstanding as on 31.3.2012	(1,500)
	22,000

2. Depreciation on Sports material

Stock as on 1.4.2012	1,33,200
Add: Purchases	54,000
	1,87,200
Less: Stock as on 31.3.2013	36,000
	1,51,200

3. Electricity charges for the year

Amount paid	36,000
Add: Outstanding as on 31.3.2013	3,200
	39,200

4. Calculation of value of investments

Interest on 5% investments = ₹ 27,000

Value of Investment = ₹ 27,000 x 100 /5 = ₹ 5,40,000

5. Balance Sheet as on 1st April, 2012

Liabilities	₹	*Assets*	₹
		Furniture	3,60,000
Capital fund (balancing fig.)	10,58,700	Sports material	1,33,200
Subscription received in advance	18,000	Subscription receivables	36,000
Outstanding printing and stationary charges	1,500	Investments	5,40,000
		Cash in hand	9,000
	10,78,200		10,78,200

Note:

The above solution is prepared on the basis of the assumption that club is not registered under the Companies Act, 1956.

Question 5

On 31st March, 2013 Bose and Sen Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2013:

Credit Balances :

	₹
Equity shares capital, fully paid shares of ₹10 each	*70,00,000*
General Reserve	*15,49,100*
Loan from State Finance Corporation	*10,50,000*
Secured by hypothecation of Plant & Machinery	
(Repayable within one year ₹2,00,000)	
Loans: Unsecured (Long term)	*8,47,000*
Sundry Creditors for goods & expenses	*14,00,000*
(Payable within 6 months)	
Profit & Loss Account	*7,00,000*
Provision for Taxation	*3,25,500*
Proposed Dividend	*4,20,000*
Provision for Dividend Distribution Tax	*71,400*
	1,33,63,000

Debit Balances :

	₹
Calls in arrear	*7,000*
Land	*14,00,000*
Buildings	*20,50,000*
Plant and Machinery	*36,75,000*
Furniture & Fixture	*3,50,000*
Stocks : Finished goods	*14,00,000*
Raw Materials	*3,50,000*
Sundry Debtors	*14,00,000*
Advances: Short-term	*2,98,900*
Cash in hand	*2,10,000*
Balances with banks	*17,29,000*
Preliminary Expenses	*93,100*
Patents & Trade marks	*4,00,000*
	1,33,63,000

The following additional information is also provided :

(i) 4,20,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building ₹ 28,00,000

Cost of Plant & Machinery ₹ 49,00,000

Cost of Furniture & Fixture ₹ 4,37,500

(iii) Sundry Debtors for ₹ 3,80,000 are due for more than 6 months.

(iv) The amount of Balances with Bank includes ₹ 18,000 with a bank which is not a scheduled Bank and the deposits of ₹ 5 lakhs are for a period of 9 months.

(v) Unsecured loan includes ₹ 2,00,000 from a Bank and ₹ 1,00,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2013 as required under Revised Schedule VI of the Companies Act, 1956. (16 Marks)

Answer

Bose and Sen Ltd.

Balance Sheet as on 31st March, 2013

		Particulars	Notes	Figures at the end of current reporting period ₹
Equity and Liabilities				
1		Shareholders' funds		
	a	Share capital	1	69,93,000
	b	Reserves and Surplus	2	21,56,000
2		Non-current liabilities		
	a	Long-term borrowings	3	16,97,000
3		Current liabilities		
	a	Trade Payables		14,00,000
	b	Other current liabilities	4	2,00,000
	c	Short-term provisions	5	8,16,900
		Total		1,32,62,900
Assets				
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	6	74,75,000

		Intangible assets (Patents & Trade Marks)		4,00,000
2		Current assets		
	a	Inventories	7	17,50,000
	b	Trade receivables	8	14,00,000
	c	Cash and cash equivalents	9	19,39,000
	d	Short-term loans and advances		2,98,900
		Total		1,32,62,900

Notes to accounts

			₹.
1	Share Capital		
	Equity share capital		
	Issued, subscribed and called up		
	7,00,000 Equity Shares of ₹ 10 each (Out of the above 4,20,000 shares have been issued for consideration other than cash)	70,00,000	
	Less: Calls in arrears	7,000	69,93,000
	Total		69,93,000
2	Reserves and Surplus		
	General Reserve		15,49,100
	Surplus (Profit & Loss A/c)	7,00,000	
	Less: Preliminary expenses	(93,100)*	6,06,900
	Total		21,56,000
3	Long-term borrowings		
	Secured		
	Term Loans		
	Loan from State Finance Corporation (₹ 10,50,000 - ₹ 2,00,000) (Secured by hypothecation of Plant and Machinery)		8,50,000
	Unsecured		
	Bank Loan	2,00,000	

* Preliminary expenses have been written off in line with Accounting Standards.

	Loan from related parties	1,00,000	
	Others	5,47,000	8,47,000
	Total		16,97,000
4	Other current liabilities		
	Loan Instalment repayable within one year		2,00,000
5	Short-term provisions		
	Provision for taxation		3,25,500
	Proposed Dividend		4,20,000
	Provision for Dividend Distribution Tax		71,400
	Total		8,16,900
6	Tangible assets		
	Land		14,00,000
	Buildings	28,00,000	
	Less: Depreciation	7,50,000	20,50,000
	Plant & Machinery	49,00,000	
	Less: Depreciation	12,25,000	36,75,000
	Furniture & Fittings	4,37,500	
	Less: Depreciation	87,500	3,50,000
	Total		74,75,000
7	Inventories		
	Raw Material		3,50,000
	Finished goods		14,00,000
			17,50,000
8	Trade receivables		
	Debts outstanding for a period exceeding six months		3,80,000
	Other Debts		10,20,000
	Total		14,00,000

9	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting ₹ 5,00,000	17,11,000	
	with others	18,000	17,29,000
	Cash in hand		2,10,000
	Total		19,39,000

Question 6

Monalisa & Co. runs plastic goods shop. Following details are available from quarterly sales tax return filed.

Sales	*2009*	*2010*	*2011*	*2012*
	₹	*₹*	*₹*	*₹*
From 1st January to 31st March	*1,80,000*	*1,70,000*	*2,05,950*	*1,62,000*
From 1st April to 30th June	*1,28,000*	*1,86,000*	*1,93,000*	*2,21,000*
From 1st July to 30th September	*1,53,000*	*2,10,000*	*2,31,000*	*1,75,000*
From 1st October to 31st December	*1,59,000*	*1,47,000*	*1,90,000*	*1,48,000*
Total	*6,20,000*	*7,13,000*	*8,19,950*	*7,06,000*

Period	*₹*
Sales from 16-09-2011 to 30-09-2011	*34,000*
Sales from 16-09-2012 to 30-09-2012	*Nil*
Sales from 16-12-2011 to 31-12-2011	*60,000*
Sales from 16-12-2012 to 31-12-2012	*20,000*

A loss of profit policy was taken for ₹ 1,00,000. Fire occurred on 15th September, 2012. Indemnity period was for 3 months. Net Profit was ₹ 1,20,000 and standing charges (all insured) amounted to ₹ 43,990 for year ending 2011.

Determine the Insurance Claim. *(16 Marks)*

Answer

(1) **Gross profit ratio**

	₹
Net profit in year 2011	1,20,000
Insured standing charges	43,990
Gross profit	1,63,990

Ratio of gross profit $= \frac{1,63,990}{8,19,950} = 20\%$

(2) **Calculation of Short sales**

Indemnity period: 16.9.2012 to 15.12.12

Standard sales to be calculated on basis of corresponding period of year 2011

	₹
Sales for period 16.9.2011 to 30.9.11	34,000
Sales for period 1.10.2011 to 15.12.2011 (Note 1)	1,30,000
Sales for period 16.9.2011 to 15.12.2011	1,64,000
Add: upward trend in sales (15%) (Note 2)	24,600
Standard Sales (adjusted)	1,88,600
Actual sales of disorganized period	
Calculation of sales from 16.9.12 to 15.12.12	
Sales for period 16.9.12 to 30.9.12	Nil
Sales for 1.10.12 to 15.12.12 (₹ 1,48,000 – ₹ 20,000)	1,28,000
Actual Sales	1,28,000
Short Sales (₹ 1,88,600 - ₹ 1,28,000)	60,600

(3) **Loss of gross profit**

Short sales x gross profit ratio = 60,600 x 20% 12,120

(4) **Application of average clause**

$$\text{Net claim} = \text{Gross claim} \times \frac{\text{policy value}}{\text{gross profit on annual turnover}}$$

$$= 12,120 \times \frac{1,00,000}{1,79,860 \text{ (Note 3)}}$$

Amount of claim = 6,738.57 (approx.) i.e. ₹. 6,739 (round off)

Working Notes:

1. **Sales for period 1.10.11 to 15.12.11**

Sales for 1.10.11 to 31.12.11 (given)	1,90,000
Sales for 16.12.11 to 31.12.11 (given)	60,000
Sales for period 1.10.11 to 15.12.11	1,30,000

2. **Calculation of upward trend in sales**

Total sales in year 2009	=	6,20,000
Increase in sales in year 2010 as compared to 2009	=	93,000

% increase = $\frac{93{,}000\,(7{,}13{,}000 - 6{,}20{,}000)}{6{,}20{,}000} = 15\%$

Increase in sales in year 2011 as compared to year 2010

% increase = $\frac{1{,}06{,}950\,(8{,}19{,}950 - 7{,}13{,}000)}{7{,}13{,}000} = 15\%$

Thus annual percentage increase trend is of 15%.

3. **Gross profit on annual turnover**

Sales from 16.9.11 to 30.9.11	34,000
1.10.11 to 31.12.11	1,90,000
1.1.12 to 31.3.12	1,62,000
1.4.12 to 30.6.12	2,21,000
1.7.2012 to 15.9.2012 (1,75,000 – Nil)	1,75,000
Sales for 12 months just before date of fire	7,82,000
Add: 15% upward trend	1,17,300
Adjusted sales of 12 months just before the date of fire	8,99,300
Gross profit on adjusted annual sales @ 20%	1,79,860

Question 7

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

(a) *On 01-05-2012, Mr. Mishra purchased 800 equity shares of 10 each in Fillco Ltd. @ ₹ 50 each from a broker who charged 5%. He incurred 20 paisa per 100 as cost of shares transfer stamps. On 31-10-2012, bonus was declared in the ratio 1 : 4. The shares were quoted at ₹ 110 and ₹ 60 per share before and after the record date of bonus shares respectively. On 30-11-2012, Mr. Mishra sold the bonus shares to a broker who charged 5%. You are required to prepare Investment Account in the books of Mr. Mishra for the year ending 31-12-2012 and closing value of Investment shall be made at cost or market value whichever is lower.*

(b) *Pass journal entries for the following transactions :*

(i) Conversion of 2 lakh fully paid equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance has 12% fully convertible Debenture.

(ii) Consolidation of 40 lakh fully paid equity shares of ₹ 2.50 each into 10 lakh fully paid equity share of ₹ 10 each.

(iii) *Sub-division of 10 lakh fully paid 11% preference shares of ₹ 50 each into 50 lakh fully paid 11% preference shares of ₹ 10 each.*

(iv) *Conversion of 12% preference shares of ₹ 5,00,000 into 14% preference shares ₹ 3,00,000 and remaining balance as 12% Non-cumulative preference shares.*

(c) *Roshan has a current account with partnership firm. It has debit balance of ₹ 75,000 as on 01-07-2012. He has further deposited the following amounts:*

Date	*Amount (₹)*
14-07-2012	*1,38,000*
18-08-2012	*22,000*

He withdrew the following amounts :

Date	*Amount (₹)*
29-07-2012	*97,000*
09-09-2012	*11,000*

Show Roshan's A/c in the ledger of the firm. Interest is to be calculated at 10% on debit balance and 8% on credit balance. You are required to prepare current account as on 30th September, 2012.

(d) *The following transactions took place between Thick and Thin. They desire to settle their account on average due date.*

Purchases by Thick from Thin	*(₹)*
9th July, 2013	*7,200*
14th August, 2013	*12,200*

Sales by Thick to Thin	*(₹)*
15th July, 2013	*18,000*
31st August, 2013	*16,500*

Calculate Average Due Date and the amount to be paid or received by Thick.

(e) *Explain the reasons due to which the manual accounting system was replaced by the computerized accounting system in modem time.* *(4 x 4 = 16 Marks)*

Answer

(a) In the books of Mr. Mishra

Investment Account for the year ended 31st Dec. 2012
(Scrip: Equity Shares of Fillco Ltd.)

Date		*Particulars*	*Nominal Value (₹)*	*Cost (₹)*	*Date*		*Particulars*	*Nominal Value (₹)*	*Cost (₹)*
1.5.2012	To	Bank A/c	8,000	42,080	30.11.12	By	Bank A/c	2,000	11,400
31.10.2012	To	Bonus shares	2,000	–	31.12.12	By	Balance c/d	8,000	33,664
31.12.2012	To	Profit & loss A/c	–	2,984					
			10,000	45,064				10,000	45,064

Working Notes:

(i) Cost of equity shares purchased on 1.5.2012 = 800 × ₹ 50 + 5% of ₹ 40,000 + .002 of ₹ 40,000 = ₹ 42,080.

(ii) Sale proceeds of equity shares sold on 30.11.2012 = 200 × ₹ 60 – 5% of ₹ 12,000 = ₹ 11,400

(iii) Profit on sale of bonus shares on 30.11.12

= Sales proceeds – Average cost

Sales proceeds = ₹ 11,400

Average cost = ₹ $\frac{42,080}{10,000}$ x 2,000

= ₹ 8,416

Profit = ₹ 11,400 – ₹ 8,416 = ₹ 2,984

(iv) Valuation of equity shares on 31st Dec., 2012

Cost = (₹ 42,080/10,000 x 8,000) = ₹ 33,664

Market Value = 800 × ₹ 60 = 48,000

Closing balance has been valued at ₹ 33,664 being lower than the market value

(b) Journal Entries

			₹	₹
(i)	Equity share Capital A/c.	Dr.	20,00,000	
	To Equity Stock			1,00,000
	To 12% Fully Convertible Debentures			19,00,000
	(Being conversion of 2 lakh equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance as fully convertible debentures as per resolution)			
(ii)	Equity Share Capital A/c (₹ 2.50)	Dr.	100,00,000	
	To Equity Share Capital A/c (₹ 10)			100,00,000
	(Being consolidation of 40 lakh shares of ₹ 2.50 each into 10 lakh shares of ₹ 10 each as per resolution)			
(iii)	11% Preference Shares Capital A/c (₹ 50)	Dr.	500,00,000	
	To 11% Preference Share Capital A/c (₹ 10)			500,00,000
	(Being subdivision of 10 lakh preference shares of ₹ 50 each into 50 lakh shares of ₹ 10 each as per resolution)			
(iv)	12% Preference Share Capital A/c	Dr.	5,00,000	
	To 14% Preference Share Capital			3,00,000
	To 12% Non-cumulative Preference Share Capital			2,00,000
	(Being conversion of preference shares as per resolution)			

(c) Roshan's Current Account with Partnership firm (as on 30.9.2012)

Date	Particulars	Dr (₹)	Cr (₹)	Balance (₹)	Dr. or Cr.	Days	Dr Product (₹)	Cr Product (₹)
01.07.12	To Bal b/d	75,000		75,000	Dr.	13	9,75,000	
14.07.12	By Cash A/c		1,38,000	63,000	Cr.	15		9,45,000
29.07.12	To Self	97,000		34,000	Dr.	20	6,80,000	
18.08.12	By Cash A/c		22,000	12,000	Dr.	22	2,64,000	
09.09.12	To Self	11,000		23,000	Dr.	22	5,06,000	
30.09.12	To Interest A/c	457		23,457	Dr.			
30.09.12	By Bal. c/d		23,457					
		1,83,457	1,83,457				24,25,000	9,45,000

Interest Calculation:

On ₹ 24,25,000x 10% x 1/365 = ₹ 664

On ₹ 9,45,000 x 8% x 1/365 = ₹ 207

Net interest to be debited = ₹ 457

Note: The above current account has been prepared by means of product of balances method.

(d) Calculation of Average Due Date

Computation of products for Thick's payments

(Taking 9.7.13 as base date)

Due Date	*Amount*	*No. of days from base date to due date*	*Product*
	₹		₹
9.7.13	7,200	0	0
14.8.13	12,200	36	4,39,200
	19,400		4,39,200

Computation of products for Thin's payments (Base date = 9.7.13)

Due Date	*Amount*	*No. of days from base date to due date*	*Product*
	₹		₹
15.7.13	18,000	6	1,08,000
31.8.13	16,500	53	8,74,500
	34,500		9,82,500

Excess of Thin's products over Thick [9,82,500-4,39,200] 5,43,300

Excess of Thin's amounts over Thick [34,500-19,400] 15,100

Number of days from base date to date of settlement is = $\frac{5,43,300}{15,100}$ = 36 days (approx.)

Hence, the date of settlement of the balance amount is 36 days after 9th July, i.e. 14th August.

Thus, on 14th August, 2013, Thin has to pay ₹ 15,100 to Thick.

(e) In modern time, computerized accounting system has replaced the manual accounting system due to the following reasons:

(1) Speed, accuracy and security - In computerized accounting system, the speed with which accounts can be maintained is several folds higher. Besides speed, level of accuracy is also high in computerized accounting system.

(2) Reduced errors - In computerized accounting, the possibilities of errors are also very less unless some mistake is made while recording the data.

(3) Immediate information - In this system, with an entry of a transaction, corresponding ledger posting is done automatically. Hence, trial balance will also be automatically tallied and the user will get the information immediately.

(4) Avoidance of duplication of work - Computerized accounting systems also remove the chances for duplication of the work.