CA-IPCC November 2014
ACCOUNTS SOLUTION
By
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Total No. of Questions – 7 Time Allowed - 3 Hours Maximum Marks -100

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his answers in Hindi will not be valued.
Question No. 1 is compulsory.
Candidates are also required to answer any five questions from the remaining **six** questions.
Wherever appropriate, suitable assumptions should be made and indicated in answer by the candidate. Working notes should form part of the answer.

Marks

1. (a) **(5)**

In the books of Optic Fiber Ltd., plant and machinery stood at 6,32,000 on 1.4.2013. However on scrutiny it was found that machinery worth 1,20,000 was included in the purchases on 1.6.2013. On 30.6.2013 the company disposed a machine having book value of 1,89,000 on 1.4.2013 at 1,75,000 in part exchange of a new machine costing 2,56,000. The company charges depreciation @20% WDV on plant and machinery.

You are required to calculate:
(i) Depreciation to be charged to P/L.
(ii) Book value of Plant and machinery A/c as on 31.03.2014.
(iii) Loss on exchange of machinery.

(b) **(5)**

Santa Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received 2 40,000 on 10.3.2014 and 60,000 on 10.4.2014 for the March 2014 issue.
Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014?

(c) **(5)**

Capital Cables Ltd. has a normal wastage of 4% in the production process. During the year 2013-14 the Company used 12,000 MT of raw material costing 150 per MT. At the end of the year 630 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books. Explain in the context of AS-2 the treatment of normal loss and abnormal loss and also find out the amount of abnormal loss if any.

(d) **(5)**

Blue-chip Equity Investments Ltd., wants to re-classify its investments in accordance with AS-13.
(i) Long term investments in Company A, costing 8.5 lakhs are to he re-classified as current. The company had reduced the value of these investments to 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is 6.8 lakhs.

(ii) Long term investments in Company B, costing 7 lakhs are to be re-classified as current. The fair value on date of transfer is 8 lakhs and book value is 7 lakhs.
(iii) Current investment in Company C, costing 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is 12 lakhs.
(iv) Current investment in Company D, costing 15 lakhs are to be re-classified as long term. The market value on date of transfer is 14 lakhs.

2. **(16)**

The following information relates to Country Sports Club for the year ended 31.03.2014. You are required to prepare the receipts and Payments Account for the year ended 31.03.2014 and Balance Sheet as on that date.

Expenditure	Amount	Income	Amount
To Salaries	336000	By Subscriptions	840000
To Repairs & main.	88000	By Receipts for annual sports 325000	
To Ground upkeep	166500	Less: Expenses (275000)	50000
To Electricity charges	82600	By Entrance fees	180000
To Sports material used	148000	By Interest on 10% govt. bond	12000
To printing and stationery	42,200	By rent on hire of club ground	84000
To grounds man wages	80,000	By profit on sale of sports material	10,500
To depreciation	1,36,000	By sale of old newspaper	3500
To Prizes distributed (net of fund income)	4,000		
To Surplus carried to capital fund	96,700		
	11,80,000		11,80,000

Additional information:

(a)

	Balance as on 1.4.2013(₹)	Balance as on 31.3.2014(₹)
Fixed assets(net block)	6,36,000	7,20,000
Stock of sports material	1,24,000	1,38,000
Investments in 10% govt. bond	1,20,000	1,20,000
Subscription received in advance	64,000	72,000
Outstanding subscription	1,24,000	88,000
Outstanding repairs expenses	13,500	24,500
Creditors for sports material	78,600	62,500
Salary paid in advance	32,000	28,000
Prize fund	2,40,000	2,40,000
Prize fund investments	2,36,000	2,36,000
Bank balance	54,500	?

(b) During the year the club purchased sports material of ₹1,80,000, out of which 75% was credit purchase.

(c) 25% of the entrance fees is to be capitalized.

(d) As per the Club's policy any excess of expenses for prizes distributed over prize fund income is to be charged to income and expenditure a/c and vice versa:-

Prize fund income earned during the year ₹36,000

Prizes distributed during the year ₹40,000

(e)Interests on government bond is received half yearly on 30th June and 31st December each year.

3 (a) **(6)**

Prepare Cash flow for Gamma Ltd., for the year ending 31.3.2014 from the following information:

(1) Sales for the year amounted to 135 crores out of which 60% was cash sales.

(2) Purchases for the year amounted to 55 crores out of which credit purchase was 80%.

(3) Administrative and selling expenses amounted to 18 crores and salary paid amounted to 22 crores.

(4) The Company redeemed debentures of 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was 1.5 crores.

(5) Dividend paid during the year amounted to 10 crores. Dividend distribution tax @ 17% was also paid.

(6) Investment costing 12 crores were sold at a profit of 2.4 crores.

(7) ₹8 crores was paid towards income tax during the year.

(8) A new plant costing 21 crores was purchased in part exchange of an old plant. The book value of the old plant was 12 crores but the vendor took over the old plant at a value of 10 crores only. The balance was paid in cash to the vendor.

(9) The following balances are also provided

	in crores 1.4.2013	in crores 31.3.2014
Debtors	45	50
Creditors	21	23
Bank	6	

(b) **(10)**

From the following particulars furnished by Elegant Ltd., prepare the Balance Sheet as on 31st March 2014 as required by Part I, revised Schedule VI of the Companies Act.

Particulars		Debit ₹	Credit ₹
Equity Share Capital(Face value of ₹100 each)			50,00,000
Call in arrears		5000	
Land & Buildings		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from state Financial corporation			7,50,000
Stock:			

Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provisions for Taxation			3,40,000
Sundry Debtors		10,00,000	
Advances		2,13,500	
Proposed dividend			3,00,000
Profit & loss account			5,00,000
Cash in hand		1,50,000	
Cash at bank		12,35,000	
Preliminary expenses		66,500	
Unsecured Loan			6,05,000
Sundry Creditors(for goods & Expenses)			10,00,000

The following additional information is also provided:
(i)Preliminary expenses included ₹ 25000, audit fees and ₹3500 for out of pocket expenses paid to the auditors.
(ii)10000 Equity shares were issued for consideration other than cash.
(iii)Debtors of ₹ 2,60,000 are due for more than 6 months.
(iv)The cost of assets were:
Building ₹30,00,000, Plant & Machinery ₹35,00,000 and furniture ₹ 3,12,500.
(v)The balance of ₹7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹37,500 for Interests Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery .
(vi)Balance at Bank includes ₹10,000 with Global Bank Ltd., which is not a scheduled Bank.

4 (a) **(12)**
The Balance Sheet of Vaibhav Ltd. as on 31st March 2014 is as follows:

Liabilities	₹	Assets	₹
Equity Shares of Rs100 each	2,00,00,000	Fixed assets	2,50,00,000
6% Cum. Pre. Shares of ₹100 each	1,00,00,000	Investments(Market value ₹19,00,000)	20,00,000
5% Debentures of ₹100 each	80,00,000	Current Assets	2,00,00,000
Sundry creditors	1,00,00,000	P&L A/c	12,00,000
Provisions for taxation	2,00,000		
Total	4,82,00,000	Total	4,82,00,000

The following schemes of internal reconstruction is sanctioned:
(i)All the existing equity shares are reduced to ₹40 each.
(ii)All preferences shares are reduced to ₹ 60 each.
(iii)The rate of interests on Debentures is increased to 6%. The Debenture holders surrender their existing debentures of Rs100 each and exchange the same for fresh debentures of ₹70 each for every debenture held by them.
(iv)Fixed assets are to be written down by 20%.
(v)Current assets are to be relevant at ₹90,00,000. (vi)Investments are to be brought to their market value.
(vii)One of the creditors of the company to whom the company owes ₹40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60,000 equity shares of ₹40 each in full and final settlement of his claim.
(viii)The taxation liability is to be settled at ₹3,00,000.
(ix)It is decided to write off debit balance of Profit & Loss A/c.
Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

(b) **(4)**
From the following particulars, prepare the Creditors ledger Adjustment Account as would appear in the General Ledger of Mr. Sathish for the month of March 2014.

Date	Particulars
1	Purchase from Mr. Akash ₹7500
3	Paid ₹3000 after adjusting the initial advance in full to Mr. Akash
10	Paid ₹2500 to Mr. Dev towards the purchases made in February in full
12	Paid advance to Mr. Giridhar ₹6000
14	Purchased goods from Mr. Akash ₹6200

20	Returned goods worth ₹ 1000 to Mr. Akash
24	Settled the balance due to Mr. Akash at a discounts of 5%
26	Goods purchased from Mr. Giridhar against the advance paid already
29	Purchased from Mr. Nathan ₹3500
30	Goods returned to Mr. Prem ₹1200. The goods were originally purchased for cash in the month of February 2014.

5 (a) **(8)**

A fire occurred in the premises of M/S Kailash & Co. on 30th September 2013. From the following particulars relating to the period from 1st April 2013 to 30th September 2013, you are required to ascertain the amount of claim to be filed with the Insurance company for the loss of stock. The company has taken an Insurance Policy for ₹75,000 which is subject to average clause. The Value of goods salvaged was estimated at ₹27,000. The average rate of Gross Profit was 20% throughout the period.

	Particulars	Amount in ₹
i.	Opening Stock	1,20,000
ii.	Purchases made	2,40,000
iii.	Wages paid(including wages for the installation of a machine ₹5,000)	75,000
iv.	Sales	3,10,000
v.	Goods taken by the Proprietor(Sale value)	25,000
vi.	Costs of goods sent to consignee on 20th sept 2013, lying unsold with them	18,000
Vii	Free samples distributed-cost	2,500

(b) **(8)**

On 1st April 2014, Hasan has 20,000 equity shares of Vayu Ltd., at a book value of ₹20 per share (face value of ₹10 each). He provides the following information:

(i)On 10th June 2014, he purchased another 5,000 shares in Vayu Ltd., @15 per share.

(ii) On 1st August 2014, Vayu Ltd., issued one bonus share for every five shares held by the shareholders.

(iii)On 31st August 2014, the directors of Vayu Ltd., announced a rights issues which entitle the shareholders to subscribe two shares for every six shares held @ ₹15 per shares. The shareholders can transfer their rights in full or in part.

Hasan sold 1/4th of his right shares holding to Harsh for a consideration of ₹3 per share and subscribed the rest on 31st of October 2014.

Prepare Investment A/c in the books of Hasan as on 31st October 2014.

6. **(16)**

Anuj, Ayush and Piyush are in partnership sharing profits and losses in the ratio 2:2:1. Their Balance sheet as on 31.3.2014 is as follows:

Liabilities	₹	Assets	₹
Capital account		Fixed assets	
Anuj 3,75,000		Plant	7,87,000
Ayush 2,80,000			
Piyush 2,25,000	8,80,000		
General Reserve	1,88,000	Current assets	
Creditors	2,16,000	Stock	1,03,000
		Debtors	1,56,000
		Bank FD	2,25,000
		Bank Balance	13,000
	12,84,000		12,84,000

Anuj decided to retire with effect from 1.4.2014. The remaining pa… future. The following adjustments were agreed to be made upon retiremen…

(i)Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement. The average profits of the past 3 years were as follows:

31.3.2014 3,30,000 (as per draft A/c); 31.3.2013 2,32,000; 31.3.2012 2,20,000

The partners decided not to raise goodwill account in the books.

(ii)The assets were revalued as follows:

Plant to be depreciated by 10%; Creditors amounting to ₹10,000 were omitted to be recorded; ₹6000 is to be written off from stock; Provision for doubtful debts to be created @5% of the debtors; Interest accrued on FD amounting to ₹9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3.2014 before calculation of goodwill.

(iii)Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balances would remain as a loan carrying interests of 8% p.a.

(iv)Ayush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of ₹1,50,000.

You are required to prepare

(1) Capital accounts of partners as on 1.4.2014 giving effect to the above adjustments.

(2) Balance Sheet as on 1.4.2014 after Anuj's retirement.

7.

Answer any four from the following:

(a) **(4)**

From the following information state the amount to be capitalized as per AS10. Give the explanations for your answers.

₹5 lakhs as routine repairs and ₹1 lakh on partial replacement of a part of a machine.

₹10 lakhs on replacement of part of a machinery which will improve the efficiency of a machine.

(b) **(4)**

What are the advantages of customized accounting software?

(c) **(4)**

What are the differences between Hire Purchases and Installment System?

(d) **(4)**

From the following particulars prepare a current account, as sent by Mr. Ram to Mr. Siva as on 31st October 2014 by means of product method charging interests @5% p.a.

2014	Particulars	₹
1st july	Balance due from Siva	750
15th aug	Sold goods to Siva	1250
20th aug	Goods returned by Siva	200
22nd sept	Siva paid by cheque	800
15th oct	Received cash from Siva	500

(e) **(4)**

Kishanlal has made the following sales to babulal. He allows a credit period of 10 days beyond which he charges interests @ 12% per annum.

Date of sales	Amount(₹)
26-05-14	12,000
18-07-14	18,000
02-08-14	16,500
28-08-14	9,500
09-09-14	15,500
17-09-14	13,500

Babulal wants to settle his accounts on 30.9.2014. Calculate the interest payable by him using Average Due Date (ADD). If Babulal wants to save interests of ₹588, how many days before 30.9.2014 does he have to make payment? Also find the payment date in this case.

Ans. 1 (a)

(632000-189000)x20%x12/12	88,600	B. V on 01/0/13	6,32,000	Sale Value of Machine	1,75,000
120000 x 20% x 10/12	20,000	+ Machine Purchased	3,76,000	(-) B. V. of machine sold	(1,79,550)
189000 x 20% x 3/12	9,450	(120000+256000)		(189000-9450)	
256000 x 20% x 9/12	38,400	(-) Depreciation charged	(156450)	Loss on exchange	(4,550)
Dep. to be charged to P/L	1,56,450	(-) B. V. of machine sold	(179550)		
		B. V on 31/3/2014	6,72,000		

Ans. 1(b)

As per AS-9 "Revenue Recognition", revenue from services is recognized when service is performed. In case of advertisement, service is completed when advertisement appears before public.

In the present case the magazine were published on the scheduled date of 15th March 2014. Therefore revenue of ₹ 300000 (240000+60000) should be recognized in 2013-14.

On 10.03.14	Cash A/c	Dr.	240000	
	To Advance from Customer			240000
On 15.03.15	Advance from Customer A/c	Dr.	240000	
	Amt. Due from Customer A/c	Dr.	60000	
	To Advertising Revenue A/c			300000

If the publication is delayed till 2.4.14, the revenue can't be recognized in 13-14. The Amount of ₹240000 will be shown as liability for advance from customer in Balance Sheet. The whole of revenue of ₹300000 will be recognized in next year 14-15.

Ans. 1(c)

As per AS-2 "Valuation of inventory" the normal loss is part of the cost of the inventory. Therefore cost of normal loss should not be excluded from cost. The quantity of normal loss will be excluded so as to inflate the cost of remaining quantity.

However cost of abnormal loss is not part of cost of inventory. Therefore it is specifically excluded from the cost of inventories.

Cost of Material Used = 12000 x 150 = 18,00,000; Normal Loss of Material = 12000 x 4% = 480 MT

Normal cost per MT = 1800000/(12000-480) = 156.25; Abnormal Loss of Material = 630 – 480 = 150 MT

Amount of Abnormal Loss = 150 MT x 156.25 = 23,437.50

Ans. 1(d)

As per AS-13 "Accounting for Investments" Long term investments can be re-classified as current at lower of cost or carrying amount. However Current investment can be re-classified as long term at lower of cost or fair market value on the date of transfer.

(i) The investment in Company A will be classified as Current and transfer will be made at carrying amount of ₹6.5 lakhs.

(ii) The investment in Company B will be classified as Current and transfer will be made at cost of ₹7 lakhs.

(iii) The investment in Company C will be classified as Long term and transfer will be made at cost of ₹ 10 lakhs.

(iv) The investment in Company D will be classified as Long term and transfer will be made at Market Value of ₹ 14 Lakhs. In such case reduction in book value by ₹ 1 lakh will be recognized as

Ans. 2

Receipt & Payment A/c for 31.03.2014

Receipt	Amount	Payment	Amount
To Balance B/d (Bank)	54,500	By Salary Paid	332000
To Cash Sale of SM	28500	By Repair & main. Exp A/c	77000
To Prize Fund Income	36000	By Ground upkeep exp A/c	166500
To Subscription Received	884000	By Electricity Charges A/c	82600
To Annual Sports Receipt	325000	By Cash Purchase of SM	45000
To Entrance fees Received	240000	By Payment to Creditors	151100
(180000x100/75)		By Pri. & St Exp A/c	42200
To Interest Received	12000	By G/m Wages A/c	80000
To rent Received	84000	By Fixed Assets Purchased	220000
To Sale of old Paper	3500	By Prize Fund Exp. Paid	40000
		By Annual Sports Exp	275000
		By Balance c/d	156100
	1667500		1667500

Balance Sheet as on 31.03.14

Liabilities	Amount	Assets	Amount
		Fixed Assets	720000
Capital Fund	1090100	Investment in 10% Govt. bond	120000
		Accrued Interest	3000
Prize Fund	240000	Prize Fund Invest.	236000
Advance Subscription	72000	O/s Subscription	88000
Creditors for SM	62500	Stock of SM	138000
O/s Repair exp.	24500	Advance Salary	28000
		Bank balance	156100
	1489100		1489100

Working Note:

(1) Balance Sheet as on 1/4/13

Liabilities	Amount	Assets	Amount
Capital Fund (B.f.)	933400	Fixed Assets	636000
		Investment in 10% Govt. bond	120000
Prize Fund	240000	Accrued Interest	3000
Advance Subscription	64000	Prize Fund Invest.	236000
Creditors for SM	78600	O/s Subscription	124000
O/s repair exp.	13500	Stock of SM	124000
		Advance Salary	32000
		Bank balance	54500
	1329500		1329500

Salaries A/c

To advance salary b/d	32000	By Income & Exp. A/c	336000
To Rec. & Pay. A/c (B.f.)	332000	By advance Salary C/d	28000

	364000		364000

To Rec. & Pay A/c (b.f.) To O/s Repair c/d	77,000 24,500	By O/S repair b/d By Inc. & Exp. A/c	13,500 88,000
	101500		101500

Repair & Maintenance A/c

Sports Material A/c

To Op. Stock b/d To Creditors for SM A/c (180000x75%) To Cash Purchase (180000x25%) To Profit on Sale	124000 135000 45000 10500	By Cash Sale (b.f.) By SM used By Cl. Stock c/d	28500 148000 138000
	314500		314500

Creditors for SM A/c

To Rec. & pay A/c (B.f.) To bal C/d	151100 62500	By bal B/d By SM Purchased on Credit	78600 135000
	213600		213600

Fixed Assets A/c

To Bal b/d To Rec. & pay A/c (B.f.)	636000 220000	By Dep A/c By Bal C/d	136000 720000
	856000		856000

Capital Fund A/c

To Bal C/d	1090100	By Bal b/d By Surplus from I & E A/c By Entrance Fees Capitalized (240000x25/100)	933400 96700 60000
	1090100		1090100

Subscription A/c

To O/s Sub. b/d To Inc & Exp. A/c To Adv. Sub C/d	124000 840000 72000	By Adv. Sub. b/d By Rec. & Pay A/c (B.f.) By O/s Sub C/d	64000 884000 88000
	1036000		1036000

Interest on Govt. bond A/c

To accrued Int. b/d (120000x10%x3/12) To inc & Exp. A/c	3000 12000	By Rec. & Pay A/c (b.f.) By accrued Int. c/d (120000x10%x3/12)	12000 3000
	15000		

Ans. 3 (a)

CASH FLOW STATEMENT

Particulars	Amount	Amount
Cash Flow From Operating Activities		
Cash Sales (135 x 60%)	81.00	
Collection from Debtors (45+54-50)	49.00	
Cash purchase (55x20%)	(11.00)	
Payment to Creditors (21+44-23)	(42.00)	
Operating expenses paid (18+22)	(40.00)	
Cash from operation before taxes & EOI	37.00	
Income tax Paid	(8.00)	
Net Cash Flow From Operating Activities		29.00
Cash Flow From Investing Activities		
Sale proceed of investment (12 + 2.4)	14.40	
Payment to vendor for plant (21-10)	(11.00)	
Net Cash Flow From Investing Activities		3.40

Cash Flow From Financing Activities		
Redemption of Debenture inc premium (20x110%-15)	(7.00)	
Debenture interest	(1.50)	
Dividend Paid	(10.00)	
Dividend Distribution Tax (10x17%)	(1.70)	
Net Cash Flow From Financing Activities		(20.20)
Increase/ decrease in cash & cash equivalent		12.20
Cash & Cash equivalent at the beginning		6.00
Cash & Cash equivalent at the end		18.20

Ans. 3(b)

Balance Sheet as on 31st March, 2014

Particulars	Notes	Amount
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	49,95,000
b Reserves and Surplus	2	14,83,500
2 Non-current liabilities		
a Long-term borrowings	3	13,17,500
3 Current liabilities		
a Trade Payables		10,00,000
b Other current liabilities	4	37,500
c Short-term provisions	5	6,40,000
Total		94,73,500
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	6	56,25,000
2 Current assets		
a Inventories	7	12,50,000
b Trade receivables	8	10,00,000
c Cash and cash equivalents	9	13,85,000
d Short-term loans & advances		2,13,500
Total		94,73,500

Notes to accounts

1	Share Capital		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of ` 100 each		
	(Of the above 10,000 shares have been issued		
	for consideration other than cash)	50,00,000	
	Less: Calls in arrears (5,000)	49,95,000	49,95,000
2	Reserves and Surplus		
	General Reserve	10,50,000	
	Surplus (Profit & Loss A/c) 5,00,000		
	Less: Preliminary expenses (66,500)	4,33,500	1483500
3	Long-term borrowings		
	Secured Loans from SFC	712500	
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured	605000	13,17,500
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)	37,500	37500

5	Short-term provisions Provision for taxation Proposed Dividend	 3,40,000 3,00,000	 6,40,000
6	Tangible assets Land & Buildings 30,00,000 Less: Depreciation (2,50,000) Plant & Machinery 35,00,000 Less: Depreciation (8,75,000) Furniture & Fittings 3,12,500 Less: Depreciation (62,500)	 27,50,000 26,25,000 2,50,000	 56,25,000
7	Inventories Raw Material Finished goods	 2,50,000 10,00,000	 12,50,000
8	Trade receivables Debts outstanding for a period exceeding 6 months Other Debts	 2,60,000 7,40,000	 10,00,000
9	Cash and cash equivalents Cash at bank with Scheduled Banks with others (Global Bank Ltd.) Cash in hand	 12,25,000 10,000 1,50,000	 13,85,000

Ans. 4 (a)

Journal Entries in the books of Vaibhav Ltd.

Equity share capital (` 100) A/c Dr. To Equity Share Capital (` 40) A/c To Capital Reduction A/c (Being conversion of equity share capital of ` 100 each into ` 40 each as per scheme)	2,00,00,000	 80,00,000 1,20,00,000
6% Cumulative Preference Share capital (` 100) A/c Dr. To 6% Cumulative Preference Share Capital (` 60) A/c To Capital Reduction A/c (Being conversion of 6% cumulative preference share capital of ` 100 each into ` 60 each)	1,00,00,000	 60,00,000 40,00,000
5% Debentures A/c Dr. To 6% Debentures A/c To Capital Reduction A/c (Being 6% debentures issued to 5% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)	80,00,000	 56,00,000 24,00,000
Sundry Creditors A/c Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being a creditor of ` 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ` 40 each in full settlement of his dues)	40,00,000	 24,00,000 16,00,000
Provision for Taxation A/c Dr. Capital Reduction A/c Dr. To Liability for Taxation A/c (Being conversion of the provision into liability for taxation for settlement of the amount due)	2,00,000	 1,00,000 3,00,000
Capital Reduction A/c Dr. To P & L A/c To Fixed Assets A/c To Current Assets A/c To Investments A/c To Capital Reserve A/c (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)	1,99,00,000	 12,00,000 50,00,000 1,10,00,000 1,00,000 26,00,000
Liability for Taxation A/c Dr. To Current Assets (Bank A/c) (Being the payment of tax liability)	3,00,000	 3,00,000

Balance Sheet of Vaibhav Ltd. (and reduced) as on 31.3.2014

Particulars	Notes	Amount
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	1,64,00,000
b Reserves and Surplus		
(i) Capital Reserve		26,00,000
2 Non-current liabilities		
a Long-term borrowings		
(i) 6% Debentures		56,00,000
3 Current liabilities		
a Trade Payables		60,00,000
Total		3,06,00,000
Assets		
1 Non-current assets		
a Fixed assets		
(i) Tangible assets	2	2,00,00,000
b Investments		19,00,000

2 Current assets		87,00,000
Total		3,06,00,000

Notes to accounts

1. Share Capital Issued, subscribed and paid up 2,60,000 equity shares of ` 40 each 6% Cumulative Preference shares of ` 60 each	 1,04,00,000 60,00,000	 1,64,00,000
2. Tangible assets Fixed Assets Adjustment under scheme of reconstruction	 2,50,00,000 (50,00,000)	 2,00,00,000

Ans. 4(b)

General Ledger of Mr. Satish

Creditors' Ledger Adjustment A/c

Particulars	Amount	Particulars	Amount
To Balance b/d		By Balance b/d	
(a) Akash (7500-3000)	4500	(a) Dev	2500
To Gen. Led. Adj. A/c		By Gen. Led. Adj. A/c	
(1) Cash paid		(1) Purchases	
(a) Akash 7940 (3000+5200x95%)		(a) Akash 13,700 (7500 + 6200)	
(b) Dev 2500		(b) Giridhar 6000	
(c) Giridhar 6000	16440	(c) Nathan 3500	23200
(2) Purchase Return		By Balance c/d	
(a) Akash 1000		(a) Prem	1200
(b) Prem 1200	2200		
(3) Discount received			
(a) Akash (5200x5%)	260		
To Balance C/d			
(a) Nathan	3500		
	26900		26900

Ans. 5(a)

Computation of claim for loss of stock

Stock on the date of fire (W.N.1)	141500
Less: Value of salvaged stock	(27000)
Loss of stock	114500

Amount of claim = $\frac{\text{Insured value x Loss of stock}}{\text{Value of stock on the date of fire}}$

= 75,000 x 114500/141500 = 60689

A claim of ` 60689 (approx.) should be lodged by M/s Kailash & co. to the insurance company.

Working Note:

Memorandum Trading Account (from 1st April, 2013 to 30th Sep, 2013)

Particulars	*Amount*	*Particulars*	*Amount*
To Opening stock	120000	By Sales	310000
To Purchases 240000		By Goods with Consignee	18000
(-) Drawings (20000) (25000x80%)		By Closing stock (B.f.)	141500
(-) advertisement (2500)	217500		
To Wages (75,000 – 5,000)	70000		
To Gross profit (310000x20%)	62,000		
	469500		469500

Ans. 5(b)

In the books of Hasan
Investment Account (Equity shares in Vayu Ltd.)

Date	*Particulars*	*No. of shares*	*Amount*	*Date*	*Particulars*	*No. of shares*	*Amount*
1.4.14	To Balance b/d	20000	400000	31.10.14	By Bank A/c	-	7500
10.6.14	To Bank A/c	5000	75000				
1.8.14	To Bonus issue	5000	-	31.10.14	By Balance c/d	37500	580000
31.10.14	To Bank A/c	7500	112500				
			587500				587500

Working Notes:
(1) Bonus shares = (20,000 + 5,000)x1/5 = 5000
(2) Right shares = (20,000 + 5,000 + 5,000)x2/6=10000
(3) Sale of rights = 10,000 x ¼ = 2500
Amount Received = 2500x3 =7500
(4) Rights subscribed = (10000-2500)x15 = 112500

Ans. 6

Partner's Capital A/c

Particulars	Anuj	Ayush	Piyush	Particulars	Anuj	Ayush	Piyush
To Accrued Interest A/c	9000	-	-	By Balance b/d	375000	280000	225000
To Bank FD A/c	225000	-	-	By general Reserve	75200	75200	37600
To P & L Adj. A/c	37400	37400	18700	(2:2:1)			
To Anuj Capital A/c	-	22950	68850	By Ayush & Piyush	91800	-	
To 8% Loan from Anuj (b.f.)	270600	-	-	Capital A/c			
To Balance C/d	-	303450	303450				
		(606900/2)	(606900/2)	By Bank A/c (B.f.)	-	8600	128400
	542000	363800	391000		542000	363800	391000

Balance Sheet as on 01.04.14

Liabilities	Amount	Assets	Amount
Capital		Plant (787000-78700)	708300
Ayush 303450		Stock (103000-6000)	97000
Piyush <u>303450</u>	606900	Debtors 156000	
8% Loan from Anuj	270600	(-) Prov. For DD <u>(7800)</u>	148200
Creditors (216000+10000)	226000	Bank Balance	
		(13000+8600+128400)	150000
	1103500		1103500

Working Note:

(1) Profit & Loss Adj. A/c

Particulars	Amount	Particulars	Amount
To Creditors A/c	10000	By Accrued Interest A/c	9000
To Plant A/c (787000x10%)	78700	By Partner's Capital A/c	
To Stock A/c	6000	Anuj 37400	
To Provision for DD	7800	Ayush 37400	
(156000x5%)			
		Piyush <u>18700</u>	93500
	102500		102500

(2) Average Profit = (220000+232000+330000-93500)/3 = 229500
Value of Goodwill = 229500 x 1 year = 229500

	Anuj	Ayush	Piyush
Goodwill Credited (2:2:1)	91800	91800	45900
Goodwill Debited (1:1)		<u>(114750)</u>	<u>(114750)</u>
Net Effect	<u>91800</u>	<u>(22950)</u>	<u>(68850)</u>

(3)

Assets:	Plant	708300
	Stock	97000
	Debtors	148200
	Bank	150000
Less: Liabilities		
	Creditors	226000
	Loan	270600
Capital of new Firm		606900

Ans. 7(a)

As per AS-10 "Accounting for Fixed Assets", the expenditure that increase the future benefit of the assets as compared to previous performance are capitalized. If expenditure is integral part of the assets then it will be capitalized with that assets otherwise it will be capitalized separately.

Accordingly ₹10 lakhs will be capitalized to cost of machine, because it is improving efficiency of machine in future and part replaced is an integral part of machine.

₹6 lakhs will be write off to profit & loss a/c in the same year as revenue expense because they are not increasing future benefit of assets.

Ans. 7(b)

Advantages of a customised accounting package are the following:

1. The functional areas which are not in pre-packaged software, can be covered in customized package and gets computerised.
2. The input screens can be tailor made to match the input documents for ease of data entry.
3. The reports can be as per the specification of the organisation. Many additional MIS reports can be included in the list of reports.
4. Bar-code scanners can be used as input devices suitable for the specific needs of an individual organisation.
5. The system can suitably match with the organisational structure of the company.

Ans. 7(c)

Particulars	Hire Purchase	Installment sale
Ownership	The ownership passes to the buyer usually on the payment of last installment	Ownership passes at the time of Sale
Default in making payment	Seller can repossess the goods. In that case the installment so far paid is treated to be Hiring charges.	Seller does not have any other right except the right of suing the buyer.
Right of sale or other wise	No right to sale or otherwise transfer the goods available to purchaser.	Right to sale or otherwise transfer the goods.
Loss or damages to the goods.	It has to be borne by the seller if the buyer takes reasonable care.	Any loss occurring to goods has to be borne by the buyer.

Ans. 7(d)

Siva in Account Current with Ram (01/07/14 to 31/10/14)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
01/07	To Bal b/d	750	123	92250	20/08	By Sales Return	200	77	15400
15/08	To Sales	1250	77	96250	22/09	By Bank A/c	800	39	31200
31/10	To Interest A/c (133922x5%/365)	18	-	-	15/10	By Cash A/c	500	16	8000
					31/10	By Bal of Product	-	-	133900
					31/10	By Bal c/d	518	-	-
		2018		188500			2018		188500

Note:

(1) In case of opening balance, the starting date is also included in counting.
(2) In case of sales return, days are counted from date of original sales.

Ans. 7(e)

Trans. Date	Due Date	Amount	Days from Base date	Product
26/05	05/06	12000	0	0
18/07	28/07	18000	53	954000
02/08	12/08	16500	68	1122000
28/08	07/09	9500	94	893000
09/09	19/09	15500	106	1643000
17/09	27/09	13500	114	1539000
Total		85000		6151000

Let Base Date = 05/06
Average Due Date = 05/06 + 6151000/85000 = 05/06 + 72 Days = 16/08
Days Delayed = 16/08 to 30/09 = 45 Days
Interest Payable on 30/09 = 85000x12%x45/365 = 1258

Interest Saving of ₹588 = 85000 x 12% x Days / 365
Days before 30.09 = 588 x 365 / 10200 = 21 days
To save interest of ₹588, Babulal will have to pay 21 days earlier from 30/09/14. In other word he will have to pay on 09/09/14.