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ANSWER OF CA IPCC –ACCOUNTING GROUP I NOVEMBER, 2014

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COVERAGE OF EXAM FROM THE BOOKS OF CA P.S. BENIWAL

Question Number in Exam	**Marks**	**Chapter**	**Question no and page number of Book**
1 (a)	5	AS-6	**Almost same Q 8 of chapter 13 (AS 6), Page no. 13.11**
(b)	5	AS-9	**General question of AS-9 (Covered in examples in class)**
(c)	5	AS-2	**Almost same Q 1 of chapter 13 (AS 2), Page no. 13.8**
(d)	5	AS-13	**Almost same Q 26 of chapter 1 (AS 13), Page no. 1.5**
2	16	Not for profit Organisation	**Almost same Q 41 of chapter 1 (AS 13), Page no. 1.5**
3 (a)	6	Cash Flow statement	**Almost same Q 41 of chapter 4, Page no. 4.20**
(b)	10	Final Account	**Same Q 16 of chapter 12, Page no. 12.12**
4 (a)	12	Internal Reconstruction	**Exam Question is far more easy than Q.8 of chapter 3, Page No 3.5**
(b)	4	Self Balancing	**Same Q 20 of chapter 10, Page no. 10.4**
5(a)	8	Insurance claim	**Almost Same Q 26 of chapter 5, Page no. 5.8**
(b)	8	Investment(AS-13)	**Exam Question is far more easy than Q.2 of chapter 1, Page No 1.1**
6	16	Partnership	**Almost same Q 22 of chapter 8, Page no. 8.11**
7 (a)	4	AS-10	**Same Q 2 of chapter 13 (AS 10), Page no. 13.16**
(b)	4	Accounting in Computerised Environment	**Theory from book page no. 15.3**
(c)	4	Hire Purchase	**General Theory, covered in class**
(d)	4	Account Current	**Almost same Q 11 of chapter 10, Page no. 10.2**
(e)	4	Average Due Date	**Almost same Q 29(Not of bills of exchange) of chapter 10, Page no. 10.6**

- ***As I already announced in the class that around 30 Marks paper will be covered from Accounting Standards and actually 32 Marks were covered from AS)***

PAPER WITH SOLLUTION

1.

(a) In the books of Optic Fiber Ltd., plant and machinery stood at Rs. 6,32,000 on 1.4.2013. However on scrutiny it was found that machinery worth Rs. 1,20,000 was included in the purchase on 1.6.2013. On 30.6.2013 the company disposed a machine having book value of Rs. 1,89,000 on 1.4.2013 at Rs. 1,75,000 in part exchange of a new machine costing Rs. 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 31.3.2014
(iii) Loss on exchange of machinery .

Answer (i) Total Depreciation to be charged in the Profit and Loss Account	**Rs.**
Depreciation on old machinery in use [20% of (6,32,000-1,89,000)]	88,600
Add: Depreciation on machine included in purchase @ 20% of Rs. 1,20,000 for 10 months	20,000
Add: Depreciation on new machine @ 20% of Rs. 2,56,000 for 9 months	38,400
Add: Depreciation on machine disposed of (20% on Rs. 1,89,000 for 3 months)	9,450
Total depreciation to be charged in Profit and Loss A/c	1,56,450

(ii) Book Value of Machinery in the Balance Sheet as on 31.03.2014	**Rs.**
Opening Balance	6,32,000
Less: Book value of machine sold	(1,89,000)
Add: Purchase of new machine	2,56,000
Add: Machinery included in purchase	1,20,000
Less: Depreciation on machinery in use (88,600+20,000+38,400)	(1,47,000)
	6,72,000

(iii) Loss on Exchange of Machine	**Rs.**
Book value of machine as on 1.4.2013	1,89,000
Less: Depreciation for 3 months @ 20%	(9,450)
Written Down Value as on 30.6.2013	1,79,550
Less: Exchange value	(1,75,000)
Loss on exchange of machine	4,550

(b) Sarita 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 Rs. 2,40,000 on 10.3.2014 and Rs. 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 31.03.2014. What will be the treatment if the publication is delayed till 02.04.2014.

Answer:

As per AS – 9 ,"Revenue Recognition" Revenue from a transaction involving the sale of goods is recorded when the transfer of significant risks and rewards of ownership with ownership is transferred to the buyer . Further there should be certainty of collection and consideration.

In the given case Sarita Publications recorded the sale of Rs. 3,00,000 in the year ended 31/03/2014. And advance received Rs. 2,40,000 is adjusted with sale value and balance due Rs. 60,000 is shown as trade receivable.

If the publication is continued or delayed till 02/04/2014 then revenue should not be recognised and advance of Rs. 2,40,000 should be shown as advance from customer as current liability.

(c) Capital Cables Ltd., has a wastage of 4% in the production process. During the year 2013-14 the company used 12,000 MT of raw material Costing Rs. 150 per MT.

At the end of the year 630 MT of wastage in stock. The accountant wants to know how his 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.

Answer: As per para 13 of AS-2, "Valuation of Inventories" in determining the cost of inventories in accordance with paragraph 6, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Examples of such costs are: 'abnormal amounts of wasted materials, labour, or other production costs'
Calculation of amount of abnormal loss
By their very nature, abnormal gains or losses are not expected to recur regularly. For a meaningful analysis of an enterprise's performance, the users of financial statements need to know the amount of such gains/losses included in current profit/loss. For this reason, instead of taking abnormal gains and losses in inventory costs, these are shown in the Profit & Loss A/c in such way that their impact on current profit/loss can be perceived.
Normal loss is considered as a part of cost of production due to recurring nature.

<u>Calculation of Abnormal Loss</u>

Particulars			**Amount(Rs.)**
Purchase cost (150 x 12000)			18,00,000
:- Normal unit (12000-4%)			11520
Cost per unit			156.25
Abnormal loss in unit	630-480 =	150	
Abnormal loss amount	***150 x 156.25 =***	***23,438***	

(d) Blue-chip Equity Investment Ltd., wants to re-classify it investments in accordance with AS 13.

(i) Long term investment in Company A, costing Rs. 8.5 lakhs are to be re-classified as current. The Company had reduced the value of these investments to Rs. 6.5 to recognize a permanent decline in value. The fair value on date of transfer is Rs. 6.8 lakhs.

(ii) Long term investment in Company B, costing Rs. 7 lakhs are to be re-classified as current. The fair value on date of transfer is Rs. 8 lakhs and books value is Rs. 7 lakhs.

(iii) Current investment in Company C, costing Rs. 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 Rs. 12 Lakhs.

(iv) Current investment in Company D, costing Rs. 15 Lakhs are to be re-classified as long term. The market value on date of transfer is 14 lakhs.

Answer:

(A) <u>Provision of Accounting Standard(AS)</u>

As per para 23 of AS 13 ,where long term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at date of transfer.
As per Para 24 of AS13 'Accounting for Investments', where investments are reclassified from current to long term, transfers are made at the lower of cost and fair value a date to transfer.

(B) In the given question treatment will be as follows:-

1. The book value for the investment is Rs. 6.50lakhs, which is lower than its cost i.e., Rs.8.50lakhs. Here, the transfer should be at carrying amount and hence these reclassified current investments should be carried at Rs. 6.50lakhs.
2. The book value for the investment is Rs. 7 lakhs and cost price is also Rs. 7 lakhs, hence these reclassified current investments should be carried at Rs. 7lakhs.
3. The market value of investment is Rs, 12lakhs, and Cost is Rs. is Rs. 10 lakhs. Therefore. The transfer to long term investments should be carried in the books at the Cost Price i.e., Rs. 10 lakhs.
4. The market value of investment is Rs, 14 lakhs, which is lower than its cost i.e. Rs 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e., Rs. 14 lakhs.the loss of Rs. 1 lakh should be changed to Profit and Loss account.

2. The following information related to Country Sports Club for the year ended 31.3.2014. You are required to prepare the receipts and Payments account for the year ended 31.3.2014 and Balance Sheet as on that date.

Expenditure	**Rs.**	**Income**		**Rs.**
To Salaries	3,36,000	By Susbscriptions		8,40,000
To Repair and maintenance	88,000	By Receipts for annual sports	3,25,000	
To Ground upkeep	1,66,500	Less Expenses for sports	<u>2,75,000</u>	50,000
To Electricity Charges	82,000	By Entrance Fees		1,80,000

To Sports material used	1,48,000	By Interest on 10% government bond	12,000
To Printing and Stationery	42,200	By Rent on hire of club ground	84,000
To Groundsman Wages	82,600	By Profit on sale of Sports material	10,500
To Depreciation	1,36,000	By Sale of old newspaper	3,500
To Prize distributed (net of fund income)	4,000		
To Surplus carried out capital fund	96,700		
	11,80,000		**11,80,000**

<u>Additional Information :</u>

(a)

	Balance as on 1.4.2013 (Rs)	**Balance as on 31.3.2014 (Rs)**
Fixed assest (net block)	6,36,000	7,20,000
Stock of sports material	1,24,000	1,38,000
Investment 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 investment	2,36,000	2,36,000
Bank Balance	54,500	?

(b) During the year te club purchased sports material of Rs. 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 Rs. 36,000
Prize distributed during the year Rs. 40,000

(e) Interest on Government bond is received half yearly on 30^{th} June and 31^{st} December each year.

Answer

RECEIPT AND PAYMENT A/C

Particular	Amount	Particular	Amount
Bank Balance	54,500	Payment for annual sports expenses	2,75,000
Subscription Received	8,84,000	Cash purchase of stock material	45,000
Receipt for annual sports	3,25,000	Payment to creditors for stock material	1,51,100
Entrance fee(1,80,000/75%)	2,40,000	Salary paid	3,32,000
Interest on 10% govt bond	12,000	Repair & maintenance	77,000
Rent on hire of club ground	84,000	Ground upkeep	1,66,500
Sale of stock material	28,500	Electricity charges	82,600
Sale of old newspaper	3,500	Printing & stationery	42,200
Prize fund income received	36,000	Grounds man wages	80,000
		Purchase of fixed assets	2,20,000
		Prized distributed	40,000
		Bank balance	1,56,100
	16,67,500		16,67,500

BALANCE SHEET AS ON 31/3/2014

PARTICULAR		AMOUNT	PARTICULAR	AMOUNT
Capital	9,33,400		Fixed assets	7,20,000
Add:- Entrance fee			Prize fund investment	2,36,000
(2,40,000-1,80,000)	60,000		Sport material	1,38,000
Add:-Surplus	96,700	10,90,100	Investment in 10% govt bond	1,20,000
Prize fund		2,40,000	Accured interest on investment	3,000
Outstanding repair		24,500	o/s subscription	88,000
Creditor for sports material		62,500	salary paid in advance	28,000
Subscription received in Advance		72,000	Bank balance	1,56,100
		14,89,100		14,89,100

WN(1) BALANCE SHEET AS ON 01/04/13

LIABILITY	AMOUNT	ASSETS	AMOUNT
Capital (b/f)	9,33,400	Fixed assets	6,36,000
Prize fund	2,40,000	Prize fund investment	2,36,000
o/s repair	13,500	Stock material	1,24,000
Creditor for sports material	78,600	Investment in 10% govt. bond	1,20,000
Subscription received in advance	64,000	Accrued interest on investment	3,000
		o/s subscription	1,24,000
		salary in advance	32,000
		bank	54,500
	13,29,500		13,29,500

WN(2) SUBSCRIPTION A/C

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To balance b/d	1,24,000	By balance b/d (prepaid)	64,000
To income & exp. a/c	8,40,000	By bank a/c (b/f)	8,84,000
To balance c/d (prepaid)	72,000	By balance c/d (o/s)	88,000
	10,36,000		10,36,000

WN(3) SPORTS MATERIAL A/C

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To balance b/d	1,24,000	By income and exp. a/c	1,48,000
To cash purchase	45,000	(material consumed)	
(180000 x 25%)		By bank a/c	28,500
To credit purchase	1,35,000	By balance c/d	1,38,000
180000x75%			
To income & exp. (profit on sale)	10,500		
	3,14,500		3,14,500

WN(4) CREDITORS FOR SPORTS MATERIAL A/C

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To bank a/c	1,51,100	By balance b/d	78,600
To balnce c/d	62,500	By credit purchase a/c	1,35,000
	2,13,600		2,13,600

WN(5) SALARY A/C

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To balance b/d	32,000	By income & exp. a/c	3,36,000
(paid in advance)		By balance c/d	28,000
To bank a/c (b/f)	3,32,000	(paid in advance)	
	3,64,000		3,64,000

WN(6) REPAIR & MAINTENANCE A/C

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To bank a/c (b/f)	77,000	By balance b/d	13,500
To balance c/d	24,500	By income and exp.	88,000
	1,01,500		1,01,500

WN(7) **FIXED ASSETS A/C**

PARTICULAR	AMOUNT	PARTICULAR	AMOUNT
To balance b/d	6,36,000	By depreciation a/c	1,36,000
To bank a/c (b/f)	2,20,000	By balance c/d	7,20,000
	8,56,000		8,56,000

Question 3(a) Prepare Cash flow for Gamma Ltd., for the year ending 31.3.2014 from the following information :

(1) Sales for the year amounted to Rs. 135 Crores out of which 60% was cash sales.
(2) Purchase for the year amounted to Rs. 55 Crores out of which credit purchase was 80%.
(3) Administrative and selling expenses amounted to Rs. 18 Crores and salary paid amounted to Rs. 22 Crores.
(4) Company redeemed debentures of Rs. 20 Crores at a premium of 10% Debenture holders were issued equity shares of Rs. 15 Crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was Rs. 1.5 Crores.
(5) Dividend paid during the year amounted to Rs. 10 Crores. Dividend distribution tax @ 17% was also paid.
(6) Investment costing Rs. 12 Crores were sold at a profit of Rs. 2.4 crores.
(7) Rs. 8 Crores was paid toward income tax during the year.
(8) A new plant costing Rs. 21 Crores was purchased in part exchange of an old plant. The book value of the old plant was Rs. 12 Crores but the vendor took over the old plant at a value of Rs. 10 Crores only. The Balance was paid in cash to the vendor.
(9) The following balances are also provided.

	Balance as on 1.4.2013 (Rs)	**Balance as on 31.3.2014 (Rs)**
Debtors	45	50
Creditors	21	23
Bank	6	

Answer:-

CASH FLOW STATEMENT OF GAMMA LTD. FOR THE YEAR ENDED 31/03/2014 **(Rs. In crore)**

PARTICULAR	AMOUNT
Opening cash & cash equivalent	6
Cash flow from operating activities	29
Cash flow from investing activities	3.4
Cash flow from financial activities	(20.20)
Closing cash & cash equivalent	18.20

Cash flow from operating Activities (schedule 1)

Particular	Amount
Case sale (135x60%)	81
Collection from Debtor	49
Cash Purchase(55x20%)	(11)
Payment to creditor	(42)
Administration & selling Exp paid	(18)
Salary paid	(22)
Income tax paid	(8)
Net cash flow from operating activities	29

Cash flow from investing activities (schedule 2)

Particular	Amount
Sale of Investment (12+2.40)	14.40
Purchase of plant (21-10)	(11)
Net Cash flow from investing activities	3.40

Cash flow from financial activities (schedule 3)

Particulars	**Amount**
Redemption of debenture including premium redemption (20+10%=22-15)	(7)
Debenture interest paid	(1.50)
Dividend paid	(10)
Dividend distribution tax paid (10x17%)	(1.70)
Net cash flow from financing activities	(20.20)

WN(1) **DEBTOR A/C**

Particular	Amount	Particular	Amount
To balance b/d	45	By bank a/c (b/f)	49
To sale a/c (135x40%)	54	By balance c/d	50
	99		99

WN(2) **CREDITOR A/C**

PARTICULAR	**AMOUNT**	**PARTICULAR**	**AMOUNT**
To bank a/c	42	By balance b/d	21
To balance c/d	23	By purchase a/c (55x80%)	44
	65		65

Question 3(b)

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.

Particular		**Debit Rs.**	**Credit Rs.**
Equity Share Capital (Face Value of Rs. 100 Each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,00,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Stock : Raw Material Finished Goods	 2,50,000 10,00,000	 12,50,000	
Provision for Taxation			3,40,000
Sundry Debtors		10,00,000	
Advances		2,13,500	
Proposed Dividend			3,00,000
Profit and 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 and Expenses)			10,00,000

The following additional information is also provided :

(i) Preliminary expenses included Rs. 25,000 Audit Fees and Rs. 3,500 for out of Pocket expenses paid to the Auditors.

(ii) 10000 Equity Shares were issued for consideration other than cash.

(iii) Debtors of Rs. 2,60,000 are due for more than 6 months.
(iv) The Cost of the Assets were :
Building Rs. 30,00,000, Plant & Machinery Rs. 35,00,000 and Furniture Rs. 3,12,500
(v) The Balance of RS. 7,50,000 in the Loan Account with State Finance Corporation is inclusive of Rs. 37,500 for Interest Accrued but not Due. The Loan is secured by hypothecation of Plant and Machinery.
(vi) Balance at Bank includes Rs. 10,000 with Global Bank Ltd. which is not Scheduled Bank.

Answer:-

Elegant Ltd.
Balance Sheet as on 31st March, 2014
(Part I, Revised schedule VI)

Particulars	**Notes**	**Rs.**
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 and advances		2,13,500
Total		**94,73,500**

Notes to accounts

		Rs.
1 Share Capital		
Equity share capital		
Issued & subscribed & called up		
50,000 Equity Shares of Rs. 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
Total		**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
Total		**14,83,500**
3 Long-term borrowings		
Secured		
Term Loans		
Financial Corporation (7,50,000-37,500)		
(Secured by hypothecation of Plant and Machinery)		7,12,500
Unsecured		6,05,000
Total		**13,17,500**
4 Other current liabilities		
Interest accrued but not due on loans (SFC)		37,500
Total		**37,500**
5 Short-term provisions		
Provision for taxation		3,40,000
Proposed Dividend		3,00,000

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

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

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity Shares of Rs. 100 each	2,00,00,000	Fixed Assets	2,50,00,000
6% Cumulative Preference Shares of Rs. 100 Each	1,00,00,000	Investments (Market Value Rs. 19.00,000)	20,00,000
5% Debentures of Rs. 100 each	80,00,000	Current Assets	2,00,00,000
Sundry Creditors	1,00,00,000	P & L A/c	12,00,000
Provision for Taxation	2,00,000		
TOTAL	**4,82,00,000**	**TOTAL**	**4,82,00,000**

The following scheme of Internal Reconstruction is sanctioned:

(i) All the existing equity shares are reduced to Rs. 40 each .
(ii) All preference shares are reduced to Rs. 60 each.
(iii) The rate of Interest on Debentures is increased to 6%. The Debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them .
(iv) Fixed assets are to be written down by 20%
(v) Current assets are to be revalued at Rs. 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 Rs. 40,00,000 decides to forgo 40% of his claim. The Creditor is allotted with 60000 equity shares of Rs. 40 each in full and final settlement of his claim.
(viii) The taxation liability is to be settled at Rs. 3,00,000.
(ix) It is decided to write off the debit balance of Profit & Loss A/c Pass journal entries and show the Balance Sheet of the Company after giving effect to the above.

Ans 4(a)

JOURNAL ENTRY IN THE BOOKS OF VAIBHAV LTD. AND REDUCED (Rs.)

Particulars	Dr.	Cr.
Equity share capital (2,00,000X100)	2,00,00,000	
To Equity share capital A/c (2,00,000xRs.40)		80,00,000
To Capital Reconstruction (B/F)		1,20,00,000
(Being equity share capital reduced)		

6% cumm. Preference share cap a/c dr. (1,00,000 x Rs. 100) To 6% cumm. Preference share capital a/c (1,00,000 x Rs. 60) To Capital Reconstruction A/c(B/F) (Being 6% Cumm PS share capital reduced)	1,00,00,000	 60,00,000 40,00,000
5% Debenture A/C Dr. To 6% debenture A/C (Being rate of interest increased)	80,00,000	 80,00,000
6% Debenture A/C Dr. To 6% Debenture A/C (80,000x70) To Capital Reconstruction A/C (B/F) (being 6% Debenture restated)	80,00,000	 56,00,000 24,00,000
Capital Reconstruction A/C Dr. To Fixed Assets A/c (2,50,00,000x20%) To current Assets A/c (2,00,00,000-90,00,000) To Investment A/c (2000000-1900000) To P&L A/c (Being sundry Assets reduced and P&L written off)	1,73,00,000	 50,00,000 1,10,00,000 1,00,000 12,00,000
Creditor A/c Dr. To Capital Reconstruction A/c (Rs. 40,00,000x40%) To Equity Share Capital A/c (60,000x40) (Being credit claim settled)	40,00,000	 16,00,000 24,00,000
Provision for taxation A/c Dr. Capital Reconstruction A/c dr. (B/F) To Bank A/c (Being taxation liability setteled)	2,00,000 1,00,000	 3,00,000
Capital Reconstruction A/c Dr. To capital Reserve A/c(WN1) (being Reconstruction T/f into Capital Reserve)	26,00,000	 26,00,000

BALANCE SHEET OF VAIBHAV LTD. AND REDUCED AS AT 31/03/2014

1.Equity & Liability	
(i) Shareholder Fund	
(a) Share capital	
Equity Share Capital (Rs. 40)	1,04,00,000
(80,00,000+24,00,000)	
6% cumm. Preference Share Capital (Rs.60)	60,00,000
(b) Reserve & Surplus	
Capital Reserve	26,00,000
(ii) Non-current Liability	
6% Debenture (Rs. 70)	56,00,000
(iii) Current Liability	
Sundry Liability	60,00,000
Total	3,06,00,000
2.Assets	
(i) Non current assets	
(a) Fixed assets (2,50,00,000-50,00,000)	2,00,00,000
(b) Non trade investment	19,00,000
(ii) Current Assets (90,00,000-3,00000)	87,00,000
Total	3,06,00,000

WN(1) Capital reconstruction A/C

Particular	Amount	Particular	Amount
To sundry assets	1,73,00,000	By Equity Share Capital	1,20,00,000
To Bank	1,00,000	By 6% cumulative preference Share Capital	
To Capital Reserve (B/F)	26,00,000	By 6% debenture a/c	40,00,000
		By Creditor A/C	24,00,000
			16,00,000
	2,00,00,000		2,00,00,000

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

Date	**Particulars**
1	Purchase from Mr. Akash Rs. 7,500
3	Paid Rs. 3.000 after adjusting the initial advance in full to Mr. Akash
10	Paid Rs. 2,500 to Mr. Dev towards the purchase made in February in full
12	Paid advance to Mr. Giridhar Rs. 6,000
14	Purchased goods from Mr. Akash Rs. 6,200
20	Returned goods worth Rs. 1000 to Mr. Akash
24	Settled the balance due to Mr. Akash at a discount of 5%
26	Goods purchased from Mr. Giridhar against the advance paid already
29	Purchased from Mr. Nathan Rs. 3,500
30	Goods returned to Mr. Prem Rs. 1,200. The Goods were originally purchased for cash in the month of February 2014.

Answer:- **In General Ledger**

Creditor Ledger Adjustment Account

Particulars	**Amount(Rs.)**	**Particulars**	**Amount(Rs.)**
To Balance b/d	4,500	By Balance b/d (Dev)	2,500
To General Ledger Adjustment A/c		By Creditor Ledger Adjustment A/c	
Goods Return (Akash)	1,000	Purchase(WN 1.)	23,200
Discount(Akash)	260	By Balance c/d	1,200
Bank (WN 2)	16,440		
Goods Return (Prem)	1,200		
To Balance c/d(Nathan)	3,500		
	26,900		26,900

WN (1) Purchase

Date	Name	Amount
1/3/14	Akash	7,500
14/3/14	Akash	6,200
23/3/14	Girdhar	6,000
29/3/14	Nathan	3,500
		23,200

WN (2) Payment

Date	Name	Amount
2/3/14	Akash	3,000
10/3/14	Dev	2,500
12/3/14	Giridhar	6,000
23/3/14	(Akash) (5,200-260)	4,940
		16,440

WN (3) Opening Advance

Mr. Avinash (7,500-3,000) = 4,500

5. (a) 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 stock. The company has taken an Insurance policy for Rs. 75,000 which is subject to average clause. The value of goods salvaged was estimated at Rs. 27,000. The average rate of Gross Profit was 20% throughout the period.

	Particulars	**Amount in Rs.**
i.	Opening Stock	1,20,000
ii.	Purchase made	2,40,000
iii.	Wages paid (including wages for the installation of a machine Rs. 5,000)	75,000
iv.	Sales	3,10,000
v.	Goods taken by the Proprietor (Sale Value)	25,000
vi.	Cost of goods sent to consignee on 20th September 2013, lying unsold with them	18,000
vii.	Free Samples distributed – Cost	2,500

Answer

CALCULATION OF CLAIM FILED FOR THE LOSS OF STOCK;-

(a) Calculation of stock lost on the date of fire

Memorandum Trading a/c from 1/4/13 to 30/9/13

Particular		Amount	Particular	Amount
To opening stock		1,20,000	By sales	310,000
To purchase	2,40,000		By closing stock (b/f)	141,500
(-) Drawing (25000x80%)	(20,000)			
(-)Goods sent to consignee	(18,000)			
(-) Free sample	(2,500)	1,99,500		
To wages	75,000			
(-) wages for the installation of machine	(5,000)	70,000		
To gross profit c/d (310,000x20%)		62,000		
		4,51,500		451500

(b) Calculation of actual loss of stock

Particular	amount
Total loss of stock	141,500
(-) salvage value	(27,000)
Actual loss of stock	114,500

(c) Calculation of final claim (average clause)

= actual loss of stock x policy amount/total loss of stock

=114,500 x (75,000/141,500)

=Rs. 60,689

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

(i) On 10th June 2014, he purchased another 5,000 shares in Vayu LTd., @ Rs. 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 issue which entitle the shareholders to subscribe two shares for every six shares held @ of Rs. 15 per share. The shareholders can transfer their rights in full or in part.

Hasan sold 1/4th of his right share holding to Harash for a consideration of Rs. 3per share and subscribed the rest on 31st of October 2014.
Prepare Investment A/c in the books of Hasan as on 31st October 2014.

Answer:-

Investment in Gratuity Share of Vayu Ltd.

Particular	**Number**	**Dividend**	**Amount**	**Particular**	**Number**	**Dividend**	**Amt.**
1/4/14 To Bal CD 10/6/14To Bank A/c - Purchase of share 1/8/14 To Bonus Share (20000+5000)x 1/5 1/10/14 To Bank A/c	20,000 5,000 5,000 7,500	- - -	4,00,000 75,000 - 1,12,500	1/10/14 By Bank A/c (Sale of Right) 31/10/14 By Balance c/d	 37,500		7,500 5,80,000
	37,500		5,87,500		37,500		5,87,500

WN 1.Calculation of Right Share Purchased and Sale of Right

Entitled for right share [2000+500+5000]x2/6			10,000
(-) Share subscribed (10000x3/4)			(7500)
Sale of Right			2500
Purchased Value of Right Share [7500x15]	=	112500	
Sale Value of Right (2500x3)	=	7500	

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

Anuj decided to retire with effect from 1.4.2014
The remaining partners agreed to share profits and losses equally in future.
The following adjustments were agreed to be made upon retirement of Anuj:

(i) Goodwill was to be valued at 1 year purchased 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 :

Year ended	**Rs.**	
31.3.2014	3,30,000	(as per draft accounts)
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 Rs. 10,000 were omitted to be recorded;
Rs. 6,000 is to be written off from stock;
Provision for doubtful debts to be created @ 5% of the debtors;
Interest accrued on FD amounting to Rs. 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 of his dues and the balance would remain as a loan carrying interest 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 Rs. 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.

Answer:

PARTNERS CAPITAL ACCOUNT

Particular	Anuj	Ayush	Piyush	Particular	Anuj	Ayush	Piyush
To Revaluation A/c (loss)	37,400	37,400	18,700	By balance b/d	3,75,000	2,80,000	2,25,000
				By General reserve	75,200	75,200	37,600
To Anuj a/c		22,950	68,850	By Ayush A/c	22,950		
To Bank a/c	2,25,000			By Piyush A/c	68,850		
To accured interest on FD	9,000			By Bank A/c (b/f)		8,600	1,28,400
To 8% loan a/c	2,70,600						
To balance c/d		3,03,450	3,03,450				
	5,42,000	3,63,800	3,91,000		5,42,000	3,63,800	3,91,000

BALANCE SHEET AS ON 01/04/14

Liability		Amount	Assest		Amount
Capital a/c			Plant (7,87,000-78,700)		7,08,300
Ayush	3,03,450		Current assets		
Piyush	3,03,450	6,06,900	Stock (1,03,000-6,000)		97,000
8% loan of Anuj		2,70,600	Debtor	14,56,000	
Creditor (2,16,000+10,000)		2,26,000	(-)Provision for doubtful debts (7,800)		1,48,200
			Bank balance		1,50,000
		11,03,500			11,03,500

WN 1. REVALUATION A/C

PARTICULAR	**AMOUNT**	**PARTICULAR**		**AMONT**
To plant a/c (7,87,000 x 10%)	7,87,000	By interest accured on FD		9,000
		By partner's capital a/c's		
To creditor	10,000	Anuj	37,400	
To stock a/c	6,000	Ayush	37,400	
To provision for doubt ful debts (1,56,000 x 5%)	7,800	Piyush	18,700	93,500
	1,02,500			1,02,500

WN(2) calculation of goodwill

Goodwill = Average profit x No. of year purchase
= 2,29,500 x 1 = 2,29,500

Average profit = (2,20,000+2,32,000+3,30,000-93,500)/3 = 2,29,500*

- **Weighted average is ignored.**

WN(3) goodwill adjustment

Particular	Anuj	Ayush	Piyush
Credit(2;2;1)	91,800	91,800	45,900
Debit(1;1)	-	1,14,750	1,14,750
Balance	91,800 Cr.	22,950Dr.	68,850Dr.

Ayush's Capital A/c Dr.	22,950	
Piyush's Capital A/c Dr.	68,850	
To Anuj's Capital A/c		91,800

WN(4) capital Adjustment

Ayush capital
(2,80,000+75,200-37,400-22,950) = 2,94,850
Piyush capital
(2,25,000+37,600-18,700-68,850) = 1,75,050
Total capital of ayush & Piyush = 4,69,900
(+) cash introduced 1,37,000
(1,50,000-13,000)
Total capital should be 6,06,900
Ayush capital should be
(6,06,900 x ½) = 3,03,450
Piyush capital should be
(6,06,900 x ½) =3,03,450

7. Answer any four from the following:-

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

Rs. 5 Lakhs as routine repairs and Rs. 1 Lakh on partial replacement of a part of a machine.

Rs. 10 Lakhs on replacement of part of a machine which will improve the efficiency of a machine.

Answer:-

As per Para 12.1 of AS 10 'Accounting for Fixed Assets', expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity. Hence, in the given case, Routine repairs amounting Rs. 5 lakhs and Partial replacement of a part of machine Rs. 1 Lakh should be charged to profit and loss statement. Rs. 10 lakhs incurred for replacement of part of a machinery which will improve the efficiency of the machine should be capitalized.

(b) What are the advantages of customized accounting software?

Answer:- Customised Accounting Software

A customised accounting software is one where the software is developed on the basis of requirement specifications provided by the organisation. The choice of customised accounting software could be because of the typical nature of the business or else the functionality desired to be computerised is not available in any of the prepackaged accounting software.

Advantages of a Customised Accounting Package

1. The functional areas which are not in pre-packaged software covered 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.

(c) What are the differences between Hire Purchase and Installment System ?

Ans

Basis	**Hire purchase agreement**	**Installment purchase agreement**
Act.	Hire Purchase Act. 1972	Sale of Goods Act. 1930
Nature of contract	Agreement of hiring	Agreement of sale
Ownership	On payment of last installment	Immediately
Seller's right to repossession	The seller may take possession of the goods if hirer is in default	The seller can sue for price if buyer is in default

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

2014	**Particulars**	**Rs.**
1st July	Balanced due from Siva	750
15th August	Sold goods to Siva	1,250
20th August	Goods returned by Siva	200

22nd September	Siva paid by cheque	800
15th October	Received cash from Siva	500

Ans **Siva in Account Current with Mr Ram upto 31/10/2014**

Date/Due date	Particulars	Amount	Period	Product	Date/Due Date	Particulars	Amount	Period	product
01/07	To balance b/d	750	123	92,250	20/08	By sale return	200	72	14,400
15/08	To sale a/c	1250	77	96,250	22/09	By Bank A/C	800	39	31,200
					15/10	By Cash	500	16	8,000
31/10	To Interest Income	18.48			31/10	By Balance c/d	718.48		1,34,900
		2018.48		1,88,500			2218.48		188500

WN(1) Calculation of interest:

Total of credit product 1,88,500
Total of debit product 53,600
Net difference 1,34,900
Interest = 134900X5%X1/365= Rs.18.48

(e) Kishanlal has made the following sales to Babulal. He allows a credit period of 10 days beyond which he charges interest @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 account on 30-09-2014. Calculate the interest payable by him using Average Due Date (ADD). If Babulal wants to save Interest of Rs. 588, how many days before 30.09.2014 does he have to make payment ? Also find the payment date in this case.

Ans **Calculation of Average Due Date**

Base Date: 05-06-2014

Date of transaction	Due Date	Amount	Period	Product
26-05-2014	05-06-2014	12000	0	0
18-07-2014	28-07-2014	18000	53	954000
02-08-2014	12-08-2014	16500	68	1122000
28-08-2014	07-09-2014	9500	94	893000
09-09-2014	19-09-2014	15500	106	1643000
17-09-2014	27-09-2014	13500	114	1539000
	Total	85000		6151000

Average due date = Base Date + Total Of Product/Total Of Amount
= 05/06/14+6151000/85000
= 05/06/14+72.36 or 72 Days
= 16/08/2014

Calculation of interest = 85000X12%X45/365= Rs. 1258
In case Mr. Babulal want to save Rs. 588 then he made the payment as on:
Interest of One day = 85000X12%X1/365=27.95
For save Rs. 588 payment made earliest by 588/27.95= 21Days
Payment made as on 30/09/2014 - 21 Days = 09/09/2014

About Classes by CA P.S. Beniwal

1. Interaction with each and every student.
2. Query session after class.
3. Planning structure for students who want to give both groups within 9 Months.
4. ***Only take three and half months*** to complete full syllabus of IPCC both Accounts and Advance Accounts. If you want to complete your syllabus within 1.5months, you can join two batches.**(You can save your time for other papers)**
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12. Sufficient question coverage in class room because practical paper requires practice of good number of questions and some questions given for homework so that student feels exam experience at home.

ABOUT THE AUTHOR

CA Pardeep Singh Beniwal is commerce graduate from Kurukshetra University Kurukshetra. He qualified Chartered Accountancy course in November 2007 and Associate Member in November 2008.
He passed in first attempt at PE-II ***(Scoring 85marks)*** and Final level. After Qualifying he was associated with S.C. Vasudeva & Co. Chartered Accountants, New Delhi to gain the expertise in the field of Risk Advisory, Assurance, Taxation and Auditing. He did various big audits such as IFFCO, IMCL, IREDA, IOCL, Bhusan Steel etc as team leader. He has the vast experience of the Accounting Standards issues.

He is awarded by Vice-president of ICAI and Chairman of NIRC for, *"COMMENDABLE CONTRIBUTION IN ACTIVITIES OF THE PROFESSION" as on 18th February 2012 in Hotel Lemerdian, New Delhi.*

He has the vast experience of teaching and attended morethan 25,000 students. He is the visiting faculty of ICAI. He is also the orientation faculty of ICAI at Vishvas Nagar New Delhi. He is also GMCS Faculty of ICAI. His services in regards to orientation and GMCS classes are taken by Noida, Faridabad, Gurgaon, Karnal and Panipat Branches of ICAI. **He was also the member of, "Research Study Group of Board of Study of NIRC of ICAI 2010-11"**. He is writer of the following books (Only for classes taken by CA P.S. Beniwal), (i) CA Final – Financial Reporting (ii) IPCC – Accounting (iii) IPCC-Advance Accounting and (iv) Problem and solution of Accounting Standards.

At present he is consultant and academician and teaching ***Accountancy*** at ***NIRC OF ICAI*** and:

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