

PAPER – 1 : ACCOUNTING

Answers all questions

Wherever appropriate, suitable assumptions should be made by the candidate.

Working notes should form part of the answer.

Questions 1

Following is the Balance Sheet of M Ltd. as at 31st March, 2008:

Liabilities	Rs.	Assets	Rs.
15,000, 10% Preference shares of Rs.100 each	15,00,000	Goodwill	3,50,000
35,000 Equity shares of Rs.100 each	35,00,000	Land & Buildings	15,00,000
Securities Premium account	1,00,000	Plant & Machinery	10,00,000
7% Debentures of Rs.100 each	5,00,000	Stock	6,00,000
Creditors	12,50,000	Debtors	15,00,000
Loan from Director	1,50,000	Cash at bank	1,00,000
		Preliminary expenses	4,00,000
		Profit & Loss A/c	<u>15,50,000</u>
	<u>70,00,000</u>		<u>70,00,000</u>

No dividend on Preference shares has been paid for the last 5 years.

The following scheme of reorganization was duly approved by the court:

- (i) Each Equity share to be reduced to Rs.25.
- (ii) Each existing Preference share to be reduced to Rs.75 and then exchanged for 1 new 13% Preference share of Rs.50 each and 1 Equity share of Rs.25 each.
- (iii) Preference shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity Shares of Rs.25.
- (iv) The Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of Rs.50 each issued at par. One half (in value) of the debentureholders accepted Preference shares for their claims. The rest were paid cash.
- (v) Contingent liability of Rs.1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the company.

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- (vi) Goodwill does not have any value in the present. Decrease the value of Plant and Machinery, Stock and Debtors by Rs.4,00,000, Rs.1,00,000 and Rs.1,50,000 respectively. Increase the value of Land and Buildings to Rs.18,00,000.
- (vii) 40,000 new Equity shares of Rs.25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%.

Shares were fully taken up.

- (viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to Rs.15,000.

Pass necessary Journal Entries to record the above transactions. (16 Marks)

Answer

In the books of M Ltd.

Journal Entries

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
1. Equity Share Capital (Rs.100) A/c	Dr. 35,00,000	
To Equity Share Capital (Rs.25) A/c		8,75,000
To Capital Reduction A/c		26,25,000
(Being Equity shares of Rs.100 each reduced to Rs.25 each and balance transferred to Capital Reduction A/c)		
2. 10% Preference Share Capital (Rs.100) A/c	Dr. 15,00,000	
To 10% Preference Share Capital (Rs.75) A/c		11,25,000
To Capital Reduction A/c		3,75,000
(Being Preference shares of Rs. 100 each reduced to Rs.75 each and balance transferred to Capital Reduction A/c)		
3. 10% Preference Share Capital (Rs.75) A/c	Dr. 11,25,000	
To 13% Preference Share Capital (Rs.50) A/c		7,50,000
To Equity Share Capital A/c		3,75,000
(Being one new 13% Preference share of Rs.50 each and one equity share of Rs.25 each issued against 10% Preference Share of Rs. 75 each)		
4. Capital Reduction A/c	Dr. 1,50,000	
To Preference share dividend payable A/c		1,50,000
(Being arrear of Preference share dividend payable for one year)		

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5.	Preference share dividend payable A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Being Equity Shares of Rs.25 each issued for arrears of Preference Share dividend)			
6.	7% Debentures A/c	Dr.	5,00,000	
	To Debenture holders A/c			5,00,000
	(Being balance of 7% Debentures transferred to Debenture holders A/c)			
7.	Debenture holders A/c	Dr.	5,00,000	
	To 13% Preference Share Capital A/c			2,50,000
	To Bank A/c			2,25,000
	To Capital Reduction A/c			25,000
	(Being 50% of Debenture holders opted to take 13% Preference shares at par and remaining took 90% cash payment for their claims)			
8.	Loan from Director A/c	Dr.	1,50,000	
	To Provision for Contingent Liability A/c			1,50,000
	(Being contingent liability of Rs.1,50,000 is payable and adjusted against Loan from director A/c)			
9.	Bank A/c	Dr.	10,00,000	
	To Equity Share Application & Allotment A/c			10,00,000
	(Being application money received on 40,000 Equity shares @ Rs.25 each)			
10.	Equity Share Application & Allotment A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Being application money transferred to capital A/c, on allotment)			
11.	Underwriting Commission A/c	Dr.	40,000	
	To Bank A/c			40,000
	(Being underwriting commission paid)			
12.	Land & Buildings A/c	Dr.	3,00,000	
	To Capital Reduction A/c			3,00,000
	(Being value of Land & Buildings appreciated)			
13.	Expenses on Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of expenses on reconstruction)			

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14. Capital Reduction A/c	Dr.	31,75,000	
To Goodwill A/c			3,50,000
To Plant & Machinery A/c			4,00,000
To Stock A/c			1,00,000
To Debtors A/c			1,50,000
To Preliminary Expenses A/c			4,00,000
To Profit & Loss A/c			15,50,000
To Expenses on Reconstruction A/c			15,000
To Underwriting Commission A/c			40,000
To Capital Reserve A/c			1,70,000

(Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)

Questions 2

- (a) The Balance Sheets of X Ltd. as on 31st March, 2008 and 31st March, 2009 are as follows:

Liabilities	2008	2009	Assets	2008	2009
	Amount	Amount		Amount	Amount
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Share Capital	5,00,000	7,00,000	Land and Buildings	80,000	1,20,000
General Reserve	50,000	70,000	Plant and Machinery	5,00,000	8,00,000
Profit and Loss A/c	1,00,000	1,60,000	Stock	1,00,000	75,000
Sundry Creditors	1,53,000	1,90,000	Sundry Debtors	1,50,000	1,60,000
Bills Payable	40,000	50,000	Cash	20,000	20,000
Outstanding Expenses	<u>7,000</u>	<u>5,000</u>			
	<u>8,50,000</u>	<u>11,75,000</u>		<u>8,50,000</u>	<u>11,75,000</u>

Additional Information:

- (a) Rs.50,000 depreciation has been charged to Plant and Machinery during the year 2009.
- (b) A piece of Machinery costing Rs.12,000 (Depreciation provided there on Rs.7,000) was sold at 60% profit on book value.

You are required to prepare Cash flow statement for the year ended 31st March 2009 as per AS 3 (revised), using indirect method.

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- (b) S Ltd. grants 1,000 options to its employees on 1.4.2005 at Rs.60. The vesting period is two and a half years. The maximum period is one year. Market price on that date is Rs.90. All the options were exercised on 31.7.2008. Journalize, if the face value of equity share is Rs.10 per share. (8+8 = 16 Marks)

Answer

- (a) Cash Flow Statement for the year ended 31st March, 2009

	Amount Rs.	Amount Rs.
I Cash Flows from Operating Activities		
Closing Balance as per Profit & Loss A/c		1,60,000
Less: Opening Balance as per Profit & Loss A/c		<u>(1,00,000)</u>
		60,000
Add: Transfer to General Reserve		<u>20,000</u>
Net Profit before taxation and extra-ordinary items		80,000
Add: Depreciation on Plant and Machinery		50,000
Less: Profit on sale of machinery (Refer W.N.)		<u>(3,000)</u>
Operating Profit		1,27,000
Add: Decrease in Stock	25,000	
Increase in Creditors	37,000	
Increase in Bills Payable	<u>10,000</u>	<u>72,000</u>
		1,99,000
Less: Increase in Debtors	(10,000)	
Decrease in Outstanding expenses	<u>(2,000)</u>	<u>(12,000)</u>
Net Cash from Operating Activities		1,87,000
II. Cash Flows from Investing Activities		
Purchase of Land & Building	(40,000)	
Proceeds from Sale of Machinery (Refer W.N.)	8,000	
Purchases of Plant & Machinery (Refer W.N.)	<u>(3,55,000)</u>	
Net Cash Used in Investing Activities		(3,87,000)
III. Cash Flows from Financing Activities		
Proceeds from Issuance of Share Capital	<u>2,00,000</u>	
Net Cash from Financing Activities		<u>2,00,000</u>
Net Increase/Decrease in Cash & Cash Equivalents		0
Add: Cash in hand at the beginning of the year		<u>20,000</u>
Cash in hand at the end of the year		<u>20,000</u>

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Working Note:

Plant and Machinery Account

	Rs.		Rs.
To Balance b/d	5,00,000	By Bank	8,000*
To Profit and Loss A/c (Profit on sale)	3,000	By Depreciation	50,000
To Purchases (Bal. fig.)	<u>3,55,000</u>	By Balance c/d	<u>8,00,000</u>
	<u>8,58,000</u>		<u>8,58,000</u>

(b) Books of S Ltd.

Journal Entries

Date	Particulars	Debit Rs.	Credit Rs.
31.3.06	Employees Compensation Expense Account	Dr. 12,000	
	To Employees Stock Option Outstanding Account		12,000
	(Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs.30 each, amortized on straight line basis over 2½ years)		
	Profit and Loss Account	Dr. 12,000	
	To Employees Compensation Expense Account		12,000
	(Being employees compensation expense of the year transferred to P&L A/c)		
31.3.07	Employees Compensation Expense Account	Dr. 12,000	
	To Employees Stock Option Outstanding Account		12,000
	(Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs.30 each, amortized on straight line basis over 2½ years)		
	Profit and Loss Account	Dr. 12,000	
	To Employees Compensation Expense Account		12,000
	(Being employees compensation expense of the year transferred to P&L A/c)		
31.3.08	Employees Compensation Expense Account	Dr. 6,000	
	To Employees Stock Option Outstanding Account		6,000
	(Being balance of compensation expense amortized Rs.30,000 less Rs. 24,000)		

* 160% of (12,000-7,000) = Rs.8,000.

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	Profit and Loss Account	Dr.	6,000	
	To Employees Compensation Expense Account			6,000
	(Being employees compensation expense of the year transferred to P&L A/c)			
31.7.08	Bank Account (Rs. 60 × 1,000)	Dr.	60,000	
	Employees Stock Option Outstanding Account (Rs.30×1,000)	Dr.	30,000	
	To Equity Share Capital Account			10,000
	To Securities Premium Account			80,000
	(Being exercise of 1,000 options at an exercise price of Rs.60 each and an accounting value of Rs.30 each)			

Working Notes:

- Total employees compensation expense = 1,000 x (Rs.90 – Rs.60) = Rs.30,000
- Employees compensation expense has been written off during 2½ years on straight line basis as under:
I year = Rs.12,000 (for full year)
II year = Rs.12,000 (for full year)
III year = Rs.6,000 (for half year)

Questions 3

- (a) Z Ltd. has three departments and submits the following information for the year ending on 31st March, 2009:

	A	B	C	Total (Rs.)
Purchases (units)	6,000	12,000	14,400	
Purchases (Amount)				6,00,000
Sales (Units)	6,120	11,520	14,976	
Selling Price (per unit) Rs.	40	45	50	
Closing Stock (Units)	600	960	36	

You are required to prepare departmental trading account of Z Ltd., assuming that the rate of profit on sales is uniform in each case.

- (b) The Balance Sheet of Amitabh, Abhishek and Amrish as at 31.12.2008 stood as follows:

Liabilities	Amount	Assets	Amount
	Rs.		Rs.
Capital:		Land & Buildings	74,000
Amitabh	60,000	Investments	10,000

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Abhishek	40,000		Goodwill	37,800
Amrish	<u>40,000</u>	1,40,000	Life Policy (at surrender value):	
Creditors		25,800	Amitabh	2,500
General Reserve		8,000	Abhishek	2,500
Investment Fluctuation Reserve		2,400	Amrish	1,000
			Stock	20,000
			Debtors	20,000
			Less: Provision for doubtful debts	<u>1,600</u> 18,400
			Cash & bank balance	<u>10,000</u>
		<u>1,76,200</u>		<u>1,76,200</u>

Amrish died on 31 March, 2009, due to this reason the following adjustments were agreed upon:

- (i) Land and Buildings be appreciated by 50%.
- (ii) Investment be valued at 6% less than the cost.
- (iii) All debtors (except 20% which are considered as doubtful) were good.
- (vi) Stock to be reduced to 94%.
- (v) Goodwill to be valued at 1 year's purchase of the average profits of the past five years.
- (vi) Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceeding the year of death.

The profits of the last five years are as follows:

Year	Rs.
2004	23,000
2005	28,000
2006	18,000
2007	16,000
2008	<u>20,000</u>
	<u>1,05,000</u>

The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of Rs.1,000 is payable every year on 1st August.

Give the necessary Journal Entries in the books of account and prepare the Balance Sheet of the reconstituted firm.
(8 + 8 = 16 Marks)

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Answer

(a) Departmental Trading Account for the year ended on 31st March, 2009

Particulars	A	B	C	Particulars	A	B	C
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Opening Stock	11,520	8,640	12,240	By Sales	2,44,800	5,18,400	7,48,800
To Purchases	96,000	2,16,000	2,88,000	By Closing Stock	9,600	17,280	720
To Gross Profit	<u>1,46,880</u>	<u>3,11,040</u>	<u>4,49,280</u>				
	<u>2,54,400</u>	<u>5,35,680</u>	<u>7,49,520</u>		<u>2,54,400</u>	<u>5,35,680</u>	<u>7,49,520</u>

Working Notes:

(1) Profit Margin Ratio

Selling price of unit purchased:	Rs.
Department A 6,000 x 40	2,40,000
Department B 12,000 x 45	5,40,000
Department C 14,400 x 50	<u>7,20,000</u>
Total Selling Price	15,00,000
Less: Purchase (Cost) Value	<u>6,00,000</u>
Gross Profit	<u>9,00,000</u>

$$\text{Profit Margin Ratio} = \frac{9,00,000}{15,00,000} \times 100 = 60\%$$

(2) Statement showing department-wise per unit Cost and Purchase Cost

	A	B	C
Selling Price (Per unit) (Rs.)	40	45	50
Less: Profit Margin @ 60% (Rs.)	<u>24</u>	<u>27</u>	<u>30</u>
Purchase price per unit (Rs.)	<u>16</u>	<u>18</u>	<u>20</u>
Number of units purchased	6,000	12,000	14,400
(Purchase cost per unit x Units purchased)	96,000	2,16,000	2,88,000

(3) Statement showing calculation of department-wise Opening Stock (in Units)

	A	B	C
Sales (Units)	6,120	11,520	14,976
Add: Closing Stock (Units)	<u>600</u>	<u>960</u>	<u>36</u>
	6,720	12,480	15,012
Less: Purchases (units)	<u>6,000</u>	<u>12,000</u>	<u>14,400</u>
Opening Stock (Units)	<u>720</u>	<u>480</u>	<u>612</u>

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(4) Statement showing department-wise cost of Opening Stock and Closing Stock

	A	B	C
Cost of Opening Stock (Rs.)	720 x 16	480 x 18	612 x 20
Rs.	<u>11,520</u>	<u>8,640</u>	<u>12,240</u>
Cost of Closing Stock	600 x 16	960 x 18	36 x 20
Rs.	<u>9,600</u>	<u>17,280</u>	<u>720</u>

(b) Journal Entries

Particulars	Amount	Amount
1. Insurance Company's A/c	Dr. 10,000	
To Life Policy A/c		10,000
(Being the policy on the life of Amrish matured on his death)		
2. Life Policy A/c	Dr. 9,000	
To Amitabh's Capital A/c		3,000
To Abhishek's Capital A/c		3,000
To Amrish's Capital A/c		3,000
(Being the transfer of balance in life policy account to all partners' capital accounts)		
3. Amitabh's Capital A/c	Dr. 12,600	
Abhishek's Capital A/c	Dr. 12,600	
Amrish's Capital A/c	Dr. 12,600	
To Goodwill A/c		37,800
(Being goodwill standing in the books written off fully)		
4. Land & Buildings A/c	Dr. 37,000	
To Revaluation A/c		37,000
(Being an increase in the value of assets recorded)		
5. Investment Fluctuation Reserve A/c	Dr. 600	
To Investment A/c		600
(Being reduction in the cost of investment adjusted through Investment Fluctuation Reserve)		
6. Revaluation A/c	Dr. 3,600	
To Stock A/c		1,200
To Provision for Doubtful Debts A/c		2,400
(Being the fall in value of assets recorded)		

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7.	Amitabh's Capital A/c	Dr.	3,500	
	Abhishek's Capital A/c	Dr.	3,500	
	To Amrish's Capital A/c			7,000
	(Being the share of Amrish's revalued goodwill adjusted through capital accounts of the remaining partners)			
8.	Profit & Loss Suspense Account	Dr.	1,500	
	To Amrish's Capital A/c			1,500
	(Being Amrish's Share of profit to date of death credited to his account)			
9.	Revaluation A/c	Dr.	33,400	
	To Amitabh's Capital A/c			11,133
	To Abhishek's Capital A/c			11,133
	To Amrish's Capital A/c			11,134*
	(Being the transfer of profit on revaluation)			
10.	General Reserve A/c	Dr.	8,000	
	Investment Fluctuation Reserve A/c (Rs. 2,400 - Rs. 600)	Dr.	1,800	
	To Amitabh's Capital A/c			3,267
	To Abhishek's Capital A/c			3,267
	To Amrish's Capital A/c			3,266
	(Being the transfer of accumulated profits to capital accounts)			
11.	Amrish's Capital A/c	Dr.	53,300	
	To Amrish's Executor's A/c			53,300
	(Being the transfer of Amrish's Capital A/c to his Executor's A/c)			

Balance Sheet

as at 31st March, 2009

Liabilities	Amount	Assets	Amount
Amithabh's Capital Account	61,300	Land & Building	1,11,000
Abhishek's Capital Account	41,300	Life Policy: Amitabh	2,500
Amrish's Executor's Account	53,300	Abhishek	<u>2,500</u>
Sundry Creditors	25,800	Investments	9,400
		Stock	18,800

* Rounded off.

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	Debtors	20,000	
	Less: Provisions	<u>4,000</u>	16,000
	Insurance Company		10,000
	Cash & Bank Balance		10,000
	Profit and loss Suspense A/c		<u>1,500</u>
<u>1,81,700</u>			<u>1,81,700</u>

Working Notes:

(i) Calculation of Amrish's Share of Profit

Total profit for last three years	Rs. 18,000+16,000+20,000= Rs.54,000
Average profit 54,000/3	= 18,000
Profit for 3 months = 18,000 x 3/12	= 4,500
Amrish's share of Profit = 4,500 x 1/3	= 1,500

(ii) Calculation of Goodwill

Total profits for last five years	Rs.1,05,000
Average profit 1,05,000/5	= 21,000
Goodwill at one year's purchase	Rs. 21,000 x 1 =Rs. 21,000

Questions 4

- (a) The M. Water Works Company Limited decides to replace one of its old plants with a modern one and large capacity. The cost of plant when installed in 1985 was Rs.48 lakhs. The components of materials, labour and overheads are in the ratio of 5: 3: 2. It is ascertained that the costs of materials and labour have gone up by 40 percent and 80 percent respectively. The proportion of overheads to total cost is expected to remain the same as before.

The cost of the new plant as per improved design is Rs.120 lakhs and in addition, material recovered from the old plant of a value of Rs.4,80,000 has been used in the construction of the new plant. The old plant was scrapped and sold for Rs.15,00,000.

Show the Journal Entries and Ledger Accounts in the books of M. Water Works Company Ltd.

- (b) The following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds.

Opening balance (face value) Rs.1,20,000, Cost Rs.1,18,000 (Face value of each unit is Rs.100).

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1.3.2008	Purchased 200 units, ex-interest at Rs.98.
1.7.2008	Sold 500 units, ex-interest out of original holding at Rs.100.
1.10.2008	Purchased 150 units at Rs.98, cum interest.
1.11.2008	Sold 300 units, ex-interest at Rs.99 out of original holdings.

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books.

(8+8 = 16 Marks)

Answer

(a)

Journal Entries

			Rs.	Rs.
(i)	Plant Account	Dr.	45,60,000	
	Replacement Account	Dr.	74,40,000	
	To Bank Account			120,00,000
	(Cash cost of replacement of plant divided into current cost and capital cost)			
(ii)	Plant Account	Dr.	4,80,000	
	To Replacement Account			4,80,000
	(Old material reused in the construction of new plant)			
(iii)	Bank Account	Dr.	15,00,000	
	To Replacement Account			15,00,000
	(Amount realized on sale of the old plant)			
(iv)	Revenue Account	Dr.	54,60,000	
	To Replacement Account			54,60,000
	(Balance of replacement account transferred to revenue account)			

Plant Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	48,00,000	By Balance c/d	98,40,000
To Bank Account (Cost of new plant capitalised)	45,60,000		
To Replacement Account (Old Plant)	<u>4,80,000</u>		
	<u>98,40,000</u>		<u>98,40,000</u>

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Replacement Account				
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)	
To Bank Account	74,40,000	By Bank Account	15,00,000	
(Current cost)		By Plant Account	4,80,000	
		By Revenue Account	<u>54,60,000</u>	
	<u>74,40,000</u>		<u>74,40,000</u>	

Working Notes:

(1) Calculation of Current replacement cost

	Ratio	Existing Cost Rs.	Increase percentage	Current Cost Rs.
Material	50%	24,00,000	40%	33,60,000
Labour	30%	14,40,000	80%	<u>25,92,000</u>
				59,52,000
Overhead	20%	<u>9,60,000</u>	(Being 25% Material & Labour 1/5 of Total cost)	<u>14,88,000</u>
		<u>48,00,000</u>		<u>74,40,000</u>
Current cost of replacement				= Rs.74,40,000

(2) Capital Cost	Rs.
Total cash cost	1,20,00,000
Add: Old material used	<u>4,80,000</u>
	1,24,80,000
Less: Current cost of old plant	<u>74,40,000</u>
Total capital cost	<u>50,40,000</u>

(b) 9% Central Government Bonds (Investment) Account

Particulars	Face Value	Interest	Principal	Particulars	Face Value	Interest	Principal
2008	Rs.	Rs.	Rs.	2008	Rs.	Rs.	Rs.
Jan.1 To Balance b/d	1,20,000	2,700	1,18,000	March 31 By Bank A/c	-	6,300	-
March 1 To Bank A/c	20,000	750	19,600	July 1 By Bank A/c	50,000	1,125	50,000

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July 1	To P&L A/c	-	-	833	Sept. 30	By Bank A/c	-	4,050	-
Oct. 1	To Bank A/c	15,000	-	14,700	Nov. 1	By Bank A/c	30,000	225	29,700
Nov. 1	To P&L A/c	-	-	200	Dec. 31	By Balance c/d	75,000	1,688	73,633
Dec. 31	To P&L A/c (Transfer)		<u>9,938</u>						
		<u>1,55,000</u>	<u>13,388</u>	<u>1,53,333</u>			<u>1,55,000</u>	<u>13,388</u>	<u>1,53,333</u>

Working Note:

Calculation of closing balance:	Units	Rs.
Bonds in hand remained in hand at 31 st December 2008		
From original holding (1,20,000 – 50,000 – 30,000)=	40,000	$\frac{1,18,000}{1,20,000} \times 40,000 = 39,333$
Purchased on 1 st March	20,000	19,600
Purchased on 1 st October	<u>15,000</u>	<u>14,700</u>
	<u>75,000</u>	<u>73,633</u>

Questions 5

- (a) With the help of the following information prepare statement of affairs of Mr. Zenith, who was declared insolvent under the Presidency Town Insolvency Act, 1909.

His capital was Rs.3,500 and his drawings were Rs.3,500.

His assets consist of:

- (i) Stock (book value Rs.7,500) estimated to produce Rs.4,500.
- (ii) Freehold house (private property) valued at Rs.10,000, the deed of which was lodged with the bank as security for an overdraft on business account Rs.4,000.
- (iii) Book-debts Rs.5,000 of which Rs.4,000 was considered good and the balance estimated to produce Rs.500.
- (iv) His life policy (Surrender value Rs.3,000) was given as a part security for a private loan of Rs.5,000.
- (v) Machinery (Book value Rs.8,000) Cost price Rs.9,000, Estimated to produce Rs.5,500.

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His unsecured creditors amounted to Rs.20,150 and he owed Rs.250 to his clerk being salary for two months just preceding the date of his insolvency.

(b) Following is the Balance Sheet of M/s Z Ltd. as on 31st March, 2009:

Liabilities	Rs.	Assets	Rs.
80,000, 6% Redeemable Preference shares of Rs.10 each Rs.9 paid up.	7,20,000	Sundry Assets	16,80,000
		Cash	5,20,000
40,000 Equity shares of Rs.10 each fully paid	4,00,000		
Securities premium	1,00,000		
Profit and Loss Account	5,00,000		
General Reserve	60,000		
Sundry Creditors	<u>4,20,000</u>		
	<u>22,00,000</u>		<u>22,00,000</u>

By the terms of their issue, the preference shares were redeemable at a premium of Re.0.50 per share on 1st April, 2009, and it was decided to arrange for this, as far as possible, out of the companies resources subject to leaving a credit balance of Rs.24,000 in the profit and loss a/c. It was also decided to raise the balance of funds required by the issue of sufficient number of equity shares at a premium of 10%.

Show the necessary Journal Entries giving effect to the above transactions and the Balance Sheet thereafter. (8+8 = 16 Marks)

Answer

(a) Statement of Affairs of Mr. Zenith

Gross Liabilities	Expected Assets	Book Value	Estimated to Produce
Rs.	Rs.	Rs.	Rs.
20,150 Unsecured Creditors as per List 'A'	20,150 Properties as per List E		
4,000 Fully secured creditors as per List B	Stock	7,500	4,500
Overdraft 4,000	Machinery	8,000	5,500
Less: Estimated value of security <u>10,000</u>	Debtor as per List F		
Surplus as per contra <u>6,000</u>	Good	4,000	4,000
5,000 Partly secured creditors	Doubtful	1,000	500

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as per List C		Bad	-	-
Private Loan	5,000	Bills of exchange as per List G	-	-
Estimated value of security	<u>3,000</u>	2,000		<u>14,500</u>
250 Preferential Creditors as per List D		Add: Surplus as per contra		<u>6,000</u>
Salary outstanding	250	Less: Preferential Creditors		20,500
Deducted as Contra	<u>250</u>	- as per List D (Contra)		<u>250</u>
				20,250
		Deficiency as per List H		<u>1,900</u>
<u>29,400</u>		<u>22,150</u>		<u>22,150</u>

(b) Journal Entries

Particulars		Debit Amount Rs.	Credit Amount Rs.
(1) Redeemable Preference share final call A/c	Dr.	80,000	
To 6% Redeemable Preference share capital A/c			80,000
(Being final call due, because only fully paid shares can be redeemed, so preference shares have to be made fully paid)			
(2) Bank A/c	Dr.	80,000	
To 6% Redeemable Preference share final call A/c			80,000
(Being call money received from all shareholders)			
(3) Securities Premium A/c	Dr.	40,000	
To Premium on Redemption of Preference shares			40,000
(Being premium payable on redemption @ 5% is charged from Securities Premium A/c)			
(4) Bank A/c	Dr.	2,90,400	
To Equity share application and allotment A/c			2,90,400
(Being amount received on issue of new shares)			
(5) Equity Share Application & Allotment A/c	Dr.	2,90,400	
To Equity Share Capital A/c (W.N.1)			2,64,000
To Securities Premium A/c			26,400
(Being shares issued at a premium of 10%)			

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(6)	6% Redeemable Preference Capital A/c	Dr.	8,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	40,000	
	To Preference Shareholders A/c			8,40,000
	(Being redemption made)			
(7)	Preference Shareholders A/c	Dr.	8,40,000	
	To Bank A/c			8,40,000
	(Being payment made to preference shareholders)			
(8)	Profit & Loss A/c	Dr.	4,76,000	
	General Reserve A/c	Dr.	60,000	
	To Capital Redemption Reserve A/c			5,36,000
	(Being revenue profit transferred to Capital redemption reserve)			

Balance Sheet (After Redemption)

	Rs.		Rs.
Share Capital		Sundry Assets	16,80,000
Authorised Capital	_____?	Cash (W.N.3)	50,400
Issued and subscribed 66,400 Equity shares @ Rs. 10/- each fully paid	6,64,000		
Reserve & Surplus			
Capital Redemption Reserve	5,36,000		
Securities Premium (W.N.2)	86,400		
Profit & Loss A/c	24,000		
Current Liabilities & Provisions			
Sundry Creditors	<u>4,20,000</u>		
	<u>17,30,400</u>		<u>17,30,400</u>

Working Notes:

1.	Calculation of minimum number of equity shares to be issued:	Rs.
	Face value* of Redeemable Preference shares	8,00,000
	Less: General Reserve	60,000
	Profit and Loss Account (5,00,000 – 24,000)	<u>4,76,000</u>
	Face value of equity shares to be issued	<u>2,64,000</u>

* Balance in securities premium account is sufficient to pay premium on redemption of preference shares, Therefore, only sum equal to face value of redeemable preference shares less funds available in P & L A/c and general reserve is to be considered for issue of shares (face value).

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2.	Calculation of balance in securities premium account after redemption:	Rs.
	Securities premium account before redemption	1,00,000
Add:	Securities premium on issue of equity shares	<u>26,400</u>
		1,26,400
Less:	Premium on redemption of preference shares	<u>40,000</u>
		<u>86,400</u>
3.	Calculation of balance in cash account after redemption:	Rs.
	Balance in cash account before redemption	5,20,000
Add:	Final call on preference shares	80,000
Add:	Proceeds from issue of equity shares	<u>2,90,400</u>
		8,90,400
Less:	Payment to preference shareholders on redemption	<u>8,40,000</u>
		50,400

Questions 6

Answer any four of the following:

- (a) A major fire has damaged the assets in a factory of a Limited Company on 5th April – five days after the year end and closure of accounts. The loss is estimated at Rs.10 crores out of which Rs.7 crores will be recoverable from the insurers. Explain briefly how the loss should be treated in the final accounts for the previous year.
- (b) Explain the types of lease as per AS 19.
- (c) Explain the criteria of identification of Reportable Segments as per AS 17.
- (d) Explain the use of accounting information in Agricultural farm.
- (e) Describe the structure of Government Accounts.
- (f)

Goods purchased on 24.2.2008 of US \$ 1,000	Rs.46.60 per US \$
Exchange rate on 31.3.2008	Rs.47.00 per US \$
Date of actual payment 05.06.2008	Rs.47.50 per US \$
Calculate the loss/gain for the financial year 2007-2008 and 2008-2009 as per AS 11.	

(5 x 4 = 20 Marks)

Answer

- (a) The loss due to break out of fire is an example of event occurring after the balance sheet date. The event does not relate to conditions existing at the balance sheet date. It has not affected the financial position as on the date of balance sheet and therefore requires no specific adjustments in the financial statements. However, paragraph 8.6 of AS 4 states that disclosure is generally made of events occurring after balance sheet date i.e.

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in subsequent periods that represent unusual changes affecting the existence or substratum of the enterprise after the balance sheet date. In the given case, the amount of loss of assets in a factory is material and may be considered as an event affecting the substratum of the enterprise. Hence, as recommended in paragraph 15 of AS 4, disclosure of the event should be made in the report of the approving authority.

- (b) For the purpose of accounting AS 19 'Leases' classify the lease into two categories as follows:

- (i) Finance Lease
- (ii) Operating Lease

Finance Lease: It is a lease, which transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee by the lessor but not the legal ownership. As per para 8 of the standard, in following situations, the lease transactions are called Finance lease:

- The lessee will get the ownership of leased asset at the end of the lease term.
- The lessee has an option to buy the leased asset at the end of the lease term at price, which is lower than its expected fair value at the date on which option will be exercised.
- The lease term covers the major part of the life of asset even if title is not transferred.
- At the beginning of lease term, present value of minimum lease rental covers the initial fair value.
- The asset given on lease to lessee is of specialized nature and can only be used by the lessee without major modification.

Operating Lease: It is lease, which does not transfer all the risks and rewards incidental to ownership.

- (c) Paragraphs 27 to 29 of AS 17 on 'Segment Reporting' deal with reportable segments. Paragraph 27 requires that a business segment or geographical segment should be identified as a reportable segment if:

- (i) Its revenue from sales to external customers and from transactions with other segments is 10 percent or more of the total revenue, external and internal, of all segments; or
- (ii) Its segment result, whether profit or loss, is 10 percent or more of –
 - (a) the combined result of all segments in profit, or
 - (b) the combined result of all segments is loss,whichever is greater in absolute amount; or
- (iii) its segment assets are 10 percent or more of the total assets of all segments.

As per para 28, a business segment or a geographical segment which is not a reportable segment as per paragraph 27 may be designated as a reportable segment despite its size at the discretion of the management of the enterprise. If that segment is not

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designated as a reportable segment, it should be included as an unallocated reconciling item.

Lastly, as per para 29 of the standard, if total external revenue attributable to reportable segments constitutes less than 75 percent of the total enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 percent thresholds specified in paragraph 27 of the standard, until at least 75 percent of the total enterprise revenue is included in reportable segments.

- (d) A suitably designed accounting system can be used for extracting the following information:
- Crop wise performance and overall performance of the agricultural enterprise.
 - Comprehensive information regarding yield, revenue, input and cost of the enterprise.
 - Financial state of affairs i.e. assets and liabilities, of the firm, at a particular point of time.
 - Profit / Loss of the farm during a year.
 - Data base for other decisions, namely
 - o Acquisition of assets or hire services for ploughing, irrigation, weeding etc;
 - o Replacement of draught animal, farm, machinery and farming;
 - o Selection of crop-mix;
 - o Choosing farm size;
 - o Farm diversification adding crop enterprise and non-farming activities like processing of agricultural products; and
 - o Divestment decisions whether to continue agricultural operations.
 - Supporting data to the lenders to assess farm's financial requirements as well as debt servicing ability.
 - Reliable source document for assessment of agriculture income tax.
- (e) In India, government accounts are kept in three main parts, i.e. Consolidated fund, Contingency Fund and Public Account.
- In part I, namely the Consolidated Fund is further classified into:
 - (i) Revenue and Expenditure Heads;
 - (ii) Capital Receipts and Disbursement Heads; and
 - (iii) Public Debt, Loans and Advance.

To this fund all monies raised and received through taxation, borrowings, etc are credited, and from this, all expenditures are met as per authorization of Parliament at the centre and legislatures in the states.

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- In Part II, namely Contingency Fund, the transactions connected with the Contingency Fund set up by the Government of India or of a State or Union Territory Government are recorded.
 - In Part III, namely Public Account, the transactions relating to 'Debt' (other than those included in Part I), 'Deposits', 'Advance', 'Remittances', and 'Suspense' are recorded. There being no separate Public Accounts in the case of Union Territory Governments, the transactions pertaining to this account are booked in the Public Account of the Central Government.
- (f) As per para 9 of AS 11 on 'The Effects of Changes in Foreign Exchange Rates', a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Accordingly, goods purchased on 24.02.2008 and corresponding creditors would be recorded at Rs. $46.60 = 1 \text{ US \$}$ i.e. $1,000 \times 46.60 = \text{Rs.}46,600$.

As per para 11 of AS 11, at balance sheet date all monetary items should be reported using the closing rate, therefore creditors of US\$ 1,000 outstanding on 31.03.2008 will be reported. i.e. $1,000 \times 47.00 = \text{Rs.}47,000$.

Exchange Loss $(47,000 - 46,600) = \text{Rs.}400$ should be debited in Profit and loss Account for the year 2007-2008.

Exchange differences on settlement of monetary items should be transferred to Profit and loss Account as gain or loss, therefore $1,000 \times 47.50 = 47,500 - 47,000 = \text{Rs. } 500$ will be debited to Profit and loss Account for the year 2008-2009.