

**PAPER – 1: ACCOUNTING**  
**PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY**  
**FOR MAY 2019 EXAMINATION**

**A. Applicable for May, 2019 examination**

**I. Amendments in Schedule III (Division I) to the Companies Act, 2013**

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013, the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

- (A) under the heading “II Assets”, under sub-heading “Non-current assets”, for the words “Fixed assets”, the words “Property, Plant and Equipment” shall be substituted;
- (B) in the “Notes”, under the heading “General Instructions for preparation of Balance Sheet”, in paragraph 6,-
  - (I) under the heading “B. Reserves and Surplus”, in item (i), in sub- item (c), the word “Reserve” shall be omitted;
  - (II) in clause W., for the words “fixed assets”, the words “Property, Plant and Equipment” shall be substituted.

**II. Amendments in Schedule V to the Companies Act, 2013**

In exercise of the powers conferred by sub-sections (1) and (2) of section 467 of the Companies Act, 2013, the Central Government hereby makes the following amendments to amend Schedule V.

In PART II, under heading “REMUNERATION”, in Section II - ,

- (a) in the heading, the words “without Central Government approval” shall be omitted;
- (b) in the first para, the words “without Central Government approval” shall be omitted;
- (c) in item (A), in the proviso, for the words “Provided that the above limits shall be doubled” the words “Provided that the remuneration in excess of above limits may be paid” shall be substituted;
- (d) in item (B), for the words “no approval of Central Government is required” the words “remuneration as per item (A) may be paid” shall be substituted;

- (e) in Item (B), in second proviso, for clause (ii), the following shall be substituted, namely:-

“(ii) the company has not committed any default in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, and in case of default, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.”;

- (f) in item (B), in second proviso, in clause (iii), the words “the limits laid down in” shall be omitted;

In PART II, under the heading “REMUNERATION”, in Section III, –

- (a) in the heading, the words “without Central Government approval” shall be omitted;
- (b) in first para, the words “without the Central Government approval” shall be omitted;
- (c) in clause (b), in the long line, for the words “remuneration up to two times the amount permissible under Section II” the words “any remuneration to its managerial persons”, shall be substituted;

**III. Notification dated 13th June, 2017 to exempt startup private companies from preparation of Cash Flow Statement as per Section 462 of the Companies Act 2013**

As per the Amendment, under Chapter I, clause (40) of section 2, an exemption has been provided to a startup private company besides one person company, small company and dormant company. Accordingly, a startup private company is not required to include the cash flow statement in the financial statements.

Thus the financial statements, with respect to one person company, small company, dormant company and private company (if such a private company is a start-up), may not include the cash flow statement.

**IV. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006**

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarises the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the Accounting Standards relevant for Paper 1:

| Name of the standard | Para no.       | As per the Companies (Accounting Standards) Rules, 2006                                                                                                                                                                                                                      | As per the Companies (Accounting Standards) Amendment Rules, 2016                                                                                                                                                                                                                                     | Implication                                                                                                                                                                                                     |
|----------------------|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AS 2                 | 4 (an extract) | Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets. | Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment. | Now, inventories also do not include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment. |
|                      | 27             | Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and                                                                                                                                                         | Common classifications of inventories are:<br>(a) Raw materials and components<br>(b) Work-in-progress<br>(c) Finished goods<br>(d) Stock-in-trade (in respect of goods acquired for trading)                                                                                                         | Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said                                                                            |

|       |     |                                                                                                                                                                                |                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                   |
|-------|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|       |     | spares, and loose tools.                                                                                                                                                       | (e) Stores and spares<br>(f) Loose tools<br>(g) Others (specify nature)".                                                                                                                                                                 | paragraph i.e. 'Others'.                                                                                                                                                                                                                                                                                                          |
| AS 10 | All | Fixed Assets                                                                                                                                                                   | Property, Plant and Equipment                                                                                                                                                                                                             | Entire standard has been revised with the title AS 10: 'Property, Plant and Equipment' by replacing the existing AS 6 and AS 10. The students are advised to refer the explanation of AS 10 Property, Plant and equipment (2016) given in the Annexure. The Annexure is given at the end of Accounting Part II Suggested Answers. |
| AS 13 | 20  | The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying | An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a co-operative society or a company, the holding of which is | Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.                                                                                                                                                                                                                            |

|       |           |                                                                                                                                                                                  |                                                                                                                                                                                                                                                   |                                                                                                                                                                       |
|-------|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|       |           | amount of the investment property.                                                                                                                                               | directly related to the right to hold the investment property, is added to the carrying amount of the investment property.                                                                                                                        |                                                                                                                                                                       |
|       | 30        | An enterprise holding investment properties should account for them as long term investments.                                                                                    | An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.                                                                                          | Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model                                                                            |
| AS 14 | 3(a)      | Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.                              | Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.                                                                         | Definition of Amalgamation has been made broader by specifically including 'merger'.                                                                                  |
|       | 18 and 39 | In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation | In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. | Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be |

|  |  |                                                                                                                                                                                                                                                                                |                                                                                                                                               |                                                                                                                                              |
|--|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
|  |  | Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed. | When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed. | presented as a separate line item since there is not sub-heading like 'Miscellaneous expenditure' in Schedule III to the Companies Act, 2013 |
|--|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|

**B. Not applicable for May, 2019 examination**

**Non-Applicability of Ind ASs for May, 2019 Examination**

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16<sup>th</sup> February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2019 Examination.

**PART – II: QUESTIONS AND ANSWERS**

**QUESTIONS**

**Financial Statements of Companies**

1. (a) Shweta Ltd. has the Authorised Capital of ₹ 15,00,000 consisting of 6,000 6% Preference shares of ₹ 100 each and 90,000 equity Shares of ₹10 each. The following was the Trial Balance of the Company as on 31<sup>st</sup> March, 2018

| Particulars                  | Dr.       | Cr. |
|------------------------------|-----------|-----|
| Investment in Shares at cost | 1,50,000  |     |
| Purchases                    | 14,71,500 |     |

|                                                                              |                  |                  |
|------------------------------------------------------------------------------|------------------|------------------|
| Selling Expenses                                                             | 2,37,300         |                  |
| Inventory as at the beginning of the year                                    | 4,35,600         |                  |
| Salaries and Wages                                                           | 1,56,000         |                  |
| Cash on Hand                                                                 | 36,000           |                  |
| Interim Preference dividend for the half year to 30 <sup>th</sup> September  | 18,000           |                  |
| Bills Receivable                                                             | 1,24,500         |                  |
| Interest on Bank overdraft                                                   | 29,400           |                  |
| Interest on Debentures upto 30 <sup>th</sup> Sep (1 <sup>st</sup> half year) | 11,250           |                  |
| Debtors                                                                      | 1,50,300         |                  |
| Trade payables                                                               |                  | 2,63,550         |
| Freehold property at cost                                                    | 10,50,000        |                  |
| Furniture at cost less depreciation of ₹ 45,000                              | 1,05,000         |                  |
| 6% Preference share capital                                                  |                  | 6,00,000         |
| Equity share capital fully paid up                                           |                  | 6,00,000         |
| 5% mortgage debentures secured on Freehold properties                        |                  | 4,50,000         |
| Income tax paid in advance for the current year                              | 30,000           |                  |
| Dividends                                                                    |                  | 12,750           |
| Profit and Loss A/c (opening balance)                                        |                  | 85,500           |
| Sales (Net)                                                                  |                  | 20,11,050        |
| Bank overdraft secured by hypothecation of stocks and receivables            |                  | 4,50,000         |
| Technical knowhow fees at cost paid during the year                          | 4,50,000         |                  |
| Audit fees                                                                   | 18,000           |                  |
| <b>Total</b>                                                                 | <b>44,72,850</b> | <b>44,72,850</b> |

You are required to prepare the Profit and Loss Statement for the year ended 31<sup>st</sup> March, 2018 and the Balance Sheet as on 31<sup>st</sup> March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following –

1. Closing Stock was valued at ₹ 4,27,500.
2. Purchases include ₹ 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include ₹ 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".

4. Bills Receivable include ₹ 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of ₹ 6,000 maturing after 31<sup>st</sup> March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Investment in shares is to be treated as non-current investments.
8. Interest on Debentures for the half year ending on 31<sup>st</sup> March was due on that date.
9. Provide Provision for taxation ₹12,000.
10. Technical Knowhow Fees is to be written off over a period of 10 years.
11. Salaries and Wages include ₹ 30,000 being Director's Remuneration.
12. Trade receivables include ₹ 18,000 due for more than six months.

#### Managerial Remuneration – Effective Capital

- (b) The following extract of Balance Sheet of Gaurav Ltd. was obtained:

#### Balance Sheet (Extract) as on 31<sup>st</sup> March, 2018

| Liabilities                                            | ₹                  |
|--------------------------------------------------------|--------------------|
| Authorised capital:                                    |                    |
| 90,000, 14% preference shares of ₹ 100                 | 90,00,000          |
| 9,00,000 Equity shares of ₹100 each                    | <u>9,00,00,000</u> |
|                                                        | <u>9,90,00,000</u> |
| Issued and subscribed capital:                         |                    |
| 67,500, 14% preference shares of ₹ 100 each fully paid | 67,50,000          |
| 5,40,000 Equity shares of ₹ 100 each, ₹ 80 paid-up     | 4,32,00,000        |
| Share suspense account                                 | 90,00,000          |
| Reserves and surplus                                   |                    |
| Capital reserves (₹ 6,75,000 is revaluation reserve)   | 8,77,500           |
| Securities premium                                     | 2,25,000           |
| Secured loans:                                         |                    |
| 15% Debentures                                         | 2,92,50,000        |
| Unsecured loans:                                       |                    |
| Public deposits                                        | 16,65,000          |
| Cash credit loan from SBI (short term)                 | 5,92,500           |
| Current Liabilities:                                   |                    |

|                                        |             |
|----------------------------------------|-------------|
| Trade Payables                         | 15,52,500   |
| Assets:                                |             |
| Investment in shares, debentures, etc. | 3,37,50,000 |
| Profit and Loss account (Dr. balance)  | 68,62,500   |

Share suspense account represents application money received on shares, the allotment of which is not yet made. You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Gaurav Ltd. is an investment company?

- (c) State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
- Share application money received in excess of issued share capital.
  - Share option outstanding account.
  - Unpaid matured debenture and interest accrued thereon.
  - Uncalled liability on shares and other partly paid investments.
  - Calls unpaid.

#### Cash flow statement

2. Preet Ltd. presents you the following information for the year ended 31<sup>st</sup> March, 2019:

|        |                                                                  | (₹ in lacs) |
|--------|------------------------------------------------------------------|-------------|
| (i)    | Net profit before tax provision                                  | 72,000      |
| (ii)   | Dividend paid                                                    | 20,404      |
| (iii)  | Income-tax paid                                                  | 10,200      |
| (iv)   | Book value of assets sold                                        | 444         |
|        | Loss on sale of asset                                            | 96          |
| (v)    | Depreciation debited to P & L account                            | 48,000      |
| (vi)   | Capital grant received - amortized to P & L A/c                  | 20          |
| (vii)  | Book value of investment sold                                    | 66,636      |
|        | Profit on sale of investment                                     | 240         |
| (viii) | Interest income from investment credited to P & L A/c            | 6,000       |
| (ix)   | Interest expenditure debited to P & L A/c                        | 24,000      |
| (x)    | Interest actually paid (Financing activity)                      | 26,084      |
| (xi)   | Increase in working capital<br>[Excluding cash and bank balance] | 1,34,580    |
| (xii)  | Purchase of fixed assets                                         | 44,184      |

|        |                                               |          |
|--------|-----------------------------------------------|----------|
| (xiii) | Expenditure on construction work              | 83,376   |
| (xiv)  | Grant received for capital projects           | 36       |
| (xv)   | Long term borrowings from banks               | 1,11,732 |
| (xvi)  | Provision for Income-tax debited to P & L A/c | 12,000   |
|        | Cash and bank balance on 1.4.2018             | 12,000   |
|        | Cash and bank balance on 31.3.2019            | 16,000   |

You are required to prepare a cash flow statement as per AS-3 (Revised).

### Profit/Loss prior to Incorporation

3. Lotus Ltd. was incorporated on 1<sup>st</sup> July, 2017 to acquire a running business of Feel goods with effect from 1<sup>st</sup> April, 2017. During the year 2017-18, the total sales were ₹ 48,00,000 of which ₹ 9,60,000 were for the first six months. The Gross profit of the company ₹ 7,81,600. The expenses debited to the Profit & Loss Account included:

- (i) Director's fees ₹ 60,000
- (ii) Bad debts ₹ 14,400
- (iii) Advertising ₹ 48,000 (under a contract amounting to ₹ 4,000 per month)
- (iv) Salaries and General Expenses ₹ 2,56,000
- (v) Preliminary Expenses written off ₹ 20,000
- (vi) Donation to a political party given by the company ₹ 20,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31<sup>st</sup> March, 2018.

### Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Xeta Ltd. as at 31<sup>st</sup> March, 2017

|                                                      | ₹                |
|------------------------------------------------------|------------------|
| Authorised capital:                                  |                  |
| 50,000 12% Preference shares of ₹ 10 each            | 5,00,000         |
| 4,00,000 Equity shares of ₹ 10 each                  | <u>40,00,000</u> |
|                                                      | <u>45,00,000</u> |
| Issued and Subscribed capital:                       |                  |
| 24,000 12% Preference shares of ₹ 10 each fully paid | 2,40,000         |
| 2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up     | 21,60,000        |
| Reserves and surplus:                                |                  |
| General Reserve                                      | 3,60,000         |

|                         |          |
|-------------------------|----------|
| Securities premium      | 1,00,000 |
| Profit and Loss Account | 6,00,000 |

On 1<sup>st</sup> April, 2017, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20<sup>th</sup> April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30<sup>th</sup> April, 2017 after bonus issue.

### Internal Reconstruction of a Company

5. Kishor Limited decided to reconstruct its business as it has accumulated huge losses. The following is the Balance Sheet of the company as on 31.03.2018 before reconstruction:

**Balance Sheet as on 31.03.2018**

| Particulars                                               | ₹           | Particulars           | ₹           |
|-----------------------------------------------------------|-------------|-----------------------|-------------|
| 6,00,000 Equity shares of ₹ 10 each fully paid up         | 60,00,000   | Patents               | 3,00,000    |
| 3,20,000, 6% Preference shares of ₹ 10 each fully paid up | 32,00,000   | Land & building       | 34,00,000   |
| 6% Debentures (secured against land & building)           | 30,00,000   | Plant & machinery     | 4,00,000    |
| Bank overdraft                                            | 11,60,000   | Investments (at cost) | 4,40,000    |
| Trade payables                                            | 24,00,000   | Trade receivables     | 34,80,000   |
| Provision for income tax                                  | 4,00,000    | Inventory             | 34,00,000   |
|                                                           |             | Profit & loss A/c     | 47,40,000   |
|                                                           | 1,61,60,000 |                       | 1,61,60,000 |

Following scheme of reconstruction is approved by all interested parties and the Court:

- (1) All equity shares are reduced to ₹ 3 each and preference shares to ₹ 7 each.
- (2) Debentureholders agreed to take over a part of land and building, book value of which is ₹ 14,00,000, towards their 50% claim. Rate of interest of balance 50% debentures will be increased to 9%.
- (3) Patent will be written off.
- (4) 10% of Trade receivables to be provided for bad debts.
- (5) Inventory to be written off by ₹ 5,20,000.
- (6) 50% of balance Land & Building sold for ₹ 12,00,000 and remaining Land & Building valued at ₹ 12,00,000.

- (7) Investments to be sold for ₹ 4,00,000.
- (8) The income tax liability of the company is settled at ₹ 4,50,000. Provision for income tax will be raised accordingly.
- (9) 1/3 of trade payables decided to forgo their claim.
- (10) After making all the above adjustments, balance amount available through scheme, will be utilized to write off the value of plant & machinery to that extent.

You are required to pass the necessary Journal Entries.

### Amalgamation of Companies

6. Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super Fast Express Ltd. The summarized balance sheets of both the companies were as under:

#### Super Express Ltd.

##### Balance Sheet as at 31st December, 20X1

|                                   | ₹                |                   | ₹                |
|-----------------------------------|------------------|-------------------|------------------|
| 20,000 Equity shares of ₹100 each | 20,00,000        | Buildings         | 10,00,000        |
| Provident fund                    | 1,00,000         | Machinery         | 4,00,000         |
| Trade Payables                    | 60,000           | Inventory         | 3,00,000         |
| Insurance reserve                 | 1,00,000         | Trade receivables | 2,40,000         |
|                                   |                  | Cash at bank      | 2,20,000         |
|                                   |                  | Cash in hand      | <u>1,00,000</u>  |
|                                   | <u>22,60,000</u> |                   | <u>22,60,000</u> |

#### Fast Express Ltd.

##### Balance Sheet as at 31st December, 20X1

|                                   | ₹                |                   | ₹                |
|-----------------------------------|------------------|-------------------|------------------|
| 10,000 Equity shares of ₹100 each | 10,00,000        | Buildings         | 7,00,000         |
| Trade Payables                    | 40,000           | Machinery         | 5,00,000         |
| Reserve                           | 1,00,000         | Inventory         | 40,000           |
| Surplus                           | 1,60,000         | Trade receivables | 40,000           |
|                                   |                  | Cash at bank      | 10,000           |
|                                   |                  | Cash in hand      | <u>10,000</u>    |
|                                   | <u>13,00,000</u> |                   | <u>13,00,000</u> |

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of ₹ 100 each in lieu of

purchase consideration amounting to ₹ 30,000 (20,000 for Super Fast Express Ltd and 10,000 for Fast Express Ltd.).

Prepare opening balance sheet of Super Fast Express Ltd considering pooling method.

### Average Due Date

7. Harish has the following bills due on different dates. It was agreed to settle the total amount due by a single cheque payment. Find the date of the cheque.
- (i) ₹ 5,000 due on 5.3.2017
  - (ii) ₹ 7,500 due on 7.4.2017
  - (iii) ₹ 6,000 due on 17.7.2017
  - (iv) ₹ 8,000 due on 14.9.2017

### Account Current

8. The following transactions took place between A and B for the three months ending 31<sup>st</sup> March 2017:

| Books of A |                      |          |
|------------|----------------------|----------|
| Date       | Particulars          | ₹        |
| 1.1.2017   | B 's Opening balance | 1,00,000 |
| 10.1.2017  | Sold goods to B      | 2,00,000 |
| 15.1.2017  | Cash received from B | 2,00,000 |
| 15.2.2017  | Sold goods to B      | 2,00,000 |
| 1.3.2017   | Cash received from B | 1,00,000 |

You are required to calculate the amount of interest to be paid by one party to the other at 10% per annum using Epoque Method. Also prepare Account current of Mr. B with Mr. A (1 year =365 days)

### Self – Balancing Ledgers

9. The following particulars are obtained from books of Prime Ltd. for the year ended 31<sup>st</sup> March, 2018:

|                         | ₹        |                              | ₹        |
|-------------------------|----------|------------------------------|----------|
| Cash Sales              | 50,000   | Bills Receivable dishonoured | 5,000    |
| Credit Purchases        | 5,60,000 | Return Inward                | 17,000   |
| Collection from Debtors | 8,50,000 | Payment to creditors         | 3,24,000 |
| Bills Receivable drawn  | 40,000   | Discount allowed             | 6,000    |

|                                                              |        |                                        |          |
|--------------------------------------------------------------|--------|----------------------------------------|----------|
| Discount Received                                            | 5,000  | Debtor's cheque returned dishonoured   | 15,000   |
| Cash Purchases                                               | 24,000 | Credit Sales                           | 9,80,000 |
| Bills Payable Paid                                           | 13,000 | Bills Receivable Collected             | 20,000   |
| Recovery of Bad Debts                                        | 3,000  | Return Outward                         | 7,400    |
| Bills receivable discounted with Bank                        | 16,000 | Bills Receivable endorsed to Creditors | 15,800   |
| Interest charged on overdue customer's A/c                   | 2,400  | Overpayment refunded by Suppliers      | 1,200    |
| Endorsed Bills Receivable dishonoured (noting charges ₹ 150) | 11,000 | Bad debts                              | 2,000    |
| Bills payable accepted                                       | 32,000 | Opening Balances:                      |          |
|                                                              |        | Sundry Debtors                         | 1,56,000 |
|                                                              |        | Sundry Creditors                       | 1,70,000 |

You are required to prepare the Total Debtors Account and Total Creditors Account.

### Financial Statements of Not-For-Profit Organizations

10. The Accountant of 'Retreat & Refresh' Club furnishes you the following Receipts and Payment Account for the year ending 31<sup>st</sup> March, 2018:

| Receipts              | ₹               | Payments                                                                        | ₹               |
|-----------------------|-----------------|---------------------------------------------------------------------------------|-----------------|
| Opening Balance:      |                 | Honoraria to Secretary                                                          | 19,200          |
| Cash & Bank           | 33,520          | Misc. expenses                                                                  | 6,120           |
| Subscription          | 42,840          | Rates & Taxes                                                                   | 5,040           |
| Sale of Old Magazines | 9,600           | Ground man's wages                                                              | 3,360           |
| Entertainment Fees    | 17,080          | Printing & Stationary                                                           | 1,880           |
| Bank Interest         | 920             | Payment for bar purchases                                                       | 23,080          |
| Bar Receipts          | 29,800          | Repairs                                                                         | 1,280           |
|                       |                 | Telephone expenses                                                              | 9,560           |
|                       |                 | New car (less sale proceeds of old car ₹ 12,000) (Old car was sold on 1.4.2017) | 50,400          |
|                       |                 | Closing Balance:                                                                |                 |
|                       |                 | Cash & Bank                                                                     | 13,840          |
|                       | <u>1,33,760</u> |                                                                                 | <u>1,33,760</u> |

**Additional Information**

|                                                                 | 1.4.2017 (₹) | 31.3.2018 (₹) |
|-----------------------------------------------------------------|--------------|---------------|
| Subscription due (not received)                                 | 4,800        | 3,920         |
| Cheque issued, but not presented (payment of printing expenses) | 360          | 120           |
| Club premises at cost                                           | 1,16,000     | -             |
| Depreciation on club premises provided so far                   | 75,200       | -             |
| Car at cost                                                     | 48,760       | -             |
| Depreciation on car provided so far                             | 41,160       | -             |
| Value of Bar stock                                              | 2,840        | 3,480         |
| Amount unpaid for bar purchases                                 | 2,360        | 1,720         |

Depreciation is to be provided @ 5% p.a. on written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an Income & Expenditure Account of Retreat & Refresh Club for the year ending 31<sup>st</sup> March, 2018 and Balance Sheet as on that date.

**Accounts from Incomplete Records**

11. From the following information in respect of Mr. Preet, prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2018 and a Balance Sheet as at that date:

|     |                                         | 31-03-2017 | 31-03-2018 |
|-----|-----------------------------------------|------------|------------|
| (1) | Liabilities and Assets                  | ₹          | ₹          |
|     | Stock in trade                          | 1,60,000   | 1,40,000   |
|     | Debtors for sales                       | 3,20,000   | ?          |
|     | Bills receivable                        | -          | ?          |
|     | Creditors for purchases                 | 2,20,000   | 3,00,000   |
|     | Furniture at written down value         | 1,20,000   | 1,27,000   |
|     | Expenses outstanding                    | 40,000     | 36,000     |
|     | Prepaid expenses                        | 12,000     | 14,000     |
|     | Cash on hand                            | 4,000      | 3,000      |
|     | Bank Balance                            | 20,000     | 1,500      |
| (2) | Receipts and Payments during 2017-2018: |            |            |
|     | Collections from Debtors                |            |            |
|     | (after allowing 2-1/2% discount)        |            | 11,70,000  |
|     | Payments to Creditors                   |            |            |
|     | (after receiving 2% discount)           |            | 7,84,000   |

|     |                                                                                                                                                                                                                                  |          |
|-----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
|     | Proceeds of Bills receivable discounted at 2%)                                                                                                                                                                                   | 1,22,500 |
|     | Proprietor's drawings                                                                                                                                                                                                            | 1,40,000 |
|     | Purchase of furniture on 30.09.2017                                                                                                                                                                                              | 20,000   |
|     | 12% Government securities purchased on 1-10-2017                                                                                                                                                                                 | 2,00,000 |
|     | Expenses                                                                                                                                                                                                                         | 3,50,000 |
|     | Miscellaneous Income                                                                                                                                                                                                             | 10,000   |
| (3) | Sales are effected so as to realize a gross profit of 50% on the cost.                                                                                                                                                           |          |
| (4) | Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance on 31 <sup>st</sup> March, 2018 (as shown above), is after taking the same into account.    |          |
| (5) | Purchases and Sales are made only on credit.                                                                                                                                                                                     |          |
| (6) | During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. Out of these, Bills amount to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor. |          |

### Hire Purchase Transactions

12. The following particulars relate to hire purchase transactions:

- X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.
- The hire purchaser charged depreciation @ 20% on diminishing balance method.
- Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.
- The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

- Agreed value of two cars taken back by the hire vendor.
- Book value of car left with the hire purchaser.
- Profit or loss to hire purchaser on two cars taken back by their hire vendor.
- Profit or loss of cars repossessed, when sold by the hire vendor.

### Investment Accounts

13. A Ltd. purchased on 1<sup>st</sup> April, 2018 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1<sup>st</sup> July, 2018 A Ltd. purchased another ₹ 1,00,000 debenture @ ₹ 112 cum interest.

On 1<sup>st</sup> October, 2018 ₹ 80,000 debenture was sold @ ₹ 108. On 1<sup>st</sup> December, 2018, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018 is ₹ 110 and ₹ 15 respectively.

Interest on debenture is payable each year on 31<sup>st</sup> March, and 30<sup>th</sup> September.

The accounting year of A Ltd. is calendar year.

Prepare investment account in the books of A Ltd. on average cost basis.

#### Insurance Claim for loss of stock or profit

14. A fire engulfed the premises of a business of M/s Preet on the morning of 1<sup>st</sup> July 2018. The building, equipment and stock were destroyed and the salvage recorded the following: Building – ₹ 4,000; Equipment – ₹ 2,500; Stock – ₹ 20,000. The following other information was obtained from the records saved for the period from 1<sup>st</sup> January to 30<sup>th</sup> June 2018:

|                                                                 | ₹         |
|-----------------------------------------------------------------|-----------|
| Sales                                                           | 11,50,000 |
| Sales Returns                                                   | 40,000    |
| Purchases                                                       | 9,50,000  |
| Purchases Returns                                               | 12,500    |
| Cartage inward                                                  | 17,500    |
| Wages                                                           | 7,500     |
| Stock in hand on 31 <sup>st</sup> December, 2017                | 1,50,000  |
| Building (value on 31 <sup>st</sup> December, 2017)             | 3,75,000  |
| Equipment (value on 31 <sup>st</sup> December, 2017)            | 75,000    |
| Depreciation provision till 31 <sup>st</sup> December, 2017 on: |           |
| Building                                                        | 1,25,000  |
| Equipment                                                       | 22,500    |

No depreciation has been provided since December 31<sup>st</sup> 2017. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company.

#### Issues in Partnership Accounts

15. Ajay, Vijay and Sanjay are partners sharing Profit & Loss in the ratio of 2:3:1. The Balance Sheet of the firm as on 31.03.2018 is as follows:

| Liabilities         | ₹               | Assets              | ₹               |
|---------------------|-----------------|---------------------|-----------------|
| Capital A/c:        |                 | Furniture & Fixture | 30,000          |
| Vijay's Capital     | 85,000          | Office equipment    | 20,000          |
| Sanjay's Capital    | 68,000          | Motor Car           | 60,000          |
| General Reserve A/c | 30,000          | Stock               | 40,000          |
| Sundry Creditors    | 25,000          | Sundry Debtors      | 20,000          |
|                     |                 | Cash at Bank        | 18,000          |
|                     |                 | Ajay's Capital      | 20,000          |
|                     | <u>2,08,000</u> |                     | <u>2,08,000</u> |

Kamal is admitted as a new partner with effect from 1<sup>st</sup> April, 2018 by receiving 1/4 share in the profit & loss of the firm. The profit or loss sharing ratios between other partners remain same as before. It was agreed that Kamal would bring some private furniture worth ₹ 3,000 and private stock worth ₹ 5,000 and balance in cash towards his capital.

The following adjustments are to be made prior to Kamal admission:

1. Goodwill of the firm is to be valued at 2 years purchase of the average profit of last 3 years. The profits for the last 3 years were ₹ 35,900, ₹ 38,200 and ₹ 31,500. However on checking of the past records it was noticed that on 01.04.14 a new furniture costing, ₹ 8,000 was purchased but wrongly debited to revenue and also in year 2015-16, a purchase invoice for ₹ 4,000 has been omitted in the book. The firm charged depreciation on furniture @ 10% on original cost. Your calculation of goodwill is to be made on the basis of correct profits. It is agreed among existing partners that Sanjay's interest in the goodwill of the firm is only up to value of ₹ 42,000.
2. Motor Car is taken over by Vijay at ₹ 70,000.
3. Office equipment is revalued at ₹ 25,000.
4. Expenses incurred but not paid of ₹ 6,500 are provided for.
5. Value of the stock is to be reduced by 5%.
6. Kamal is to bring proportionate capital. Capital of Vijay, Ajay and Sanjay are also to be adjusted in profit sharing ratio.

Assuming the above mentioned adjustments are duly carried out, show the revaluation account, partner's capital accounts and the Balance Sheet of the firm after Kamal's admission.

**Accounting in Computerized Environment**

16. Recently a growing trend has developed for outsourcing the accounting function to a third party. What are the basis on which choice of such third party made?

**Applicability of Accounting Standards**

17. (a) XYZ Ltd., (a corporate entity) with a turnover of ₹ 35 lakhs and borrowings of ₹ 10 lakhs during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2017. Advise the management on the exemptions that are available as per the Companies (AS) Rules, 2006.

If XYZ is a partnership firm is there any other exemptions additionally available.

**AS 1 Disclosure of Accounting Policies**

- (b) Om Ltd. purchases goods on behalf of its customers for execution of work under a works contract against which it receives full payment and necessary declaration form under GST to be passed on to the supplier. The company follows the practice of treating the same as its purchases and accordingly debits to its Profit and Loss Account. Give your views on the above.

**AS 3 Cash flow Statements**

18. (a) Explain the meaning of the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3.

Ruby Exports had a bank balance of USD 25,000, stated in books at ₹ 16,76,250 using the rate of exchange ₹ 67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was ₹ 67.80 and the bank balance had to be restated at ₹ 16,95,000.

Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS-3.

- (b) Money Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.
- (i) Loans and Advances given to the following and interest earned on them:
    - (1) to suppliers
    - (2) to employees
    - (3) to its subsidiaries companies
  - (ii) Investment made in subsidiary Smart Ltd. and dividend received
  - (iii) Dividend paid for the year

(iv) TDS on interest income earned on investments made

(v) TDS on interest earned on advance given to suppliers

Discuss in the context of AS 3 Cash Flow Statement.

### AS 7 Construction Contracts

19. (a) GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of "Retail Petrol & Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. ₹ 102 lacs, ₹ 150 lacs, ₹ 130 lacs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.

Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

### AS 9 Revenue Recognition

- (b) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9.

### AS 10 Property, Plant and Equipment

20. (a) Preet Ltd. is installing a new plant at its production facility. It has incurred these costs:

|    |                                                                |             |
|----|----------------------------------------------------------------|-------------|
| 1. | Cost of the plant (cost per supplier's invoice plus taxes)     | ₹ 50,00,000 |
| 2. | Initial delivery and handling costs                            | ₹ 4,00,000  |
| 3. | Cost of site preparation                                       | ₹ 12,00,000 |
| 4. | Consultants used for advice on the acquisition of the plant    | ₹ 14,00,000 |
| 5. | Interest charges paid to supplier of plant for deferred credit | ₹ 4,00,000  |
| 6. | Estimated dismantling costs to be incurred after 7 years       | ₹ 6,00,000  |
| 7. | Operating losses before commercial production                  | ₹ 8,00,000  |

Please advise Preet Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

**AS 13 Accounting for Investments**

- (b) Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for ₹ 5 lakhs, which the company want to reclassify as long term investment on 31.3.2018. The market value of these investments as on date of Balance Sheet was ₹ 2.5 lakhs. How will you deal with this as on 31.3.18 with reference to AS-13?

**SUGGESTED ANSWERS/HINTS****1. (a) Statement of Profit and Loss of Shweta Ltd. for the year ended 31<sup>st</sup> March, 2018**

|      | <b>Particulars</b>                                                                    | <b>Note</b> | <b>₹</b>         |
|------|---------------------------------------------------------------------------------------|-------------|------------------|
| I    | Revenue from Operations                                                               |             | 20,11,050        |
| II   | Other income (Divided income)                                                         |             | <u>12,750</u>    |
| III  | Total Revenue (I &+ II)                                                               |             | <u>20,23,800</u> |
| IV   | Expenses:                                                                             |             |                  |
|      | (a) Purchases (14,71,500 – Advertisement Expenses 15,000)                             |             | 14,56,500        |
|      | (b) Changes in Inventories of finished Goods / Work in progress (4,35,600 – 4,27,500) |             | 8,100            |
|      | (c) Employee Benefits expense                                                         | <b>9</b>    | 1,20,000         |
|      | (d) Finance costs                                                                     | <b>10</b>   | 51,900           |
|      | (e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]                  |             | 11,100           |
|      | (f) Other Expenses                                                                    | <b>11</b>   | <u>3,47,550</u>  |
|      | Total Expenses                                                                        |             | <u>19,95,150</u> |
| V    | Profit before exceptional, extraordinary items and tax (III-IV)                       |             | 28,650           |
| VI   | Exceptional items                                                                     |             | -                |
| VII  | Profit before extra ordinary items and tax (V-IV)                                     |             | 28,650           |
| VIII | Extraordinary items                                                                   |             | -                |
| IX   | Profit before tax (VII-VIII)                                                          |             | 28,650           |
| X    | Tax expense:                                                                          |             |                  |
|      | Current Tax                                                                           |             | 12,000           |
| XI   | Profit/Loss for the period (after tax)                                                |             | 16,650           |

Balance sheet of Shweta Ltd. as on 31<sup>st</sup> March, 2018

|     | Particulars as on 31st March                                                    | Note |                  |
|-----|---------------------------------------------------------------------------------|------|------------------|
| I   |                                                                                 |      |                  |
| (1) | <b>Shareholders' funds:</b>                                                     |      |                  |
|     | (a) Share capital                                                               | 1    | 12,00,000        |
|     | (b) Reserves and surplus                                                        | 2    | 66,150           |
| (2) | <b>Non current liabilities:</b>                                                 |      |                  |
|     | Long term borrowings                                                            | 3    | 4,50,000         |
| (3) | <b>Current liabilities:</b>                                                     |      |                  |
|     | (a) Short term borrowings                                                       | 4    | 4,50,000         |
|     | (b) Trade payables                                                              |      | 2,63,550         |
|     | (c) Other current liabilities                                                   | 5    | <u>29,250</u>    |
|     | <b>Total</b>                                                                    |      | <u>24,58,950</u> |
| II  | <b>ASSETS</b>                                                                   |      |                  |
| (1) | (a) <b>Non-current Assets:</b>                                                  |      |                  |
|     | Property, Plant & Equipment                                                     |      |                  |
|     | (i) Tangible assets                                                             | 6    | 11,49,900        |
|     | (ii) Intangible assets                                                          | 7    | 4,05,000         |
|     | (b) Non current investments (Shares at cost)                                    |      | 1,50,000         |
|     | <b>Current Assets:</b>                                                          |      |                  |
|     | (a) Inventories                                                                 |      | 4,27,500         |
|     | (b) Trade receivables                                                           | 8    | 2,72,550         |
|     | (c) Cash and Cash equivalents – Cash on hand                                    |      | 36,000           |
|     | (d) Short term loans and advances –Income tax<br>(paid 30,000-Provision 12,000) |      | <u>18,000</u>    |
|     | <b>Total</b>                                                                    |      | <u>24,58,950</u> |

**Note:** There is a Contingent liability for Bills receivable discounted with Bank ₹ 6,000.

## Notes to accounts

|    |                                          |                 | (₹)       |
|----|------------------------------------------|-----------------|-----------|
| 1. | <b>Share Capital</b>                     |                 |           |
|    | Authorized                               |                 |           |
|    | 90,000 Equity Shares of ₹ 10 each        | 9,00,000        |           |
|    | 6,000 6% Preference shares of ₹ 100 each | <u>6,00,000</u> | 15,00,000 |
|    | Issued, subscribed & called up           |                 |           |
|    | 60,000, Equity Shares of ₹ 10 each       | 6,00,000        |           |

|           |                                                                                                                       |                 |                  |
|-----------|-----------------------------------------------------------------------------------------------------------------------|-----------------|------------------|
|           | 6,000 6% Redeemable Preference Shares of 100 each                                                                     | <u>6,00,000</u> | 12,00,000        |
| <b>2.</b> | <b>Reserves and Surplus</b>                                                                                           |                 |                  |
|           | Balance as on 1 <sup>st</sup> April, 2017                                                                             | 85,500          |                  |
|           | Add: Surplus for current year                                                                                         | <u>16,650</u>   | 1,02,150         |
|           | Less: Preference Dividend                                                                                             |                 | <u>36,000</u>    |
|           | Balance as on 31st March, 2018                                                                                        |                 | <u>66,150</u>    |
| <b>3.</b> | <b>Long Term Borrowings</b>                                                                                           |                 |                  |
|           | 5% Mortgage Debentures (Secured against Freehold Properties)                                                          |                 | 4,50,000         |
| <b>4.</b> | <b>Short Term Borrowings</b>                                                                                          |                 |                  |
|           | Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables) |                 | 4,50,000         |
| <b>5.</b> | <b>Other Current liabilities</b>                                                                                      |                 |                  |
|           | Interest Accrued and due on Borrowings (5% Debentures)                                                                | 11,250          |                  |
|           | Unpaid Preference Dividends                                                                                           | <u>18,000</u>   | 29,250           |
| <b>6.</b> | <b>Tangible Fixed assets</b>                                                                                          |                 |                  |
|           | <b>Furniture</b>                                                                                                      |                 |                  |
|           | Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance)                                              | 1,05,000        |                  |
|           | Add: Depreciation                                                                                                     | <u>45,000</u>   |                  |
|           | Cost of Furniture                                                                                                     | 1,50,000        |                  |
|           | Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages                 | <u>6,000</u>    |                  |
|           | Total Gross block of Furniture A/c                                                                                    | 1,56,000        |                  |
|           | Accumulated Depreciation Account: Opening Balance-given in Trial Balance 45,000                                       |                 |                  |
|           | Depreciation for the year:                                                                                            |                 |                  |
|           | On Opening WDV at 10% i.e. (10% x 1,05,000) 10,500                                                                    |                 |                  |
|           | On additional purchase during the year at 10% i.e. (10% x 6,000) 600                                                  |                 |                  |
|           | Less: Accumulated Depreciation                                                                                        | <u>56,100</u>   | 99,900           |
|           | Freehold property (at cost)                                                                                           |                 | <u>10,50,000</u> |
|           |                                                                                                                       |                 | <u>11,49,900</u> |

|                                                                                |                 |          |
|--------------------------------------------------------------------------------|-----------------|----------|
| <b>7. Intangible Fixed Assets</b>                                              |                 |          |
| Technical knowhow                                                              | 4,50,000        |          |
| Less: Written off                                                              | <u>45,000</u>   | 4,05,000 |
| <b>8. Trade Receivables</b>                                                    |                 |          |
| Sundry Debtors (a) Debt outstanding for more than six months                   | 18,000          |          |
| (b) Other Debts (refer Working Note)                                           | 1,34,550        |          |
| Bills Receivable (1,24,500 -4,500)                                             | <u>1,20,000</u> | 2,72,550 |
| <b>9. Employee benefit expenses</b>                                            |                 |          |
| Amount as per Trial Balance                                                    | 1,56,000        |          |
| Less: Wages incurred for installation of electrical fittings to be capitalised | 6,000           |          |
| Less: Directors' Remuneration shown separately                                 | <u>30,000</u>   |          |
| <b>Balance amount</b>                                                          |                 | 1,20,000 |
| <b>10. Finance Costs</b>                                                       |                 |          |
| Interest on bank overdraft                                                     | 29,400          |          |
| Interest on debentures                                                         | <u>22,500</u>   | 51,900   |
| <b>11. Other Expenses</b>                                                      |                 |          |
| Payment to the auditors                                                        | 18,000          |          |
| Director's remuneration                                                        | 30,000          |          |
| Selling expenses                                                               | 2,37,300        |          |
| Technical knowhow written off (4,50,000/10)                                    | 45,000          |          |
| Advertisement (Goods and Articles Distributed)                                 | 15,000          |          |
| Bad Debts (4,500 x50%)                                                         | <u>2,250</u>    | 3,47,550 |

**Working Note:****Calculation of Sundry Debtors-Other Debts**

|                                                                        |                 |
|------------------------------------------------------------------------|-----------------|
| Sundry Debtors as given in Trial Balance                               | 1,50,300        |
| Add Back: Bills Receivables Dishonoured                                | <u>4,500</u>    |
|                                                                        | 1,54,800        |
| Less: Bad Debts written off – 50% ₹ 4,500                              | <u>(2,250)</u>  |
| Adjusted Sundry Debtors                                                | 1,52,550        |
| Less: Debts due for more than 6 months (as per information given)      | <u>(18,000)</u> |
| Total of other Debtors i.e. Debtors outstanding for less than 6 months | <u>1,34,550</u> |

**(b) Computation of effective capital:**

|                                          | <i>Where Gaurav Ltd. is<br/>a non-investment<br/>company</i> | <i>Where Gaurav Ltd. is<br/>an investment<br/>company</i> |
|------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------|
| Paid-up share capital —                  |                                                              |                                                           |
| 67,500, 14% Preference shares            | 67,50,000                                                    | 67,50,000                                                 |
| 5,40,000 Equity shares                   | 4,32,00,000                                                  | 4,32,00,000                                               |
| Capital reserves                         | 2,02,500                                                     | 2,02,500                                                  |
| Securities premium                       | 2,25,000                                                     | 2,25,000                                                  |
| 15% Debentures                           | 2,92,50,000                                                  | 2,92,50,000                                               |
| Public Deposits                          | <u>16,65,000</u>                                             | <u>16,65,000</u>                                          |
| (A)                                      | <u>8,12,92,500</u>                                           | <u>8,12,92,500</u>                                        |
| Investments                              | 3,37,50,000                                                  | -                                                         |
| Profit and Loss account (Dr.<br>balance) | <u>68,62,500</u>                                             | <u>68,62,500</u>                                          |
| (B)                                      | <u>4,06,12,500</u>                                           | <u>68,62,500</u>                                          |
| Effective capital (A–B)                  | <u>4,06,80,000</u>                                           | <u>7,44,30,000</u>                                        |

- (c) (i) Current Liabilities/ Other Current Liabilities  
(ii) Shareholders' Fund / Reserve & Surplus  
(iii) Current liabilities/Other Current Liabilities  
(iv) Contingent Liabilities and Commitments  
(v) Shareholders' Fund / Share Capital

**2. Cash Flow Statement as per AS 3**

| <i>Cash flows from operating activities:</i>  |               | <i>₹ in lacs</i> |
|-----------------------------------------------|---------------|------------------|
| Net profit before tax provision               |               | 72,000           |
| Add: Non cash expenditures:                   |               |                  |
| Depreciation                                  | 48,000        |                  |
| Loss on sale of assets                        | 96            |                  |
| Interest expenditure (non-operating activity) | <u>24,000</u> | <u>72,096</u>    |
|                                               |               | 1,44,096         |
| Less: Non cash income                         |               |                  |
| Amortisation of capital grant received        | (20)          |                  |

|                                                         |                 |                   |
|---------------------------------------------------------|-----------------|-------------------|
| Profit on sale of investments (non-operating income)    | (240)           |                   |
| Interest income from investments (non-operating income) | <u>(6,000)</u>  | <u>6,260</u>      |
| Operating profit                                        |                 | 1,37,836          |
| Less: Increase in working capital                       |                 | <u>(1,34,580)</u> |
| Cash from operations                                    |                 | 3,256             |
| Less: Income tax paid                                   |                 | <u>(10,200)</u>   |
| Net cash generated from operating activities            |                 | (6,944)           |
| <i>Cash flows from investing activities:</i>            |                 |                   |
| Sale of assets (444 – 96)                               | 348             |                   |
| Sale of investments (66,636+240)                        | 66,876          |                   |
| Interest income from investments                        | 6,000           |                   |
| Purchase of fixed assets                                | <u>(44,184)</u> |                   |
| Expenditure on construction work                        | <u>(83,376)</u> |                   |
| Net cash used in investing activities                   |                 | (54,336)          |
| <i>Cash flows from financing activities:</i>            |                 |                   |
| Grants for capital projects                             | 36              |                   |
| Long term borrowings                                    | 1,11,732        |                   |
| Interest paid                                           | <u>(26,084)</u> |                   |
| Dividend paid                                           | <u>(20,404)</u> |                   |
| Net cash from financing activities                      |                 | <u>65,280</u>     |
| Net increase in cash                                    |                 | 4,000             |
| Add: Cash and bank balance as on 1.4.2018               |                 | <u>12,000</u>     |
| Cash and bank balance as on 31.3.2019                   |                 | <u>16,000</u>     |

**3. Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods**

**For the year ended 31<sup>st</sup> March, 2018**

| Particulars                 | Total Amount | Basis of Allocation | Pre-incorporation | Post-incorporation |
|-----------------------------|--------------|---------------------|-------------------|--------------------|
| Gross Profit                | 7,81,600     | Sales               | 78,160            | 7,03,440           |
| Less: Directors' fee        | 60,000       | Post                |                   | 60,000             |
| Bad debts                   | 14,400       | Sales               | 1,440             | 12,960             |
| Advertising                 | 48,000       | Time                | 12,000            | 36,000             |
| Salaries & general expenses | 2,56,000     | Time                | 64,000            | 1,92,000           |

|                             |          |      |     |          |
|-----------------------------|----------|------|-----|----------|
| Preliminary expenses        | 20,000   | Post |     | 20,000   |
| Donation to Political Party | 20,000   | Post |     | 20,000   |
| Net Profit                  | 3,63,200 |      | 720 | 3,62,480 |

**Working Notes:****1. Sales ratio**

| Particulars                                                           | ₹         |
|-----------------------------------------------------------------------|-----------|
| Sales for period up to 30.06.2017 (9,60,000 x 3/6)                    | 4,80,000  |
| Sales for period from 01.07.2017 to 31.03.2018 (48,00,000 – 4,80,000) | 43,20,000 |

Thus, Sales Ratio = 1 : 9

**2. Time ratio**

1<sup>st</sup> April, 2017 to 30 June, 2017: 1<sup>st</sup> July, 2017 to 31<sup>st</sup> March, 2018

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

**4.****Journal Entries in the books of Xeta Ltd.**

|           |                                                                                                      |     | ₹        | ₹        |
|-----------|------------------------------------------------------------------------------------------------------|-----|----------|----------|
| 1-4-2017  | Equity share final call A/c                                                                          | Dr. | 5,40,000 |          |
|           | To Equity share capital A/c                                                                          |     |          | 5,40,000 |
|           | (For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....) |     |          |          |
| 20-4-2017 | Bank A/c                                                                                             | Dr. | 5,40,000 |          |
|           | To Equity share final call A/c                                                                       |     |          | 5,40,000 |
|           | (For final call money on 2,70,000 equity shares received)                                            |     |          |          |
|           | Securities Premium A/c                                                                               | Dr. | 1,00,000 |          |
|           | General Reserve A/c                                                                                  | Dr. | 3,60,000 |          |
|           | Profit and Loss A/c                                                                                  | Dr. | 2,15,000 |          |
|           | To Bonus to shareholders A/c                                                                         |     |          | 6,75,000 |
|           | (For making provision for bonus issue of one share for every four shares held)                       |     |          |          |
|           | Bonus to shareholders A/c                                                                            | Dr. | 6,75,000 |          |
|           | To Equity share capital A/c                                                                          |     |          | 6,75,000 |
|           | (For issue of bonus shares)                                                                          |     |          |          |

**Extract of Balance Sheet as at 30<sup>th</sup> April, 2017 (after bonus issue)**

|                                                                             | ₹                |
|-----------------------------------------------------------------------------|------------------|
| <b>Authorised Capital</b>                                                   |                  |
| 50,000 12% Preference shares of ₹10 each                                    | 5,00,000         |
| 4,00,000 Equity shares of ₹10 each                                          | <u>40,00,000</u> |
| <b>Issued and subscribed capital</b>                                        |                  |
| 24,000 12% Preference shares of ₹10 each, fully paid                        | 2,40,000         |
| 3,37,500 Equity shares of ₹10 each, fully paid                              | 33,75,000        |
| (Out of above, 67,500 equity shares @ ₹10 each were issued by way of bonus) |                  |
| <b>Reserves and surplus</b>                                                 |                  |
| Profit and Loss Account                                                     | 3,85,000         |

**5. Journal Entries in the books of Kishor Limited**

|    |                                                                                                                                                                                                                                                                                                                        |     | Dr. (₹)   | Cr. (₹)                            |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----------|------------------------------------|
| 1. | Equity share capital A/c (₹ 10)<br>To Equity share capital A/c (₹ 3)<br>To Capital reduction A/c<br>(Reduction of equity share of ₹ 10 each to shares of ₹ 3 each as per the reconstruction scheme)                                                                                                                    | Dr. | 60,00,000 | 18,00,000<br>42,00,000             |
| 2. | 6% Preference share capital A/c (₹ 10)<br>To 6% Preference share capital A/c (₹ 7)<br>To Capital reduction A/c<br>(Reduction of preference share of ₹ 10 each to shares of ₹ 7 each as per the reconstruction scheme)                                                                                                  | Dr. | 32,00,000 | 22,40,000<br>9,60,000              |
| 3. | 6 % Debentures A/c<br>To Land & building A/c<br>To 9% Debentures A/c<br>To Capital reduction A/c<br>(50% claim of debentureholders discharged by transfer of a part of land & building having book value ₹ 14,00,000 and rate of interest of balance 50% debentures increased to 9% as per the reconstruction scheme). | Dr. | 30,00,000 | 14,00,000<br>15,00,000<br>1,00,000 |
| 4. | Bank A/c<br>To Land & building A/c                                                                                                                                                                                                                                                                                     | Dr. | 12,00,000 | 10,00,000                          |

|    |                                                                                                                                                                                                                                                                                                                                                                          |            |                    |                                                                     |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------------------|---------------------------------------------------------------------|
|    | To Capital reduction A/c<br>(50% of balance land & building having book value ₹ 10,00,000 sold as per the reconstruction scheme)                                                                                                                                                                                                                                         |            |                    | 2,00,000                                                            |
| 5. | Land & building A/c<br>To Capital Reduction A/c<br>(50% of balance land & building having book value ₹ 10,00,000, valued at ₹ 12,00,000, as per the reconstruction scheme)                                                                                                                                                                                               | Dr.        | 2,00,000           | 2,00,000                                                            |
| 6. | Bank A/c<br>Capital reduction A/c<br>To Investment A/c<br>(All the investment sold as per the reconstruction scheme)                                                                                                                                                                                                                                                     | Dr.<br>Dr. | 4,00,000<br>40,000 | 4,40,000                                                            |
| 7. | Trade payables A/c<br>To Capital reduction A/c<br>(1/3 of Trade payables decided to forgo their claim as per the reconstruction scheme)                                                                                                                                                                                                                                  | Dr.        | 8,00,000           | 8,00,000                                                            |
| 8. | Capital reduction A/c<br>To Patents A/c<br>To Provision of doubtful debts A/c<br>To Inventory A/c<br>To Provision for income tax A/c<br>To Profit & loss A/c<br>To Plant & machinery A/c (Bal. fig.)<br>(Written off patent, profit & loss, part value of stock, plant & machinery, and provision made for doubtful debts, income tax, as per the reconstruction scheme) | Dr.        | 61,58,000          | 3,00,000<br>3,48,000<br>5,20,000<br>50,000<br>47,40,000<br>2,00,000 |

6. **Balance Sheet of Super Fast Express Ltd**  
**as at 1<sup>st</sup> Jan., 20X2**

|   | Particulars             | Notes | ₹         |
|---|-------------------------|-------|-----------|
|   | Equity and Liabilities  |       |           |
| 1 | Shareholders' funds     |       |           |
| a | Share capital           | 1     | 30,00,000 |
| b | Reserves and Surplus    | 2     | 3,60,000  |
| 2 | Non-current liabilities |       |           |

|   |   |                             |   |           |
|---|---|-----------------------------|---|-----------|
|   | a | Long-term provisions        | 3 | 1,00,000  |
| 3 |   | Current liabilities         |   |           |
|   | a | Trade Payables              |   | 1,00,000  |
|   |   | Total-                      |   | 35,60,000 |
|   |   | Assets                      |   |           |
| 1 |   | Non-current assets          |   |           |
|   | a | Property, plant & Equipment |   |           |
|   |   | Tangible assets             | 4 | 26,00,000 |
| 2 |   | Current assets              |   |           |
|   |   | Inventories                 |   | 3,40,000  |
|   |   | Trade receivables           |   | 2,80,000  |
|   |   | Cash and cash equivalents   | 5 | 3,40,000  |
|   |   | Total                       |   | 35,60,000 |

**Notes to accounts**

|                                    | ₹         |
|------------------------------------|-----------|
| 1 Share Capital                    |           |
| Equity share capital               |           |
| Issued, subscribed and paid up     |           |
| 30,000 Equity shares of ₹ 100 each | 30,00,000 |
| Total                              | 30,00,000 |
| 2 Reserves and Surplus             |           |
| Reserve                            | 1,00,000  |
| Surplus                            | 1,60,000  |
| Insurance reserve                  | 1,00,000  |
| Total                              | 3,60,000  |
| 3 Long-term provisions             |           |
| Provident fund                     | 1,00,000  |
| Total                              | 1,00,000  |
| 4 Tangible assets                  |           |
| Buildings                          | 17,00,000 |
| Machinery                          | 9,00,000  |
| Total                              | 26,00,000 |

|   |                           |          |
|---|---------------------------|----------|
| 5 | Cash and cash equivalents |          |
|   | Balances with banks       | 2,30,000 |
|   | Cash on hand              | 1,10,000 |
|   | Total                     | 3,40,000 |

7. **Calculation of number of days from the base date**

| <i>Due date</i> | <i>Amount (₹)</i> | <i>No. of days from 5.3.17</i> | <i>Product</i>   |
|-----------------|-------------------|--------------------------------|------------------|
| 5.3.2017        | 5,000             | 0                              | 0                |
| 7.4.2017        | 7,500             | 33                             | 2,47,500         |
| 17.7.2017       | 6,000             | 134                            | 8,04,000         |
| 14.9.2017       | <u>8,000</u>      | 193                            | <u>15,44,000</u> |
|                 | <u>26,500</u>     |                                | <u>25,95,500</u> |

$$\text{Average due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}}$$

$$= 5.3.2017 + \frac{25,95,500}{26,500} = 98 \text{ days (round off)}$$

The date of the cheque will be 98 days from the base date i.e. 11.6.2017. So on 11<sup>th</sup> June, 2017, all bills will be settled by a single cheque payment.

**8. Mr. B in Account Current with Mr. A (Books of A - Interest to 31st March 2017 @ 10% p.a.)**

| Date     | Particulars                                                            | Due date | Amt. ₹          | Days | Product ₹          | Date    | Particulars                            | Due date | Amt. ₹          | Days | Product ₹          |
|----------|------------------------------------------------------------------------|----------|-----------------|------|--------------------|---------|----------------------------------------|----------|-----------------|------|--------------------|
| 01.01.17 | To Balance b/d                                                         |          | 1,00,000        |      |                    | 15.1.17 | By Cash A/c                            | 15.1.17  | 2,00,000        | 15   | 30,00,000          |
| 10.1.17  | To Sales A/c                                                           | 10.1.17  | 2,00,000        | 10   | 20,00,000          | 1.3.17  | By Cash A/c                            | 1.3.17   | 1,00,000        | 60   | 60,00,000          |
| 15.2.17  | To Sales A/c                                                           | 15.2.17  | 2,00,000        | 46   | 92,00,000          |         |                                        |          |                 |      |                    |
| 31.3.17  | To Balance of Products                                                 |          |                 |      | 1,58,00,000        |         |                                        |          |                 |      |                    |
| 31.3.17  | To Interest on Balance for 1 day @ 10%                                 |          | 4,329           |      |                    | 31.3.17 | By Balance of Products [2,00,000 x 90] |          |                 |      | 1,80,00,000        |
|          | $\left[ \frac{1,58,00,000 \times 10}{100 \times 365} \times 1 \right]$ |          |                 |      |                    |         |                                        |          |                 |      |                    |
|          |                                                                        |          |                 |      |                    | 31.3.17 | By Balance c/d                         |          | 2,04,329        |      |                    |
|          |                                                                        |          | <u>5,04,329</u> |      | <u>2,70,00,000</u> |         |                                        |          | <u>5,04,329</u> |      | <u>2,70,00,000</u> |

**Note:** While counting the number of days for closing balances, the opening date as well as date upto which the account is prepared, has been considered.

9

In the books of Prime Ltd.

**Total Debtors Account**

|                                                                     | ₹                |                     | ₹                |
|---------------------------------------------------------------------|------------------|---------------------|------------------|
| To Balance b/d                                                      | 1,56,000         | By Cash             | 8,50,000         |
| To Bank (Cheque dishonoured)                                        | 15,000           | By Discount Allowed | 6,000            |
| To Bill Receivables (Dishonoured)                                   | 5,000            | By Bill Receivables | 40,000           |
| To Interest                                                         | 2,400            | By Returns Inward   | 17,000           |
| To Sales                                                            | 9,80,000         | By Bad Debts        | 2,000            |
| To Sundry Creditors (endorsed bill dishonoured with noting charges) | 11,150           | By Balance c/d      | 2,54,550         |
|                                                                     | <u>11,69,550</u> |                     | <u>11,69,550</u> |

**Total Creditors Account**

|                      | ₹               |                                                                                   | ₹               |
|----------------------|-----------------|-----------------------------------------------------------------------------------|-----------------|
| To Cash              | 3,24,000        | By Balance b/d                                                                    | 1,70,000        |
| To B/R (endorsed)    | 15,800          | By Purchases                                                                      | 5,60,000        |
| To Discount received | 5,000           | By Sundry Debtors A/c (endorsed Bill Receivables dishonoured with noting charges) | 11,150          |
| To Bills Payable     | 32,000          |                                                                                   |                 |
| To Return outward    | 7,400           | By Cash (over payments refunded)                                                  | 1,200           |
| To Balance c/d       | <u>3,58,150</u> |                                                                                   |                 |
|                      | <u>7,42,350</u> |                                                                                   | <u>7,42,350</u> |

**Note:** Transactions relating to cash sales or purchases; honour of bills receivable or payable; recovery of bad debts and discount or endorsement of bill will not be entered in Total Debtors and Total Creditors Accounts.

**10. Income and Expenditure Account of Retreat & Refresh Club for the year ended 31<sup>st</sup> March, 2018**

| Expenditure               | Amount | Income                   | Amount |
|---------------------------|--------|--------------------------|--------|
|                           | ₹      |                          | ₹      |
| To Honoraria to secretary | 19,200 | By Subscriptions (W.N.3) | 41,960 |
| To Misc. expenses         | 6,120  | By Sale of old magazines | 9,600  |
| To Rates and taxes        | 5,040  | By Entertainment fees    | 17,080 |

|                                                                  |                |                 |                                  |                 |
|------------------------------------------------------------------|----------------|-----------------|----------------------------------|-----------------|
| To Groundman's wages                                             |                | 3,360           | By Bank interest                 | 920             |
| To Printing and stationary                                       |                | 1,880           | By Bar receipts                  | 29,800          |
| To Telephone expenses                                            |                | 9,560           | By Profit on sale of car (W.N.5) | 4,400           |
| To Bar expenses:                                                 |                |                 |                                  |                 |
| Opening bar stock                                                | 2,840          |                 |                                  |                 |
| Add: Purchases (W.N.2)                                           | <u>22,440</u>  |                 |                                  |                 |
|                                                                  | 25,280         |                 |                                  |                 |
| Less: Closing bar stock                                          | <u>(3,480)</u> | 21,800          |                                  |                 |
| To Repairs                                                       |                | 1,280           |                                  |                 |
| To Depreciation                                                  |                |                 |                                  |                 |
| Club premises (W.N.4)                                            | 2,040          |                 |                                  |                 |
| Car (W.N. 6)                                                     | <u>9,360</u>   | 11,400          |                                  |                 |
| To Excess of income over expenditure transferred to capital fund |                | <u>24,120</u>   |                                  |                 |
|                                                                  |                | <u>1,03,760</u> |                                  | <u>1,03,760</u> |

**Balance Sheet of Retreat & Refresh Club as on 31<sup>st</sup> March, 2018**

| <i>Liabilities</i>                        |               | <i>Amount</i>   | <i>Assets</i>            | <i>Amount</i>   |
|-------------------------------------------|---------------|-----------------|--------------------------|-----------------|
|                                           |               | ₹               |                          | ₹               |
| Capital fund (W.N. 1)                     | 87,200        |                 | Club Premises            | 38,760          |
| Add: Excess of income over expenditure    | <u>24,120</u> | 1,11,320        | Car                      | 53,040          |
| Outstanding liabilities for bar purchases |               | <u>1,720</u>    | Bar stock                | 3,480           |
|                                           |               | <u>1,13,040</u> | Outstanding subscription | 3,920           |
|                                           |               |                 | Cash and bank            | <u>13,840</u>   |
|                                           |               |                 |                          | <u>1,13,040</u> |

**Working Notes:**

**1. Balance Sheet of Retreat & Refresh Club as on 1<sup>st</sup> April, 2017**

| <i>Liabilities</i>           | <i>Amount</i> | <i>Assets</i>      |                 | <i>Amount</i> |
|------------------------------|---------------|--------------------|-----------------|---------------|
|                              | ₹             |                    |                 | ₹             |
| Amount due for bar purchases | 2,360         | Club premises      | 1,16,000        |               |
|                              |               | Less: Depreciation | <u>(75,200)</u> | 40,800        |

|                                                |               |                          |                 |               |
|------------------------------------------------|---------------|--------------------------|-----------------|---------------|
| Capital fund on 1.4.2017<br>(balancing figure) | 87,200        | Car                      | 48,760          |               |
|                                                |               | Less: Depreciation       | <u>(41,160)</u> | 7,600         |
|                                                |               | Bar stock                |                 | 2,840         |
|                                                |               | Outstanding subscription |                 | 4,800         |
|                                                |               | Cash at bank             |                 | <u>33,520</u> |
|                                                | <u>89,560</u> |                          |                 | <u>89,560</u> |

**2. Calculation of bar purchases for the year**

|                                                   | ₹              |
|---------------------------------------------------|----------------|
| Bar payments as per receipts and payments account | 23,080         |
| Add: Amount due on 31 <sup>st</sup> March, 2018   | <u>1,720</u>   |
|                                                   | 24,800         |
| Less: Amount due on 1 <sup>st</sup> April, 2017   | <u>(2,360)</u> |
|                                                   | <u>22,440</u>  |

**3. Calculation of subscriptions earned during the year**

|                                                             | ₹              |
|-------------------------------------------------------------|----------------|
| Subscriptions received as per receipts and payments account | 42,840         |
| Add: Outstanding on 31 <sup>st</sup> March, 2018            | <u>3,920</u>   |
|                                                             | 46,760         |
| Less: Outstanding on 1 <sup>st</sup> April, 2017            | <u>(4,800)</u> |
|                                                             | <u>41,960</u>  |

**4. Depreciation on club premises and its written down value on 31<sup>st</sup> March, 2018**

|                                                                      | ₹              |
|----------------------------------------------------------------------|----------------|
| Written down value on 1 <sup>st</sup> April, 2017 (1,16,000- 75,200) | 40,800         |
| Less: Depreciation for the year @ 5% p.a.                            | <u>(2,040)</u> |
|                                                                      | <u>38,760</u>  |

**5. Calculation of profit on sale of car**

|                                                     |                 | ₹              |
|-----------------------------------------------------|-----------------|----------------|
| Sale proceeds of old car                            |                 | 12,000         |
| Less: Written down value of old car:                |                 |                |
| Cost of car on 1 <sup>st</sup> April, 2017          | 48,760          |                |
| Less: Depreciation upto 1 <sup>st</sup> April, 2017 | <u>(41,160)</u> | <u>(7,600)</u> |
|                                                     |                 | <u>4,400</u>   |

6. Depreciation on car and its written down value on 31<sup>st</sup> March, 2018

|                                                    | ₹              |
|----------------------------------------------------|----------------|
| Cost of new car purchased (50,400 + 12,000)        | 62,400         |
| Less: Depreciation for the year @ 15% p.a.         | <u>(9,360)</u> |
| Written down value on 31 <sup>st</sup> March, 2018 | <u>53,040</u>  |

**Note:** The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing expenses.

11. Trading and Profit and Loss Account of Mr. Preet  
for the year ended 31<sup>st</sup> March, 2018

|                                      | Amount           |                                         | Amount           |
|--------------------------------------|------------------|-----------------------------------------|------------------|
|                                      | ₹                |                                         | ₹                |
| To Opening stock                     | 1,60,000         | By Sales                                | 13,98,000        |
| To Purchases (W.N.5)                 | 9,12,000         | By Closing stock                        | 1,40,000         |
| To Gross profit c/d (Bal.fig.)       | <u>4,66,000</u>  |                                         |                  |
|                                      | <u>15,38,000</u> |                                         | <u>15,38,000</u> |
| To Expenses (W.N.7)                  | 3,44,000         | By Gross profit b/d                     | 4,66,000         |
| To Discount allowed (W.N.9)          | 32,500           | By Discount received (W.N.10)           | 16,000           |
| To Depreciation on furniture (W.N.1) | 13,000           | By Interest on Govt. Securities (W.N.8) | 12,000           |
| To Net profit                        | <u>1,14,500</u>  | By Miscellaneous income                 | <u>10,000</u>    |
|                                      | <u>5,04,000</u>  |                                         | <u>5,04,000</u>  |

Balance Sheet of Mr. Preet as on 31<sup>st</sup> March, 2018

| Liabilities                     | Amount          | Assets                                       | Amount   |
|---------------------------------|-----------------|----------------------------------------------|----------|
|                                 | ₹               |                                              | ₹        |
| Capital (W.N.6)                 | 3,76,000        | Furniture                                    | 1,27,000 |
| Add: Additional capital (W.N.2) | 1,72,000        | 12% Government Securities                    | 2,00,000 |
| Add: Profit during the year     | <u>1,14,500</u> | Accrued interest on Govt. securities (W.N.8) | 12,000   |
|                                 | <u>6,62,500</u> | Debtors (W.N.3)                              | 3,26,000 |

|                      |            |                 |                          |                 |
|----------------------|------------|-----------------|--------------------------|-----------------|
| Less: Drawings       | (1,40,000) | 5,22,500        | Bills Receivable (W.N.4) | 35,000          |
| Creditors            |            | 3,00,000        | Stock                    | 1,40,000        |
| Outstanding expenses |            | 36,000          | Prepaid expenses         | 14,000          |
|                      |            |                 | Cash on hand             | 3,000           |
|                      |            |                 | Bank balance             | 1,500           |
|                      |            | <u>8,58,500</u> |                          | <u>8,58,500</u> |

**Working Notes:****1. Furniture account**

|                | ₹               |                             | ₹               |
|----------------|-----------------|-----------------------------|-----------------|
| To Balance b/d | 1,20,000        | By Depreciation (bal. fig.) | 13,000          |
| To Bank        | <u>20,000</u>   | By Balance c/d              | <u>1,27,000</u> |
|                | <u>1,40,000</u> |                             | <u>1,40,000</u> |

**2. Cash and Bank account**

|                                  | ₹                |                         | ₹                |
|----------------------------------|------------------|-------------------------|------------------|
| To Balance b/d                   |                  | By Creditors            | 7,84,000         |
| Cash                             | 4,000            | By Drawings             | 1,40,000         |
| Bank                             | 20,000           | By Furniture            | 20,000           |
| To Debtors                       | 11,70,000        | By 12% Govt. securities | 2,00,000         |
| To Bill Receivable               | 1,22,500         | By Expenses             | 3,50,000         |
| To Miscellaneous income          | 10,000           | By Balance c/d          |                  |
| To Additional Capital (bal.fig.) | 1,72,000         | Cash                    | 3,000            |
|                                  |                  | Bank                    | <u>1,500</u>     |
|                                  | <u>14,98,500</u> |                         | <u>14,98,500</u> |

**3. Debtors account**

|                                             | ₹                |                           | ₹                |
|---------------------------------------------|------------------|---------------------------|------------------|
| To Balance b/d                              | 3,20,000         | By Cash and Bank          | 11,70,000        |
| To Creditors (Bills receivable dishonoured) | 8,000            | By Discount               | 30,000           |
| To Sales (W.N.11)                           | 13,98,000        | By Bills Receivable       | 2,00,000         |
|                                             |                  | By Balance c/d (bal.fig.) | <u>3,26,000</u>  |
|                                             | <u>17,26,000</u> |                           | <u>17,26,000</u> |

4. **Bills Receivable account**

|            | ₹               |                            | ₹               |
|------------|-----------------|----------------------------|-----------------|
| To Debtors | 2,00,000        | By Bank                    | 1,22,500        |
|            |                 | By Discount                | 2,500           |
|            |                 | By Creditors               | 40,000          |
|            |                 | By Balance c/d (bal. fig.) | 35,000          |
|            | <u>2,00,000</u> |                            | <u>2,00,000</u> |

5. **Creditors account**

|                     | ₹                |                                           | ₹                |
|---------------------|------------------|-------------------------------------------|------------------|
| To Bank             | 7,84,000         | By Balance b/d                            | 2,20,000         |
| To Discount         | 16,000           | By Debtors (Bills receivable dishonoured) | 8,000            |
| To Bills receivable | 40,000           | By Purchases (bal. fig.)                  | 9,12,000         |
| To Balance c/d      | <u>3,00,000</u>  |                                           |                  |
|                     | <u>11,40,000</u> |                                           | <u>11,40,000</u> |

6. **Balance Sheet as on 1<sup>st</sup> April, 2017**

| <b>Liabilities</b>         | ₹               | <b>Assets</b>    | ₹               |
|----------------------------|-----------------|------------------|-----------------|
| Creditors                  | 2,20,000        | Furniture        | 1,20,000        |
| Outstanding expenses       | 40,000          | Debtors          | 3,20,000        |
| Capital (balancing figure) | 3,76,000        | Stock            | 1,60,000        |
|                            |                 | Prepaid expenses | 12,000          |
|                            |                 | Cash             | 4,000           |
|                            |                 | Bank balance     | <u>20,000</u>   |
|                            | <u>6,36,000</u> |                  | <u>6,36,000</u> |

7. **Expenses incurred during the year**

|                                            |               | ₹               |
|--------------------------------------------|---------------|-----------------|
| Expenses paid during the year              |               | 3,50,000        |
| Add: Outstanding expenses as on 31.3.2018  | 36,000        |                 |
| Prepaid expenses as on 31.3.2017           | <u>12,000</u> | <u>48,000</u>   |
|                                            |               | 3,98,000        |
| Less: Outstanding expenses as on 31.3.2017 | 40,000        |                 |
| Prepaid expenses as on 31.3.2018           | <u>14,000</u> | <u>(54,000)</u> |
| Expenses incurred during the year          |               | <u>3,44,000</u> |

**8. Interest on Government securities**

$$2,00,000 \times 12\% \times 6/12 = ₹ 12,000$$

Interest on Government securities receivables for 6 months = ₹ 12,000

**9. Discount allowed**

|                              |                                                        | ₹             |
|------------------------------|--------------------------------------------------------|---------------|
| Discount to Debtors          | $\left( \frac{11,70,000}{97.5\%} \times 2.5\% \right)$ | 30,000        |
| Discount on Bills Receivable | $\left( \frac{1,22,500}{98\%} \times 2\% \right)$      | <u>2,500</u>  |
|                              |                                                        | <u>32,500</u> |

**10. Discount received**

|                       |                                                   | ₹      |
|-----------------------|---------------------------------------------------|--------|
| Discount to Creditors | $\left( \frac{7,84,000}{98\%} \times 2\% \right)$ | 16,000 |

**11. Credit sales**

Cost of Goods sold = Opening stock + Net purchases – Closing stock

$$= ₹ 1,60,000 + ₹ 9,12,000 - ₹ 1,40,000$$

$$= ₹ 9,32,000$$

$$\text{Sale price} = ₹ 9,32,000 + 50\% \text{ of } 9,32,000 = ₹ 13,98,000$$

**12.**

|      |                                                                        | ₹               |
|------|------------------------------------------------------------------------|-----------------|
| (i)  | Price of two cars = ₹ 2,00,000 x 2                                     | 4,00,000        |
|      | Less: Depreciation for the first year @ 30%                            | <u>1,20,000</u> |
|      |                                                                        | 2,80,000        |
|      | Less: Depreciation for the second year = ₹ 2,80,000 x $\frac{30}{100}$ | <u>84,000</u>   |
|      | Agreed value of two cars taken back by the hire vendor                 | <u>1,96,000</u> |
| (ii) | Cash purchase price of one car                                         | 2,00,000        |
|      | Less: Depreciation on ₹ 2,00,000 @20% for the first year               | <u>40,000</u>   |
|      | Written down value at the end of first year                            | 1,60,000        |

|       |                                                                                   |                 |
|-------|-----------------------------------------------------------------------------------|-----------------|
|       | Less: Depreciation on ₹ 1,60,000 @ 20% for the second year                        | <u>32,000</u>   |
|       | Book value of car left with the hire purchaser                                    | <u>1,28,000</u> |
| (iii) | Book value of one car as calculated in working note (ii) above                    | 1,28,000        |
|       | Book value of Two cars = ₹ 1,28,000 x 2                                           | 2,56,000        |
|       | Value at which the two cars were taken back, calculated in working note (i) above | 1,96,000        |
|       | Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000 =                        | ₹ 60,000        |
| (iv)  | Sale proceeds of cars repossessed                                                 | 1,70,000        |
|       | Less: Value at which cars were taken back ₹ 1,96,000                              |                 |
|       | Repair ₹ 10,000                                                                   | <u>2,06,000</u> |
|       | Loss on resale                                                                    | <u>36,000</u>   |

**13. Investment Account for the year ending on 31<sup>st</sup> December, 2018**

**Scrip : 8% Convertible Debentures in C Ltd.**

**[Interest Payable on 31<sup>st</sup> March and 30<sup>th</sup> September]**

| Date     | Particulars             | Nominal value ₹ | Interest ₹    | Cost ₹          | Date     | Particulars                                            | Nominal Value (₹) | Interest (₹)  | Cost (₹)        |
|----------|-------------------------|-----------------|---------------|-----------------|----------|--------------------------------------------------------|-------------------|---------------|-----------------|
| 1.4.18   | To Bank A/c             | 2,00,000        | -             | 2,16,000        | 30.09.18 | By Bank A/c                                            | -                 | 12,000        | -               |
| 1.7.18   | To Bank A/c (W.N.1)     | 1,00,000        | 2,000         | 1,10,000        |          | [₹3,00,000 x 8% x (6/12)]                              |                   |               |                 |
| 31.12.18 | To P & L A/c [Interest] | -               | 14,033        | -               | 1.10.18  | By Bank A/c                                            | 80,000            |               | 84,000          |
|          |                         |                 |               |                 | 1.10.18  | By P&L A/c (loss) (W.N.1)                              |                   |               | 2,933           |
|          |                         |                 |               |                 | 1.12.18  | By Bank A/c (Accrued interest) (₹ 55,000 x .08 x 2/12) |                   | 733           |                 |
|          |                         |                 |               |                 | 1.12.18  | By Equity shares in C Ltd. (W.N. 3 and 4)              | 55,000            |               | 59,767          |
|          |                         |                 |               |                 | 31.12.18 | By Balance c/d (W.N.5)                                 | <u>1,65,000</u>   | <u>3,300</u>  | <u>1,79,300</u> |
|          |                         | <u>3,00,000</u> | <u>16,033</u> | <u>3,26,000</u> |          |                                                        | <u>3,00,000</u>   | <u>16,033</u> | <u>3,26,000</u> |

**SCRIP: Equity Shares in C LTD.**

| Date    | Particulars       | Cost (₹)      | Date     | Particulars    | Cost (₹)      |
|---------|-------------------|---------------|----------|----------------|---------------|
| 1.12.18 | To 8 % debentures | <u>59,767</u> | 31.12.18 | By balance c/d | <u>59,767</u> |

**Working Notes:**

- (i) Cost of Debenture purchased on 1<sup>st</sup> July = ₹1,12,000 – ₹2,000 (Interest)  
= ₹1,10,000
- (ii) Cost of Debentures sold on 1<sup>st</sup> Oct.  
= (₹2,16,000 + ₹1,10,000) x 80,000/3,00,000 = ₹ 86,933
- (iii) Loss on sale of Debentures = ₹ 86,933 – ₹84,000 = ₹2,933  
Nominal value of debentures converted into equity shares = ₹ 55,000  
[(₹ 3,00,000 – 80,000) x.25]  
Interest received before the conversion of debentures  
Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733
- (iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000  
= ₹ 59,767
- (v) Cost of closing balance of Debentures = (₹ 2,16,000 + ₹1,10,000) x  
1,65,000 / 3,00,000  
= ₹ 1,79,300
- (vi) Closing balance of Debentures has been valued at cost being lower than the market value i.e. ₹ 1,81,500 (₹ 1,65,000 @ ₹ 110)
- (vii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x5,000)

**Note:** It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

**14. Memorandum Trading Account for the Period from 1.1.2018 to 30.6.2018**

|                             | ₹         |                  | ₹         |
|-----------------------------|-----------|------------------|-----------|
| To Opening Stock (1.1.2018) | 1,50,000  | By Sales         | 11,50,000 |
| To Purchases                | 9,50,000  | Less: Sales      |           |
| Less: Returns               | (12,500)  | Returns          | (40,000)  |
|                             | 9,37,500  |                  | 11,10,000 |
| To Cartage Inwards          | 17,500    | By Closing Stock | 2,80,000  |
| To Wages                    | 7,500     | (Bal. Fig.)      |           |
| To Gross Profit             | 2,77,500  |                  |           |
| (25% of ₹ 11,10,000)        |           |                  |           |
|                             | 13,90,000 |                  | 13,90,000 |

**Stock Destroyed Account**

|                    | ₹        |                            | ₹        |
|--------------------|----------|----------------------------|----------|
| To Trading Account | 2,80,000 | By Stock Salvaged Account  | 20,000   |
|                    |          | By Balance c/d (For Claim) | 2,60,000 |
|                    | 2,80,000 |                            | 2,80,000 |

**Statement of Claim**

| Items     | Cost<br>(₹) | Depreciation<br>(₹) | Salvage<br>(₹) | Claim<br>(₹) |
|-----------|-------------|---------------------|----------------|--------------|
| A         | B           | C                   | D              | (E=B-C-D)    |
| Stock     | 2,80,000    |                     | 20,000         | 2,60,000     |
| Buildings | 3,75,000    | 1,25,000 + 9,375    | 4,000          | 2,36,625     |
| Equipment | 75,000      | 22,500 + 5,625      | 2,500          | 44,375       |
|           |             |                     |                | 5,41,000     |

15.

**Revaluation Account**

|                      | ₹      |                     | ₹      |
|----------------------|--------|---------------------|--------|
| To Stock             | 2,000  | By Motor car        | 10,000 |
| To Expenses          | 6,500  | By Office equipment | 5,000  |
| To Purchases Omitted | 4,000  |                     |        |
| To Capital A/c       |        |                     |        |
| Ajay           833   |        |                     |        |
| Vijay       1,250    |        |                     |        |
| Sanjay <u>417</u>    | 2,500  |                     |        |
|                      | 15,000 |                     | 15,000 |

**Partners' Capital Accounts**

| Particulars             | Ajay   | Vijay    | Sanjay | Kamal | Particulars        | Ajay   | Vijay    | Sanjay | Kamal |
|-------------------------|--------|----------|--------|-------|--------------------|--------|----------|--------|-------|
| <b>Before admission</b> |        |          |        |       |                    |        |          |        |       |
| To Balance b/d          | 20,000 | -        | -      | -     | By bal b/d         | -      | 85,000   | 68,000 | -     |
| To Motor Car            | -      | 70,000   | -      | -     | By Reserve         | 10,000 | 15,000   | 5,000  | -     |
| To Balance c/d          | 16,087 | 69,130   | 81,127 | -     | By Furniture       | 1,600  | 2,400    | 800    | -     |
|                         |        |          |        |       | By Revaluation A/c | 833    | 1,250    | 417    | -     |
|                         |        |          |        |       | By Goodwill        | 23,654 | 35,480   | 7,000  | -     |
| Total                   | 36,087 | 1,39,130 | 81,217 |       |                    | 36,087 | 1,39,130 | 81,217 |       |

| At the time of admission                  |        |        |        |        |                     |        |        |        |        |
|-------------------------------------------|--------|--------|--------|--------|---------------------|--------|--------|--------|--------|
| To Goodwill                               | 17,395 | 26,094 | 5,250  | 17,395 | By Balance b/d      | 16,087 | 69,130 | 81,127 | -      |
| To Balance c/d                            | -      | 43,036 | 75,967 | -      | By assets           | -      | -      | -      | 8,000  |
|                                           |        |        |        |        | By bal c/d          | 1,308  | -      | -      | 9,395  |
| Total                                     | 17,395 | 69,130 | 81,217 | 17,395 |                     | 17,395 | 69,130 | 81,217 | 17,395 |
| Adjustments to make Capital proportionate |        |        |        |        |                     |        |        |        |        |
| To balance b/d                            | 1,308  | -      | -      | 9,395  | By bal b/d          | -      | 43,036 | 75,967 | -      |
| To Bank (bal. fig.)                       | -      | -      | 56,351 | -      |                     |        |        |        |        |
| To balance c/d (WN 4)                     | 39,232 | 58,847 | 19,616 | 39,232 | By Bank (bal. fig.) | 40,540 | 15,811 | -      | 48,627 |
| Total                                     | 40,540 | 58,847 | 75,967 | 48,627 |                     | 40,540 | 58,847 | 75,967 | 48,627 |

### Balance Sheet of the Firm (after Kamal's admission)

| Equity & Liabilities       | ₹               | Assets                   | ₹               |
|----------------------------|-----------------|--------------------------|-----------------|
| Capital Account:           |                 | Furniture & fixture      | 37,800          |
| Ajay                       | 39,232          | (30,000 + 3,000 + 4,800) |                 |
| Vijay                      | 58,847          | Office equipment         | 25,000          |
| Sanjay                     | 19,616          | Stock (38,000 + 5,000)   | 43,000          |
| Kamal                      | 39,232          | Debtors                  | 20,000          |
| Creditors (25,000 + 4,000) | 29,000          | Cash at Bank (W. N. 5)   | 66,627          |
| Outstanding Expenses       | 6,500           |                          |                 |
|                            | <u>1,92,427</u> |                          | <u>1,92,427</u> |

### Working Notes:

#### 1. Computation of New Profit sharing ratio

Since Kamal's Share =  $\frac{1}{4}^{\text{th}}$ , Balance  $\frac{3}{4}^{\text{th}}$  to be shared by Ajay, Vijay and Sanjay in the ratio 2:3:1

|           | Ajay                                           | Vijay                                          | Sanjay                                         | Kamal Total                 |         |
|-----------|------------------------------------------------|------------------------------------------------|------------------------------------------------|-----------------------------|---------|
| New Ratio | $\frac{2}{6} \times \frac{3}{4} = \frac{2}{8}$ | $\frac{3}{6} \times \frac{3}{4} = \frac{3}{8}$ | $\frac{1}{6} \times \frac{3}{4} = \frac{1}{8}$ | $\frac{1}{4} = \frac{2}{8}$ | 2:3:1:2 |

#### 2. Computation of Goodwill

| Year               | 1      | 2      | 3      | Total |
|--------------------|--------|--------|--------|-------|
| Profit             | 35,900 | 38,200 | 31,500 |       |
| Less: Depreciation | (800)  | (800)  | (800)  |       |

|                              |               |               |               |          |
|------------------------------|---------------|---------------|---------------|----------|
| Purchase invoice omitted     | (4,000)       |               |               |          |
|                              | <u>31,100</u> | <u>37,400</u> | <u>30,700</u> | 99,200   |
| Average Profit               |               | 99,200/3      |               | ₹ 33,067 |
| Goodwill at 2 years purchase |               | ₹ 33,067 × 2  |               | ₹ 66,134 |

3. (i) Goodwill to be credited to Ajay, Vijay and Sanjay

| Particulars                                                                     | Ajay          | Vijay         | Sanjay       | Total         |
|---------------------------------------------------------------------------------|---------------|---------------|--------------|---------------|
| First – ₹ 42,000 to be distributed among all the Partners in the ratio of 2:3:1 | 14,000        | 21,000        | 7,000        | 42,000        |
| Balance - ₹ 24,134 to be distributed between Ajay and Vijay in the ratio 2:3    | <u>9,654</u>  | <u>14,480</u> | -            | <u>24,134</u> |
| Total                                                                           | <u>23,654</u> | <u>35,480</u> | <u>7,000</u> | <u>66,134</u> |

(ii) Writing off Goodwill

| Particulars                                                                          | Ajay          | Vijay         | Sanjay       | Kamal         | Total         |
|--------------------------------------------------------------------------------------|---------------|---------------|--------------|---------------|---------------|
| First – ₹ 42,000 to be debited among all the Partners in the ratio of 2:3:1:2        | 10,500        | 15,750        | 5,250        | 10,500        | 42,000        |
| Balance- ₹ 24,134 to be distributed between Ajay, Vijay and Kamal in the ratio 2:3:2 | <u>6,895</u>  | <u>10,344</u> | -            | <u>6,895</u>  | <u>24,134</u> |
| Total                                                                                | <u>17,395</u> | <u>26,094</u> | <u>5,250</u> | <u>17,395</u> | <u>66,134</u> |

4. Computation of proportionate Capital of Partners

|                                                                                                                                                            | ₹                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Combined Capital of Ajay, Vijay, Sanjay (Existing partners) – as per balance derived in partners' Capital Account = ₹ 43,036 + ₹ 75,967 - 1,308 = 1,17,695 | 1,17,695          |
| Share of Ajay, Vijay and Sanjay in the new firm after deducting Kamal's 1/4 <sup>th</sup> share                                                            | 3/4 <sup>th</sup> |
| Total Capital of the Firm after Kamal's admission = ₹ 1,17,695 ÷ 3/4 <sup>th</sup>                                                                         | 1,56,927          |

Apportionment of Capital in New Profit Sharing Ratio i.e. Proportionate Capital of partners

| Partners                                        | Ajay   | Vijay  | Sanjay | Kamal  |
|-------------------------------------------------|--------|--------|--------|--------|
| Ratio                                           | 2      | 3      | 1      | 2      |
| Proportionate Capital of partners<br>(1,56,927) | 39,232 | 58,847 | 19,616 | 39,232 |

**5. Cash at Bank**

$$= \text{Given ₹ } 18,000 + 40,540 + 15,811 + 48,627 - 56,351 = ₹ 66,627$$

**Note:**

1. In the above solution, adjustment of furniture for ₹ 4,800 has been routed through Partners' capital accounts. Alternatively, it may also be routed through Revaluation A/c.
  2. Since goodwill is not a purchased goodwill, it has been written off in the above solution, in accordance with the AS 10.
  3. As per the requirement given in the question, it is agreed among existing partners that Sanjay's interest in the goodwill of the firm is only upto the value of ₹ 42,000. It has been assumed in the above solution that Sanjay is credited at the time of raising of goodwill as well as debited only to the extent of ₹ 42,000 at the time of writing off of goodwill.
- 16.** Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilise the expertise of the outsourced party. The third party maintains the accounting software and the client data, does the processing and hands over the report from time to time.

The choice of outsourcing vendor is made on the basis of the proposals received from these vendors. The proposals are evaluated and the decision is often taken based on the following criteria:

1. The type of services provided and whether the same matches with the requirements,
  2. The reputation and background of the vendor,
  3. The comparative costs of the various propositions,
  4. The assurance of quality.
- 17. (a)** The question deals with the issue of Applicability of Accounting Standards for corporate & non-corporate entities.

The companies can be classified under two categories viz SMCs and Non SMCs under the Companies (AS) Rules, 2006.

As per the Companies (AS) Rules, 2006, criteria for above classification as SMCs, are:

“Small and Medium Sized Company” (SMC) means, a company-

- (i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- (ii) which is not a bank, financial institution or an insurance company;
- (iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;
- (iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and
- (v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover of ₹ 35 lakhs does not exceed ₹ 50 crores & borrowings of ₹ 10 lakhs is less than ₹ 10 crores, it is a small and medium sized company

The following relaxations and exemptions are available to XYZ Ltd.

1. AS 3 “Cash Flow Statements” is not mandatory.
  2. AS 17 “Segment Reporting” is not mandatory.
  3. SMEs are exempt from some paragraphs of AS 19 “Leases”.
  4. SMEs are exempt from disclosures of diluted EPS (both including and excluding extraordinary items).
  5. SMEs are allowed to measure the ‘value in use’ on the basis of reasonable estimate thereof instead of computing the value in use by present value technique under AS 28 “Impairment of Assets”.
  6. SMEs are exempt from certain disclosure requirements of AS 29 (Revised) “Provisions, Contingent Liabilities and Contingent Assets”.
  7. SMEs are exempt from certain requirements of AS 15 “Employee Benefits”.
  8. Accounting Standards 21, 23, 27 are not applicable to SMEs.
- (b) AS-1 “Disclosures of Accounting Policies”, states that the accounting treatment and presentation in Financial Statements of transactions should be governed by their substance and not merely by the legal form. The treatment in the given case would depend on the terms of the Works Contract and also the substance of the agreement.

Accordingly, there can be two possibilities in the instant case, viz

#### **Situation 1**

The Company acts as the agent of the customer.

Disclosure should be made to this effect that the material purchased belongs to the customer.

Where ownership of goods vests with the customers and the company merely purchases goods on behalf of its customers, it acts in the capacity of an agent for execution of works under a works contract for which it receives full payment. Hence, these purchases cannot be treated as the purchases of the Company and so, the debit to its P&L A/c is not correct

### Situation 2

The Company is the owner of the materials purchased in substance and has the right, (though a restricted one) to use the materials, for all practical purposes.

If the terms of Works Contract provide for factor linked payment by customer and in substance the materials acquired by the Company belongs to the company only, irrespective of the legal form of ownership, the Company is justified in debiting its P&L A/c.

18. (a) Cash flow statement consists of: (a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (b) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value.

Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents. *Any transaction, which does not result in cash flow, should not be reported in the cash flow statement.* Movements within cash or cash equivalents are not cash flows because they do not change cash as defined by AS 3 "Cash Flow Statements" which is sum of cash, bank and cash equivalents.

In the given case, due to increase in rate of foreign exchange by 75 paise, there is increase (change) in bank balance. This increase of ₹ 18,750 ( $25,000 \times 0.75$ ) is not a cash flow because neither there is any cash inflow nor there is any cash outflow. Therefore, this change in bank balance amounting ₹ 18,750 need not be disclosed in Cash Flow Statement of Ruby exports.

The net increase/decrease in Cash/Cash equivalents in the Cash Flow Statements are stated exclusive of exchange gains and losses. The resultant difference between Cash and Cash Equivalents as per the Cash flow statement and that recognized in the balance sheet is reconciled in the note on cash flow statements.

- (b) Treatment as per AS 3 'Cash Flow Statement'

- (i) Loans and advances given and interest earned

- |                                 |                                      |
|---------------------------------|--------------------------------------|
| (1) to suppliers                | Cash flows from operating activities |
| (2) to employees                | Cash flows from operating activities |
| (3) to its subsidiary companies | Cash flows from investing activities |

- (ii) Investment made in subsidiary company and dividend received  
Cash flows from investing activities

- (iii) Dividend paid for the year  
Cash flows from financing activities
- (iv) TDS on interest income earned on investments made  
Cash flows from investing activities
- (v) TDS on interest earned on advance given to suppliers  
Cash flows from operating activities

19. (a) As per AS 7 'Construction Contracts', when a contract covers number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Offices, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one single agreement for contracts.

Therefore, three separate contract accounts must be recorded and maintained in the books of GTI Ltd. For each contract, principles of revenue and cost recognition must be applied separately and net income will be determined for each asset as per AS 7.

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

- (i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- (ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

20. (a) According to AS 10 (Revised), these costs can be capitalised:

|    |                                                          |                   |
|----|----------------------------------------------------------|-------------------|
| 1. | Cost of the plant                                        | ₹ 50,00,000       |
| 2. | Initial delivery and handling costs                      | ₹ 4,00,000        |
| 3. | Cost of site preparation                                 | ₹ 12,00,000       |
| 4. | Consultants' fees                                        | ₹ 14,00,000       |
| 5. | Estimated dismantling costs to be incurred after 7 years | <u>₹ 6,00,000</u> |
|    |                                                          | ₹ 86,00,000       |

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 4,00,000 and operating losses before commercial production amounting to ₹ 8,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

- (b) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is ₹ 2.50 lakhs, which is lower than its cost i.e. ₹ 5 lakhs. Therefore, the transfer to long term investments should be made at cost of ₹ 2.50 lakhs. The loss of ₹ 2.50 lakhs should be charged to profit and loss account.