PAPER – 1 : ACCOUNTING

Question No. 1 is compulsory.

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

Wherever necessary suitable assumptions should be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *Calculate the value of raw materials and closing stock based on the following information:*

Raw material X	
Closing balance	*500 units*
	₹ per unit
Cost price including excise duty	*200*
Excise duty (Cenvat credit is receivable on the excise duty paid)	*10*
Freight inward	*20*
Unloading charges	*10*
Replacement cost	*150*
Finished goods Y	
Closing Balance	*1200 units*
	₹ per unit
Material consumed	*220*
Direct labour	*60*
Direct overhead	*40*

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units.

Calculate the value of the closing stock, when

(i) Net Realizable Value of the Finished Goods Y is ₹ 400.

(ii) Net Realizable Value of the Finished Goods Y is ₹ 300. (5 Marks)

(b) *On 01.04.2010 a machine was acquired at ₹ 4,00,000. The machine was expected to have a useful life of 10 years. The residual value was estimated at 10% of the original cost. At the end of the 3rd year, an attachment was made to the machine at a cost of ₹ 1,80,000 to enhance its capacity. The attachment was expected to have a useful life of 10 years and zero terminal value. During the same time the original machine was revalued upwards by ₹ 90,000 and remaining useful life was reassessed at 9 years and residual value was reassessed at NIL.*

Find depreciation for the year, if

(i) attachment retains its separate identity.

(ii) attachment becomes integral part of the machine *(5 Marks)*

(c) Ascertain the value at which various items of Fixed Assets are to be shown in the Financial Statements of Velvet Ltd. and amount to be debited to the Profit and Loss Account in the context of the relevant Accounting Standard.

Narrations for the adjustments made should form part of the answer:

(i) Goodwill was valued at ₹ 1,20,000 by independent valuers and no consideration was paid. The Company has not yet recorded the same.

(ii) Balance of Office Equipment as on 01.04.2013 is ₹ 1,20,000. On.1.04.2013, out of the above office equipment having book value ₹ 20,000 has been retired from use and held for disposal. The net realizable value of the same is ₹ 2,000. Rate of depreciation is 15% p.a. on WDV basis.

(iii) Book Value of Plant and Machinery as on 01.04.2013 was ₹ 7,20,000. On 01.08.2013 an item of machinery was purchased in exchange for 500 equity shares of face value ₹ 10. The Fair Market value of the equity shares on 01.08.2013 was ₹ 120. Rate of depreciation is 10% p.a. on WDV basis. *(5 Marks)*

(d) M/s Highway .Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 2 years. The contract price was estimated at ₹ 150 crores. Up to 31.03.2014 the company incurred ₹ 120 crores on the construction. The engineers involved in the project estimated that a further ₹ 45 crores would be incurred for completing the work.

What amount should be charged to revenue for the year 2013-14 as per the provisions of Accounting Standard 7 "Construction Contracts"? Show the extract of the Profit & Loss A/c in the books of M/s. Highway Constructions. *(5 Marks)*

Answer

(a) Working Notes:

Raw Material X	₹
Cost Price	200
Less: Cenvat Credit	(10)
	190
Add: Freight Inward	20
Unloading charges	10
Cost	220
Finished goods Y	**₹**
Materials consumed	220

Direct Labour	60
Direct overhead	40
Fixed overheads (₹ 2,00,000/20,000 units)	10
Cost	330

Situation (i)

When Net Realisable Value of the Finished Goods Y is ₹ 400

NRV is greater than the cost of Finished Goods Y i.e. ₹ 330

Hence, Raw Material and Finished Goods are to be valued at cost

Value of Closing Stock:

	Qty	Rate	Amount (₹)
Raw Material X	500	220	1,10,000
Finished Goods Y	1,200	330	3,96,000
Total Cost of Closing Stock			5,06,000

Situation (ii)

When Net Realisable Value of the Finished Goods Y is ₹ 300

NRV is less than the cost of Finished Goods Y i.e. ₹ 330

Hence, Raw Material is to be valued at replacement cost and

Finished Goods are to be valued at NRV since NRV is less than the cost

Value of Closing Stock:

	Qty	Rate	Amount (₹)
Raw Material X	500	150	75,000
Finished Goods Y	1,200	300	3,60,000
Total Cost of Closing Stock			4,35,000

Note: It has been considered that Raw Material X is used for the production of Finished Goods Y.

(b) 1. Depreciation of Original Machine

		₹
Original cost of Machine as on 01.04.2010		4,00,000
Less: Residual Value 10%		(40,000)
Depreciable Value		3,60,000
Useful life	10 Years	

Depreciation per year		36,000
Depreciation for 3 Years		1,08,000
Written down value at the end of 3rd year (as on 31.03.2013) (4,00,000 – 1,08,000)		2,92,000
Add: Revaluation		90,000
Total Book Value after revaluation		3,82,000
Reassessed remaining useful life	9 Years	
Depreciation per year from 2013-14		42,444

2. Depreciation of Attachment

		₹
Original cost of Attachment as on 01.04.2013		1,80,000
Useful life	10 Years	
Depreciation per year from 2013-14		18,000

Depreciation for the year 2013-14

(i) If Attachment retains its separate identity:

Depreciation of Original Machine	₹ 42,444
Depreciation of Attachment	₹ 18,000
Total Depreciation for 2013-14	₹ 60,444

(ii) If Attachment becomes integral part of the Machine:

Total value of Machine as on 01.04.2013	
Original Machine at revalued cost (W.N.1)	₹ 3,82,000
Cost of attachment	₹ 1,80,000
	₹ 5,62,000
Useful life	9 Years
Depreciation for 2013-14	₹ 62,444

Note:

1. Since, upward revaluation of the machine and reassessment of remaining useful life had been made at the end of the 3rd year, it is implied that depreciation for the 3rd year has been charged on the basis of old calculation & remaining useful life of 9 years is to be calculated from the beginning of the 4th year onwards.
2. Depreciation for the 4th year i.e. 2013-14 has been given in the solution.

(c) Statement showing treatment and value of various items of Fixed Assets

	Item of Fixed Assets	*Amount (₹)*	*Amount Debited to P& L in 2013-14*	*Narration*	*Book Value as on 31.3.2014 to be shown in the Financial Statements*
(i)	Goodwill				
	Book value as on 1.4.2013	0			
	Balance as on 31.3.2014 (See Note 1)				0
(ii)	Office Equipment				
	Balance as on 1.4.2013	1,20,000			
	Less: Retired from use (Book value on 1.4.2013)	20,000			
		1,00,000			
	Less: Depreciation for 2013-14 @ 15% WDV	15,000	15,000	Depreciation	
	Balance as on 31.3.2014	85,000			85,000
	Office Equipment (Retired from use)				
	Book Value as on 1.4.2013	20,000			
	Less: Book Value as on 31.3.2014 (at NRV)(See Note 2)	2,000			2,000
	Loss on retirement charged to P&L	18,000	18,000	Loss on retirement of asset	
(iii)	Plant and Machinery				
	Book Value as on 1.4.2013	7,20,000			
	Add: Machine purchased on 01.08.2013 (See Note 3)	60,000			
		7,80,000			
	Less: Depreciation				
	Original machine for				

	whole year 72,000				
	New machine for 8 months 4,000	76,000	76,000	Depreciation	
	Balance as on 31.3.2014	7,04,000			7,04,000
			1,09,000		7,91,000

Note:

1. As per para 16 of AS 10 'Accounting for Fixed Assets' goodwill is to be recorded only when some consideration in money or money's worth has been paid for it. Since the goodwill is self generated and no money or money's worth has been paid for the same, therefore, it is not to be recorded in the books.
2. Office equipment having book value of ₹ 20,000 as on 1.4.2013 has been retired from use. It has been recorded at Net Realisable Value (NRV) as the NRV is lower than the book value and shown separately in the financial statements. This is in consonance with the provisions stated in para 14 of AS 10.
3. As per para 11 of the standard, the new machine has been recorded at the Fair Market Value of the securities issued as it is more clearly evident.

(d) Statement showing the amount to be charged to Revenue as per AS 7

		₹ in crores
	Cost of construction incurred upto 31.03.2014	120
Add:	Estimated future cost	45
	Total estimated cost of construction	165
	Degree of completion (120/165 x 100)	72.73%
	Revenue recognized (72.73% of 150)	109 (approx)
	Total foreseeable loss (165 – 150)	15
Less:	Loss for the current year (120 – 109)	11
	Loss to be provided for	4

Profit and Loss Account (Extract)

	₹ in crores		₹ in crores
To Construction Costs	120	By Contract Price	109
To Provision for loss	4	By Net loss	15
	124		124

Question 2

(a) The Articles of Association of Samson Ltd. provide the following:

(i) That 25 % of the net profit of each year shall be transferred to reserve fund.

(ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied:

(1) in paying 15% on cumulative preference shares.

(2) in paying 20% dividend on equity shares.

(3) one-third of the balance available as additional dividend on preference shares and two-third as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 14% on preference shares after making provision (i), (ii) and (iii) mentioned above. The company has issued 12,000, 15% cumulative participating preference shares of ₹ 100 each fully paid and 75,000 equity shares of ₹ 100 each fully paid up.*

The profit for the year 2013-2014, was ₹ 10,00,000 and balance brought from previous year ₹ 1,50,000. Provide ₹ 37,500 for depreciation and ₹ 1,20,000 for taxation before making other appropriations. *(8 Marks)*

Show net balance of Profit and Loss Account after making above adjustments.

(b) Sneha Ltd. was incorporated on 1st July, 2013 to acquire a running business of Atul Sons with effect from 1st April, 2013. During the year 2013-14, the total sales were ₹ 24,00,000 of which ₹ 4,80,000 were for the first six months. The Gross profit of the company ₹ 3,90,800. The expenses debited to the Profit & Loss Account included:

(i) Director's fees ₹ 30,000

(ii) Bad debts ₹ 7,200

(iii) Advertising ₹ 24,000 (under a contract amounting to ₹ 2,000 per month)

(iv) Salaries and General Expenses ₹ 1,28,000

(v) Preliminary Expenses written off ₹ 10,000

(vi) Donation to a political party given by the company ₹ 10,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2014. *(8 Marks)*

Answer

(a) Statement of Profit and Loss for the year ended 31st March, 2014

	Particulars	*Amount ₹*
a	Profit	10,00,000
b	Expenses: Depreciation and amortization	(37,500)

* PS: Read ₹ 100 as ₹ 10.

	Total expenses	(37,500)
c	Profit before tax (a-b)	9,62,500
d	Provision for tax	(1,20,000)
e	Profit (Loss) for the period	8,42,500

Notes to Accounts

Profit (Loss) for the period	8,42,500
Balance of Profit and Loss account brought forward	1,50,000
Total	9,92,500
Appropriations (made in Notes to Accounts)	
Transfers to Reserves	(2,10,625)
Proposed preference dividend (1,80,000 + 84,023)	(2,64,023)
Proposed equity dividend (1,50,000 + 1,68,047)	(3,18,047)
Bonus to employees (15,000 + 16,805)	(31,805)
Total	8,24,500
Balance carried to Balance sheet (9,92,500 – 8,24,500)	1,68,000

Working Note:

Balance of amount available for Preference and Equity shareholders and Bonus for Employees	
Credit Side	9,92,500
Less: Dr. side (2,10,625 + 1,80,000 + 1,50,000 + 15,000 + 1,68,000 (i.e.12,000x100x14/100= 1,68,000)	(7,23,625)
	2,68,875

Suppose remaining balance will be = x

Preference shareholders will get share from remaining balance = $x \times \frac{1}{3} = \frac{1}{3}x$

Equity shareholders will get share from remaining balance = $x \times \frac{2}{3} = \frac{2}{3}x$

Bonus to Employees = $\frac{2}{3}x \times \frac{10}{100} = \frac{2}{30}x$

Now, $\frac{2}{3}x + \frac{1}{3}x + \frac{2}{30}x = 2,68,875$

32 x = 80,66,250 , than x = 2,52,070

Share of Preference Shareholders ₹ 2,52,070 x 1/3 = ₹84,023

Share of Equity Shareholders ₹ 2,52,070 x 2/3= ₹1,68,047

Bonus to employees ₹ 2,52,070 x 2/30 = ₹16,805

Note: Corporate dividend tax on dividend distributed has been ignored.

(b) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

For the year ended 31st March, 2014

Particulars	*Total Amount*	*Basis of Allocation*	*Pre-incorporation*	*Post-incorporation*
Gross Profit	3,90,800	Sales	39,080	3,51,720
Less: Directors' fee	30,000	Post		30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Time	6,000	18,000
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Donation to Political Party	10,000	Post		10,000
Net Profit	1,81,600			1,81,240
Pre-incorporation profit transfer to Capital Reserve			360	

Working Notes:

1. Sales ratio

Particulars	₹
Sales for period up to 30.06.2013 (4,80,000 * 3/6)	2,40,000
Sales for period from 01.07.2013 to 31.03.2014 (24,00,000 – 2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 2013 to 30 June, 2013: 1st July, 2013 to 31st March, 2014

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

Question 3

Following are the incomplete information of Moonlight Traders:

The following balances are available as on 31.03.2013 and 31.03.2014.

Balances	31.03.2013	31.03.2014
	₹	₹
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%.	1,25,000	1,00,000
Bank	25,000	?
Provision for tax (rate 30%)	35,000	30,000

Other Information	₹
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	
Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(i) On 01.10.13 they sold machine having Book Value ₹ 40,000 (as on 31.03.2013) at a loss of ₹ 15,000. New machine was purchased on 01.01.2014.

(ii) Office equipment was sold at its book value on 01.04.2013.

(iii) Loan was partly repaid on 31.03.14 together with interest for the year.

Prepare Trading P & L A/c and Balance Sheet as on 31.03.2014. (16 Marks)

Answer

In the Books of Moonlight Traders
Trading Account for the year ended 31.03.2014

	Particulars	₹		Particulars	₹
To	Opening Stock A/c (Bal. fig.)	1,65,000	By	Sales (W.N.1)	12,50,000
To	Purchases (W.N.2)	9,00,000	By	Closing Stock	65,000
To	Gross profit (12,50,000 x 25/125)	2,50,000			
		13,15,000			13,15,000

Profit and Loss Account for the year ended 31.03.2014

	Particulars		₹		Particulars	₹
To	Discount		5,500	By	Gross profit	2,50,000
To	Salaries Expenses		32,000	By	Discount	4,500
To	Office expenses (W.N.3)		37,000			
To	Selling expenses		15,000			
To	Interest on loan (12% on ₹ 1,25,000)		15,000			
To	Bad debts (2% of ₹ 2,25,000)		4,500			
To	Loss on sale of Machinery		15,000			
To	Depreciation:					
	Land & Building	25,000				
	Plant & Machinery(W.N 4b)	23,750				
	Office Equipment (W.N. 5)	12,750	61,500			
To	Tax Provision* (69,000 x 30%)		20,700			
To	Net profit after tax		48,300			
			2,54,500			2,54,500

* Alternatively, the entire provision for tax as on 31.3.2013 of ₹ 35,000 has been assumed to be paid during the year. In that case Working Note 10 will not be required and profit and loss account will show ₹ 30,000 as provision for 31.3.2014 instead of ₹ 20,700.

Balance sheet as on 31.3.2014

Liabilities	₹	₹	*Assets*	₹
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000 - 25,000)	4,75,000
Add: Net Profit	48,300	9,43,800	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
			Debtors less Bad debts (W.N. 7)	2,20,500
Outstanding expenses		15,000	Stock	65,000
Loan from SBI		1,00,000	Bank Balance (W.N. 9)	53,300
Tax Provision		30,000		
		11,94,300		11,94,300

Working Notes:

1. Calculation of Total Sales

	₹
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (2,50,000*100/20)	12,50,000
Credit Sales (12,50,000*80/100)	10,00,000

2. Calculation of Total Purchases

	₹
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases (9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	₹		₹
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

4. (a) Plant and Machinery Account

	₹		₹
To Opening balance	2,20,000	By Bank (Sale)	40,000
To Bank (Purchases)	1,50,000	By Closing Balance	3,30,000
	3,70,000		3,70,000

(b) Calculation of Depreciation on Plant & Machinery

		₹
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000* x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

* [3,30,000 - (2,20,000 – 40,000)]

(c) Sale of Machinery Account

	Amount (₹)		*Amount (₹)*
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss A/c	15,000
		By Bank (bal.fig.) (Sale)	23,000
	40,000		40,000

5. Calculation of Depreciation on Office Equipments

	₹
Opening Balance	1,05,000
Less: Closing Balance	85,000
Sale of Office Equipments	20,000
Balance of Office Equipments after sale on 01.04.2013	85,000
Depreciation @15%	12,750

6. Opening Balance Sheet as on 31.03.2013

	₹		₹
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,25,000	Office Equipment	1,05,000
Provision for Tax	35,000	Debtors (W.N. 7)	1,55,500

Capital (Bal. fig.)	8,95,500	Stock (from Trading A/c)	1,65,000
		Bank	25,000
	11,70,500		11,70,500

7. Sundry Debtors A/c

	₹		₹
To Balance b/d (bal. fig.)	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		11,55,500

8. Sundry Creditors A/c

	₹		₹
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d (bal. fig.)	1,05,500		
	6,35,000		6,35,000

9. Bank Account

	₹		₹
To Balance b/d	25,000	By Creditors	5,25,000
To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest (W.N. 11)	40,000
		By Tax (W.N. 10)	25,700
		By Balance c/d (bal. fig.)	53,300
	12,43,000		12,43,000

10. Provision for Tax Account

	₹		₹
To Bank (bal. fig.)	25,700	By Balance b/d	35,000
To Balance c/d	30,000	By Profit and Loss A/c	20,700
	55,700		55,700

11. Repayment of Bank Loan and interest

	₹
Interest 1,25,000 x 12%	15,000
Loan (1,25,000 – 1,00,000)	25,000
	40,000

Note:

The above solution has been worked out on the basis of the following assumptions:-

(i) Tax profits are the same as accounting profits.

(ii) The figure of ₹ 2,25,000, being the closing balance of Sundry Debtors as given in the question is before providing for bad debts. Accordingly, the closing balance has been reduced by the amount of bad debts.

Question 4

The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2014 was as follows:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Equity Shares of ₹ 10 fully paid	*30,00,000*	*Goodwill*	*5,00,000*
Export Profit Reserves	*8,50,000*	*Tangible Fixed Assets*	*30,00,000*
General Reserves	*50,000*	*Stock*	*10,40,000*
Profit and loss Account	*5,50,000*	*Debtors*	*1,80,000*
9% Debentures	*5,00,000*	*Cash & Bank*	*2,80,000*
Trade Creditors	*1,00,000*	*Preliminary Expenses*	*50,000*
	50,50,000		*50,50,000*

ANU Ltd. agreed to absorb the business of SRISHTI Ltd. with effect from 1st April, 2014.

(a) The purchase consideration settled by ANU Ltd. as agreed:

(i) 4,50,000 equity Shares of ₹ 10 each issued by ANU Ltd. by valuing its share @ ₹ 15 per share.

(ii) Cash payment equivalent to ₹ 2.50 for every share in SRISHTI Ltd.

(b) *The issue of such an amount of fully paid 8% Debentures in ANU Ltd. at 96% as is sufficient to discharge 9% Debentures in SRISHTI Ltd. at a premium of 20%.*

(c) *ANU Ltd. will take over the Tangible Fixed Assets at 100% more than the book value, Stock at ₹ 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.*

(d) *The actual cost of liquidation of SRISHTI Ltd. was ₹ 75,000. Liquidation cost of SRISHTI Ltd. is to be reimbursed by ANU Ltd. to the extent of ₹ 50,000.*

(e) *Statutory Reserves are to be maintained for 1 more year.*

You are required to:

(i) *Close the books of SRISHTI Ltd. by preparing Realisation Account, ANU Ltd. Account, Shareholders Account and Debenture Account, and*

(ii) *Pass Journal Entries in the books of ANU Ltd. regarding acquisition of business.*

(16 Marks)

Answer

(i) Purchase consideration computation	₹
Cash payment for (3,00,000 x ₹ 2.5)	7,50,000
Equity Shares (4,50,000 x ₹ 15)	67,50,000
	75,00,000

In the books of Srishti Ltd.

Realisation Account

		₹			₹
To	Goodwill	5,00,000	By	9% Debentures	5,00,000
To	Tangible Fixed Assets	30,00,000	By	Creditors	1,00,000
To	Stock	10,40,000	By	By Anu Ltd.	75,00,000
To	Debtors	1,80,000		(Purchase consideration)	
To	Cash & Bank A/c (2,80,000- 25,000)	2,55,000			
To	Cash & Bank A/c (Realization expenses)	25,000			
To	Profit on realization transfer to shareholders	31,00,000			
		81,00,000			81,00,000

Equity Shareholders A/c

		₹			₹
To	Preliminary expenses	50,000	By	Equity Share Capital	30,00,000
To	Equity Shares in Anu Ltd.	67,50,000	By	Export Profit Reserves	8,50,000
To	Cash & Bank A/c	7,50,000	By	General Reserves	50,000
			By	P & L A/c	5,50,000
			By	Realization A/c	31,00,000
		75,50,000			75,50,000

9% Debentures Account

		₹			₹
To	Realization A/c	5,00,000	By	Balance b/d	5,00,000

Anu Ltd.

		₹			₹
To	Realization A/c	75,00,000	By	Share Capital	67,50,000
			By	Bank A/c	7,50,000
		75,00,000			75,00,000

(ii) Journal Entries in the books of Anu Ltd.

			₹	₹
1	Business Purchase A/c	Dr.	75,00,000	
	To Liquidator of Srishti Ltd			75,00,000
	(Being business of Srishti Ltd. taken over)			
2	Tangible Fixed Assets	Dr	60,00,000	
	Stock	Dr	7,10,000	
	Debtors	Dr	1,80,000	
	Cash & Bank A/c	Dr	2,55,000	
	Goodwill A/c (Bal. fig.)	Dr	10,64,000	
	To Provision for doubtful debts			9,000
	To Liability for 9 % Debentures			6,00,000
	To Creditors			1,00,000
	To Business Purchase account			75,00,000
	(Being assets and liabilities taken over)			

3	Amalgamation Adjustment A/c	Dr.	8,50,000	
	To Export Profit Reserves			8,50,000
	(Being statutory Reserves taken over)			
4	Goodwill	Dr.	50,000	
	To Bank A/c			50,000
	(Liquidation expenses reimbursed))			
5	Liquidator of Shristi Ltd.	Dr.	75,00,000	
	To Equity Share Capital			45,00,000
	To Securities Premium			22,50,000
	To Bank A/c			7,50,000
	(Being purchase consideration discharged)			
6	Liability for 9% Debentures (5,00,000 x 120/100)	Dr.	6,00,000	
	Discount on issue of debentures		25,000	
	To 8% Debentures (6,00,000 x 100/96)			6,25,000
	(Being liability of debenture holders' discharged)			

Question 5

(a) *Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.2010 from Ganesh Enterprises. The terms were as follows:*

Particulars	*Amount (₹)*
Hire Purchase Price	*1,80,000*
Down Payment	*30,000*
1st installment payable after 1 year	*50,000*
2nd installment after 2 years	*50,000*
3rd installment after 3 years	*30,000*
4th installment after 4 years	*20,000*

Cash price of van ₹ 1,50,000 and depreciation is charged at 10% WDV.

You are required to:

(i) Calculate Total Interest and Interest included in each installment

(ii) Prepare Van A/c., Ganesh Enterprises A/c. in the books of Happy Valley Florists Ltd. up to 31.03.2014. *(8 Marks)*

(b) *Smart Investments made the following investments in the year 2013-14:*

12% State Government Bonds having face value ₹ 100

Date	*Particulars*
01.04.2013	*Opening Balance (1200 bonds) book value of ₹ 126,000*
02.05.2013	*Purchased 2,000 bonds @ ₹ 100 cum interest*
30.09.2013	*Sold 1,500 bonds at ₹ 105 ex interest*

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd.	
15.04.2013	*Purchased 5,000 equity shares @ ₹ 200 on cum right basis* *Brokerage of 1% was paid in addition (Face Value of shares ₹ 10)*
03.06.2013	*The company announced a bonus issue of 2 shares for every 5 shares held.*
16.08.2013	*The company made a rights issue of 1 share for every 7 shares held at ₹ 250 per share.* *The entire money was payable by 31.08.2013.*
22.8.2013	*Rights to the extent of 20% was sold @ ₹ 60. The remaining rights were subscribed.*
02.09.2013	*Dividend @ 15% for the year ended 31.03.2013 was received on 16.09.2013*
15.12.2013	*Sold 3,000 shares @ ₹ 300. Brokerage of 1% was incurred extra.*
15.01.2014	*Received interim dividend @ 10% for the year 2013-14*
31.03.2014	*The shares were quoted in the stock exchange @ ₹ 220*

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed. *(8 Marks)*

Answer

(a) Calculation of total Interest and Interest included in each installment

Hire Purchase Price (HPP) = Down Payment + instalments

= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000

Total Interest = 1,80,000 – 1,50,000 = 30,000

Calculation of Ratio of HPP in beginning of each year

Year	*Outstanding HPP at beginning*	*Installment Paid*	*Outstanding balance at end*
1	1,50,000	50,000	1,00,000
2	1,00,000	50,000	50,000
3	50,000	30,000	20,000
4	20,000	20,000	-

1. Ratio of outstanding HPP at beginning for each year = 15:10:5: 2

   Total Interest is of ₹ 30,000

I st Year	$= 30,000 \times \frac{15}{32} = 14,062$
II nd year	$= 30,000 \times \frac{10}{32} = 9,375$
III rd year	$= 30,000 \times \frac{5}{32} = 4,688$
IV th year	$= 30,000 \times \frac{2}{32} = 1,875$

Ledger Accounts in the books of Happy Valley Florist Ltd.

Van Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
1.4.2010	To Ganesh Enterprises	1,50,000	31.03.2011	By Depreciation A/c	15,000
				By Balance c/d	1,35,000
		1,50,000			1,50,000
1.4.2011	To Balance b/d	1,35,000	31.03..2012	By Depreciation A/c	13,500
				By Balance c/d	1,21,500
		1,35,000			1,35,000
1.4.2012	To Balance b/d	1,21,500	31.03.2013	By Depreciation A/c	12,150
				By Balance c/d	1,09,350
		1,21,500			1,21,500

1.4.2013	To Balance b/d	1,09,350	31.03.2014	By Depreciation A/c	10,935
				By Balance c/d	98,415
		1,09,350			1,09,350

Ganesh Enterprises Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
1.4.2010	To Bank A/c	30,000	1.4.10	By Van A/c	1,50,000
31.03.2011	To Bank A/c	50,000	31.03.11	By Interest c/d	14,062
	To Balance c/d	84,062			
		1,64,062			1,64,062
31.03.2012	To Bank A/c	50,000	1.4.11	By Balance b/d	84,062
	To Balance c/d	43,437	31.03.12	By Interest A/c	9,375
		93,437			93,437
31.3.2013	To Bank A/c	30,000	1.4.12	By Balance b/d	43,437
	To Balance c/d	18,125	31.3.13	By Interest A/c	4,688
		48,125			48,125
31.3.2014	To Bank A/c	20,000	1.4.13	By Balance b/d	18,125
			31.3.14	By Interest A/c	1,875
		20,000			20,000

(b) In the books of Smart Investments

12% Govt. Bonds for the year ended 31st March, 2014

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
1.4.13	To Opening balance b/d	1,200	3,600	1,26,000	30.6.13	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.13	To Bank A/c	2,000	8,000	1,92,000	30.9.13	By Bank A/c	1,500	4,500	1,57,500
31.3.14	To P & L A/c (Interest)		27,400		31.12.13	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
	To P & L A/c (Profit on Sale)			8,437.50	31.3.14	By Bal. c/d	1,700	5,100	1,68,937.50
		3,200	39,000	3,26,437.50			3,200	39,000	3,26,437.50

Investments in Equity shares of X Ltd. for year ended 31.3.2014

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
15.4.13	To Bank A/c	5,000		10,10,000	22.8.13	By Bank (Sale of Rights)	-	-	12,000
3.6.13	To Bonus Issue	2,000	-	-	16.9.13	By Bank (Dividend)	-	-	7,500
31.8.13	To Bank A/c	800		2,00,000	15.12.13	By Bank (Sale)	3,000	-	8,91,000
31.3.14	To P & L A/c		4,800	4,33,115	15.1.14	By Bank (interim dividend)		4,800	
					31.3.14	By Bal. c/d	4,800		7,32,615
		7800	4,800	16,43,115			7800	4,800	16,43,115

Working Notes:

1. Profit on sale of bonds on 30.9.13

   = Sales proceeds – Average cost

   Sales proceeds = ₹ 1,57,500

   Average cost = ₹ [(1,26,000+1,92,000) × 1,500/3,200] = 1,49,062.50

   Profit = 1,57,500– ₹ 1,49,062.50=₹ 8,437.50

2. Valuation of bonds on 31st March, 2014

   Cost = ₹ 3,18,000/3,200 x1,700 = 1,68,937.50

3. Cost of equity shares purchased on 15/4/2013

   = Cost + Brokerage

   = (5,000 ×₹ 200) + 1% of (5,000 × ₹ 200) = ₹ 10,10,000

4. Sale proceeds of equity shares on 15/12/2013

   = Sale price – Brokerage

   = (3,000 ×₹ 300) – 1% of (3,000 × ₹ 300) = ₹ 8,91,000.

5. Profit on sale of shares on 15/12/2013

   = Sales proceeds – Average cost

   Sales proceeds = ₹ 8,91,000

   Average cost = ₹ [(10,10,000+2,00,000-12,000-7,500) × 3,000/7,800]

   = ₹ [11,90,500 × 3,000/7,800] = 4,57,885

   Profit = ₹ 8,91,000 – ₹ 4,57,885=₹ 4,33,115.

6. Valuation of equity shares on 31st March, 2014

   Cost =₹ [11,90,500 × 4,800/7,800] = ₹ 7,32,615

   Market Value = 4,800 shares ×₹ 220 =₹ 10,56,000

   Closing stock of equity shares has been valued at ₹ 7,32,615 i.e. cost being lower than the market value.

Note:

1. It is presumed that no dividend is received on bonus shares as bonus shares are declared on 3.6.2013 and dividend pertains to the year ended 31.03.2013.
2. The amount of dividend for the period, for which shares were not held by the investor, has been treated as capital receipt.

Question 6

The Balance Sheet of Amit, Bhushan and Charan, who share profits and losses as 3 : 2 : 1 respectively, as on 01.04.2013 is as follows:

Liabilities	Amount (₹)	Assets		Amount (₹)
Capital Accounts: Amit	1,80,000	Machinery		1,50,000
Bhushan	1,60,000	Furniture		1,50,000
Charan	1,40,000	Debtors	80,000	
Current Accounts: Bhushan	16,000	Less: Provision for doubtful Debts	4,000	76,000
Creditors	1,20,000	Stock		2,10,000
		Cash		20,000
	-	Current Account: Charan		10,000
	6,16,000			6,16,000

Dev is admitted as a partner on the above date for $\frac{1}{5}$th share in the profit and loss. Following are agreed upon:

(1) The profit and loss sharing ratio among the old partners will be equal.

(2) Dev brings in ₹ 1,50,000 as capital but is unable to bring the required amount of premium for goodwill.

(3) The goodwill of the firm is valued at ₹ 60,000.

(4) Assets and liabilities are to be valued as follows:

Machinery ₹ 2,06,000 : Furniture ₹ 1,28,000 : Provision for doubtful debts @ 10% on debtors.

(5) Necessary adjustments regarding goodwill and Profit / loss on revaluation are to made through the Partner's Current Accounts.

(6) It is decided that the revalued figures of assets and liabilities will not appear in the Balance Sheet of the new firm.

(7) Capital Accounts of the old partners in the new firm should be proportionate to the new profit and loss sharing ratio, taking Dev's Capital as base. The existing partners will not bring cash for further capital. The necessary adjustments are to be made through the partner's Current Account.

Prepare Partner's Capital & Current Account, and the Balance Sheet of the new firm after admission. *(16 Marks)*

Answer 6

In the books of Firm

Partners' Capital Accounts

	Amit	Bhushan	Charan	Dev		Amit	Bhushan	Charan	Dev
To Balance c/d (Working Note 1)	2,00,000	2,00,000	2,00,000	1,50,000	By Balance b/d	1,80,000	1,60,000	1,40,000	
					By Bank A/c	-	-	-	1,50,000
					By Partners' Current A/cs (bal. fig)	20,000	40,000	60,000	
	2,00,000	2,00,000	2,00,000	1,50,000		2,00,000	2,00,000	2,00,000	1,50,000

Partners' Current Accounts

	Amit	Bhushan	Charan	Dev		Amit	Bhushan	Charan	Dev
To Balance b/d	-	-	10,000	-	By Balance b/d	-	16,000	-	-
To Memorandum Revaluation A/c	8,000	8,000	8,000	6,000	By Memorandum Revaluation	15,000	10,000	5,000	-
To Amit and Bhushan (Goodwill adjustment)	-	-	6,000	12,000	By Dev and Charan (Goodwill adjustment)	14,000	4,000	-	-
To Partners Capital A/cs	20,000	40,000	60,000	-	By Balance c/d	-	18,000	79,000	18,000
To Balance c/d	1,000	-	-						
	29,000	48,000	84,000	18,000		29,000	48,000	84,000	18,000

Balance Sheet of new firm

After Dev's Admission

Liabilities		₹	Assets		₹
Capital Accounts: A/cs			Machinery		1,50,000
Amit	2,00,000		Furniture		1,50,000
Bhushan	2,00,000		Stock		2,10,000
Charan	2,00,000		Debtors	80,000	
Dev	1,50,000	7,50,000	*Less:* Provision for doubtful debts	4,000	76,000
Current Account: Amit		1,000	Cash		1,70,000
Creditors		1,20,000	Current Accounts:		
			Bhushan	18,000	
			Charan	79,000	
			Dev	18,000	
					1,15,000
		8,71,000			8,71,000

Working Notes:

1. Dev. joins the business for 1/5th share and brings ₹ 1,50,000 as capital. Thus, total capital of new firm will be ₹ 7,50,000 (1,50,000 × 5). Total capital of Amit, Bhushan & Charan will be ₹ 6,00,000 (7,50,000 – 1,50,000) which will be shared by them equally i.e. 2,00,000 each.

2. Calculation of New profit sharing ratio

Amit	Bhushan	Charan	Dev
$\frac{4}{5}\times\frac{1}{3}$	$\frac{4}{5}\times\frac{1}{3}$	$\frac{4}{5}\times\frac{1}{3}$	$\frac{1}{5}$
$\frac{4}{15}$	$\frac{4}{15}$	$\frac{4}{15}$	$\frac{3}{15}$
4:4:4:3			

3. Adjustment of Goodwill

Sacrificing/gaining ratios of old partners

Amit	Bhushan	Charan	Dev
$\frac{4}{15}-\frac{3}{6}$	$\frac{4}{15}-\frac{2}{6}$	$\frac{4}{15}-\frac{1}{6}$	$\frac{1}{5}$
$\frac{24-45}{90}$	$\frac{24-30}{90}$	$\frac{24-15}{90}$	

$\frac{21}{90}$ Sacrifice	$\frac{6}{90}$ Sacrifice	$\frac{9}{90}$ Gain	$\frac{18}{90}$ Gain

Entry for adjustment for goodwill of ₹ 60,000

Charan	Dr.	6,000	
Dev	Dr.	12,000	
To Amit			14,000
To Bhushan			4,000

(Being goodwill adjusted in partners sacrificing/gaining ratios)

4. Memorandum Revaluation A/c

	Amount ₹		*Amount* ₹
To Furniture	22,000	By Machinery	56,000
To Provision for doubtful debts	4,000		
To Partners' Current A/cs:			
Amit 15,000			
Bhushan 10,000			
Charan 5,000	30,000		
	56,000		56,000
To Machinery	56,000	By Furniture	22,000
		By Provision for doubtful debts	4,000
		By Partners' Current A/cs:	
		Amit 8,000	
		Bhushan 8,000	
		Charan 8,000	
		Dev 6,000	30,000
	56,000		56,000

Question 7

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

(a) *From the following extract of Receipts and Payments Account and the additional information, you are required to calculate the Income from Subscription for the year ending March 31, 2014 and show them in the Income & Expenditure Account, and the Balance Sheet of a Club.*

An extract of Receipts and Payments Account
for the year ended 31st March, 2014

Receipts		₹	Payments	₹
To Subscription				
2012-13	4,000			
2013-14	20,000			
2014-15	5,000	29,000		

Information:

(i)	Subscription outstanding on 31.03.2013	₹ 5,000
(ii)	Subscription outstanding on 31.03.2014	₹ 4,000
(iii)	Subscription received in advance on 31.03.2013 for 2013-14	₹ 5,000

(4 Marks)

(b) Intelligent 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

(vi) Insurance claim received against loss of fixed asset by fire

Discuss in the context of AS 3 Cash Flow Statement (4 Marks)

(c) Define Average Due Date. List out the various instances when Average Due Date can be used. (4 Marks)

(d) What are depreciable assets as per Accounting Standard-6? Explain why AS 6 does not apply to Land. (4 Marks)

(e) Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2014:

Particulars	Amount
4,500 Equity Shares of ₹100 each	4,50,000
Capital Reserve (including ₹40,000 being profit on sale of Plant)	90,000

Securities Premium	*40,000*
Capital Redemption Reserve	*30,000*
General Reserve	*1,05,000*
Profit and Loss Account (Cr. Balance)	*65,000*

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd. (4 Marks)

Answer

(a) Income and Expenditure A/c for the year ending 31st March, 2014

	₹	₹
By subscription: Received	20,000	
Add: Outstanding 31.3.2014 (4,000 – 1,000) (See Note)	3,000	
Add: Received in advance last year for 2013-14	5,000	28,000

Balance Sheet as on 31st March, 2014 (Extract)

Liabilities	₹	*Assets*		₹
Subscription received in advance for year 2014-15	5,000	Subscription o/s:		
		2012-13	₹ 1,000	
		2013-14	3,000	4,000

Note: Subscription outstanding on 31.03.2014 as given in the question is ₹ 4,000. It has been considered that last year outstanding ₹ 1,000 has also been included in this amount.

(b) (i) Loans and advances given and interest earned

(1) to suppliers — Operating Cash flow

(2) to employees — Operating Cash flow

(3) to its subsidiary companies — Investing Cash flow

(ii) Investment made in subsidiary company and dividend received

Investing Cash flow

(iii) Dividend paid for the year

Financing Cash Outflow

(iv) TDS on interest income earned on investments made

Investing Cash Outflow

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

Operating Cash Outflow

(vi) Insurance claim received of amount loss of fixed asset by fire

Extraordinary item to be shown under a separate heading as 'Cash inflow from Operating activities'.

(c) In business enterprises, a large number of receipts and payments by and from a single party may occur at different points of time. To simplify the calculation of interest involved for such transactions, the idea of average due date has been developed. Average Due Date is a break-even date on which the net amount payable can be settled without causing loss of interest either to the borrower or the lender.

Few instances where average due date can be used:

(i) Calculation of interest on drawings made by the proprietors or partners of a business firm at several points of time.

(ii) Settlement of accounts between a principal and an agent.

(iii) Settlement of contra accounts, that is, A and B sell goods to each other on different dates.

Note: Any other instance where average due date is being used, may be given.

(d) As per AS 6 'Depreciation Accounting', depreciable assets are the assets which

(i) are expected to be used during more than one accounting period; and

(ii) have a limited useful life; and

(iii) are held by an enterprise for use in the production or supply of goods and services, for rental to others, or for administrative purposes and not for the purpose of sale in the ordinary course of business.

AS 6 does not apply to 'land' as land is considered to have unlimited useful life. Therefore, it is not appropriate to charge depreciation on land.

(e)

Capital Redemption Reserve A/c	Dr.	30,000	
Securities Premium A/c	Dr.	40,000	
Capital Reserve (Realized in cash)	Dr	40,000	
General Reserve A/c	Dr.	40,000	
To Bonus to Shareholders			1,50,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	1,50,000	
To Equity Share Capital			1,50,000
(Being capitalization of Profit)			