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

You are required to calculate:

(i) *Depreciation to be charged to P/L*

(ii) *Book value of Plant and Machinery A/c as on 31.3.2014*

(iii) *Loss on exchange of machinery.*

(b) *Sarita Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2014 and ₹ 60,000 on 10.4.2014 for the March 2014 issue.*

Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014 ?

(c) *Capital Cables Ltd., has a normal wastage of 4% in the production process. During the year 2013-14 the Company used 12,000 MT of raw material costing ₹ 150 per MT.*

At the end of the year 630 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

Explain in the context of AS 2 the treatment of abnormal loss and abnormal loss and also find out the amount of abnormal loss if any.

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

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

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

(iii) Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakhs.

(iv) Current investment in Company D, costing ₹ 15 lakhs are to be re-classified as long term. The market value on date of transfer is ₹ 14 Lakhs. (4 x 5 = 20 Marks)

Answer

(a) (i) Depreciation to be charged in the Profit and Loss Account

	(₹)
Depreciation on old Machinery [20% on ₹6,32,000 for 3 months(01.4.13 to 30.6.13)]	31,600
Add: Depreciation machinery acquired on 01.06.2013 (₹ 1,20,000 x 20% x 10/12)	20,000
Depreciation on Machinery after adjustment of Exchange [20% of ₹(6,32,000 -1,89,000+2,56,000) for 9 months]	1,04,850
Total Depreciation to be charged in Profit and Loss A/c	1,56,450

(ii) Book Value of Plant and Machinery as on 31.03.2014

	₹	₹
Balance as per books on 01.04.2013		6,32,000
Add: Included in purchases on 01.06.2013	1,20,000	
Add: Purchase on 30.06.2013	2,56,000	3,76,000
		10,08,000
Less: Book value of Machine sold on 30.06.2013		(1,89,000)
		8,19,000
Less: Depreciation on machinery in use (1,56,450-9,450)		(1,47,000)
Book Value as on 31.03.2014		6,72,000

(iii) Loss on exchange of Machinery

Book value of machinery as on 01.04.2013	1,89,000
Less: Depreciation for 3 months	9,450
WDV as on 30.06.2013	1,79,550

Less: Exchange value	1,75,000
Loss on exchange of machinery	4,550

(b) As per AS 9 'Revenue Recognition', in a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method as the service is performed, whichever relates the revenue to the work accomplished.

In the given case, income accrues when the related advertisement appears before public. The advertisement service would be considered as performed on the day the advertisement is seen by public and hence revenue is recognized on that date. In this case, it is 15.03.2014, the date of publication of the magazine.

Hence, ₹ 3,00,000 (₹ 2,40,000 + ₹ 60,000) is recognized as income in March, 2014. The terms of payment are not relevant for considering the date on which revenue is to be recognized. ₹ 60,000 is treated as amount due from advertisers as on 31.03.2014 and ₹ 2,40,000 will be treated as payment received against the sale.

However, if the publication is delayed till 02.04.2014 revenue recognition will also be delayed till the advertisements get published in the magazine. In that case revenue of ₹ 3,00,000 will be recognized for the year ended 31.03.2015 after the magazine is published on 02.04.2014. The amount received from sale of advertising space on 10.03.2014 of ₹ 2,40,000 will be considered as an advance from advertisers as on 31.03.2014.

(c) As per AS 2 (Revised) 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Abnormal Loss:

Material used	12,000 MT @ ₹150 = ₹18,00,000
Normal Loss (12,000 MT 4%)	480 MT
Net quantity of material	11,520 MT
Abnormal Loss in quantity	150 MT
Abnormal Loss	₹ 23,437.50

[150 units @ ₹ 156.25 (₹ 18,00,000/11,520)]

Amount ₹ 23,437.50 will be charged to the Profit and Loss statement.

(d) As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 6.5 lakhs in the books.

(ii) The carrying / book value of the long term investment is same as cost i.e. ₹ 7 lakhs. Hence this long term investment will be reclassified as current investment at book value of ₹ 7 lakhs only.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 10 lakhs as cost is less than its market value of ₹ 12 lakhs.

(iv) In this case, market value is ₹ 14 lakhs which is lower than the cost of ₹ 15 lakhs. The reclassification of current investment as long-term investments will be made at ₹ 14 lakhs.

Note: The question simply states that Blue chip Equity Investment Ltd. wants to reclassify its investments in accordance with AS 13. The values, at which the investments have to be reclassified, have been given in the above answer

Question 2

The following information relates to Country Sports Club for the year ended 31.3.2014. You are required to prepare the Receipts and Payments Account for the year ended 31.3.2014 and Balance Sheet as on that date.

Expenditure	*₹*	*Income*		*₹*
To Salaries	*3,36,000*	*By Subscriptions*		*8,40,000*
To Repairs and Maintenance	*88,000*	*By Receipts for annual Sports*	*3,25,000*	
To Ground upkeep	*1,66,500*	*Less: Expenses for Sports*	*2,75,000*	*50,000*
To Electricity charges	*82,600*	*By Entrance fees*		*1,80,000*
To Sports material used	*1,48,000*	*By Interest on 10% government bond*		*12,000*
To Printing and Stationary	*42,200*			
To Groundsman wages	*80,000*	*By Rent on hire of club ground*		*84,000*
To Depreciation	*1,36,000*			
To Prizes distributed (Net of fund income)	*4,000*	*By Profit on sale of sports material*		*10,500*
To Surplus carried to capital fund	*96,700*	*By Sale of old newspaper*		*3,500*
	11,80,000			*11,80,000*

Additional information:

(a)

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

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

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

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

prize fund income earned during the year ₹ 36,000

prizes distributed during the year ₹ 40,000

(e) Interest on Government bond is received half yearly on 30th June and 31st December each year. *(16 Marks)*

Answer

Country Sports Club

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

Receipts	₹	*Payments*	₹
To Balance b/d	54,500	By Salaries (W.N.4)	3,32,000
To Subscription (W.N.3)	8,84,000	By Repairs & maintenance (W.N.5)	77,000
To Receipts for Annual Sports	3,25,000	By Expenses for Annual Sports	2,75,000
		By Ground upkeep	1,66,500

To	Entrance fee (₹ 1,80,000 x 4/3)	2,40,000	By By	Electricity charges Sports materials (Cash)	82,600 45,000
To To	Interest Rent received	12,000 84,000	By	Sports material creditors paid (W.N.2)	1,51,100
To	Sale of old newspapers	3,500	By	Printing and Stationery	42,200
To	Prize fund income	36,000	By	Ground man wages	80,000
To	Sale of Sports Material (W.N.2)	28,500	By By	Fixed Assets (W.N.6) Prizes distributed	2,20,000 40,000
			By	Balance c/d (Bal. fig)	1,56,100
		16,67,500			16,67,500

Balance Sheet of Club as on 31.3.2014

Liabilities		*Amount (₹)*	*Assets*	*Amount (₹)*
Capital fund (opening balance) (W.N.1)	9,33,400		Fixed Assets (net) Sports Material	7,20,000 1,38,000
Add: Surplus Entrance fee	96,700 60,000	10,90,100	Investment (10% Govt. Bonds)	1,20,000
Prize fund		2,40,000	Accrued Interest	3,000
Subscription received in advance		72,000	Outstanding Subscriptions	88,000
Outstanding repair expenses		24,500	Salary paid in advance Prize fund investments	28,000 2,36,000
Creditors (Sports Material)		62,500	Bank Balance	1,56,100
		14,89,100		14,89,100

Working Notes:-

1. Balance Sheet of Club as on 1.4.2013

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital fund opening (bal. fig.)	9,33,400	Fixed Assets (net)	6,36,000
Prize fund	2,40,000	Sports Material	1,24,000
Subscription received in advance	64,000	Investment (10% Govt. Bonds)	1,20,000
O/s repair expenses	13,500	Accrued interest	3,000

		(₹ 1,20,000x 10% x 3/12)	
Creditors (Sports Material)	78,600	Outstanding Subscriptions	1,24,000
		Salary paid in advance	32,000
		Prize fund investments	2,36,000
		Bank Balance	54,500
	13,29,500		13,29,500

2. Stock of Sports Materials

	Amount (₹)		Amount (₹)
To Balance b/d	1,24,000	By Sale of Materials (Bal .fig.)	28,500
To Cash (1,80,000x 0.25)	45,000	By Sports Materials used (given)	1,48,000
To Creditors (Purchase on credit)	1,35,000	By Balance c/d	1,38,000
To Profit on Sale	10,500		
	3,14,500		3,14,500

Creditors for Sports Materials

	Amount (₹)		Amount (₹)
To Cash (bal. fig.)	1,51,100	By Balance b/d	78,600
To Balance c/d	62,500	By Sports Materials	1,35,000
	2,13,600		2,13,600

[Payments for Sports materials is ₹1,96,100 (₹1,51,100 + ₹ 45,000)]

3. Subscriptions received during the year

		₹
Subscription credited to Income and Expenditure A/c		8,40,000
Add: Outstanding subscription at the beginning of the year		1,24,000
Advance subscription received at the end of the year		72,000
		10,36,000
Less: Outstanding subscription at the end of the year	88,000	
Advance subscription received at the beginning of the year	64,000	(1,52,000)
Subscription received during the year		8,84,000

4. **Salaries paid during the year**

	₹
Amount debited to Income and Expenditure A/c	3,36,000
Add: Salary paid in advance as on as on 31.3.2014	28,000
	3,64,000
Less: Salary paid in advance as on as on 31.3.2013	(32,000)
	3,32,000

5. **Repairs and maintenance paid during the year**

Amount debited to Income and Expenditure A/c	88,000
Add: Outstanding as on as on 31.3.2013	13,500
	1,01,500
Less: Outstanding as on as on 31.3.2014	(24,500)
	77,000

6 **Purchase of Fixed Assets**

	Amount (₹)		*Amount* (₹)
To Balance b/d	6,36,000	By Depreciation	1,36,000
To Purchase of fixed assets (Bal. fig.)	2,20,000	By Balance c/d	7,20,000
	8,56,000		8,56,000

Note: The above solution is prepared on the basis that club has not been registered under the Companies Act.

Question 3

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

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

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

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

(4) The Company redeemed debentures of ₹ 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹ 15 crores towards redemption

and the balance was paid in cash. Debenture interest paid during the year was ₹1.5 crores.

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

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

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

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

(9) The following balances are also provided.

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

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

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Stock:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			3,40,000
Sundry Debtors		10,00,000	
Advances		2,13,500	
Proposed Dividend			3,00,000
Profit & Loss Account			5,00,000
Cash in Hand		1,50,000	

Cash at Bank		*12,35,000*	
Preliminary expenses		*66,500*	
Unsecured Loan			*6,05,000*
Sundry Creditors (for Goods and Expenses)			*10,00,000*

The following additional information is also provided:

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

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

(iii) Debtors of ₹ 2,60,000 are due for more than 6 months.

(iv) The cost of the Assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(v) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(vi) Balance at Bank includes ₹ 10,000 with Global Bank Ltd., which is not a Scheduled Bank. *(6 + 10 = 16 Marks)*

Answer

(a) Gamma Ltd.

Cash Flow Statement for the year ended 31st March, 2014

(Using direct method)

Particulars	*₹ in crores*	*₹ in crores*
Cash flows from operating activities		
Cash sales (135 x.6)	81	
Cash receipts from Debtors	49	
[45+ (135x40%) - 50]		
Cash purchases (20% of 55)	(11)	
Cash payments to suppliers	(42)	
[21+ (55x80%) – 23]		
Cash paid to employees	(22)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	37	
Income tax paid	(8)	
Net cash generated from operating activities		29

Cash flows from investing activities		
Sale of investments (12+ 2.40)	14.4	
Payments for purchase of fixed assets	(11)	
Net *cash used in investing activities*		3.4
Cash flows from financing activities		
Redemption of debentures (22-15)	(7)	
Interest paid	(1.5)	
Dividend paid	(10.0)	
DDT paid	(1.7)	
Net cash used in financing activities		(20.2)
Net increase in cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

(b) Elegant Ltd.

Balance Sheet as on 31st March, 2014

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

b	Trade receivables	8	10,00,000
c	Cash and cash equivalents	9	13,85,000
d	Short-term loans and advances		2,13,500
	Total		94,73,500

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of ₹ 100 each (of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		49,95,000
2	Reserves and Surplus		
	General Reserve		10,50,000
	Surplus (Profit & Loss A/c)	5,00,000	
	Less: Preliminary expenses	(66,500)	4,33,500
	Total		14,83,500
3	Long-term borrowings		
	Secured Term Loan		
	State Financial Corporation (7,50,000- 37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		13,17,500
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		37,500
	Total		37,500
5	Short-term provisions		
	Provision for taxation		3,40,000
	Proposed Dividend		3,00,000
	Total		6,40,000

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

* *As per Para 56 of AS 26, preliminary expenses are not shown in the balance sheet, thus they are written off. The amount of ₹ 25,000 as audit fee and out of pocket expenses paid to auditors amounting ₹ 3,500 have been included in the amount of ₹ 66,500. The combined figure of ₹66,500 has been reduced from Profit and Loss Account balance in the given solution.*

Question 4

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

Liabilities	*₹*	*Assets*	*₹*
Equity Shares of ₹ 100 each	*2,00,00,000*	*Fixed Assets*	*2,50,00,000*
6%, Cumulative Preference Shares of ₹ 100 each	*1,00,00,000*	*Investments (Market Value ₹ 19,00,000)*	*20,00,000*
5% Debentures of ₹ 100 each	*80,00,000*	*Current Assets*	*2,00,00,000*

Sundry Creditors	*1,00,00,000*	*P & L A/c*	*12,00,000*
Provision for taxation	*2,00,000*		
TOTAL	*4,82,00,000*	*TOTAL*	*4,82,00,000*

The following scheme of Internal Reconstruction is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced for ₹ 60 each.

(iii) The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) Fixed assets are to be written down by 20%.

(v) Current assets ale to be revalued at ₹ 90,00,000.

(vi) Investments are to be brought to their market value.

(vii) One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.

(viii) The taxation liability is to be settled at ₹ 3,00,000.

(ix) It is decided to write off the debit balance of Profit & Loss A/c.

Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

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

Date	*Particulars*
1	*Purchase from Mr. Akash ₹ 7,500*
3	*Paid ₹ 3000 after adjusting the initial advance in full to Mr. Akash*
10	*Paid ₹ 2,500 to Mr. Dev towards the purchases made in February in full.*
12	*Paid advance to Mr. Giridhar ₹ 6,000*
14	*Purchase goods from Mr. Akash ₹ 6,200*
20	*Returned goods worth ₹ 1,000 to Mr. Akash*
24	*Settled the balance due to Mr. Akash at a discount of 5%.*
26	*Goods purchased from Mr. Giridhar against the advance paid already*
29	*Purchased from Mr. Nathan ₹ 3,500*
30	*Goods returned to Mr. Prem 1,200. The goods were originally purchased form cash in the month of February 2014.*

(12 + 4 = 16 Marks)

Answer

(a) Journal Entries in the books of Vaibhav Ltd.

		₹	₹
(i)	Equity share capital (₹ 100) A/c Dr.	2,00,00,000	
	To Equity Share Capital (₹ 40) A/c		80,00,000
	To Capital Reduction A/c		1,20,00,000
	(Being conversion of equity share capital of ₹ 100 each into ₹40 each as per reconstruction scheme)		
(ii)	6% Cumulative Preference Share capital (₹ 100) A/c Dr.	1,00,00,000	
	To 6% Cumulative Preference Share Capital (₹ 60)A/c		60,00,000
	To Capital Reduction A/c		40,00,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	5% Debentures (₹ 100) A/c Dr.	80,00,000	
	To 6% Debentures (₹ 70) A/c		56,00,000
	To Capital Reduction A/c		24,00,000
	(Being 6% debentures of ₹ 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Sundry Creditors A/c Dr.	40,00,000	
	To Equity Share Capital (₹ 40) A/c		24,00,000
	To Capital Reduction A/c		16,00,000
	(Being a creditor of ₹ 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	2,00,000	
	Capital Reduction A/c Dr.	1,00,000	
	To Liability for Taxation A/c		3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)		
(vi)	Capital Reduction A/c Dr.	199,00,000	
	To P & L A/c		12,00,000

	To Fixed Assets A/c		50,00,000
	To Current Assets A/c		110,00,000
	To Investments A/c		1,00,000
	To Capital Reserve A/c (Bal. fig.)		26,00,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		
(vii)	Liability for Taxation A/c Dr.	3,00,000	
	To Current Assets (Bank A/c)		3,00,000
	(Being the payment of tax liability)		

Balance Sheet of Vaibhav Ltd. (After Reconstruction) as on 31.3.2014

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	164,00,000
	b	Reserves and Surplus	2	26,00,000
2		**Non-current liabilities**		
		Long-term borrowings	3	56,00,000
3		**Current liabilities**		
		Trade Payables(1,00,00,000 less 40,00,000)		60,00,000
		Total		3,06,00,000
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	200,00,000
	b	Investments	5	19,00,000
2		**Current assets**	6	87,00,000
		Total		3,06,00,000

Notes to accounts

		₹
1. Share Capital		
Equity share capital		
Issued, subscribed and paid up		

	2,60,000 equity shares of ₹ 40 each (of the above 60,000 shares have been issued for consideration other than cash)		1,04,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	1,00,000 6% Cumulative Preference shares of ₹ 60 each		60,00,000
	Total		1,64,00,000
2.	Reserves and Surplus		
	Capital Reserve		26,00,000
3.	Long-term borrowings		
	Secured		
	6% Debentures		56,00,000
4.	Tangible assets		
	Fixed Assets	2,50,00,000	
	Adjustment under scheme of reconstruction	(50,00,000)	2,00,00,000
5.	Investments	20,00,000	
	Adjustment under scheme of reconstruction	(1,00,000)	19,00,000
6.	Current assets		
		2,00,00,000	
	Adjustment under scheme of reconstruction	110,00,000	
		90,00,000	
	Taxation liability paid	(3,00,000)	87,00,000

Working Note:

Capital Reduction Account

To Liability for taxation A/c	1,00,000	By Equity share capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative preferences Share capital	40,00,000
To Fixed Assets	50,00,000		
To Current assets	110,00,000	By 5% Debentures	24,00,000
To Investment	1,00,000	By Sundry creditors	16,00,000
To Capital Reserve (Bal. fig.)	26,00,000		
	2,00,00,000		2,00,00,000

(b) Creditors Ledger Adjustment Account in the General Ledger for month of March, 2014

2014		₹	*2014*		₹
March 1	To Balance b/d (Advance to Akash)	4,500	March 1	By Balance b/d (Due to Mr. Dev)	2,500
March 31	To General Ledger Adjustment A/c (In Bought Ledger)		March 31	By General Ledger Adjustment A/c (in Bought Ledger)	
	Bank (WN 2)	16,440		Purchases (WN 1)	23,200
	Returns (Akash)	1,000			
	Discount (5% of 5,200)	260			
March 31	To Balance c/d (Due to Nathan)	3,500			
		25,700			25,700

Note: The above answer is given on the basis that Mr. Prem will pay in cash as the sale was on cash basis and was not recorded in Creditors Ledger Adjustment account earlier.

Working Notes:

(1) Purchases:

1.3.2013	Akash	7,500
14.3.2013	Akash	6,200
26.3.2013	Giridhar	6,000
29.3.2013	Nathan	3,500
		23,200

(2) Payments:

3.3.2013	Akash	3,000
10.3.2013	Dev	2,500
12.3.2013	Giridhar	6,000
24.3.2013	Akash (95% of 5,200)	4,940
		16,440

Question 5

(a) A fire occurred in the premises of M/s. Kailash & Co. on 30th September 2013. From the following particulars relating to the period from 1st April 2013 to 30th September 2013, you

are required to ascertain the amount of claim to be filed with the Insurance Company for the loss of Stock. The company has taken an Insurance policy for ₹ 75,000 which is subject to average clause. The value of goods salvaged was estimated at ₹ 27,000. The average rate of Gross Profit was 20% throughout the period.

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

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

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

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

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

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

Prepare Investment A/c in the books of Hasan as on 31st October. 2014.(8 + 8 = 16 Marks)

Answer

(a) Memorandum Trading Account for the period 1st April, 2013 to 30th Sept. 2013

		₹		₹
To Opening Stock		1,20,000	By Sales	3,10,000
To Purchases	2,40,000		By Consignment stock	18,000
Less: Advertisement	(2,500)		By Closing Stock (Bal. fig.)	1,41,500
Cost of goods taken by proprietor	(20,000)	2,17,500		
To Wages		70,000		

To Gross Profit [20% of Sales)	62,000		
	4,69,500		4,69,500

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	1,41,500
Less: Salvaged Stock	(27,000)
Insurance Claim	1,14,500

Note: Since policy amount is less than claim amount, average clause will apply. Therefore, claim amount will be computed by applying the formula

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

Claim amount = ₹ 60,689 (1,14,500 x 75,000/ 1,41,500)

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

Date	*Particulars*	*No. of Shares*	*Amount (₹)*	*Date*	*Particulars*	*No. of shares*	*Amount (₹)*
1.4.14	To Balance b/d	20,000	4,00,000	31.8.14	By Bank A/c (sale of rights) (W.N.3)	0	7,500
10.6.14	To Bank A/c	5,000	75,000				
1.8.14	To Bonus issue (W.N.1)	5,000	0	31.10.14	By Balance c/d (Bal. fig.)	37,500	5,80,000
31.10.14	To Bank A/c (Right shares) (W.N.4)	7,500	1,12,500				
		37,500	5,87,500			37,500	5,87,500

Working Notes:

(1) Bonus shares = 25,000/ 5 = 5,000 shares

(2) Right shares = $\frac{25,000 + 5,000}{6} \times 2 = 10,000$ shares

(3) Sale of rights = 10,000 shares x ¼ x ₹3 = ₹7,500

(4) Rights subscribed = $10,000 \times \frac{3}{4} \times$ ₹ 15 = ₹ 1,12,500

Question 6

Anuj Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3 .2014 is as follows:

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

Anuj decided to retire with effect from 1.4.2014.

The remaining partners agreed to share profits and losses equally in future.

The following adjustments were agreed to be made upon retirement of Anuj.

(i) Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.

The average profits of the past 3 years were as follows:

Year ended	*₹*	
31.3.2014	*3,30,000*	*(as per draft accounts)*
31.3.2013	*2,32,000*	
31.3.2012	*2,20,900*	

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

(ii) The assets were revalued as follows:

Plant to be depreciated by 10%

Creditors amounting to ₹10,000 were omitted to be recorded;

₹6,000 is to be written off from stock;

Provision for doubtful debts to be created @ 5% of the debtors;

Interest accrued on FD amounting to ₹9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3 .2014 before calculation of goodwill.

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

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

You are required to prepare

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

(2) *Balance Sheet as on 1.4.2014 after Anuj's retirement.* *(16 Marks)*

Answer

Partners' Capital Accounts as on 1.4.2014

	Anuj	*Ayush*	*Piyush*		*Anuj*	*Ayush*	*Piyush*
To Anuj		22,950	68,850	By Balance b/d	3,75,000	2,80,000	2,25,000
To Revaluation Loss	37,400	37,400	18,700	By General Reserves	75,200	75,200	37,600
To Bank FD	2,34,000			By Ayush and Piyush	91,800		
To 8% Loan	2,70,600						
To Balance c/d*		3,03,450	3,03,450	By Cash (Bal. fig.)	-	8,600	1,28,400
	5,42,000	3,63,800	3,91,000		5,42,000	3,63,800	3,91,000

Balance Sheet as on 1.4.2014 after Anuj's retirement

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Anuj's Loan	2,70,600	Plant(90% of ₹ 7,87,000)	7,08,300
Creditors(2,16,000+10,000)	2,26,000	Stock (₹ 1,03,000 less ₹ 6,000)	97,000
Capital Accounts*:		Debtors(95% of ₹ 1,56,000	1,48,200
Anuj	3,03,450	Bank Balance	1,50,000
Piyush	3,03,450		
	11,03,500		11,03,500

**Total of capital balances should be ₹ 6,06,900 which should be proportioned to individual partners in their profit sharing ratio.*

Working Notes:

1. Profit / Loss on revaluation

Revaluation Account

	Amount (₹)		*Amount (₹)*
To Plant	78,700	By Interest on FD	9,000
To Creditors	10,000	By Loss on revaluation	93,500
To Inventory	6,000		
To Provision for doubtful debts	7,800		-
	1,02,500		1,02,500

2. Calculation of Goodwill

Goodwill Valuation

Profit of year ended	₹
31.3.2014 (₹ 3,30,000 less ₹ 93,500)	2,36,500
31.3.2013	2,32,000
31.3.2012	2,20,000
Total Profits	6,88,500

Average Profit = 6,88,500/3 = 2,29,500

Goodwill valued at 1 year purchase amounting ₹ 2,29,500

3. Adjustment for goodwill among partners

Anuj's share of goodwill (2,29,500 x 2/5) = 91,800

Gaining ratio of Ayush and Piyush

Ayush

$$\frac{1}{2}-\frac{2}{5}$$

$$\frac{5-4}{10}=\frac{1}{10}$$

Piyush

$$\frac{1}{2}-\frac{1}{5}$$

$$\frac{5-2}{10}=\frac{3}{10}$$

Gaining Ratio = 1: 3

Entry for adjustment of goodwill

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

Question 7

*Answer any **four** from the following:*

(a) *From the following information state the amount to be capitalized as per AS 10. Give the explanations for your answer.*

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

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

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

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

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

2014	Particulars	₹
1st July	Balance due from Siva	750
15th August	Sold goods to Siva	1250
20th August	Goods returned by Siva	200
22nd Sep	Siva paid by cheque	800
15th Oct	Received cash from Siva	500

(e) *Kishanlal has made the following sales to Babulal. He allows a credit period of 10 days beyond which he charges interest @ 12% per annum.*

Date of Sales	Amount (₹)
26.05.14	12,000
18.07.14	18,000
02.08.14	16,500
28.08.14	9,500
09.09.14	15,500
17.09.14	13,500

Babulal wants to settle his accounts on 30-9-2014. Calculate the interest payable by him using Average Due Date (ADD). If Babulal wants to save interest of ₹ 588, how many days before 30.9.2014 does he have to make payment? Also find the payment date in this case. *(4 x 4 = 16 Marks)*

* *Current Account' to be read as 'Account Current'*

Answer

(a) As per AS 10 "Accounting for Fixed Assets", only those expenditures that increase the future benefits from the existing assets, beyond its previously assessed standard of performance, is to be included in the gross book value.

Hence, in the given case, amount of ₹ 5 lakhs spent on routine repairs and ₹ 1 lakh on partial replacement of a part of the machinery should be charged to Profit and Loss Account as these amounts will help in maintaining the capacity but will not improve the efficiency of the machine.

However, ₹ 10 lakhs incurred on replacement of a part of the machinery, which will increase the efficiency of a machine, should be capitalized by inclusion in the gross book value of machinery.

(b) Following are the advantages of the customized accounting packages:

1. The input screens can be tailor made to match the input documents for ease of data entry.
2. The reports can be as per the specification of the organization. Many additional MIS reports can be included in the list of reports.
3. Bar-code scanners can be used as input devices suitable for the specific needs of an individual organization.
4. The system can suitably match with the organizational structure of the company.

(c) Statement showing differences between Hire Purchase and Installment System

	Basis of Distinction	*Hire Purchase Agreement*	*Installment Purchase Agreement*
1.	Governing Act	It is governed by Hire Purchase Act, 1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
6.	Right of Disposal	Hirer cannot hire out sell,	The buyer may dispose off

		pledge or assign entitling transferee to retain possession as against the hire vendor.	the goods and give good title to the bona fide purchaser.
7.	Responsibility for Risk of Loss.	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.
9.	Component other than cash price.	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

Note: *Any four differences may be given in the answer.*

(d) Siva in Account Current with Ram as on 31st Oct, 2014

Dr. *Cr.*

		₹	*Days*	*Product (₹)*			*₹*	*Days*	*Product (₹)*
01.07.14	To Bal. b/d	750	123	92,250	20.08.14	By Sales Returns	200	72	14,400
15.8.14	To Sales	1,250	77	96,250	22.09.14	By Bank	800	39	31,200
31.10.14	To Interest	18.48			15.10.14	By Cash	500	16	8,000
						By Balance of Products			1,34,900
					31.10.14	By Bal. c/d	518.48		
		2018.48		1,88,500			2018.48		1,88,500

Interest $= ₹\ 1,34,900 \times \frac{5}{100} \times \frac{1}{365} = ₹\ 18.48$

(e) Calculation of Average Due date (Taking 05th June as the base date)

Date	*Due Date*	*Amount ₹*	*No. of days from Base date*	*Product ₹*
26.05.2014	05.06.2014	12,000	0	0
18.07.2014	28.07.2014	18,000	53	9,54,000

02.08.2014	12.08.2014	16,500	68	11,22,000
280.8.2014	07.09.2014	9,500	94	8,93,000
09.09.2014	19.09.2014	15,500	106	16,43,000
17.09.2014	27.09.2014	13,500	114	15,39,000
		85,000		61,51,000

Average due date $= 5.6.14 + \frac{61,51,000}{85,000}$

$= 5.6.14 + 72$ days (app.) = 16.08.2014

Interest if settlement is done on 30.9.14

$$85,000 \times 12\% \times \frac{45}{365} = ₹\ 1,258 \text{ (approx.)}$$

If Babulal wants to save interest of ₹ 588, then the calculation of days before 30.09.2014 will be:

588/1258 X 45 days (16.08.2014 to 30.09.2014) = 21 days earlier

Payment date in the above case will be 09.09.2014.