PAPER – 1 : ACCOUNTING

PART – I : ANNOUNCEMENTS STATING NON-APPLICABILITY FOR MAY, 2012 EXAMINATION

(i) Schedule VI revised by the Ministry of Corporate Affairs

The Ministry of Corporate Affairs (MCA) has revised Schedule VI to the Companies Act, 1956 on the 28th February, 2011 pertaining to the preparation of Balance Sheet and Profit and Loss Account under the Companies Act, 1956. This revised Schedule VI has been framed as per the existing non-converged Indian Accounting Standards notified under the Companies (Accounting Standards), Rules, 2006. The Revised Schedule VI shall come into force for the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 1.4.2011. However, the revised Schedule VI is not made applicable for May, 2012 examination.

(ii) Ind ASs issued by the Ministry of Corporate Affairs

The Ministry of Corporate Affair (MCA) has issued 35 Converged Indian Accounting Standards (known as 'Ind-AS'), without announcing the applicability date. The issuance of Ind-AS is a significant step towards the implementation of converged standards in India. However, Ind ASs are not made applicable for May, 2012 examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS WITH HINTS

Preparation of Financial Statements of Companies – P&L A/c

1. (a) From the following Profit and Loss Account (draft) of Swati Ltd. for the year ended 31st March, 2011, calculate whether the commission payable to the managing director and other part – time directors of the company, whose commission was fixed @ 5% and 2% respectively on the profit of the company before charging their commission is permissible as per the Companies Act or not:

	Dr. (₹)		Cr. (₹)
To Salaries and wages	20,00,000	By Gross Profit	51,00,000
To Rent, rates and taxes	4,50,000	By Bounties and subsidies received from the Government	1,00,000
To Repairs and renewals	60,000	By Profit on sale of fixed assets	80,000
To Miscellaneous expenses	1,40,000	By Premium on issue of shares	20,000
To Workmen compensation		By Profit on sale of	

including ₹ 10,000 legal compensation	25,000	forfeited shares	10,000
To Interest on bank overdraft	40,000		
To Interest on debentures	50,000		
To Director's fee	18,000		
To Donation to charitable fund	25,000		
To Depreciation on fixed assets	1,00,000		
To Loss on sale of investments	25,000		
To Reserve for redemption of redeemable preference shares	1,50,000		
To Development rebate reserve	1,00,000		
To Provision for taxation	10,00,000		
To Balance c/d	11,27,000		
	53,10,000		53,10,000

Notes :

		₹
(1)	Original cost of the fixed assets sold	1,90,000
	Written down value of the fixed assets sold	1,40,000
	Sale proceeds of the fixed assets	2,20,000
(2)	Depreciation allowable as per Schedule XIV to the Companies Act, 1956	80,000

Profit or Loss Prior to Incorporation

(b) (i) Agra Company, incorporated on 1st April, 2011, took over running business from 1st January, 2011. The company prepares its first final accounts on 31st December, 2011. From the following information, you are required to calculate the sales ratio of pre-incorporation and post-incorporation periods:

1. Sales for January, 2011 to December, 2011 is ₹ 7,20,000,
2. The sales for the month of January is twice of the average sales; for the month of February it is equal to average sales, sales for four months from May to August is 1/4 of the average of each month; and sales for October

and November is three times the average sales.

(ii) Fatafat Ltd. took over a running business with effect from 1st April, 2010. The company was incorporated on 1st August, 2010. The following Profit and Loss Account has been prepared for the year ended 31.3.2011:

	₹		₹
To Salaries	48,000	By Gross Profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Miscellaneous trade expenses	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fee	11,200		
To Bad debts	3,200		
To Commission to selling agents	16,000		
To Audit fee	6,000		
To Debenture interest	3,000		
To Interest paid to vendors	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net Profit	87,600		
	3,20,000		3,20,000

Additional information:

(a) Total sales for the year, which amounted to ₹ 19,20,000 arose evenly upto the date of 30.9.2010. Thereafter they spurted to record an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ ₹ 2,000 per month upto September, 2010 and thereafter it was increased by ₹ 400 per month.

(c) Travelling expenses include ₹ 4,800 towards sales promotion.

(d) Depreciation includes ₹ 600 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2010 by issuing equity shares of ₹ 10 each.

Prepare the Profit and Loss A/c in columnar form showing distinctly the allocation of expenses between pre and post incorporation periods.

Accounting for Issue of Bonus Shares

2. (a) Sidharatha Trading Co. Ltd. has an Authorised Capital of ₹ 16,00,000 divided into:

20,000 6% Preference Shares of ₹ 10 each;

40,000 7% Preference Shares of ₹ 10 each; and

30,000 Equity Shares of ₹ 10 each.

On 1st January, 2011, the whole of the two classes of preference shares and 30,000 equity shares stood in the books as fully paid. The securities premium account as on that date showed a balance of ₹ 40,000. The balance of profit was ₹ 64,000. On 1st July, 2011 it was decided to redeem the whole of 6% preference shares at a premium of ₹ 1 per share and for this specific purpose, the company issued for cash 16,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share, payable full on allotment. All the above shares were taken up. The cost of issue of shares amounted to ₹ 6,000. On 1st October, 2011, the company issued to all equity shareholders one bonus share of ₹ 10 fully paid for each five held. It is the intention of the directors that minimum reduction should be made in revenue reserve account which stood at ₹ 2,50,000. Give necessary journal entries.

Cash Flow Statement

(b) From the following Summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2011 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2011

	₹ '000		₹ '000
To Balance on 1.4.2010	50	By Payment to Suppliers	2,000
To Issue of Equity Shares	300	By Purchase of Fixed Assets	200
To Receipts from Customers	2,800	By Overhead expense	200
To Sale of Fixed Assets	100	By Wages and Salaries	100
		By Taxation	250
		By Dividend	50
		By Repayment of Bank Loan	300
		By Balance on 31.3.2011	150
	3,250		3,250

Amalgamation of Companies

3. Given below are the balance sheets of two companies as on 31st December, 2011:

A Limited

Liabilities	₹	Assets	₹
Issued and fully paid share capital:		Patent rights	2,00,000
50,000 8% cumulative preference shares of ₹ 10 each	5,00,000	Land and buildings	6,00,000
		Plant and machinery	15,50,000
1,50,000 equity shares of ₹ 10 each	15,00,000	Stock	3,50,000
General reserves	8,00,000	Sundry debtors	80,000
Profit and loss A/c	90,000	Cash and bank balance	1,60,000
Sundry creditors	50,000		
	29,40,000		29,40,000

B Limited

Liabilities	₹	Assets	₹
Issued and fully paid share capital:		Goodwill	70,000
40,000 shares of ₹ 10 each	4,00,000	Motor Vehicles	40,000
Profit and loss account	32,000	Furniture	25,000
Sundry creditors	21,000	Stock	2,39,000
		Sundry debtors	62,000
		Cash and Bank balance	17,000
	4,53,000		4,53,000

On 1st January, 2012, it has been agreed that both these companies should be wound up and a new company Shakti Ltd. should be formed to acquire the assets of both the companies on the following terms:

(i) Shakti Ltd. is to have an authorised capital of ₹ 30,00,000 divided into 50,000 5% cumulative preference shares of ₹ 10 each and 2,50,000 equity shares of ₹ 10 each.

(ii) Shakti Ltd. is to purchase whole of the assets of A Ltd. (except cash and bank balances) for ₹ 27,95,000 to be settled by paying ₹ 5,45,000 in cash and balance by issue of 1,80,000 equity shares at a premium of ₹ 2.50 each.

(iii) Shakti Ltd. is to purchase whole of the assets of B Ltd. (except cash and bank balances) for ₹ 3,81,000 to be settled by paying ₹ 6,000 in cash and balance by issue of 30,000, equity shares ₹ 12.50 each.

(iv) Shakti Ltd. is to make a public issue of 50,000, 5% cumulative preference shares at par and 30,000 equity shares, at the issue price of ₹ 12.50 per share, all payable in full on application

(v) A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in Shakti Ltd. in kind among the equity shareholders of the respective companies.

(vi) The liquidator of A Ltd. is to pay the preference shareholders ₹ 10 in cash for every share held in full satisfaction of their claims.

It is estimated that the costs of liquidation (including the liquidators, remuneration) will be ₹ 5,000 in case of A Ltd. and ₹ 2,000 in the case of B Ltd. and that the preliminary expenses of Shakti Ltd. will amount to ₹ 18,000 exclusive of the underwriting commission of ₹ 23,750 payable on the public issue. The scheme has been sanctioned and carried through in its entirety.

You are required to:

(a) Pass the necessary journal entries in the books of A Ltd. for winding up.

(b) Draw up the initial Balance Sheet of Shakti Ltd. on the basis that all assets other than goodwill are taken over at the books values.

Internal Reconstruction of a Company

4. Yoga Ltd. found itself in financial difficulty. The balance sheet of the company as at 31st March, 2011 was as follows:

	₹		₹
Equity shares of ₹ 10 each	10,00,000	Goodwill	3,00,000
10% Preference shares of ₹ 10 each	4,00,000	Land	4,00,000
12% Debentures	3,00,000	Building at cost	3,75,000
Interest payable on debentures	36,000	Machinery at cost	2,20,000
Loan from directors	1,00,000	Investments	2,25,000
Provision for depreciation:		Stock	3,60,000
Buildings	75,000	Debtors	2,00,000
Machinery	80,000	Cash	5,000
Bank overdraft	1,50,000	Profit and loss account	3,15,000
Sundry creditors	2,59,000		
	24,00,000		24,00,000

The authorised share capital of the company is 2,50,000 equity shares of ₹ 10 each and 50,000 10% preference shares of ₹ 10 each.

It was decided during a meeting of the shareholders and directors of the company to carry out a scheme of internal reconstruction as follows:

1. Each equity share is to be redesigned as a share of ₹ 2.50. The equity shareholders are to accept a reduction in the nominal value of their share from ₹ 10 to ₹ 2.50 and subscribe for a new issue on the basis of 1 for 2 at a price of ₹ 4 per share.
2. The existing preference shares are to be exchanged for a new issue of 30,000 15% preference shares of ₹ 10 each and 40,000 equity shares of ₹ 2.50 each.
3. The debenture holders are to accept 10,000 equity shares of ₹ 2.50 each in lieu of interest payable. The interest rate is to be increased to 14%. A further ₹ 1,00,000 of 14% debentures of ₹ 100 each is to be issued and taken up by the existing holders at ₹ 90.
4. ₹ 40,000 of director's loan is to be cancelled. The balance amount is to be settled by issue of ₹ 10,000 equity shares of ₹ 2.50 each @ ₹ 6 each.
5. The investments are to be sold at current market price of ₹ 3,00,000.
6. The bank overdraft is to be repaid.
7. A sum of ₹ 1,59,000 is to be paid to the creditors immediately and the balance is to be paid at quarterly intervals.
8. All intangible assets are to be eliminated.
9. The following assets are to be adjusted to fair values:

	₹
Debtors	1,80,000
Stock	3,20,000
Machinery	1,00,000
Buildings	2,50,000
Land	3,20,000

You are required to :

(a) show the journal entries to effect the reconstruction scheme; and

(b) prepare the balance sheet of the company immediately after reconstruction.

Average Due Date

5. Mehnaaz accepted the following bills drawn by Shehnaaz:

   On 8th March, 2011, ₹ 4,000 for 4 months.

   On 16th March, 2011, ₹ 5,000 for 3 months.

   On 7th April, 2011, ₹ 6,000 for 5 months.

On 17th May, 2011, ₹ 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out this date. Interest is charged @ 18% p.a. and Mehnaaz wants to earn ₹ 150 by way of interest. Find out the date on which he has to effect the payment to earn interest of ₹ 150.

Account Current

6. The following are the transactions that took place between Rohan & Sunil during the half year ended 30th June, 2011:

		₹
I	Balance due to Rohan by Sunil on 1 January, 2011	3,010
ii	Goods sold by Rohan to Sunil on 7 January, 2011	4,430
iii	Goods purchased by Rohan from Sunil on 16 February, 2011	6,480
iv	Goods returned by Rohan to Sunil on 18 February, 2011 (out of the purchases of 16 February, 2011)	560
v	Goods sold by Sunil to Rohan on 24th March, 2011	3,560
vi	Bill accepted by Rohan at 3 months on 22nd April, 2011	1,500
	Cash paid by Rohan to Sunil on 29th April, 2011	2,500
vii	Goods sold by Rohan to Sunil on 17th May, 2011	2,710
viii	Goods sold by Sunil to Rohan on 22nd June, 2011	2,280

Draw up an account current to be rendered by Sunil to Rohan (by interest method) charging interest @ 10% per annum.

Self – Balancing Ledgers

7. From the following particulars, prepare Total Debtors Account and Total Creditors Account in the general ledger:

Balance as on 1-4-2011	Dr. (₹)	Cr.(₹)
Sundry Debtors	40,000	600
Sundry Creditors	400	30,000

Transactions during April, 2011	₹
Purchases (including cash ₹ 8,000)	24,000
Sales (including cash ₹ 12,000)	50,000
Cash paid to suppliers in full settlement of claims of ₹ 18,000)	17,000
Cash received from customers (in full settlement of claims of ₹30,000)	28,200

Bills payable accepted (including renewals)	4,000
Bills payable withdrawn on renewals	1,000
Interest on B/P renewal	40
Bills receivable received	6,000
Bills receivable endorsed	1,600
Endorsed B/R dishonoured	600
B/R discounted	2,800
Bills receivable dishonoured	800
Interest charged on dishonoured B/R	60
Transfer from Debtors Ledger to Creditors Ledger	1,200
Returns (Cr.)	1,400
Balance as on 30-4-2011	
Sundry Debtors (Cr.)	900
Sundry Creditors (Cr.)	21,740

Accounting for Not-For-Profit Organisations

8. From the following information relating to Mukta Social Club, you are required to prepare:

(a) An Income and Expenditure Account (including profit or loss on bar) for the year ended 31st March 2011; and

(b) A Balance Sheet at that date.

(i) A summary of cash book for the year 2010-2011 is as follows:

	₹		₹
Bank balance	8,360	Bar supplies	1,34,610
Annual subscriptions	36,680	Bar wages	10,990
Bar takings	1,53,920	Salaries and wages	13,650
Hire of rooms	1,460	Office expenses	4,240
Income from investments	3,150	Lighting and heating	3,720
Sale of investments	3,280	Rates and insurance	2,870
		Miscellaneous expenses	3,030
		Investments	14,000
		Furniture (purchased on 01.10.2010)	9,000
		Bank balance	10,740
	2,06,850		2,06,850

(ii) The balance at bank on 1st April, 2010 represented ₹ 3,360 on current account and

₹ 5,000 on deposit account. All the receipts shown in the above summary were paid into the Current Account except for ₹ 510 deposit account interest (included in income from investment) and all payments were made from the Current Account. During 2010-2011, ₹ 3,000 were transferred from the Current Account to the Deposit Account.

(iii) The following items were outstanding on 31st March:

	31.03.2010 ₹	31.03.2011 ₹
Subscriptions in arrears	790	980
Salaries and wages accrued	330	410
Creditors for bar supplies	12,170	13,250
Stock of stationery (included in office expenses)	560	650
Subscription in advance	140	260
Telephone bill outstanding (included in office expenses)	290	370
Electricity charges unpaid	310	440
Debtors for bar sales	120	490
Outstanding repairs account (included in miscellaneous expenses)	90	530
Bar wages accrued	210	230
Stock of coal	400	570
Rates and insurance prepaid	620	730
Stock of bar supplies	14,220	19,890

(iv) At March 31, 2010, the club owned the following assets which are shown at cost. On March 31, 2010, they had been in the ownership of the club for the number of years indicated:

	₹	₹
Freehold premises	60,000	12 years
Furniture	10,000	12 years
Furniture	8,000	5 years
Investments	30,000	4 years

(v) The club is providing for the depreciation on freehold premise at 2.5% per annum and on furniture at 10% per annum both rates being calculated on original cost.

Accounts from Incomplete Records

9. Mr. Hemant had ₹ 1,65,000 in the bank account on 1.1.2010 when he started his business. He closed his accounts on 31st March, 2011. His single entry books (in which he did not maintain any account for the bank) showed his position as follows:

	31.3.2010 ₹	*31.3.2011* ₹
Cash in hand	1,100	1,650
Stock in trade	10,450	15,950
Debtors	550	1,100
Creditors	2,750	1,650

On and from 1.2.2010, he began drawings ₹ 385 per month for his personal expenses from the cash box of the business. His account with the bank had the following entries:

	Deposits ₹	*Withdrawals* ₹
1.1.2010	1,65,000	-
1.1.2010 to 31.3.2010		1,22,650
1.4.2010 to 31.3.2011	1,26,500	1,48,500

The above withdrawals included payment by cheque of ₹ 1,10,000 and ₹ 33,000 respectively during the period from 1.1.2010 to 31.3.2010 and from 1.4.2010 to 31.3.2011 respectively for the purchase of machineries for the business. The deposits after 1.1.2010 consisted wholly of sale price received from the customers by cheques.

Draw up Mr. Hemant's statement of affairs as at 31.3.2010 and 31.3.2011 respectively and work out his profit or loss for the year ended 31.3.2011.

Hire–Purchase Instalment Payment System

10. The following are the particulars from the books of a trader who sells goods of small value on hire-purchase system at 50% profit on cost:

2011		₹
January	Stock with the customers	40,500
	Stock in the shop	81,000
	Installments due	22,500
December 31	Stock in the shop	92,250
	Installments due	40,500
	Goods repossessed (Installments due ₹ 12,000) valued at ₹ 2,250 which had been included in the	

	stock at the end at ₹ 2,250	
	Cash received from customers	2,70,000
	Goods purchased during the year	2,70,000

Prepare hire-purchase trading account for the year ending December 31, 2011.

Investments Accounts

11. Ajanta Investment Corporation has done the following transactions in 6% State Government Stock between 1st September 2009 and 31st July 2011 and all these transactions are cum-interest except those marked as ex-interest. Interest is payable half-yearly on 1st February and 1st August. The accounting period ends on 30th June every year:

    1st September 2009- Purchased ₹10,000 stock @ ₹ 101.50

    1st October 2009-Purchased ₹25,000 stock @ ₹ 101

    1st November 2009-Sold ₹15,000 stock @ ₹ 103.25

    1st November 2009-Purchased ₹5,000 stock @ ₹ 103

    15th January 2010-Sold ₹10,000 stock @ ₹ 105 ex-interest

    1st March 2010-Sold ₹4,000 stock @ ₹ 102.50

    15th July 2010-Purchased ₹5,000 stock @ ₹ 101.25 ex-interest

    1st November 2010-Purchased ₹ 5,000 stock @ ₹ 102

    15th January 2011-Sold ₹15,000 stock @ ₹ 103

    1st July 2011-Purchased ₹ 2,000 stock @ ₹ 102

    Write up the Investment Account in the books of the Corporation, showing the profits and losses on the transactions using the average cost method and also showing the amount of interest for each accounting period duly realized.

Insurance Claim for Loss of Stock

12. The premises of Agni Ltd. caught fire on 22nd January 2011, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2010 the stock at cost was ₹ 13,27,200 as against ₹ 9,62,200 on 31st March, 2009.

    Purchases from 1st April, 2010 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2009 -10 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively. You are given the following further information:

    (i) In July, 2010, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2010-11, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 2,000 per week from 1st April, 2010 until the clerk was dismissed on 18th August, 2010.

(iii) The rate of gross profit is constant.

From the above information calculate the stock in hand on the date of fire.

Partnership: Admission of a Partner

13. The Balance Sheet of P and T who share profits & losses in the ratio of 3 : 1 as at 31st March, 2011 was as follows:

Liabilities	₹	Assets	₹	₹
Sundry creditors	60,000	Cash at bank		5,250
Employee's provident fund	6,150	Bills receivable		33,000
Profit and loss account	4,500	Debtors	25,500	
Contingency reserve	1,500	Less: Provision	1,500	24,000
General reserve	1,500	Stock		90,000
A's capital	1,10,700	Furniture and fixtures		16,500
B's capital	96,900	Land & building		1,12,500
	2,81,250			2,81,250

On 31st March, 2011, O was admitted into partnership on the following terms:

(a) The new profit sharing ratio of P, T and O will be 3 : 1 : 1.

(b) Goodwill of the firm was to be valued at two and half years' purchase of the average profits of the last three completed years. The profits were 2006-07 - ₹ 30,000, 2007-08 - ₹ 45,000, 2008-09 - ₹ 60,000, 2009-10 - ₹ 75,000, 2010-11 - ₹ 90,000.

(c) The stock was found overvalued by ₹ 9,000. Fixtures are to be brought down to ₹ 14,850. Provision for doubtful debts is to be made up to 5% on the debtors and bills receivable. Land & building was found undervalued by ₹ 22,500.

(d) The unaccrued income is ₹ 1,275.

(e) A claim on account of workmen's compensation for ₹ 225 to be provided for.

(f) Mr. X, and old customer whose account for ₹ 1,500 was written off as bad has promised in writing to pay 65% in settlement of his full debt.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of a new firm when O pays ₹ 60,000 as his capital but is unable to bring in any cash for his share of goodwill. No account for goodwill should remain in the books of new firm. The capitals of all partners will be in the same ratio as profit sharing ratio taking original capital of "O" as basis. The necessary adjustment should be made through current accounts.

Partnership: Retirement of a partner

14. On 31st December 2011, the Balance Sheet of X, Y, and Z who were sharing profits and losses in proportion to their capital stood as follows:

Liabilities	₹	Assets	₹	₹
Creditors	20,000	Cash at bank		16,000
Employees' provident fund	1,600	Debtors	20,000	
X's capital A/c	72,000	*Less* : Provision	400	19,600
Y's capital A/c	48,000	Stock		18,000
Z's capital A/c	24,000	Machinery		48,000
Contingency reserve	30,000	Land & building		1,00,000
Workmen compensation reserve	6,000			
	2,01,600			2,01,600

Y retires and the following adjustments of the assets and liabilities have been agreed upon before the ascertainment of the amount payable to Y:

(a) Out of the amount of insurance which was debited entirely to Profit and Loss Account, ₹ 2,000 to be carried forward as an unexpired insurance.

(b) Land and building to be appreciated by 10%.

(c) Provision for doubtful debts to be brought up to 5% on debtors.

(d) Machinery to be depreciated by 5%.

(e) Provision of ₹ 3,000 to be made in respect of an outstanding bill of repairs.

(f) Goodwill of the entire firm be fixed at ₹36,000 and Y's share of the same be adjusted into the accounts of X and Z who are going to share future profits in the proportion of 3/4 and 1/4 respectively. (No Goodwill account being raised).

(g) The entire capital of the firm as newly constituted be fixed at ₹1,20,000 between X and Z in the proportion of 3/4 and 1/4 after passing entries in their accounts for adjustments i.e. actual cash to be paid off or to be brought in by the continuing partners as the case may be.

(h) Y to be paid ₹ 6,000 in cash and the balance to be transferred to his loan account.

Prepare Revaluation Account, Capital Accounts of the partners and the Balance Sheet of the firm of X and Z after retirement.

Partnership: Death of a partner

15. The Balance Sheet of X, Y and Z as at 31.12.2010 stood as follows:

Liabilities	₹	Assets	₹	₹
Creditors	25,800	Cash & bank		10,000
General reserve	8,900	Debtors	20,000	
Investment fluctuation reserve	2,400	Less : Provision	1,600	18,400
X's capital A/c	59,700	Stock		20,000
Y's capital A/c	39,700	Land & building		74,000
Z's capital A/c	39,700	Investments		10,000
		Goodwill		37,800
		Life policy (at surrender value):		
		X		2,500
		Y		2,500
		Z		1,000
	1,76,200			1,76,200

Z died on 31st March, 2011. For the purpose the following adjustments were agreed upon:

(a) Land and building is appreciated by 50%.

(b) Investments is valued at 6% less than the cost.

(c) All debtors (except 20% which are considered as doubtful) are good.

(d) Stock is reduced to 94%.

(e) Goodwill is valued at one year's purchase of the average profit of the past five years.

(f) Z's share of profit to the date of death is calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The book profits of last five years as follows:

2006 - ₹ 23,000, 2007- ₹ 28,000, 2008 - ₹ 18,000, 2009 - ₹ 16,000 and 2010 - ₹ 20,000. The life policies have been shown at their surrender values representing 10% of the sum assured in each case. The annual premium of ₹ 1,000 is payable every year on 1st August.

Give the necessary journal entries and the balance sheet of the reconstituted firm.

Accounting in Computerized Environment

16. "Recently a growing trend has developed for outsourcing the accounting functions to a third party". Analyse.

Accounting Standards

AS-1

17. (a) X Ltd. sold its building to Mini Ltd. for ₹ 60 lakhs on 30.09.2010 and gave possession of the property to Mini Ltd. However, documentation and legal formalities are pending. Due to this, the company has not recorded the sale and has shown the amount received as an advance. The book value of the building is ₹ 25 lakhs as on 31st March, 2011. Do you agree with this treatment? If you do not agree, explain the reasons with reference to the accounting standard.

(Hint: Para 16 & 17 of AS 1)

AS-2

(b) Anil Pharma Ltd. ordered 16,000 kg of certain material at ₹160 per unit. The purchase price includes excise duty ₹10 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to ₹ 1,40,160. Normal transit loss is 2%. The company actually received 15,500 kg and consumed 13,600 kg of material. Compute cost of inventory under AS 2 and amount of abnormal loss.

(Hint: Para 7 of AS 2)

AS-6

18. (a) An item of machinery was purchased on 1-4-2008 for ₹ 2,00,000. The WDV depreciation rate applicable to the machinery was 15%. The written down value of the machinery as on 31-3-2010 was ₹ 1,44,500. On 1-4-2010, the enterprise decided to change the method from written down value (WDV) to straight line method (SLM). The enterprise decided to write off the book value of ₹ 1,44,500, over the remaining useful life of machinery i.e. 5 years. Out of the total useful life of 7 years, 2 years have already elapsed.

Comment, whether the accounting treatment is correct. If not, give the correct accounting treatment with reasons.

(Hint: Para 15 of AS 6)

AS-7

(b) Jain Construction Co. Ltd. undertook a contract on 1st January, 2011 to construct a building for ₹ 80 lakhs. The company found on 31st March, 2011 that it had already spent ₹ 58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹ 31,50,000.

What amount should be charged to revenue and what amount of contract value to be recognized as turnover in the final accounts for the year ended 31st March, 2011 as per provisions of AS 7 (revised)?

(Hint: Para 21 & 35 of AS 7)

AS-11

19. (a) Aman Ltd. borrowed US $ 5,00,000 on 31-12-2010 which will be repaid (settled) as on 30-6-2011. Aman Ltd. prepares its financial statements ending on 31-3-2011. Rate of exchange between reporting currency (Rupee) and foreign currency (US $) on different dates are as under:

31-12-2010	1 US $ = ₹ 44.00
31-3-2011	1 US $ = ₹ 44.50
30-6-2011	1 US $ = ₹ 44.75

(i) Calculate borrowings in reporting currency to be recognised in the books on above mentioned dates & also show journal entries for the same.

(ii) If borrowings was repaid (settled) on 28-2-2011 on which date exchange rate was 1 US$= ₹ 44.20 than what entry should be passed?

(Hint: Para 9, 11 & 13 of AS 11)

AS-9

(b) A company is engaged in the business of ship building and ship repair. On completion of the repair work, a work completion certificate is prepared and countersigned by ship owner (customer). Subsequently, invoice is prepared based on the work completion certificate describing the nature of work done together with the rate and the amount. Customer scrutinizes the invoice and any variation is informed to the company. Negotiations take place between the company and the customer. Negotiations may result in a deduction being allowed from the invoiced amount either as a lumpsum or as a percentage of the invoiced amount. The accounting treatment followed by the company is as follows:

(i) When the invoice is raised, the customer's account is debited and ship repair income account is credited with the invoiced amount.

(ii) Deduction, if any, arrived after negotiation is treated as trade discount by debiting the ship repair income account.

(iii) At the close of the year, negotiation in respect of certain invoices had not been completed. In such cases, based on past experience, a provision for anticipated loss is created by debiting the Profit and Loss account. The provision is disclosed in Balance Sheet.

Following two aspects are settled in the negotiations:

(i) Errors in billing arising on account of variation between the quantities as per work completion certificate and invoice and other clerical errors in preparing the invoice.

(ii) Disagreement between the company and customer about the rate/cost on which prior agreement has not been reached between them.

Comment:

(i) Whether the accounting treatment of deduction as trade discount is correct? If not, state the correct accounting treatment.

(ii) Whether the disclosure of the provision for anticipated loss in Balance Sheet is correct. If not, state correct accounting treatment.

(Hint: Para 6 of AS 9 and Para 8 of AS 4)

AS-13

20. (a) Albert Finance Ltd. has made the following investments:

(i) Purchased the following equity shares from stock exchange on 1st June, 2010:

	Cost ₹
Scrip X	1,80,000
Scrip Y	50,000
Scrip Z	1,70,000
	4,00,000

(ii) Purchased gold of ₹ 3,00,000 on 1st April, 2007.

(iii) Invested in mutual funds at a cost of ₹ 6,00,000 on 31st March, 2010.

(iv) Purchased government securities at a cost of ₹ 5,00,000 on 1st April, 2010.

How will you treat these investments as per applicable AS in the books of the company for the year ended on 31st March, 2011, if the values of these investments are as follows:

Shares	₹	₹
Scrip X	1,90,000	
Scrip Y	40,000	
Scrip Z	70,000	3,00,000
Gold		5,00,000
Mutual funds		4,50,000
Government securities		7,00,000

Also explain is it possible to off-set depreciation in investment in mutual funds against appreciation of the value of investment in government securities?

(Hint: Para 14, 15 & 17 of AS 13)

AS-10

(b) Rajkumar Ltd. purchased a machine on 1st January 2006 for ₹ 300 lakhs. The machine was depreciated on straight line basis using a depreciation rate of 10% per annum. On 1-1-2010 the machine was revalued at ₹ 270 lakhs and the same was adopted. What will be the carrying cost of the machinery asset as on 31-12-2011? There is no change in the economic life of the asset.

SUGGESTED ANSWERS / HINTS

1. (a) Calculation of Profit for the purpose of Managerial Remuneration

		₹	₹
Gross Profit as per profit and loss account			51,00,000
Add :	Bounties and subsidies received from Government		1,00,000
	Profit on sale of fixed assets (Original cost ₹ 1,90,000 - ₹ 1,40,000 written down value of assets. Capital profit ₹ 30,000 i.e. ₹ 2,20,000 - ₹ 1,90,000 not considered)		50,000
			52,50,000
Less :	Expenses allowable:		
	Salaries and wages	20,00,000	
	Rent, rates and taxes	4,50,000	
	Repairs and renewals	60,000	
	Miscellaneous expenses	1,40,000	
	Workmen compensation (Only legal compensation allowed, voluntary compensation not allowed)	10,000	
	Interest on bank overdraft	40,000	
	Interest on debentures	50,000	
	Director's fee	18,000	
	Donation to charitable funds	25,000	
	Depreciation as per Schedule XIV to the Companies Act,1956	80,000	28,73,000
Profit according to section 349			23,77,000

When there is more than one managerial person, managerial remuneration should be maximum 10% of net profit. Therefore, commission payable to the Managing Director @ 5% on ₹ 23,77,000 = ₹ 1,18,850 is permissible; and

As per section 309 of the Companies Act, other part time directors are entitled to a commission of only 1% if the Company has a managing director. A commission of 2% on the profits of the company can be paid with the approval of the Central Government. Therefore, commission payable to other part time directors @ 2% on ₹ 23,77,000 = ₹ 47,540 needs approval from the Central Government.

Note: It is assumed that investment is a long- term (fixed) asset, so loss on sale of such investment has been excluded.

(b) (i) Average sales per month = $\frac{7,20,000}{12 \text{ months}}$ = ₹ 60,000

Sales for the month of

		₹
January, 2011	(2 x ₹ 60,000)	1,20,000
February, 2011	(1 x ₹ 60,000)	60,000
May, 2011	($\frac{1}{4}$ x ₹ 60,000)	15,000
June, 2011	($\frac{1}{4}$ x ₹ 60,000)	15,000
July, 2011	($\frac{1}{4}$ x ₹ 60,000)	15,000
August, 2011	($\frac{1}{4}$ x ₹ 60,000)	15,000
October, 2011	(3 x ₹ 60,000)	1,80,000
November, 2011	(3 x ₹ 60,000)	1,80,000
Total sales for 8 months		6,00,000

Sales for the remaining 4 months = ₹ 7,20,000 – ₹ 6,00,000

= ₹ 1,20,000

Average sales for the remaining 4 months = $\frac{1,20,000}{4}$ = ₹ 30,000.

Sales for pre-incorporation period:

January, 2011	₹ 1,20,000
February, 2011	₹ 60,000
March, 2011	₹ 30,000
	₹ 2,10,000

Sales for post-incorporation period = ₹ 7,20,000 – ₹ 2,10,000 = ₹ 5,10,000

Sales ratio of pre-incorporation to post-incorporation period = 7: 17

(ii) Profit and Loss Account of Fatafat Ltd.

for the year ended 31.3.2011

Particulars	*Pre-incorpo-ration period* ₹	*Post-incorporation period* ₹	*Particulars*	*Pre-incorpo-ration period* ₹	*Post-incorpo-ration period* ₹
To Salaries (1:2)	16,000	32,000	By Gross Profit (1:3)	80,000	2,40,000
To Stationery (1:2)	1,600	3,200			
To Advertisement (1:3)	4,000	12,000			
To Travelling expenses (W.N.3)	4,000	8,000			
To Sales promotion expenses (W.N.3)	1,200	3,600			
To Misc. trade expenses (1:2)	12,600	25,200			
To Rent (office building) (W.N.2)	8,000	18,400			
To Electricity charges (1:2)	1,400	2,800			
To Director's fee	-	11,200			
To Bad debts (1:3)	800	2,400			
To Selling agents commission (1:3)	4,000	12,000			
To Audit fee (1:2)	2,000	4,000			
To Debenture interest	-	3,000			
To Interest paid to vendor (2:1) (W.N.4)	2,800	1,400			
To Selling expenses (1:3)	6,300	18,900			
To Depreciation on fixed	3,000	6,600			

assets (W.N.5)					
To Capital reserve	12,300	-			
To Net profit	-	75,300			
	80,000	2,40,000		80,000	2,40,000

Working Notes:

Pre incorporation period = 1st April, 2010 to 31st July, 2010

i.e. 4 months

1. Sales ratio

   Let the monthly sales for first 6 months (i.e. from 1.4.2010 to 30.09.2010) be = x

   Then, sales for 6 months = 6x

   Monthly sales for next 6 months (i.e. from 1.10.10 to 31.3.2011) = $x + \frac{2}{3}x = \frac{5}{3}x$

   Then, sales for next 6 months = $\frac{5}{3}x$ X 6 = 10x

   Total sales for the year = 6x + 10x = 16x

   Monthly sales in the pre incorporation period = ₹19,20,000/16 = ₹ 1,20,000

   Sales for pre-incorporation period = ₹ 1,20,000 x 4 = ₹ 4,80,000

   Sales for post incorporation period = ₹ 19,20,000 – ₹ 4,80,000

   = ₹ 14,40,000

   Sales Ratio = 4,80,000 : 14,40,000 = 1 : 3

2. Rent

		₹
Rent for pre-incorporation period (₹ 2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August, 2010 & September, 2010 (₹ 2,000 x 2)	4,000	
October, 2010 to March, 2011 (₹ 2,400 x 6)	14,400	18,400 (post)

3. Travelling expenses

	Pre	*Post*
	₹	₹
Traveling expenses ₹ 12,000 (i.e. ₹ 16,800 – ₹ 4,800) distributed in 1:2 ratio	4,000	8,000

Sales promotion expenses ₹ 4,800 distributed in 1:3 ratio	1,200	3,600
	5,200	11,600

4. Interest paid to vendor till 30th September, 2010

	Pre	*Post*
	₹	₹
Interest for pre-incorporation period $(\frac{4,200}{6} \times 4)$	2,800	
Interest for post incorporation period i.e. for August, 2010 & September, 2010 = $(\frac{4,200}{6} \times 2)$		1,400

5. Depreciation

		Pre	*Post*
		₹	₹
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	600		600
	9,000		
Depreciation for pre-incorporation period [9,000 x $\frac{4}{12}$]		3,000	
Depreciation for post incorporation period [9,000 x $\frac{8}{12}$]			6,000
		3,000	6,600

2. Sidharatha Trading Co. Ltd.

Journal Entries

2011			Dr. ₹	Cr. ₹
July, 1	6% Redeemable preference share capital A/c	Dr.	2,00,000	
	Premium on redemption of preference shares A/c	Dr.	20,000	
	To Preference shareholders A/c			2,20,000
	(Being amount due on redemption of 20,000 6% preference shares of ₹ 10 each at a premium of 10%)			
July, 1	Bank A/c	Dr.	1,92,000	
	To Equity share capital A/c			1,60,000

	To Securities premium A/c			32,000
	(Being issue of 16,000, equity shares of ₹ 10 each at a premium of ₹ 2 per share for redeeming 6% preference shares)			
July, 1	Cost of issue A/c	Dr.	6,000	
	To Bank A/c			6,000
	(Being expenses incurred on issue of equity shares)			
July, 1	Securities premium A/c	Dr.	26,000	
	To Premium on redemption of preference shares A/c			20,000
	To Cost of issue A/c			6,000
	(Being amount of premium utilized for providing premium on redemption and writing off cost of issue)			
July, 1	Profit and loss A/c	Dr.	40,000	
	To Capital redemption reserve A/c			40,000
	(Being amount provided out of profit and loss account for redeeming preference shares which could not be redeemed out of fresh issue of shares)			
	Preference shareholders A/c	Dr.	2,20,000	
	To Bank A/c			2,20,000
	(Being payment of amount due on redemption of preference shares)			
Oct, 1	Capital redemption reserve A/c	Dr.	40,000	
	Securities premium A/c	Dr.	46,000	
	Profit and loss A/c	Dr.	6,000	
	To Bonus to equity shareholders A/c			92,000
	(Being amount required for issue of 9,200 bonus shares of ₹ 10 each @ 1 share for every 5 equity shares held on October 1 provided out of various reserves utilizing the minimum of revenue reserves)			
Oct, 1	Bonus to equity shareholders A/c	Dr.	92,000	
	To Equity share capital A/c			92,000
	(Being issue of 9,200 equity shares of ₹ 10 each as fully paid bonus shares)			

(b) X Ltd.

Cash Flow Statement for the year ended 31st March, 2011

(Using the direct method)

	₹' 000s	₹' 000s
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payment to suppliers & employees (refer W.N.)	(2,300)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash from operating activities		250
Cash flows from investing activities		
Payment for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at the beginning of the period		50
Cash at the end of the period		150

Working Note:

Cash paid to Suppliers & Employees

		₹'000s
a. Payment to suppliers	2,000	
b. Wages & salaries	100	
c. Overhead expenses	200	2,300

3. In the books of A Ltd.

Journal Entries

	Particulars		₹	₹
1.	Realisation A/c	Dr.	27,80,000	
	To Patent rights A/c			2,00,000
	To Land and buildings A/c			6,00,000
	To Plant and machinery A/c			15,50,000
	To Stock			3,50,000
	To Sundry debtors			80,000
	(Being assets taken over by Shakti Ltd.)			
2.	Sundry creditors A/c	Dr.	50,000	
	To Realisation A/c			50,000
	(Being creditors transferred to Realisation A/c)			
3.	Shakti Ltd.	Dr.	27,95,000	
	To Realisation A/c			27,95,000
	(Being purchase consideration due)			
4.	Realisation A/c	Dr.	5,000	
	To Cash & bank A/c			5,000
	(Being cost of liquidation charged to Realisation A/c)			
5.	Realisation A/c	Dr.	50,000	
	To Cash & bank A/c			50,000
	(Being creditors dues paid)			
6.	Shares in Shakti Ltd. (1,80,000 x ₹12.50)	Dr.	22,50,000	
	Cash & bank A/c	Dr.	5,45,000	
	To Shakti Ltd.			27,95,000
	(Being shares received in payment of purchase consideration and balance in cash)			
7.	Preference share capital A/c	Dr.	5,00,000	
	To Preference shareholders A/c			5,00,000
	(Being transfer of preference share capital to preference shareholders account)			
8.	Equity share capital A/c	Dr.	15,00,000	
	General reserves A/c	Dr.	8,00,000	

	Profits and loss A/c	Dr.	90,000	
	To Equity shareholders A/c			23,90,000
	(Being equity transferred to equity shareholders A/c)			
9.	Preference shareholders A/c	Dr.	5,00,000	
	To Cash & bank A/c			5,00,000
	(Being preference shareholders paid)			
10.	Realisation A/c (W.N.1)	Dr.	10,000	
	To Equity shareholders A/c			10,000
	(Being transfer of profit on realization to equity shareholders account)			
11.	Equity shareholders A/c	Dr.	24,00,000	
	To Shares in Shakti Ltd.			22,50,000
	To Cash & bank (W.N.2)			1,50,000
	(Being distribution of shares & cash among the equity shareholders)			

Shakti Limited

Balance Sheet as on 1st Janurary, 2012

Liabilities	₹	Assets	₹
Authorised share capital:		Fixed Assets:	
50,000, 5% Cumulative preference shares of ₹ 10 each	5,00,000	Goodwill (W.N.3)	30,000
		Patent rights	2,00,000
		Land and buildings	6,00,000
2,50,000, Equity shares of ₹ 10 each	25,00,000	Plant and machinery	15,50,000
		Motor vehicles	40,000
	30,00,000	Furniture	25,000
Issued and subscribed :		Current assets, loans and advances:	
50,000, 5% Cumulative preference shares of ₹ 10 each	5,00,000	Stock (3,50,000+2,39,000)	5,89,000
		Sundry debtors (80,000+62,000)	1,42,000
2,40,000 Equity shares of ₹ 10 each fully paid (Out of above, 2,10,000 equity shares have been issued for	24,00,000	Cash (W.N.4)	2,82,250

consideration other than cash)			
Reserve and surplus:			
Securities premium [(2,40,000 x ₹ 2.50) – ₹ 18,000- ₹ 23,750]*	5,58,250		
	34,58,250		34,58,250

Working Notes:

1. Realisation A/c of A Ltd.

	₹		₹
To Patent right	2,00,000	By Sundry creditors	50,000
To Land & building	6,00,000	By Shakti Ltd.	27,95,000
To Plant & machinery	15,50,000		
To Stock	3,50,000		
To Debtors	80,000		
To Cash			
Creditors	50,000		
Expenses	5,000		
To Equity shareholders A/c	10,000		
	28,45,000		28,45,000

2. Cash Account of A Ltd.

Particulars	₹	Particulars	₹
To Balance b/d	1,60,000	By Realisation A/c (Liquidation exp.)	5,000
To Shakti Ltd.	5,45,000	By Realisation A/c	50,000
		By Preference shareholders	5,00,000
		By Equity shareholders (Bal. fig.)	1,50,000
	7,05,000		7,05,000

* As per section 78 of the Companies Act, 1956, Securities premium has been utilized in writing off the preliminary expense and commission on issue of shares of the company.

3. Calculation of Goodwill/Capital Reserve

	₹
Purchase consideration	27,95,000
Less: Net assets of A. Ltd. (₹ 29,40,000 – ₹ 1,60,000)	(27,80,000)
Goodwill	15,000
Purchase consideration	3,81,000
Less: Net assets of B Ltd(₹ 4,53,000- ₹ 70,000-₹ 17,000)	(3,66,000)
Goodwill	15,000
Thus, total goodwill will be = ₹ 15,000 (A Ltd.) + ₹ 15,000 (B Ltd.)	30,000

4. Cash Account of Shakti Ltd.

	₹	.	₹
To 5% Cumulative preference share application and allotment account	5,00,000	By A Ltd.	5,45,000
		By B Ltd.	6,000
		By Preliminary expenses	18,000
To Equity share applications and allotment account	3,75,000	By Underwriting commission	23,750
		By Balance c/d (Bal.fig.)	2,82,250
	8,75,000		8,75,000

4. Journal Entries

			₹	₹
1.	Equity share capital A/c (₹ 10)	Dr.	10,00,000	
	To Equity share capital A/c (₹ 2.50)			2,50,000
	To Capital reduction A/c (₹ 7.50)			7,50,000
	(Being the amount transferred @ ₹ 7.50 per share to Capital Reduction A/c as per the scheme of reconstruction dated……..)			
2.	Bank A/c	Dr.	2,00,000	
	To Equity share capital A/c			1,25,000
	To Securities premium A/c			75,000
	(Being amount received from existing shareholders for subscribing 50,000 new equity shares @ ₹ 2.50 each at a premium of ₹ 1.50 per share as per scheme of reconstruction dated ….)			

3.	10% Preference share capital A/c	Dr.	4,00,000	
	To 15% Preference share capital A/c			3,00,000
	To Equity share capital A/c			1,00,000
	(Being conversion of 10% Preference share capital to 30,000 15% Preference shares of ₹ 10 each and 40,000 equity shares of ₹ 2.50 each as per reconstruction scheme)			
4.	Interest payable on debentures A/c	Dr.	36,000	
	To Equity share capital A/c			25,000
	To Capital reduction A/c			11,000
	(Being share capital issued in lieu of interest payable on debentures as per reconstruction scheme)			
5.	12% Debentures A/c	Dr.	3,00,000	
	To 14% Debentures A/c			3,00,000
	(Being conversion of 12% debentures to 14% debentures as per reconstruction scheme)			
6.	Bank A/c	Dr.	90,000	
	Discount on issue of debentures A/c	Dr.	10,000	
	To 14% Debentures A/c			1,00,000
	(Being issue of new debentures of 14% as per scheme at a discount of ₹ 10 per debenture)			
7.	Loan from Directors A/c	Dr.	1,00,000	
	To Equity share capital A/c			25,000
	To Securities premium A/c			35,000
	To Capital reduction A/c			40,000
	(Being issue of equity share capital in cancellation of loan from directors as per reconstruction scheme)			
8.	Bank A/c	Dr.	3,00,000	
	To Investment A/c			2,25,000
	To Capital reduction A/c			75,000
	(Being amount realized from the sale of investment as per reconstruction scheme)			

9	Bank Overdraft A/c	Dr.	1,50,000	
	To Bank A/c			1,50,000
	(Being the amount paid to creditors as per reconstruction scheme)			
10.	Creditors A/c	Dr.	1,59,000	
	To Bank A/c			1,59,000
	(Being the amount paid to creditors as per reconstruction scheme)			
11.	Capital Reduction A/c	Dr.	8,76,000	
	To Goodwill A/c			3,00,000
	To Profit & loss A/c			3,15,000
	To Discount on issue of debentures A/c			10,000
	To Land A/c (4,00,000 – 3,20,000)			80,000
	To Building A/c (3,75,000–75,000-2,50,000)			50,000
	To Machinery A/c (2,20,000–80,000-1,00,000)			40,000
	To Stock A/c (3,60,000 – 3,20,000)			40,000
	To Debtors A/c (2,00,000 – 1,80,000)			20,000
	To Capital reserve A/c (Bal. fig.)			21,000
	(Being capital reduction account utilised for writing off all intangible assets & for adjusting the assets to its fair values as per the reconstruction scheme)			

Balance Sheet (And Reduced)

Liabilities	₹	₹	Assets	₹	₹
Authorised share capital:			Fixed assets:		
2,50,000, Equity			Land	3,20,000	
shares @ ₹ 2.50 each	6,25,000		Building	2,50,000	
			Machinery	1,00,000	6,70,000
50,000, 15% Preference shares of ₹ 10 each	5,00,000	11,25,000	Current assets, loans & advances:		
Issued, subscribed and paid up:			Stock	3,20,000	
			Debtors	1,80,000	

2,10,000, Equity shares of ₹ 2.50 each fully called & paid up	5,25,000		Cash in hand	5,000	
30,000, 15% Preference shares of ₹ 10 each	3,00,000	8,25,000	Cash at bank (Refer W.N)	2,81,000	7,86,000
Reserves & surplus :					
Capital reserve	21,000				
Securities premium	1,10,000	1,31,000			
Secured loans :					
14% Debentures		4,00,000			
Current liabilities & provisions :					
Sundry creditors (2,59,000–1,59,000)		1,00,000			
		14,56,000			14,56,000

Working Note:

Calculation of Cash at Bank

	₹
Issue of equity shares	2,00,000
Sales of investments	3,00,000
Issue of debentures	90,000
	5,90,000
Less: Payment to creditors	(1,59,000)
Less: Payment of bank overdraft	(1,50,000)
	2,81,000

5. Calculation of number of days from base date

Transaction date	*Due date*	*Amount ₹*	*No. of days from Base date (Base date 19.6.2011)*	*Product*
8.3.2011	11.7.2011	4,000	22	88,000

16.3.2011	19.6.2011	5,000	0	0
7.4.2011	10.9.2011	6,000	83	4,98,000
17.5.2011	20.8.2011	5,000	62	3,10,000
		20,000		8,96,000

Average due date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2011 + ₹ 8,96,000 / ₹ 20,000

= 19.6.2011 + 44.8 days (or 45 days approximately) = 3.8.2011

Mehnaaz wants to earn interest of ₹ 150.

The yearly interest is ₹ 20,000 ´ 18% = ₹ 3,600.

Assume that days corresponding to interest of ₹ 150 are Y.

Then, 3,600 ´ Y/365 = ₹ 150

or Y = 150 ´ 365/3,600 = 15.2 days or 15 days (Approx.)

Hence, if Mehnaaz wants to save ₹ 150 by way of interest, she should prepone the payment of amount involved by 15 days from the Average Due Date. Hence, she should make the payment on 19.7.2011 (i.e. 03.08.2011 – 15 days).

6. In the books of Sunil

Rohan in Account Current with Sunil

as on 30th June, 2011

Date 2011	Particulars	Amount ₹	Days	Interest ₹	Date 2011	Particulars	Amount ₹	Days	Interest ₹
Feb. 16	To Sales	6,480.00	134	237.90	Jan. 1	By Balance b/d	3,010.00	181	149.26
Mar. 24	To Sales	3,560.00	98	95.58	Jan. 7	By Purchases	4,430.00	174	211.18
June 22	To Sales	2,280.00	8	5.00	Feb 18	By Returns inward	560.00	132	20.25
June 30	To Balance of interest			107.08	Apr. 22	By B/R (maturing on 25 July, 2011)	1,500.00	(25)	(10.27)*
June 30	To Balance c/d	2,497.08			Apr. 29	By Cash	2,500.00	62	42.47
					May 17	By Purchases	2,710.00	44	32.67
					June 30	By Interest	107.08		
		14,817.08		445.56			14,817.08		445.56
					July 1	By Balance b/d	2,497.08		

* Interest on amount of Bill receivable maturing on 25th July, 2011 is a red ink interest.

Credit for the B/R is given on the date when it is received, but the amount will be received only on its maturity. Hence, the interest for the period for which the bill is to run after accounting period is shown as negative figure.

7. **Total Debtors Account**

2011	*Particulars*	₹	*2011*	*Particulars*	₹
April 1	To Balance b/d	40,000	April 1	By Balance b/d	600
April 30	To Sales (Credit)	38,000	April 30	By Cash	28,200
	To Total creditors (endorsed B/R dishonoured)	600		By Discount	1,800
	To B/R (Dishonoured)	800		By Bills receivable	6,000
	To Interest	60		By Total creditors (Transfer)	1,200
	To Balance c/d	900		By Balance c/d	42,560
		80,360			80,360

Total Creditors Account

2011	*Particulars*	₹	*2011*	*Particulars*	₹
April 1	To Balance b/d	400	April 1	By Balance b/d	30,000
April 30	To Cash	17,000	April 30	By Purchases (Credit)	16,000
	To Discount received	1,000		By Bills payable (withdrawn)	1,000
	To Bills payable	4,000		By Interest	40
	To Bills receivables (endorsed)	1,600		By Total debtors (endorsed B/R dishonoured)	600
	To Total debtors (Transfer)	1,200		By Balance c/d	700
	To Purchase returns	1,400			
	To Balance c/d	21,740			
		48,340			48,340

Notes:

1. B/R discounted, Cash purchases and Cash sales will not be shown in the Total Debtors & Creditors accounts.
2 Endorsed B/R dishonoured and transfers will be shown in both the Total Debtors & Creditors accounts.

8. Bar Trading Account

for the year ending on 31st March, 2011

Particulars	₹	₹	Particulars	₹
To Bar stock (opening)		14,220	By Bar sales	1,54,290
To Bar purchases		1,35,690	By Bar stock (closing)	19,890
To Wages	10,990			
Less: O/s for 09-10	(210)			
	10,780			
Add: O/s for 10-11	230	11,010		
To Bar profit t/f to income and expenditure A/c		13,260		
		1,74,180		1,74,180

Income and Expenditure Account
for the year ending on 31st March, 2011

Expenditure	₹	₹	Income		₹
To Salaries and Wages	13,650		By Subscriptions	36,680	
Less: O/s of 09-10	(330)		*Less*: O/s of 09-10	(790)	
Add: O/s of 10-11	410	13,730	*Add*: O/s of 10-11	980	
To Lighting & Heating	3,720		*Add*: Adv. of 09-10	140	
Less: O/s of 09-10	(310)		*Less*: Adv. of 10-11	(260)	36,750
Add: O/s of 10-11	440		By Room Hire		1,460
	3,850		By Income from investments		3,150
Add: Opening stock (coal)	400		By Bar Trading A/c [Profit from Bar Room]		13,260
Less: Closing stock (coal)	(570)	3,680			
To Rates & Insurance	2,870				
Add: Prepaid of 09-10	620				
Less: Prepaid of 10-11	(730)	2,760			
To Miscellaneous Expenses	3,030				
Less: O/s of 09-10	(90)				
	2,940				

Add: O/s of 10-11	530	3,470		
To Depreciation:				
Furniture ₹(800+450)		1,250		
Premises		1,500		
To Office Expenses	4,240			
Add: Opening stock (stationary)	560			
Less: Closing stock (stationary)	(650)			
	4,150			
Less: O/s of 09-10 (Telephone bills)	(290)			
Add: O/s of 10-11 (Telephone bills)	370	4,230		
To Excess of income over expenditure		24,000		
		54,620		54,620

Balance Sheet as at 31st March, 2011

Liabilities	₹	₹	Assets	₹	₹.
Salaries and wages due		410	Bank balance: Current A/c	2,230	
Creditors for bar supplies		13,250	Deposit A/c (3,000+5,000+510)	8,510	10,740
Advance subscription		260	Investments *Add:* New purchases	30,000 14,000	
Telephone bill outstanding		370	*Less*: Sale	44,000 (3,280)	40,720
Electricity bill outstanding		440	Furniture : 13 years old		Nil
Repairs A/c outstanding		530	6 years old *Less*: Depreciation	8,000 (4,800)	3,200
Bar wages due Capital fund:		230	New furniture *Less:* Depreciation	9,000 (450)	8,550
Opening balance	87,530		Subscriptions		
Add: Surplus	24,000	1,11,530	outstanding		980

			Stock of stationery		650
			Stock of coal		570
			Rates & insurance prepaid		730
			Debtors for bar sales		490
			Stock of bar supplies		19,890
			Freehold premises	60,000	
			Less: Acc. dep.	(19,500)	40,500
		1,27,020			1,27,020

Working Notes:

(i) Creditors for Bar Purchases Account

Particulars	₹	Particulars	₹
To Cash A/c	1,34,610	By Balance b/d	12,170
To Balance c/d	13,250	By Bar trading A/c (Purchases) (bal. fig.)	1,35,690
	1,47,860		1,47,860

(ii) Debtors for bar taking Account

Particulars	₹	Particulars	₹
To Balance b/d	120	By Cash A/c (collections from debtors)	1,53,920
To Bar Trading A/c (Sales)	1,54,290		
		By Balance c/d	490
	1,54,410		1,54,410

(iii) Balance Sheet as at 31st March, 2010

Liabilities	₹	Assets	₹	₹
Salaries and wages due	330	Bank balance:		
Creditors for bar supplies	12,170	Current A/c		3,360
Subscription in advance	140	Deposit A/c		5,000
Outstanding:		Investment		30,000
Telephone bill	290	Stock of bar supplies		14,220
Electricity bill	310	Furniture		
Repairs A/c	90	12 years old	10,000	
Bar wages	210	*Less*: Depreciation	(10,000)	nil

Capital Fund (bal. fig.)	87,530	5 years old	8,000	
		Less: Depreciation	(4,000)	4,000
		Subscriptions due		790
		Stock of stationery		560
		Stock of coal		400
		Rates & insurance prepaid		620
		Debtors for bar sales		120
		Freehold premises	60,000	
		Less: Acc. depreciation	(18,000)	42,000
	1,01,070			1,01,070

9. (a) Statement of Affairs as on 31st March, 2010

Liabilities	₹	*Assets*	₹
Capital (bal.fig.)	1,61,700	Machinery	1,10,000
Sundry creditors	2,750	Stock	10,450
		Debtors	550
		Cash at bank (W.N.1)	42,350
		Cash in hand	1,100
	1,64,450		1,64,450

(b) Calculation of loss for 3 months (1.1.2010 to 31.3.2010)

	₹
Capital as on 31.3.2010	1,61,700
Add: Drawings for 3 months	770
	1,62,470
Less: Capital as on 1.1.2010	(1,65,000)
Loss for 3 months	2,530

(c) Statement of Affairs as on 31st March, 2011

Liabilities	₹	*Assets*		₹
Capital	1,80,400	Machinery	1,10,000	
Sundry Creditors	1,650	*Add:* Additions	33,000	1,43,000
		Stock		15,950
		Debtors		1,100
		Cash at bank (W.N.2)		20,350
		Cash in hand		1,650
	1,82,050			1,82,050

(d) Statement of Profit and Loss for the year ended 31.3.2011

Particulars	₹
Capital as on 31.3.2011	1,80,400
Add: Drawings (₹ 385 x 12)	4,620
	1,85,020
Less: capital as on 31.3.2010	(1,61,700)
Net profit for the year ended 31.3.11	23,320

Working Notes:

	₹
1. Bank balance as on 31.3.2010	
Balance as on 1.1.2010	1,65,000
Less: Withdrawals during 1.1.2010 to 31.3.2010	(1,22,650)
Balance as on 31.3.2010	42,350
2. Bank Balance as on 31.3.2011:	
Balance as on 1.4.2010	42,350
Add: Deposits during the year	1,26,500
	1,68,850
Less: Withdrawals during the year	(1,48,500)
Bank Balance as on 31.3.2011	20,350

10. Hire-Purchase Trading Account

for the year ending 31st December, 2011

	₹		₹
To Stock with customers (at cost)	27,000	By Cash received from customers (W.N 1)	2,70,000
To Installments due and unpaid	22,500	By Goods Repossessed A/c	2,250
		By Stock with customers	
To Goods sold on H.P. A/c (W.N 1)	2,61,000	$1{,}32{,}000 \times \frac{100}{150}$ (W.N.2)	88,000
To Profit and Loss A/c	90,250	By Installments due and unpaid	40,500
	4,00,750		4,00,750

Working Notes:

(1) Shop Stock A/c

	₹		₹
To Balance b/d	81,000	By Cost of Goods sold on Hire-Purchase(Balancing Figure)	2,61,000
To Purchases	2,70,000	By Balance c/d	92,250
To H.P. Trading-Goods Repossessed	2,250		
	3,53,250		3,53,250

(2) Installments Account

	₹		₹
To Stock with customers (at H.P)	40,500	By Cash received	2,70,000
To Instalments due and unpaid	22,500	By Goods Repossessed (Instalments due on them)	12,000
To Goods sold on H.P. A/c (₹ 2,61,000 × 150%)	3,91,500	By Stock with customers (Bal. Fig.) (at H.P)	1,32,000
		By Instalments due and unpaid	40,500
	4,54,500		4,54,500

11. Schedule of Profit or Loss on Sales
(Average cost method)

2009		*Nominal* ₹	*Cum-Dividend cost* ₹	*Dividend* ₹	*Cost* ₹	*Realized* ₹	*Profit* ₹	*Loss* ₹
Sept 1	Purchase	10,000	10,150	50	10,100			
Oct 1	Purchase	25,000	25,250	250	25,000			
		35,000			35,100			
Nov. 1	Sale	15,000			15,043[1]	15,262.50	219.50	
		20,000			20,057			
Nov. 1	Purchase	5,000	5,150	75	5,075			
		25,000			25,132			
2010								
Jan. 15	Sale	10,000			10,053[2]	10,500	447.00	

		15,000			15,079			
Mar.1	Sales	4,000			4,021[3]	4,080	59.00	
		11,000			11,058		750.50	
July 15	Purchase	5,000	5,062.5	-	5,062			
		16,000			16,120			
Nov.1	Purchase	5,000	5,100	75	5,025			
		21,000			21,145			
2011								
Jan.15	Sale	15,000			15,104[4]	15,037		67
		6,000			6,041			

Working Notes:

1. $\frac{15}{35}$ x 35,100 = ₹ 15,043 (approx)
2. $\frac{10}{25}$ x 25,132 = ₹ 10,053 (approx)
3. $\frac{4}{15}$ x 15,079 = ₹ 4,021 (approx)
4. $\frac{15}{21}$ x 21,146 = ₹ 15,104 (approx)

6% State Government Stock

(*Interest payable half-yearly on 1st February & 1st August)*

Date 2009	*Particulars*	*Nominal* ₹	*Interest* ₹	*Capital* ₹	*Date* 2009	*Particulars*	*Nominal* ₹	*Interest* ₹	*Capital* ₹
Sept. 1	To Cash A/c: Purchase at ₹ 101.50	10,000	50	10,100	Nov. 1	By Cash A/c: Sale at ₹ 103.25	15,000	225	15,263
					2010				
Oct.1	To Cash A/c: Purchase at ₹ 101	25,000	250	25,000	Jan. 15	By Cash A/c: Sale at ₹ 105 ex-interest	10,000	275	10,500
Nov. 1	To Cash A/c: Purchase at ₹103	5,000	75	5075	Feb. 1	By Interest on 15,000 at 6% p.a. for half year		450	
Nov. 1	To P/L A/c (Profit on transaction)			220	Mar. 1	By Cash A/c: Sale at ₹ 102.50	4,000	20	4,080

2010									
Jan. 15	To P/L A/c			447	June 30	By Balance c/d (Stock at average cost) Accruing interest there on for 5 months)	11,000	275	11,058
Mar.1	To P/L A/c			59					
June 30	To P/L A/c		870						
		40,000	1,245	40,901			40,000	1,245	40,901
2010					2010				
July 1	To Balance b/d	11,000	275	11,058	Aug. 1	By Interest on ₹16,000 at 6% p.a. for half year		480.00	
					2011				
July 15	To Cash A/c: Purchase at ₹101.25 ex-interest	5,000	138	5,062	Jan. 15	By Cash A/c: Sale at ₹103	15,000	413	15,037
					Jan. 15	By P/L A/c (Loss and transaction)			67.00
Nov. 1	To Cash A/c: Purchase at ₹102	5,000	75	5,025	Feb. 1	By Bank A/c (Int on ₹6,000 for 1/2 year)		180.00	
2011									
June 30	To P/L A/c		710		June 30	By Balance c/d (Stock at average cost accruing interest for 5 months)	6,000	125.00	6,041
		21,000	1,198	21,145			21,000	1,198	21,145
2011									
July 1	To Balance b/d	6,000	125	6,041					
July 1	To Cash A/c: Purchase at ₹102	2,000	50	1,990					

12. Ascertainment of rate of gross profit for the year 2009-10

Trading A/c for the year ended 31-3-2010

	₹		₹
To Opening stock	9,62,200	By Sales	52,00,000
To Purchased	45,25,000	By Closing stock	13,27,200
To Gross profit	10,40,000		
	65,27,200		65,27,200

$$\text{Rate of gross profit} = \frac{GP}{Sales} \times 100$$

$$= \frac{10,40,000}{52,00,000} \times 100 = 20\%$$

Memorandum Trading A/c for the period from 1-4-2010 to 22-01-2011

	₹	₹		₹	₹
To Opening stock		13,27,000	By Sales	49,17,000	
To Purchases	34,82,700		*Add*: Unrecorded cash sales	40,000	49,57,000
Less: Goods used for advertisement	(1,00,000)	33,82,700	By Closing stock		7,44,100
To Gross profit (20% of ₹ 49,57,000)		9,91,400			
		57,01,100			57,01,100

Estimated stock in hand on the date of fire= ₹ 7,44,100.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2010 to 18.8.2010 = 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹ 2,000 = ₹ 40,000.

13. Revaluation Account

Particulars	₹	Particulars	₹
To Stock	9,000	By Provision for doubtful debts	225
To Furniture & fixtures	1,650	By Land & buildings	22,500
To Provision for doubtful B/R	1,650	By Mr. X (Debtor)	975
To Unaccrued incomes	1,275		
To Workmen compensation claim	225		
To Profit on revaluation t/f to:			
P's capital A/c	7,425		
T's capital A/c	2,475		
	23,700		23,700

Capital Accounts of Partners

Particulars	P ₹	T ₹	O ₹	Particulars	P ₹	T ₹	O ₹
To P's Capital A/c	-	-	22,500	By Balance b/d	1,10,700	96,900	-
To T's Capital A/c	-	-	7,500	By Revaluation A/c	7,425	2,475	-
To Balance c/d	1,46,250	1,08,750	30,000	By P & L A/c	3,375	1,125	-
				By General Reserve	1,125	375	-
				By Contingency reserve	1,125	375	-
				By Bank A/c	-	-	60,000
				By O's Capital A/c	22,500	7,500	
	1,46,250	1,08,750	60,000		1,46,250	1,08,750	60,000
To T's Current A/c		48,750		By Balance b/d	1,46,250	1,08,750	30,000
To Balance c/d	1,80,000	60,000	60,000	By P's Current A/c	33,750	_	30,000
	1,80,000	1,08,750	60,000		1,80,000	1,08,750	60,000

Balance Sheet of M/s. P, T & O as on 31st March, 2011

Liabilities	₹	Assets	₹	₹
Sundry creditors	60,000	Cash at bank (5,250+60,000)		65,250
Employees' provident fund	6,150	Bills receivable	33,000	
Unaccrued incomes	1,275	*Less*: Provision	(1,650)	31,350
Workmen compensation claim	225	Debtors	25,500	
P's capital	1,80,000	*Less*: Provision	(1,275)	24,225
T's capital	60,000	Mr. X		975
O's capital	60,000	Stock (₹ 90,000 – ₹ 9,000)		81,000
T's current A/c	48,750	Furniture & fixtures (₹ 16,500 – ₹ 1,650)		14,850
		Land & buildings (₹ 1,12,500+ ₹ 22,500)		1,35,000
		P's current A/c		33,750
		O's current A/c		30,000
	4,16,400			4,16,400

Working Notes:

1. Calculation of sacrificing ratio

$$P = \frac{3}{4} - \frac{3}{5} = \frac{15 - 12}{20} = \frac{3}{20}$$

$$T = \frac{1}{4} - \frac{3}{5} = \frac{5 - 4}{20} = \frac{1}{20}$$

Therefore sacrificing ratio of P & T= 3:1

2 . Calculation of goodwill

Total profits of last three completed years = ₹ 45,000 + ₹ 60,000 + ₹ 75,000

= ₹ 1,80,000

Average profits of last three completed years = ₹ 1,80,000/3 = ₹ 60,000

Goodwill of the firm = ₹ 60,000 ×2½ = ₹ 1,50,000

Incoming partner's share of Goodwill = ₹ 1,50,000 × 1/5= ₹ 30,000

Shared by P & T in 3:1 = ₹ 22,500 : ₹ 7,500

3. Total capital of the firm = ₹ 60,000 × 5 = 3,00,000

P's new capital = ₹ 3,00,000 x 3/5 = ₹ 1,80,000

T's new capital = ₹ 3,00,000 x 1/5 = ₹ 60,000

14. Revaluation Account

Particulars	₹	Particulars	₹
To Provision for doubtful debts	600	By Unexpired insurance	2,000
To Machinery	2,400	By Land and building	10,000
To Outstanding repairs	3,000		
To Profit t/f to:			
X's capital A/c	3,000		
Y's capital A/c	2,000		
Z's capital A/c	1,000		
	12,000		12,000

Capital Accounts of Partners

Particulars	X ₹	Y ₹	Z ₹	Particulars	P ₹	T ₹	O ₹
To Y's capital A/c (for goodwill) (W. N 2)	9,000	-	3,000	By Balance b/d	72,000	48,000	24,000
				By Revaluation A/c	3,000	2,000	1,000
To Bank A/c	-	6,000	-	By X's capital A/c (for goodwill) (W .N. 2)	-	9,000	-
To Y's loan A/c	-	68,000	-				
To Balance c/d	90,000	-	30,000				
				By Z's capital A/c (for goodwill) (W .N 2)	-	3,000	-
				By Contingency Reserve	15,000	10,000	5,000
				By Work Compensation Reserve	3,000	2,000	1,000
				By Bank A/c (Bal. fig)	6,000	-	2,000
	99,000	74,000	33,000		99,000	74,000	33,000

Balance Sheet of X and Z at 31st December 2011

Liabilities	₹	Assets	₹	₹
Creditors	20,000	Cash at bank (W .N 1)		18,000
Employees' Provident Fund	1,600	Debtors	20,000	
Liability for repairs	3,000	*Less*: Provision	(1,000)	19,000
Y's loan A/c	68,000	Stock		18,000
X's capital A/c	90,000	Machinery (48,000- 2,400)		45,600
Z's capital A/c	30,000			
		Land & building (1,00,000+10,000)		1,10,000
		Unexpired insurance		2,000
	2,12,600			2,12,600

Working Notes:

1. Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	16,000	By Y's capital A/c	6,000
To X's capital A/c	6,000	By Balance c/d	18,000
To Z's capital A/c	2,000		
	24,000		24,000

2. Adjustment of goodwill

	New ratio	Old ratio	Gaining ratio
X	3/4	3/6	$\frac{18-12}{24}=\frac{6}{24}$
Z	1/4	1/6	$\frac{6-4}{24}=\frac{2}{24}$

Therefore, gaining ratio of X & Z = 3:1

Y's share of goodwill of ₹ 12,000 will be shared by X & Z in 3:1 = ₹9,000: ₹ 3,000

15. In the books of X, Y & Z

Journal Entries

Particulars		Dr. (₹)	Cr. (₹)
Insurance Company's A/c	Dr.	10,000	
To Life Policy A/c (W.N 3)			10,000
(Being the Policy on the life of Z matured on his death)			
Life Policy A/c (W.N 4)	Dr.	9,000	
To Xs Capital A/c			3,000
To Y's Capital A/c			3,000
To Z's Capital A/c			3,000
(Being the transfer of balance of Life Policy A/c)			
Profit and Loss Suspense A/c (W.N.1)	Dr.	1,500	
To Z's Capital A/c			1,500
(Being Z's share of profit to date of death credited to his account)			
X's Capital A/c	Dr.	12,600	
Y's Capital A/c	Dr.	12,600	

Z's Capital A/c	Dr.	12,600	
To Goodwill A/c			37,800
(Being the existing Goodwill written off)			
X's Capital A/c (W.N 2)	Dr.	3,500	
Y's Capital A/c	Dr.	3,500	
To Z's Capital A/c			7,000
(Being Z's share of goodwill adjusted through capital accounts)			
Land & Building A/c	Dr.	37,000	
To Revaluation A/c			37,000
(Being an increase in the value of assets)			
Investment fluctuation reserve A/c	Dr.	600	
To Investment A/c			600
(Being decline in the cost of investment adjusted from investment fluctuation reserve A/c)			
Revaluation A/c	Dr.	3,600	
To Stock A/c			1,200
To Provision for doubtful debts A/c			2,400
(Being decline in value of assets recorded)			
Revaluation A/c	Dr.	33,400	
To X's Capital A/c			11,133
To Y's Capital A/c			11,133
To Z's Capital A/c			11,134
(Being transfer of profit on revaluation)			
General Reserve A/c	Dr.	8,900	
Investment Fluctuation Reserve A/c (2,400 -600)	Dr.	1,800	
To X's Capital A/c			3,567
To Y's Capital A/c			3,567
To Z's Capital A/c			3,566
(Being the transfer of accumulated profits)			
Z's Capital A/c	Dr.	53,300	
To Z's Executor's A/c			53,300
(Being the transfer of Z's Capital to his Executors A/c			

Balance Sheet as at 31st March, 2011

Liabilities	₹	Assets	₹	₹
Z's Executors A/c	53,300	Cash and Bank		10,000
Creditors	25,800	Debtors	20,000	
X's Capital A/c	61,300	*Less* : Provision	(4,000)	16,000
Y's Capital A/c	41,300	Stock	20,000	
		Less: Reserve	(1,200)	18,800
		Investments	10,000	
		Less : Reserve	(600)	9,400
		Land and Building (74,000+ 37,000)		1,11,000
		P&L Suspense A/c		1,500
		Life Policies (X and Y)		5,000
		Insurance Company		10,000
	1,81,700			1,81,700

Working Notes:

			₹
1.	Calculation of Z's share of profit to the date of death		
		Total profits for previous three years (18,000+16,000+20,000)	54,000
		Average Profits (₹ 54,000/3 years)	18,000
		Profit for 3 months period (₹ 18,000 /4)	4,500
		Z's share of profit (₹ 4,500 ×1/3)	1,500
2.	Calculation of goodwill		
	(a)	Total profits of last five years	1,05,000
	(b)	Average profit of last five years (₹ 1,05,000/5)	21,000
	(c)	Goodwill at one year's purchase(₹ 21,000 ×1)	21,000
		Share of goodwill of Z = 21,000/3	7,000
		Shared by X & Y in 1:1 = ₹ 3,500 : ₹ 3,500	
3.		Sum assured of Life Policy of Z =(₹1,000 × 100/10) = 10,000	
4.		Balance of Z's Life policy account to be credited to all partners	

= Sum assured – Surrender value already appearing in the books = ₹10,000 – ₹1,000 = ₹9,000	

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. One should be well acquainted with the advantages & disadvantages of outsourcing.

    Following are the advantages of outsourcing the accounting functions:

    1. The organisation that outsources is able to save time to concentrate on the core area of business activity.
    2. The organisation is able to utilise the expertise of the third party in undertaking the accounting work.
    3. Storage and maintenance of the data is in the hands of professional people.
    4. The organisation is not bothered about people leaving the organisation in key accounting positions.
    5. The proposition often proves to be economically more sensible.

    Following are the disadvantages of outsourcing the accounting functions:

    1. *The data of the organisation is handed over to a third party:* This raises two issues, one of security and second of confidentiality. There have been instances of information leaking out of the third party data centers.
    2. *Inadequate services provided*: The third party is unable to meet the standards desirable.
    3. The *cost* may ultimately be higher than initially envisaged.
    4. *Delay in obtaining services:* The third party service providers are catering to number of clients thereby processing as per priority basis.

17. (a) As per para 16 & 17 of AS 1, "Disclosure of Accounting Policies", the main consideration in selection of accounting policy is the presentation of a true and fair picture of the state of affairs & performance of the enterprise. To ensure true and fair consideration, principles of prudence, substance over form and materiality should be looked into.

    In this case, the economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred although legal title has not been transferred. Hence, X Ltd. in its financial statements for the year ended 31.3.2011, should record the sale and recognize the profit of ₹ 35 lakhs in its Profit

& Loss Account and building should be removed from the balance sheet of X Ltd. Therefore, the treatment given by the company is not correct.

(b) Calculation of total cost of material as per AS-2

	₹
Purchase price (16,000 kg. x ₹ 160)	25,60,000
Less : CENVAT credit (16,000 kg. x ₹ 10)	(1,60,000)
	24,00,000
Add : Freight	1,40,160
Total material cost	25,40,160

Number of units after normal loss = 16,000 kg. x (100-2)% = 15,680 kg

Revised cost per kg. = $\frac{25,40,160}{15,680 \text{ kg}}$ = ₹ 162 per kg

Closing inventory = Material actually received – Material consumed
= 15,500 kg – 13,600 kg = 1,900 kg

Value of closing stock = 1,900 kg x ₹ 162 = ₹ 3,07,800

Abnormal loss in kg = Material after normal loss - Material actually received
=15,680 kg – 15,500 kg = 180 kg

Abnormal loss in value = 180 kg x ₹ 162 = ₹ 29,160

18. (a) As per para 15 of AS 6, 'Depreciation Accounting', when the method of depreciation is changed, depreciation is recalculated in accordance with the new method from the date of the assets coming into use. The deficiency or surplus arising from retrospective re-computation of depreciation in accordance with the new method is adjusted in the statement of profit & loss in the year in which the method of depreciation is changed.

Calculation of Surplus/Deficiency due to change in method of depreciation

	₹
Purchase price of plant as on 01-04-2008	2,00,000
Less: Depreciation as per SLM, for the year 2008-09 (₹ 2,00,000 ¸ 7 years)	(28,571)
Balance as on 31-3-2009	1,71,429
Less: Depreciation for the year 2009-10 (₹ 2,00,000 ¸ 7 years)	(28,571)
Balance as on 31-3-2010	1,42,858
Book value as per WDV method	1,44,500
Book value as per SLM	1,42,858
Deficiency	1,642

Deficiency of ₹ 1,642 should be charged to Profit & Loss account.

Therefore, the accounting treatment done by the enterprises is wrong i.e. book value of ₹ 1,44,500 will not be written off over the remaining useful life of machinery i.e. 5 years.

Note: It is assumed that when the company changed the method of depreciation from WDV to SLM, it re-calculated the depreciation amount on the basis of useful life and has not continued with WDV rate of depreciation.

(b) Calculation of total estimated cost

	₹
Cost incurred to date	58,50,000
Estimate of cost to completion	31,50,000
Estimated total cost	90,00,000

Also as per para 21 of the standard, when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. Accordingly,

Percentage of completion of contract = $\frac{\text{Expenditure till date}}{\text{Total estimated expenditure}} \times 100$

Degree of completion (58,50,000/90,00,000) x 100 = 65%

Revenue recognised as a percentage to contract price

65% of ₹ 80,00,000 = ₹ 52,00,000

As per para 35 of AS 7 (Revised) 'Construction Contracts', when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

Accordingly, the loss of ₹10,00,000 (i.e. ₹ 90,00,000-80,00,000) is required to be recognized as an expense in the year 2010-11.

	₹
Total foreseeable loss	10,00,000
Less: Loss for the current year (58,50,000-52,00,000)	(6,50,000)
Expected loss to be recognized immediately as per para 35 of AS 7	3,50,000

Profit and Loss A/c (An extract)

	₹		₹
To Construction cost	58,50,000	By Contract price	52,00,000
To Estimated loss on completion of contract	3,50,000		
	?		?

19. (a) (i) As per para 9 of AS 11 "Changes in Foreign Exchange Rates", a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Accordingly, on 31.12.2010, borrowings will be recorded at ₹ 2,20,00,000 (i.e $ 5,00,000 × ₹ 44.00)

As per para 11(a) of the standard, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.12.2011, borrowings (monetary items) will be recorded at ₹ 2,22,50,000 (i.e $ 5,00,000 × ₹ 44.50).

In the Books of Aman Ltd.

Journal Entries

	Date	Particulars		₹	₹
1.	31-12-2010	Bank A/c	Dr.	2,20,00,000	
		To Borrowings			2,20,00,000
2.	31.03.2011	P/L A/c (Difference in exchange) (W.N.1)	Dr.	2,50,000	
		To Borrowings			2,50,000
3.	30.06.2011	Borrowings A/c	Dr.	2,22,50,000	
		P/L A/c (Difference in exchange) (W.N.2)	Dr.	12,500	
		To Bank A/c			2,23,75,000

(ii) In case borrowings is repaid before balance sheet date, then the entry would be as follows:-

28-2-2011	Borrowings A/c	Dr.	2,20,00,000	
	P/L A/c (Difference in exchange) (W.N.3)	Dr.	1,00,000	
	To Bank A/c			2,21,00,000

Working Notes:

1. The exchange difference of ₹ 2,50,000 is arising because the transaction has been reported at different rate (₹ 44.50 =1 US $) from the rate initially recorded (i.e. ₹ 44 =1 US $).
2. The exchange difference of ₹ 12,500 is arising because the transaction has been settled at an exchange rate (₹ 44.75 =1 US $) different from the rate at which reported in the last financial statement (₹ 44.50= 1 US $).
3. The exchange difference of ₹ 1,00,000 is arising because the transaction has been settled at a different rate (i.e. ₹ 44.20 = 1 US $) than the rate at which initially recorded (1 US $ = ₹ 44.00).

(b) (i) As per para 6 of AS 9 'Revenue Recognition', revenue is recognized at the time when the significant risks & rewards of ownership is transferred i.e. when the invoice is raised to the customers. However, the treatment of deduction as trade discount is not as per illustrative example given in AS 9.

According to the treatment prescribed by para 8 of AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", the adjustment of the difference between the invoiced amount and the amount finally settled against "Ship Repair Income" account is correct. Events occurring up to the date of approval of the accounts by the Board of Directors should be taken into consideration in determining the amount of adjustment to be made in this regard. However, the description of the difference as "trade discount" is not appropriate.

(ii) In respect of ship repair jobs for which negotiations between the ship owners and the company are not over, the accounting treatment is not appropriate. Instead, the amount of difference between the invoiced amount and the amount likely to be finally settled (as estimated on the basis of past experience) should be adjusted in the "Ship Repair Income" by a corresponding credit to the accounts of the respective ship owners. Consequently, the figure of sundry debtors included in the balance sheet would be net of adjustment for such difference. In other words, the amount of the difference would be neither shown under the head provisions nor shown as a deduction from the sundry debtors in the balance sheet.

20. (a) As per para 14 & 15 of AS 13 'Accounting for Investments', current investments should be carried at lower of cost and fair price determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis. Also as per para 17 of the standard, long-term investments are carried at cost

except when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline.

(i) If the investment in shares is intended to be held for not more than one year from the date on which such investment is made then scrip X should be valued at cost i.e. ₹1,80,000 (lower of cost and fair value), scrip Y should be valued at fair value i.e. ₹40,000 (lower of cost and fair value) and scrip Z should be valued at fair value i.e. ₹70,000 (lower of cost and fair value). The total loss of ₹ 1,00,000 (₹ 4,00,000 – ₹ 3,00,000) on scrip's purchased on 1st June, 2010 is to be charged to profit and loss account for the year ended 31st March, 2011.

If investment is intended to be held for long term period then it will continue to be shown at cost in the balance sheet of the company. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of investments, such reduction being determined and made for each investment individually.

(ii) The investment in gold (purchased in April, 2007) shall continue to be shown at cost of ₹3,00,000 in the balance sheet as on 31.3.2011.

(iii) If mutual funds are intended to be held for short term period then, it will be valued at ₹4,50,000 as on 31st March, 2011 and if it is intended to be held for long term then it should be valued at its cost i.e. ₹6,00,000.

(iv) Value of government securities (purchased on 1st April, 2010) is to be shown at cost of ₹ 5,00,000 in the balance sheet as on 31.3.2011.

Inter-category adjustments of appreciation and depreciation in value of investments cannot be done. It is not possible to offset depreciation in investment in mutual funds against appreciation in value of investments in government securities.

(b) Ascertainment of carrying cost

	₹ in lakhs
Cost of acquisition	300
Less: Depreciation for 4 years (i.e from 1.1.2006 to 31.12.2009) @ 10% per annum (300 × 10% × 4 years)	(120)
Book value as on 1.1.2010	180
Add: Upward revaluation credited to revaluation reserve A/c	90
Revalued carrying cost as on 1.1.2010	270
Less: Depreciation at one–sixth of the revalued amount (Refer note)	(45)

Book value as on 1.1.2011	225
Less: Depreciation at one-sixth of the revalued amount	(45)
Balance to be carried forward as on 31.12.2011	180

Note:

As the depreciation rate is 10% on SLM, it is implied that the economic life of the asset is 10 years.

Since there is no change in the economic life of the machinery, the revalued amount should be written off over the remaining six year of economic life i.e ₹ 270/6 = ₹ 45 lakhs per year.

The book value of the asset on 1-1-2010 is ₹ 180 lakhs. Since it is revalued at ₹ 270 lakhs the difference of ₹ 90 lakhs is credited to revaluation reserve as per para 13 of AS 10 "Accounting for Fixed Assets".

Additional deprecation of ₹ 15 lakhs (₹ 45 lakhs – ₹ 30 lakhs) due to upward revaluation of the assets, may be charged to 'Revaluation Reserve A/c'.