PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2014 EXAMINATION

A. Applicable for May, 2014 examination

Revision in the Criteria for classifying Level II Non-Corporate Entities

Due to recent changes in the enhancement of tax audit limit, the Council of the ICAI has recently decided to change the 1st criteria of Level II Non-Corporate Entities i.e. determination of SME on turnover basis from ₹ 40 lakhs to ₹ 1 Crore vide announcement "Revision in the Criteria for classifying Level II Non-Corporate Entities" issued by ICAI on 7th March, 2013. This revision is applicable with effect from the accounting year commencing *on or after April 1, 2012*.

B. Not applicable for May, 2014 examination

Ind ASs issued by the Ministry of Corporate Affairs

The MCA has hosted on its website 35 converged Indian Accounting Standards (Ind AS) without announcing the applicability date. These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards vis-à-vis IFRS. These standards shall be applied for all companies falling under Phase I to Phase III as prescribed under the roadmap issued by the core group. These Ind ASs are not applicable for the students appearing in May, 2014 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2014.

Particulars		₹	Particulars		₹
Inventory 01-04-2013			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	46,500	76,500	Profit and Loss A/c		45,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Loans: Short–term Long-term	4,500 21,000	25,500
Salaries and wages		40,200	Unclaimed Dividend		3,000
General Charges		16,500	Deposits:		

Dividend for 2012-13		27,000	Short -Term	1,500	
Building		1,01,000	Long -term	3,300	4,800
Plant and Machinery		70,400	Trade payables		3,27,000
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments: Current	4,500				
Non Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			24,34,200

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2014 and Company's Balance Sheet as on that date:

1. Inventory on 31st March,2014 Raw material ₹ 25,800 & finished goods ₹ 60,000.
2. Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
3. Interest accrued on Securities ₹ 300.
4. General Charges prepaid ₹ 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. Current maturity of long term loan is ₹ 1,000.
7. The Taxation provision of 40% on net profit is considered.

Cash Flow Statements

2. The following are the changes in the account balances taken from the balance sheets of Leela Ltd. as at the beginning and end of the year

	Debit (₹)	Credit (₹)
8% Debentures		1,50,000
Debenture Discount	3,000	

Plant and Machinery at cost	1,80,000	
Depreciation on Plant and Machinery		43,200
Trade receivables	1,50,000	
Inventory including Work-in-Progress	1,15,500	
Trade payables		35,400
Net Profit for the year		2,29,500
Dividend paid in respect of earlier year	90,000	
Provision for Doubtful Debts		9,900
Trade Investments at cost	1,41,000	
Bank		2,11,500
Total	6,79,500	6,79,500

You are informed that:

- During the year Plant costing ₹ 54,000 against which Depreciation Provision of ₹ 40,500 was lying was sold for ₹ 21,000.
- During the middle of the year, ₹ 1,50,000 Debentures were issued for cash at a discount of ₹ 3,000.
- The net Profit for the year was after crediting the profit on sale plant and charging Debenture Interest.

Prepare a Cash Flow Statement which will explain why Bank Borrowing has increased by ₹ 2,11,500 during the year end, ignore taxation.

Profit or Loss Pre and Post Incorporation

3. From the following information, calculate the ratio of Sales in each case separately.

(a) (i) Date of acquisition – 1st April, 2013; date of incorporation – 1st July, 2013 and date of closing the books of accounts – 31st March, every year.

(ii) The sales for the year ending on 31st March, 2014 were ₹ 24,00,000 of which ₹ 4,80,000 goods were sold during the first six months of the accounting period.

(b) (i) The accounts were made up to 31st December, 2013. The company was incorporated on 1st May, 2013 to take over a business from the preceding 1st January.

(ii) Total sales for the year were ₹ 12,00,000. It is ascertained that the sales for November and December are one and half times the average of those for the year, whilst those for February and April are only half the average.

(c) (i) Hello Ltd.was incorporated on 1st July, 2013 to take the existing business of X from 1st April, 2013. Date of closing the books of account – 31st March, 2014.

(ii) Monthly sales in April 2013, February 2014 and March 2014 are double the average monthly sales for remaining months of the year.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Preet Ltd. as at 31st March, 2014

Authorised capital:	₹
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	15,00,000
	16,50,000
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	10,80,000
Reserves and surplus:	
General Reserve	1,80,000
Capital Reserve	1,12,500
Securities premium	37,500
Profit and Loss Account	3,00,000

On 1st April, 2014, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2014. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Capital reserves include ₹ 60,000, being profit realized on sale of plant and machinery.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2014 after bonus issue.

Internal Reconstruction of a Company

5. The ledger balance of Casio Ltd. as on 31st March, 2014 are:

Profit & loss account (Dr.) balance 10,20,000, Fixed Assets ₹ 7,00,000, Investment ₹ 10,000, Inventory ₹ 3,90,000 Trade receivables ₹ 4,60,000. Equity Share Capital (60% paid) ₹ 6,00,000, 10% First Debentures ₹ 2,00,000, 12% Second Debentures ₹ 5,00,000, Bank overdraft ₹ 50,000, Trade payables (including Y for ₹ 8,50,000) ₹ 11,50,000, Outstanding interest for one year on both type of debentures.

Due to heavy losses, the following scheme of re-construction is agreed:

(a) To make the existing ₹ 100 equity shares fully paid up and then to reduce them to ₹ 20 each.

(b) To settle the claims of first Debenture-holders by issuing 2,000, 13.5% Debentures of ₹ 100 each.

(c) To discharge the claims of the second debenture-holders by issuing 15% 4,000 debentures of ₹ 100 each.

(d) To pay ₹ 3,00,000 to Mr. Y in full settlement of his account,

(e) To allot 15,000 fresh equity shares of ₹ 20 each to discharge the remaining trade payables,

(f) Market value of investments is ₹ 20,000, and

(g) To reduce the value of fixed assets.

Assuming all formalities are duly complied with, pass journal entries to give effect to the above scheme and prepare the post-reconstruction Balance Sheet.

Amalgamation of Companies

6. Alia Limited was wound up on 31.3.2014 and its draft Balance Sheet as on that date was given below:

Balance Sheet of Alia Limited as on 31.3.2014

Liabilities	₹	*Assets*		₹
Share capital:		Fixed assets		4,82,000
60,000 Equity shares of ₹ 10 each	6,00,000	Current assets: Inventory	3,87,500	
Reserves and surplus:		Trade receivables	91,000	
Contingency reserve	1,56,000	Cash at bank	1,64,500	6,43,000
Profit and loss A/c	1,26,000			
Current liabilities:				
Trade payables	1,33,000			
Provisions:				
Provision for income tax	1,10,000			
	11,25,000			11,25,000

Details of Trade receivables and Trade payables:

Trade Receivables			
Sundry debtors	80,000		
Less: Provision for bad and doubtful debts	4,000	76,000	
Bills receivable		15,000	91,000

Trade payables			
Sundry creditors		1,13,000	
Bills payable		20,000	1,33,000

Burger Limited took over the following assets at values shown as under:

Fixed assets ₹ 6,40,000, Inventory ₹ 3,85,000 and Bills Receivable ₹ 15,000.

Purchase consideration was settled by Burger Limited: ₹ 2,55,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of ₹ 100 each. The balance was settled by issuing equity shares of ₹ 10 each at ₹ 8 per share paid up.

Sundry debtors realised ₹ 75,000. Bills payable was settled for ₹ 19,000. Income tax authorities fixed the taxation liability at ₹ 1,11,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 4,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Burger Limited in discharge of purchase consideration.

(ii) Prepare the Realisation account, Cash/Bank account, Equity shareholders account and Burger Limited account in the books of Alia Limited.

(iii) Pass journal entries in the books of Burger Limited.

Average Due Date

7. Two traders Abhinav and Krishna buy goods from one another, each allowing the other one month's credit. At the end of 3 months the accounts rendered are as follows:

Goods sold by Abhinav to Krishna		Goods sold by Krishna to Abhinav	
	₹		₹
18th April	9,000	23rd April	7,800
15th May	10,500	24th May	7,500
16th June	12,000		

Compute the date upon which the balance should be paid, so that no interest is due either to Abhinav or Krishna.

Account Current

8. From the following prepare an account current, as sent by A to B on 30th June, 2012 by means of products method charging interest @ 6% p.a:

2012		₹
Jan. 1	Balance due from B	600
Jan.11	Sold goods to B	520
Jan. 18	B returns Goods	125
Feb 11	B Paid by cheque	400
Feb 14	B accepted a bill drawn by A for one month	300
Apr. 29	Goods sold to B	615
May 15	Received cash from B	700

Self – Balancing Ledgers

9. From the following particulars, prepare Total Debtors Account in the general ledger:

Balance as on 1-4-2013	Dr. (₹)	Cr.(₹)
Sundry Debtors	20,000	300

Transactions during April, 2013	₹
Sales (including cash ₹ 6,000)	25,000
Cash received from customers (in full settlement of claims of ₹15,000)	14,100
Bills receivable received	3,000
Bills receivable endorsed	800
Endorsed B/R dishonoured	300
B/R discounted	1,400
Bills receivable dishonoured	400
Interest charged on dishonoured B/R	30
Transfer from Debtors Ledger to Creditors Ledger	600
Balance as on 30-4-2013	
Sundry Debtors (Cr.)	450

Financial Statements of Not-For-Profit Organizations

10. The accountant of Tiger Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2014:

Receipts:	₹
Subscriptions	1,24,260
Fair receipts	14,400

Variety show receipts (net)	25,620
Interest	1,380
Bar collections	44,700
Payments:	
Premises	60,000
Rent	4,800
Rates and taxes	7,560
Printing and stationary	2,820
Sundry expenses	10,700
Wages	5,040
Fair expenses	14,340
Honorarium to secretary	22,000
Bar purchases (payments)	34,620
Repairs	1,920
New car (less proceeds of old car ₹ 18,000)	75,600

The following additional information could be obtained:-

	1.4.2013	*31.3.2014*
	₹	₹
Cash in hand	900	Nil
Bank balance as per cash-book	48,840	20,700
Cheque issued for sundry expenses not presented to the bank (entry has been duly made in the cash book)	540	180
Subscriptions due	7,200	5,880
Premises (at cost)	1,74,000	2,34,000
Provision for depreciation on premises	1,12,800	-
Car (at cost)	73,140	93,600
Accumulated depreciation on car	61,740	-
Bar inventory	4,260	5,220
Creditors for bar purchases	3,540	2,580

Annual honorarium of secretary is ₹ 24,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended 31.3.2014.

Accounts from Incomplete Records

11. Mr. Hemant had ₹ 1,65,000 in the bank account on 1.1.2013 when he started his business. He closed his accounts on 31st March, 2014. His single entry books (in which he did not maintain any account for the bank) showed his position as follows:

	31.3.2013 ₹	*31.3.2014* ₹
Cash in hand	1,100	1,650
Inventory in trade	10,450	15,950
Debtors	550	1,100
Creditors	2,750	1,650

On and from 1.2.2013, 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* ₹
1.1.2013	1,65,000	-
1.1.2013 to 31.3.2013		1,22,650
1.4.2013 to 31.3.2014	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 1.1.2013 to 31.3.2013 and from 1.4.2013 to 31.3.2014 respectively for the purchase of machineries for the business. The deposits after 1.1.2013 consisted wholly of sale price received from the customers by cheques.

Draw up Mr. Hemant's statement of affairs as at 31.3.2013 and 31.3.2014 respectively and work out his profit or loss for the year ended 31.3.2014.

Hire -Purchase

12. Computer point sells computers on Hire-purchase basis at cost plus 25%. Terms of Sale are ₹5,000 down payment and eight monthly instalments of ₹2,500 for each computer.

Two Computers on which five instalments were due and two instalments not yet due were repossessed out of Sales effected during current year. Repossessed inventory is valued at 50% of cost. Calculate the value of repossessed computers.

Investment Accounts

13. Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of ₹ 100 each of Pergot Ltd. on 1st May 2013 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2013 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest

basis. On October 1st, 2013 the company sold 2,000 Debentures @ ₹ 103 each. The market value of the debentures as at the close of the year was ₹ 106. Prepare the Debenture Investment Account in the books of Alpha Ltd. for the year ended 31st Dec. 2013 on Average Cost Basis.

Insurance Claim

14. A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2013. The building, equipment and stock were destroyed and the salvage recorded the following:

Building – ₹ 4,000; Equipment – ₹ 2,500; Stock – ₹ 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2013:

	₹
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31st December, 2012	1,50,000
Building (value on 31st December, 2012)	3,75,000
Equipment (value on 31st December, 2012)	75,000
Depreciation provision till 31st December, 2012 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided since December 31st 2012. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

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

Partnership: Retirement of a partner

15. On 31st March, 2014, the Balance Sheet of A, B and C sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	*Assets*	₹
Capital Account:		Land and Building	60,000
Mr. A	40,000	Plant and Machinery	40,000

Mr. B	60,000	Inventory of goods	24,000
Mr. C	40,000	Sundry debtors	22,000
Sundry Creditors	20,000	Cash and Bank Balances	14,000
	1,60,000		1,60,000

On 1st April, 2014, A desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

(i) Land and Building be appreciated by 20%.

(ii) Plant and Machinery be depreciated by 30%.

(iii) Inventory of goods to be valued at ₹ 20,000.

(iv) Old credit balances of Sundry creditors, ₹ 4,000 to be written back.

(v) Provisions for bad debts should be provided at 5%.

(vi) Joint life policy of the partners surrendered and cash obtained ₹ 15,100.

(vii) Goodwill of the entire firm is valued at ₹ 28,000 and A's share of the goodwill is adjusted in the A/cs of B and C, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. A is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s B & C as on 1.04.2014.

Accounting in Computerized Environment

16. "Prepackaged accounting software is required to be selected intelligently". Explain the statement in brief.

Applicability of AS

17. (a) Comment whether the following Companies can be classified as a Small and Medium Sized Company (SMC) as per the Companies (Accounting Standards), Rules, 2006:

    (i) A Pvt. Ltd., a subsidiary of a multinational company listed on London Stock Exchange. It has a turnover of ₹ 12 crores and borrowings of ₹ 5 crores.

    (ii) B Pvt. Ltd., has a turnover of ₹ 45 crores, other income of ₹ 7 crores and bank borrowings of ₹ 9 crores.

AS 1 "Disclosure of Accounting Policies"

(b) Omega Ltd. projected a surplus of ₹ 40 crores during the accounting year to end on 31st March, 2013. The draft results for the year, prepared on the hitherto followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided on the following :

(i) Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at ₹ 27 crores is lower than the amount of ₹ 45 crores which would have been provided had the old method been followed, by ₹ 18 cores.)

(ii) Provide for permanent fall in the value of investments - which fall had taken place over the past five years - the provision being ₹ 10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2012-2013.

AS 2 "Valuation of Inventories"

(c) Alpha Ltd. sells beer to customers; some of the customers consume the beer in the bars run by Alpha Limited. While leaving the bars, the consumers leave the empty bottles in the bars and the company takes possession of these empty bottles. The company has laid down a detailed internal record procedure for accounting for these empty bottles which are sold by the company by calling for tenders. Keeping this in view:

(i) Decide whether the inventory of empty bottles is an asset of the company;

(ii) If so, whether the inventory of empty bottles existing as on the date of Balance Sheet is to be considered as inventories of the company and valued as per AS 2 or to be treated as scrap and shown at realizable value with corresponding credit to 'Other Income'?

AS 6 "Depreciation Accounting"

18. (a) An item of machinery was purchased on 1-4-2012 for ₹ 2,00,000. The WDV depreciation rate applicable to the machinery was 15%. The written down value of the machinery as on 31-3-2014 was ₹ 1,44,500. On 1-4-2014, 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.

AS 7 "Construction Contracts

(b) PRZ & Sons Ltd. are Heavy Engineering contractors specializing in construction of dams. From the records of the company, the following data is available pertaining to year ended 31st March, 2014:

	(₹ crore)
Total Contract Price	2,400
Work Certified	1,250
Work pending certification	250
Estimated further cost to completion	1,750
Stage wise payments received	1,100
Progress payments in pipe line	300

Using this data and applying the relevant Accounting Standard you are required to:

(i) Compute the amount of profit/loss for the year ended 31st March, 2014.

(ii) Arrive at the contract work in progress as at the end of financial year 2013-14.

(iii) Determine the amount of revenue to be recognized out of the total contract value

AS-9 "Revenue Recognition"

19. (a) A Ltd. has sold its building for ₹ 50 lakhs to B Ltd. and has also given the possession to B Ltd. The book value of the building is ₹ 30 lakhs. As on 31st March, 2014, the documentation and legal formalities are pending. The company has not recorded the sale and has shown the amount received as advance. Do you agree with this treatment?

AS 10 "Accounting for Fixed assets"

(b) During the year 2013-14, P Limited incurred ₹ 2,50,000 as routine repairs and ₹ 75,000 on partial replacement of a part. ₹ 5,00,000 on replacement of part of machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

AS 13 "Accounting for Investment"

20 (a) X Ltd. on 1-1-2014 had made an investment of ₹ 600 lakhs in the equity shares of Y Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2014 became ₹ 200 lakhs as X Ltd. lost a case of copyright. How will you recognize the reduction in financial statements for the year ended on 31-3-2014 assuming that this decline in value is not temporary in nature?

AS 14 “Accounting for Amalgamation”

(b) X Co. Ltd. having share capital of ₹ 50 lakhs divided into equity shares of ₹ 10 each was taken over by Y Co. Ltd. Y Co. Ltd. issued 11 equity shares of ₹ 10 each for every 10 shares of X Co. Ltd. Explain how the difference will be adjusted in the books of Y Co. Ltd. for the shares issued under the ‘Pooling of interests method’ of amalgamation as per AS 14.

SUGGESTED ANSWERS / HINTS

1. Oliva Company Ltd.

Statement of Profit and loss for the year ended 31.03.2014

(₹)

	Particulars	Note	Amount
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	Total Revenue (I +II)		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050
VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operation		29,430
XII	Profit/(Loss) from discontinuing operations		--

XIII	Tax expenses of discontinuing operations		--
XIV	Profit/(Loss) fro discontinuing operations (after tax)		--
XV	Profit (Loss) for the period		29,430

Oliva Company Ltd.
Balance Sheet for the year ended 31.03.2014

	Particulars		Note	Amount
1	Equity and Liabilities			
	(i)Shareholders' funds			
	(a) Share Capital			3,15,000
	(b) Reserves and surplus		1	47,430
2)	Non-current liabilities			
	(a) Long-term borrowings		2	23,300
(3)	Current Liabilities			
	(a) Short -term borrowings		3	6,000
	(b) Trade payables			3,27,000
	(c) Other current liability		4	76,000
	(d) Short term provision		5	19,620
				8,14,350
II	ASSETS			
(1)	Non current assets			
	(a) Fixed assets			
	(i) Tangible assets		6	2,04,160
	(b) Non-current investments			7,500
(2)	Current assets			
	(a) Current investments			4,500
	(b) Inventories		7	85,800
	(c) Trade receivables			2,38,500
	(d) Cash and cash equivalents			2,71,100
	(e) Short-term loans and advances		8	2,490
	(f) Other current assets		9	300
				8,14,350

Notes to accounts

No	Particulars		Amount	Amount
1.	Reserve & Surplus:			
	Profit & Loss Account : Balance b/f		45,000	
	Net Profit for the year		29,430	
	Less : Dividend 2012-13		(27,000)	47,430
2.	Long term borrowings:			
	Secured loans (21,000 less current maturities 1,000)		20,000	
	Fixed Deposits:- Unsecured		3,300	23,300
3.	Short term borrowings:			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	Other current liabilities			
	Unclaimed Dividend		3,000	
	Expenses Payable (67,500 + 4,500)		72,000	
	Current maturities of long term borrowings		1,000	76,000
5.	Short term provisions:			
	Provision for Income tax			19,620
6.	Fixed Assets: Tangible Assets			
	Building	1,01,000		
	Less: Depreciation	2,020	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation	7,040	63,360	
	Furniture	10,200		
	Less: Depreciation	1,020	9,180	
	Motor vehicles	40,800		
	Less: Depreciation	8,160	32,640	2,04,160
7	Inventory:			
	Raw Material		25,800	
	Finished goods		60,000	85,800

8.	**Short term Loans & Advances:**			
	General Charges prepaid			2,490
9.	**Other Current Assets:**			
	Interest accrued		300	300
10.	**Cost of material consumed:**			
	Opening inventory of Material & Stores	30,000		
	Add : Purchased	12,15,000		
	Stores & spare parts consumed	45,000	12,90,000	
	Less : Closing inventory		(25,800)	12,64,200
11.	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory:			
	Finished Goods		60,000	
	Less: Opening Inventory:			
	Finished Goods		46,500	(13,500)
12.	**Employee Benefit expenses:**			
	Salary & Wages (40,200 + 4,500)			44,700
13.	**Other Expenses:**			
	Manufacturing Expenses (2,70,000 + 67 500)		3 ,37,500	
	General Charges (16,500 – 2,490)		14,010	3,51,510

2. Cash Flow Statement of Leela Ltd.

Cash flow from Operating Activities	₹	₹
Net profit before Taxation (given)		2,29,500
Adjustments for		
Depreciation (W.N.2)	83,700	
Debenture Interest (1,50,000 x 8% x 6/12)	6,000	
Provision for Doubtful Debts	9,900	
Profit/Gain on Sale of Plant(WN. 1)	(7,500)	92,100
Operating Profit before Working Capital Changes		3,21,600
Adjustments for		
Increase in Inventory	(1,15,500)	
Increase in Trade receivables	(1,50,000)	

Increase in Trade payables	35,400	(2,30,100)
Net Cash Flow from/(Used in) Operating Activities [A]		91,500
Cash flow from Investing Activities		
Purchase of Plant & Machinery (WN 3)	(2,34,000)	
Purchase of Trade Investments	(1,41,000)	
Sale of Machinery	21,000	
Net Cash Flow from/(used In) Investing Activities [B]		(3,54,000)
Cash flow from Financing Activities		
Proceeds from issue of 8% Debentures (1,50,000-3,000)	1,47,000	
Interest paid on 8% Debentures	(6,000)	
Dividends paid in respect of earlier year	(90,000)	
Net Cash Flow from/(used in) Financing Activities[C]		51,000
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)		(2,11,500)

Working Notes:

1. Profit on Sale of Plant = Net Book Value (i.e, Gross Block less Accumulated Depreciation) Less Sale Value

   = (54,000-40,500) less 21,000

   = ₹ 7,500 Gain/Profit

2. Depreciation for current year = Increase in Depreciation as given above + Accumulates Depreciation on Plant Sold

   = 43,200 + 40,500 = ₹ 83,700

3. Cash Outflow towards assets purchase = Increase in Plant and Machinery at Cost + Gross Block of Plant sold

   = 1,80,000 +54,000 = ₹ 2,34,000.

3 (a) Sales of first 6 months = ₹ 4,80,000. Average sale of first 6 months = ₹4,80,000/6 = ₹80,000 per month. Pre-incorporation period consist of 3 months (i.e., April, May and June). The sales of those 3 months = ₹ 80,000 x 3 = ₹ 2,40,000. Sales of remaining 9 months = ₹ 24,00,000 – ₹ 2,40,000 = ₹ 21,60,000.

Therefore, the ratio of sales = ₹ 2,40,000 : ₹ 21,60,000 or 1: 9.

(b) Let the average of monthly sales = X. The sales of different months can be shown as follows:

Month	Jan	Feb	Mar.	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Sales	1x	0.5x	1x	0.5x	1x	1x	1x	1x	1x	1x	1.5x	1.5x

Date of incorporation is May, 2013

Pre incorporation period is from January to April i.e. 3 x

Post - incorporation period is from May to December i.e 9x

The ratio of Sales = 3x : 9x or 1:3.

(c) Let the average monthly sales be x. The sales of different months can be shown as follows:

Month	April	May	June	July	Aug.	Sept	Oct	Nov	Dec	Jan	Feb	March
Sales	2x	1x	1x	1x	1x	1x	1x	1x	1x	1x	2x	2x

Date of incorporation is 1 July, 2013

Pre incorporation period is from April to June i.e. 4 x

Post - incorporation period is from July to March i.e 11x

The ratio of Sales = 4x : 11x or 4:11

4. Journal Entries in the books of Preet Ltd.

			₹	₹
1-4-2014	Equity share final call A/c	Dr.	2,70,000	
	To Equity share capital A/c			2,70,000
	(For final calls of ₹ 2 per share on 1,35,000 equity shares due as per Board's Resolution dated….)			
20-4-2014	Bank A/c	Dr.	2,70,000	
	To Equity share final call A/c			2,70,000
	(For final call money on 1,35,000 equity shares received)			
	Securities Premium A/c	Dr.	37,500	
	Capital Reserve A/c	Dr.	60,000	
	General Reserve A/c	Dr.	1,80,000	
	Profit and Loss A/c	Dr.	60,000	
	To Bonus to shareholders A/c			3,37,500
	(For making provision for bonus issue of one share for every four shares held)			

	Bonus to shareholders A/c	Dr.	3,37,500	
	To Equity share capital A/c			3,37,500
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2014 (after bonus issue)

	₹
Authorised Capital	
15,000 12% Preference shares of ₹10 each	1,50,000
1,83,750 Equity shares of ₹10 each (W.N.2)	18,37,500
Issued and subscribed capital	
12,000 12% Preference shares of ₹10 each, fully paid	1,20,000
1,68,750 Equity shares of ₹10 each, fully paid	16,87,500
(Out of above, 33,750 equity shares @ ₹10 each were issued by way of bonus)	
Reserves and surplus	
Capital Reserve	52,500
Profit and Loss Account	2,40,000

Working Notes:

1. As per SEBI Guidelines, securities premium collected in cash and capital reserve realized in cash only is to be utilized for issue of bonus shares.
2. The authorized capital should be increased as per details given below:

	₹
Existing authorized Equity share capital	15,00,000
Add: Issue of bonus shares to equity shareholders (25% of ₹ 13,50,000)	3,37,500
	18,37,500

5. Journal entries in the books of Casio Ltd.

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Equity Share Final Call A/c Dr.		4,00,000	
To Equity Share Capital A/c			4,00,000
(Final Call made for the balance on equity share)			
Bank A/c Dr.		4,00,000	
To Equity Share Final Call A/c			4,00,000
(Receipt of Final Call money)			

Equity Share Capital (₹100) A/c To Equity Shares (₹ 20) A/c To Reconstruction A/c (Reduction of ₹100 share capital to ₹ 20 each)	Dr.	10,00,000	 2,00,000 8,00,000
10% First Debentures A/c To Debentureholders' A/c (Redemption due for First Debentures)	Dr.	2,00,000	 2,00,000
Debentureholders' A/c To 13.5% Debentures A/c (Redemption of First Debentures)	Dr.	2,00,000	 2,00,000
12% Second Debentures A/c To Debentureholders' A/c (Transfer of second debentures account to debenturesholders account)	Dr.	5,00,000	 5,00,000
Debentureholders' A/c To 15% Debentures A/c To Reconstruction A/c (Settlement of second debentureholders' claims)	Dr.	5,00,000	 4,00,000 1,00,000
Trade payables A/c To Bank A/c To Equity Share Capital A/c To Reconstruction A/c (Settlement of trade payables account)	Dr.	11,50,000	 3,00,000 3,00,000 5,50,000
Debenture Interest (Outstanding) A/c To Reconstruction A/c (Writing off the interest on debentures on settlement of account of debentureholders)	Dr.	80,000	 80,000
Reconstruction A/c To Profit and Loss A/c To Fixed Assets A/c (balance in Reconstruction A/c) (Utilisation of reconstruction account for writing of past losses and value of fixed assets)	Dr.	15,30,000	 10,20,000 5,10,000

Balance Sheet of Casio Ltd. as at 31 March, 2014 (And Reduced)

		Note No.	₹
I	Equity and liabilities		
	(1) Shareholders' funds:		
	(a) Share Capital	1	5,00,000

	(1) Non-current liabilities:		
	(a) Long term borrowings		
	13.5% Debentures		2,00,000
	15% Debentures		4,00,000
			11,00,000
II	Assets		
	(1) Non-current Assets		
	(a) Fixed assets:	2	1,90,000
	(b) Non-current investments		10,000
	(2) Current assets		
	(a) Inventories		3,90,000
	(b) Trade receivables		4,60,000
	(c) Cash & cash equivalent		50,000
	[(50,000) + 4,00,000 – 3,00,000]		
			11,00,000

Notes to Accounts

1	Share capital:		
	25,000Equity Share Capital (shares of ₹ 20 each)		5,00,000
	(out of which 15,000 equity shares of ₹ 20 each issued to trade payables)		
2	Fixed assets:		
	Fixed Assets	7,00,000	
	Less: Amount written off under Reconstruction Scheme	(5,10,000)	1,90,000

6. (i) Calculation of number of equity and preference shares

	₹
Fixed assets	6,40,000
Inventory	3,85,000
Bills receivable	15,000
Purchase consideration	10,40,000

Amount discharged by issue of preference shares = ₹ 2,55,000

No. of preference shares to be allotted $= \frac{₹\ 2,55,000}{100} = 2,550$ shares

Amount discharged by allotment of equity shares = ₹ 10,40,000 – ₹ 2,55,000

= ₹ 7,85,000

Paid up value of equity share = ₹ 8

Hence, number of equity shares to be issued = $\frac{₹\ 7,85,000}{8}$ = 98,125 shares

(ii) In the books of Alia Ltd.

Realisation Account

		₹			₹
To	Fixed assets	4,82,000	By	Provision for bad and doubtful debts	4,000
To	Inventory	3,87,500	By	Trade payable	1,33,000
To	Trade receivables	95,000	By	Provision for taxation	1,10,000
To	Bank account:		By	Burger Ltd. account	
	Liquidation expenses	4,000		(Purchase consideration)	10,40,000
	Bills payable	19,000	By	Bank account: Sundry debtors	75,000
	Tax liability	1,11,000			
	Sundry creditors	1,05,500			
To	Equity shareholders (profit transferred)	1,58,000			
		13,62,000			13,62,000

Cash/Bank Account

Dr.					*Cr.*
		₹			₹
To	Balance b/d	1,64,500	By	Realisation account:	
To	Realisation account:			Liquidation expenses	4,000
	Sundry debtors	75,000		Bills payable	19,000
				Tax liability	1,11,000
				Sundry creditors (Balancing figure)	1,05,500
		2,39,500			2,39,500

Equity Shareholders Account

Dr.					*Cr.*
		₹			₹
To	10% Preference shares in Burger Ltd.	2,55,000	By	Equity share capital account	6,00,000
To	Equity shares in	7,85,000	By	Contingency reserve	1,56,000

Burger Ltd.		By Profit and loss account	1,26,000
		By Realisation account(Profit)	1,58,000
	10,40,000		10,40,000

Burger Limited Account

Dr.	₹		*Cr.* ₹
To Realisation account	10,40,000	By 10% Preference shares in Burger Ltd.	2,55,000
		By Equity shares in Burger Ltd.	7,85,000
	10,40,000		10,40,000

(iii) Journal Entries

in the books of Burger Ltd.

Particulars		*Amount(₹)*	*Amount(₹)*
Business purchase account	Dr.	10,40,000	
To Liquidator of Alia Ltd. account			10,40,000
(Being the amount of purchase consideration payable to liquidator of Alia Ltd. for assets taken over)			
Fixed assets account	Dr.	6,40,000	
Inventory account	Dr.	3,85,000	
Bills receivable account	Dr.	15,000	
To Business purchase account			10,40,000
(Being assets taken over)			
Liquidator of the Alia Ltd. account	Dr.	10,40,000	
To 10% Preference share capital account			2,55,000
To Equity share capital account			7,85,000
(Being the allotment of 10% fully paid up preference shares and equity shares of ₹ 10 each, ₹ 8 each paid up as per agreement for discharge of purchase consideration)			

7. Taking May 18th as the zero or base date:

For Krishna's payments:

Date of Transactions	*Due Date*	*Amount*	*No. of days from the base date*	*Products*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
April 18	May 18	9,000	0	0
May 15	June 15	10,500	28	2,94,000
June 16	July 16	12,000	59	7,08,000
Amount Due to Abhinav		31,500	Total of products	10,02,000

For Abhinav's payments:

The base date will be May 18th in this case also.

Date of Transactions	*Due Date*	*Amount*	*No. of days from the base date*	*Products*
(1)	*(2)*	*(3)*	*(4)*	*(5)*
April 23	May 23	7,800	5	39,000
May 24	June 24	7,500	37	2,77,500
Amount Due to Krishna		15,300	Total products	3,16,500

Excess of Krishna's products over Abhinav's = 10,02,000 – 3,16,500

= 6,85,500

Excess amount due to Abhinav's ₹ 31,500 – 15,300 = ₹ 16,200.

Number of days from the base date to the date of settlement is

$$\frac{6,85,500}{16,200} = 42 \text{ days}$$

Hence the date of settlement of the balance is 42 days after May 18 i.e., on June 29. On June 29, Krishna's has to pay Abhinav, ₹ 16,200 to clear the account.

8. B in Account Current with A

for the period ending on 30th June, 2012

Date	Particulars	Amount	Days	Products	Date	Particulars	Amount	Days	Products
2012		₹.			2012		₹		
Jan.1	To Balance b/d	600	182	1,09,200	Jan.18	By Sales Returns	125	164	20,500
Jan. 11	To Sales A/c	520	171	88,920	Feb. 11	By Bank A/c	400	140	56,000
Apr 29	To Sales A/c	615	62	38,130	Feb. 14	By B/R A/c (due date: March 17)	300	105	31,500
June 30	To Interest A/c	15.75							
					May 15	By Cash A/c	700	46	32,200
					June 30	By Balance of products			96,050
						By Balance c/d	225.75		
		1,750.75		2,36,250			1,750.75		2,36,250

Calculation of interest:

$$\text{Interest} = \frac{96,050}{366} \times \frac{6}{100} = ₹\ 15.75$$

9. Total Debtors Account

2013	Particulars	₹	2013	Particulars	₹
April 1	To Balance b/d	20,000	April 1	By Balance b/d	300
April 30	To Sales (Credit)	19,000	April 30	By Cash	14,100
	To Total creditors (endorsed B/R dishonoured)	300		By Discount	900
				By Bills receivable	3,000
	To B/R (Dishonoured)	400		By Total creditors (Transfer)	600
	To Interest	30		By Balance c/d	21,280
	To Balance c/d	450			
		40,180			40,180

Notes:

1. B/R discounted and Cash sales will not be shown in the Total Debtors
2. Endorsed B/R dishonoured and transfers will be shown in the Total Debtors.

10. Tiger Club

Receipts and Payments Account

for the year ended 31st March, 2014

Receipts	₹	*Payments*	₹
To Opening balance:		By Premises	60,000
Cash on hand	900	By Rent	4,800
Bank balance	48,840	By Rates and taxes	7,560
To Subscriptions	1,24,260	By Printing and stationary	2,820
To Fair receipts	14,400	By Sundry expenses	10,700
To Variety show receipts (net)	25,620	By Wages	5,040
To Interest	1,380	By Fair expenses	14,340
To Bar collections	44,700	By Honorarium to secretary	22,000
To Sale proceeds of old car	18,000	By Bar purchases (payments)	34,620
		By Repairs	1,920
		By New Car	93,600
		By Closing balance	
		Cash in hand	Nil
		Bank balance	20,700
	2,78,100		2,78,100

Income and Expenditure Account

for the year ended 31st March, 2014

Expenditure	₹	₹	*Income*	₹	₹
To Rent		4,800	By Subscriptions	1,24,260	
To Rates and taxes		7,560	*Add:* Due as on 31.3.14	5,880	
To Printing and stationary		2,820		1,30,140	
To Wages		5,040	*Less*: Due as on 31.3.13	(7,200)	1,22,940
To Honorarium to secretary		24,000	By Surplus from fair:		
To Sundry expenses		10,700	Fair receipts	14,400	
To Repairs		1,920	*Less:* Fair expenses	14,340	60
To Depreciation on Premises @ 5% *	6,060		By Surplus from variety show		25,620

* [(1,74,000-1,12,800) x 0.05 + 60,000*0.05]

Car @20% of 93,600	18,720	24,780	By Interest		1,380
			By Profit from bar (W.N.2)		12,000
To Excess of income over expenditure		86,980	By Profit from sale of car (W.N. 3)		6,600
		1,68,600			1,68,600

Working Notes:

1. Calculation of bar purchases

Bar Creditors Account

Dr.			*Cr.*
	₹		₹
To Bank A/c	34,620	By Balance b/d	3,540
To Balance c/d	2,580	By Bar purchases	33,660
	37,200		37,200

2. Profit from bar

	₹	₹
Bar collections		44,700
Less: Bar inventory consumed-		
Opening inventory	4,260	
Add: Purchases	33,660	
	37,920	
Less: Closing inventory	5,220	32,700
		12,000

3. Profit on sale of car

	₹
Sale proceeds of old car	18,000
Less: W.D.V. of old car (₹ 73,140-₹ 61,740)	11,400
	6,600

11. (a) Statement of Affairs as on 31st March, 2013

Liabilities	₹	*Assets*	₹
Capital (bal.fig.)	1,61,700	Machinery	1,10,000
Sundry creditors	2,750	Inventory	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 (1.1.2013 to 31.3.2013)

	₹
Capital as on 31.3.2013	1,61,700
Add: Drawings for 3 months	770
	1,62,470
Less: Capital as on 1.1.2013	(1,65,000)
Loss for 3 months	2,530

(c) Statement of Affairs as on 31st March, 2014

Liabilities	₹	*Assets*		₹
Capital	1,80,400	Machinery	1,10,000	
Sundry Creditors	1,650	*Add:* Additions	33,000	1,43,000
		Inventory		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 31.3.2014

Particulars	₹
Capital as on 31.3.2014	1,80,400
Add: Drawings (₹ 385 x 12)	4,620
	1,85,020
Less: capital as on 31.3.2013	(1,61,700)
Net profit for the year ended 31.3.14	23,320

Working Notes:

	₹
1. Bank balance as on 31.3.2013	
Balance as on 1.1.2013	1,65,000
Less: Withdrawals during 1.1.2013 to 31.3.2013	(1,22,650)
Balance as on 31.3.2013	42,350
2. Bank Balance as on 31.3.2014:	
Balance as on 1.4.2013	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 31.3.2014	20,350

12. Value of repossessed computers:

H.P. Price of two repossessed computers

= [₹ 5,000 + (8 x ₹ 2,500)] x 2 computers

= ₹ 50,000

Cost price of the repossessed computers $= \frac{₹\ 50{,}000}{125} \times 100 = ₹\ 40{,}000$

Value of repossessed computers = ₹40,000 x 50% = ₹20,000

13. Books of Alpha Ltd.

Investment in 13.5% Debentures in Pergot Ltd. Account

(Interest payable on 31st March & 30th September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
		₹	₹	₹			₹	₹	₹
2013					2013				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313						
					Dec.31	By Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note : Cost being lower than Market Value the debentures are carried forward at Cost.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2013 for the month of April 2013, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625

2. Interest received on 30th Sept. 2013

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ₹ 50,625

3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2013 for April 2013 to July 2013 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Loss on Sale of Debentures

Cost of acquisition

(₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000 = 2,03,833

Less: Sale Price (2000 x 103) = 2,06,000

Profit on sale = ₹ 2,167

5. Cost of Balance Debentures

(₹ 5,19,375 + ₹ 2,45,000) x ₹ 5,50,000/₹ 7,50,000 = ₹ 5,60,542

6. Interest on Closing Debentures for period Oct.-Dec. 2013 carried forward (accrued interest)

₹ 5,50,000 x 13.5% x 3/12 = ₹ 18,563

14. Memorandum Trading Account for the Period from 1.1.2013 to 30.6.2013

		₹			₹
To Opening Stock (1.1.2013)		1,50,000	By Sales	11,50,000	
To Purchases	9,50,000		*Less:* Sales		
Less: Returns	(12,500)	9,37,500	Returns	(40,000)	11,10,000
To Cartage Inwards		17,500	By Closing Stock		2,80,000
To Wages		7,500	(Bal. Fig.)		
To Gross Profit		2,77,500			
(25% of ₹ 11,10,000)					
		13,90,000			13,90,000

Stock Destroyed Account

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

Statement of Claim

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

15. (a) Revaluation Account

Date		*Particulars*	₹	*Date*		*Particulars*	₹
2014				*2014*			
April	To	Plant & Machinery	12,000	April	By	Land and building	12,000
	To	Inventory of goods	4,000		By	Sundry creditors	4,000
	To	Provision for bad and doubtful debts	1,100		By	Cash & Bank - Joint life Policy surrendered	15,100
	To	Capital accounts (profit on revaluation transferred)					
		Mr. A (2/7) 4,000					
		Mr. B (3/7) 6,000					
		Mr. C (2/7) 4,000	14,000				
			31,100				31,100

(b) Partners' Capital Accounts

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	*Particulars*	*A* (₹)	*B* (₹)	*C* (₹)
To A's Capital A/c - goodwill	-	2,000	6,000	By Balance b/d	40,000	60,000	40,000
To Cash & bank A/c - (50% dues paid)	26,000	-	-	By Revaluation A/c	4,000	6,000	4,000
To A's Loan A/c - (50% transfer)	26,000	-	-	By B & C's Capital A/cs - goodwill	8,000	-	-
To Balance c/d	-	70,000	70,000	By Cash & bank A/c-amount brought in (Balancing figures)	-	6,000	32,000
	52,000	72,000	76,000		52,000	72,000	76,000

(c) Cash and Bank Account

To	Balance b/d	14,000	By	A's Capital A/c - 50% dues paid	26,000
To	Revaluation A/c – surrender value of joint life policy	15,100	By	Balance b/d	41,100
To	B's Capital A/c	6,000			
To	C's Capital A/c	32,000			
		67,100			67,100

(d) Balance Sheet of M/s B & C as on 01.04.2014

Liabilities		₹	*Assets*		₹
Partners' Capital accounts			Land and Building	60,000	
Mr. B	70,000		*Add*: Appreciation 20%	12,000	72,000
Mr. C	70,000	1,40,000			
Mr. A's Loan			Plant & Machinery	40,000	
Account		26,000	*Less*: Depreciation 30%	12,000	28,000
Sundry Creditors		16,000			
			Inventory of goods	24,000	
			Less: devalued	4,000	20,000
			Sundry Debtors	22,000	
			Less: Provision for bad debts 5%	1,100	20,900
			Cash & Bank balances		41,100
		1,82,000			1,82,000

Working Notes:

Adjustment for Goodwill:	₹
Goodwill of the firm	28,000
Mr. A's Share (2/7)	8,000
Gaining ratio of B & C;	
B = 1/2 - 3/7 = 1/14	
C= 1/2 - 2/7 = 3/14	
B:C = 1:3	

Therefore, B will bear = 1/4 × 8,000 or ₹ 2,000

C will bear = 3/4 × 8,000 or ₹ 6,000

16. There are many accounting softwares available in the market. To choose the accounting software appropriate to the need of the organization is a difficult task, some of the criteria for selection could be the following:

1. *Fulfillment of business requirements:* Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
2. *Completeness of reports:* Some packages might provide extra reports or the reports match the requirements more than the others.
3. *Ease of Use:* Some packages could be very detailed and cumbersome compare to the others.
4. *Cost:* The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
5. *Reputation of vendor:* Vendor support is essential for any software. A stable vendor with good reputation and track records will always be preferred.
6. *Regular updates:* Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

17 (a) As per the companies (Accounting Standards) Rules, 2006, "Small and Medium Sized Company" (SMC) means, a company:

(i) Whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India'

(ii) Which is not a bank, financial institution or an insurance company;

(iii) Whose turnover (excluding other income) does not exceed rupee; fifty crore in the immediately proceding accounting year,

(iv) Which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately proceding accounting year; and

(v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Explanation: a company shall qualify as a Small and Medium Sized Company, if the condition mentioned, therein are satisfied as at the end of the relevant accounting period.

(i) As per the definition of SMC, point (v), a company will be a SMC, if it is not holding or subsidiary company of another company which is not a SMC. Since A Pvt. Ltd., is a subsidiary of another Company which is listed, on London

Stock Exchange (and is therefore not a SMC), A Pvt. Ltd., cannot be a SMC. The turnover and borrowings are not relevant in this case.

(ii) As per the definition of SMC, point (iii), a company will be a SMC if its turnover does not exceed ₹ 50 crores or borrowings do not exceed ₹ 10 crore. For calculating this turnover, other income is not to be included. Since B Pvt. Ltd., has a turnover of ₹ 45 crores and borrowing of ₹ 9 crores, it will satisfy the definition and can be classified as SMC.

(b) As per AS 1 "Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

(i) In view of the heavy capital intensive method of production introduced during the year, the company has decided to change the method of providing depreciation from reducing balance method to straight line method. As a result of this change, depreciation has been provided at ₹ 27 crores which is lower than the charge which would have been made had the old method and the old rates been applied, by ₹ 18 crores. To that extent, the profit for the year is increased.

(ii) The company has decided to provide ₹ 10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹ 10 crores.

(c) (i) Tangible objects or intangible rights carrying probable future benefits, owned by an enterprise are called assets. Alpha Ltd. sells these empty bottles by calling tenders. It means further benefits are accrued on its sale. Therefore, empty bottles are assets for the company.

(ii) As per AS 2 "Valuation of Inventories", inventories are assets held for sale in the ordinary course of business. Inventory of empty bottles existing on the Balance Sheet date is the inventory and Alpha Ltd. has detailed controlled recording and accounting procedure which duly signify its materiality. Hence inventory of empty bottles cannot be considered as scrap and should be valued as inventory in accordance with AS 2.

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 and 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 01-04-2012	2,00,000
Less: Depreciation as per SLM, for the year 2012-13 (₹ 2,00,000 ÷ 7 years)	(28,571)
Balance as on 31-3-2013	1,71,429
Less: Depreciation for the year 2013-14(₹ 2,00,000 ÷ 7 years)	(28,571)
Balance as on 31-3-2014	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 and 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) (i) Calculation of profit/ loss for the year ended 31st March, 2014

	(₹ in crores)
Total estimated cost of construction (1,250 + 250 + 1,750)	3,250
Less: Total contract price	(2,400)
Total foreseeable loss to be recognized as expense	850

According to para 35 of AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(ii) Contract work-in-progress i.e. cost incurred to date

	(₹ in crores)
Work certified	1,250
Work not certified	250
	1,500

(iii) Proportion of total contract value recognised as revenue

Percentage of completion of contract to total estimated cost of construction

= (1,500 / 3,250)×100 = 46.15%

Revenue to be recognized till date = 46.15% of ₹ 2,400 crores = ₹ 1,107.60 crores.

19. (a) 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. A Ltd. should record the sale and recognize the profit of ₹ 20 lakhs in its profit and loss account. The building should be eliminated from the balance sheet.

(b) As per Para 12 of AS 10 "Accounting for Fixed Assets" expenditure that increases the future benefits from the existing assets, is included in the gross book value.

Hence, in the given case, repairs of ₹ 2,50,000 as routine repairs and ₹ 75,000 on partial replacement of the part of the machinery should be charged to Profit and Loss Account. ₹ 5,00,000 incurred on a part of the machinery, which will increase the efficiency, should be capitalized.

20. (a) X limited invested ₹ 600 lakhs in the equity shares of Y Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by X Limited only for 3 months (from 1.1.2014 to 31.3.2014), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2014 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value. Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be included in the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.

Here, Y Limited lost a case of copyright which drastically reduced the realisable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by ₹ 200 lakhs and shown the investments at ₹ 100 lakhs, considering the downfall in the value of shares as decline other than temporary. The reduction of ₹ 200 lakhs in the carrying value of long term investment will be included in the profit and loss account.

(b)

	₹
Purchase consideration = 5,00,000 × 11/10 = 55,000 shares of ₹ 10 each	55,00,000
Less: Share capital of X Co. Ltd.	50,00,000
Difference Adjusted through General Reserve	5,00,000