PAPER – 1 : ACCOUNTING

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

A. Applicable for November, 2012 examination

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.

B. Not applicable for November 2012 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 November, 2012 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

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

1. The summarized financial position of A Limited at 31st December, 2012 was as follows:

Liabilities	₹	*Assets*	₹
Authorised, Issued and Subscribed Capital		Assets	8,40,000
40,000, 5 % Redeemable Preference shares of ₹ 10 each, fully paid	4,00,000	Cash and Bank	3,00,000
20,000 Equity shares of ₹ 10 each, fully paid	2,00,000		
Securities Premium Account	50,000		
Profit and Loss Account	2,80,000		
Sundry Liabilities	2,10,000		
	11,40,000		11,40,000

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As per the terms of issue of the Preference Shares these were redeemable at a premium of 5 % on 1st February, 2013 and it was decided to arrange this as far as possible out of the company's resources subject to leaving a balance of ₹ 50,000 in the credit of the Profit and Loss Account. It was also decided to raise the balance amount by issue of 17,000 Equity Shares of ₹ 10 each at a premium of ₹ 2.50 per share.

You are required to prepare the necessary Ledger Accounts giving effect to the above arrangements in the company's books. Journal Entries are not required.

Profit or Loss Prior to Incorporation

2. Aman Ltd. was incorporated on 1.7.2011 and it took over the business of a vendor w.e.f. 1.4.2011. Following information was made available for the year ended 31.3.2012:

   Gross profit ₹ 98,000, Commission ₹ 2,625, Advertisement ₹ 5,250, Discount ₹ 350, Directors Fees ₹ 9,000, Salaries ₹ 18,000, Depreciation ₹ 2,800. Insurance ₹ 600, Preliminary Expenses ₹ 700, Rent and Taxes ₹ 3,000, Bad Debts ₹ 1,250, Interest to vendor (upto 1.10.2011) ₹ 2,000, Audit Fee ₹ 2,000 and Bad Debts recovered (on 1.5.2011) ₹ 500.

   Following additional information was provided:

   1. Average monthly turnover from September onwards was double than that of average monthly turnover of the first four months. However, in August, 2011, the turnover was 150% of the turnover in the following month.
   2. Rent for the first three months was paid @ ₹ 20 per month and thereafter, it was increased by ₹ 50 per month.
   3. Bad debts for the period from September 1, 2011 to March 31, 2012 amount to ₹ 350 only.
   4. Audit fee was allocated on time basis.

   You are required to find out the amount of profit for pre and post incorporation period, clearly showing, the basis of allocation.

Accounting for Issue of Bonus Shares

3. (a) Following is the extract of the Balance Sheet of Floora Ltd., a listed company as at March 31, 2012:

	₹
Authorised Capital:	
40,000, 12% Preference shares of ₹ 10 each	4,00,000
4,00,000, Equity shares of ₹ 10 each	40,00,000
	44,00,000
Issued and Subscribed Capital:	

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32,000, 12% Preference shares of ₹ 10 each fully paid	3,20,000
3,60,000 Equity shares of ₹ 10 each fully paid-up	36,00,000
Reserves and Surplus:	
Revaluation reserves	80,000
General reserve	5,00,000
Capital reserve	3,00,000
Securities premium	1,00,000
Profit & Loss (Cr.)	7,00,000
Secured Loan:	
12% Partly convertible debentures @ ₹ 10 each	20,00,000

On April 30, 2012, the company decided to capitalise its reserves by way of Bonus at the rate 1:4. Securities premium of ₹ 1,00,000 includes a premium of ₹ 20,000 for shares issued pursuant to a scheme of amalgamation. Capital reserve includes ₹ 1,60,000, being profit on sale of Plant and Machinery. 20% of 12% Debentures are convertible into Equity shares of ₹ 10 each fully paid on April 30, 2012.

State with reason on the following:

(i) Whether Revaluation Reserve be capitalised?

(ii) How much amount of Capital reserve can be capitalised?

(iii) How much amount of 'Securities Premium A/c' can be capitalised?

(iv) Are the convertible debentureholders entitled to Bonus shares?

(v) The minimum number of Equity shares to be issued by way of Bonus as on 30th April, 2012.

(vi) What should be the minimum amount of authorised capital, if the decision to issue Bonus shares gets implemented?

Cash Flow Statement

(b) From the following Balance Sheets of Mr. Kunaal, prepare a Cash Flow Statement as per AS 3 for the year ended 31.3.2012:

Balance Sheets of Mr. Kunaal

	As on 1.4.2011	*As on 31.3.2012*
	₹	₹
Liabilities:		
Kunaal's Capital Account	5,00,000	6,12,000
Sundry creditors	1,60,000	1,76,000

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Mrs. Kunaal's loan	1,00,000	--
Long term loan from bank	1,60,000	2,00,000
	9,20,000	9,88,000
Assets:		
Land	3,00,000	4,40,000
Plant and Machinery	3,20,000	2,20,000
Stock	1,40,000	1,00,000
Debtors	1,20,000	2,00,000
Cash	40,000	28,000
	9,20,000	9,88,000

Additional information:

A machine costing ₹ 40,000 (accumulated depreciation there on ₹ 12,000) was sold for ₹ 20,000. The provision for depreciation on 1.4.2011 was ₹ 1,00,000 and on 31.3.2012 was ₹ 1,60,000. The net profit for the year ended on 31.3.2012 was ₹ 1,80,000.

Amalgamation of Companies

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

New Express Ltd
Balance Sheet as at 31st December, 2012

	₹		₹
20,000 Equity shares of ₹ 100 each	20,00,000	Buildings	10,00,000
Provident fund	1,00,000	Machinery	4,00,000
Sundry creditors	60,000	Stock	3,00,000
Insurance reserve	1,00,000	Sundry debtors	2,40,000
		Cash at bank	2,20,000
		Cash in hand	1,00,000
	22,60,000		22,60,000

Old Express Ltd.
Balance Sheet as at 31st December, 2012

	₹		₹
10,000 Equity shares of ₹ 100 each	10,00,000	Goodwill	1,00,000
Employees profit sharing account	60,000	Buildings	6,00,000
Sundry creditors	40,000	Machinery	5,00,000

Reserve account	1,00,000	Stock	40,000
Surplus	1,00,000	Sundry debtors	40,000
		Cash at bank	10,000
		Cash in hand	10,000
	13,00,000		13,00,000

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

Prepare opening balance sheet of New Old Express Ltd.

Internal Reconstruction of a Company

5. The following is the Balance sheet of Mohan Ltd. as on 31.3.2012:

Liabilities	₹	*Assets*	₹
Equity shares of ₹ 100 each	1,00,00,000	Fixed assets	1,25,00,000
12% cumulative preference shares of ₹ 100 each	50,00,000	Investments (Market value ₹ 9,50,000)	10,00,000
10% debentures of ₹ 100 each	40,00,000	Current assets	1,00,00,000
Sundry creditors	50,00,000	P & L A/c	6,00,000
Provision for taxation	1,00,000		
	2,41,00,000		2,41,00,000

The following scheme of reorganization is sanctioned:

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

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

(iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.

(v) Fixed assets are to be written down by 30%.

(vi) Current assets are to be revalued at ₹ 45,00,000.

(vii) The taxation liability of the company is settled at ₹ 1,50,000.

(viii) Investments to be brought to their market value.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above.

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Average Due Date

6. Energy purchases goods on credit. His due dates for payments were as under:

Transaction Date	₹	*Due Date*
March 5	300	April 08
April 15	200	May 18
May 10	275	June 13
June 5	400	July 08

Calculate Average due date.

Account Current

7. Following transactions took place between L and M during the month of April, 2012:

Date	*Particulars*	₹
1.4.2012	Amount payable by L to M	10,000
7.4.2012	Received acceptance of L to M for 2 months	5,000
10.4.2012	Bills receivable (accepted by M) on 7.2.2012 is honoured on this due date	10,000
10.4.2012	L sold goods to M (due date 10.5.2012)	15,000
12.4.2012	L received cheque from M (due date 15.5.2012)	7,500
15.4.2012	M sold goods to L (due date 15.5.2012)	6,000
20.4.2012	L returned goods sold by M on 15.4.2012	1,000
20.4.2012	Bill accepted by M is dishonoured on this due date	5,000

Prepare the M's account in the books of L for the month of April, 2012, taking interest into account @18% p.a.

Self – Balancing Ledgers

8. On 1st April, 2012 the details of the balances owed by customers were as following:-

	₹
Om	1,500
Ram (Considered to be 60% bad; adequate provision maintained)	2,100
Sohan	1,800
Others	35,600
	41,000
Less: Advance by Kamal	2,000
	39,000

Sales during the month totaled ₹ 1,55,500 including ₹ 1,11,400 as cash sales; of the credit sale, a sale of ₹ 2,600 was to Kamal. Om returned goods to the extent of ₹ 500 and sent a bill receivable accepted by 'A' for the balance. A sum of ₹ 450 was received

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from Ram and the balance was written off. On instructions from B, Sohan's balance was transferred to B's account in the Creditors Ledger. A's acceptance as dishonoured and noting charges were ₹ 10. R sent an advance of ₹ 1,800 for supply of goods. Out of the amount due from "others" on April 1, 2012 a sum of ₹ 27,300 was received; the customers had earned 2½% discount on the amount paid. Similarly, out of the sales in April, a sum of ₹ 9,750 had been received, earning discount at the same rate.

C who owed ₹ 1,100 and R who owed ₹ 800 turned doubtful; a provision of 50% of the amounts due was created. All other debts were considered good.

Prepare Total Debtors account for April 2012.

Accounting for Not-For-Profit Organisations

9. The Accountant of Strong Club furnishes you the following receipts and payments account for the year ending 30th September, 2012:

Receipts	*Amount*	*Payments*	*Amount*
	₹		₹
Opening balance:		Honoraria to secretary	9,600
Cash and bank	16,760	Misc. expenses	3,060
Subscription	21,420	Rates and taxes	2,520
Sale of old newspapers	4,800	Groundman's wages	1,680
Entertainment fees	8,540	Printing and stationary	940
Bank interest	460	Telephone expenses	4,780
Bar receipts	14,900	Payment for bar purchases	11,540
		Repairs	640
		New car (Less sale proceeds of old car of ₹ 6,000)	25,200
		Closing balance:	
		Cash and bank	6,920
	66,880		66,880

Additional informations:

	1.10.2011	30.9.2012
	₹	₹
Subscription due (not received)	2,400	1,960
Cheques issued, but not presented for payment of printing	180	60
Club premises at cost	58,000	-
Depreciation on club premises provided so far	37,600	-
Car at cost	24,380	-

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Depreciation on car	20,580	-
Value of Bar stock	1,420	1,740
Amount unpaid for bar purchases	1,180	860
Depreciation is to be provided @ 5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.		

You are required to prepare an income and expenditure account of Strong Club for the year ending 30th September, 2012 and balance sheet as on that date.

Accounts from Incomplete Records

10. Shri Ashok furnishes you with the following information relating to his business :

(a)

Assets and liabilities as on	*1.1.2012*	*31.12.2012*
	₹	₹
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

(b) Receipts and payments during 2012:

Collections from debtors, after allowing discount of ₹ 1,500 amounted to ₹ 58,500. Collections on discounting of bills of exchange, after deduction of discount of ₹ 125 by the bank, totalled to ₹ 6,125. Creditors of ₹ 40,000 were paid ₹ 39,200 in full settlement of their dues. Payment for freight inwards ₹ 3,000. Amount withdrawn for personal use ₹ 7,000. Payment for office furniture ₹ 1,000. Investment carrying annual interest of 4% was purchased at ₹ 96 on 1st July, 2012 and payment made there for. Expenses including salaries paid ₹ 14,500. Miscellaneous receipts ₹ 500.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 10,000. Of these, bills of exchange of ₹ 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of 400 was dishonoured.

(d) Goods costing ₹ 900 were used as advertising materials.

(e) Goods are invariably sold to show a gross profit of $33\frac{1}{3}\%$ on sales.

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(f) Difference in cash book, if any, is to be treated as further drawing or introduction by Shri Ashok.

(g) Provide at 2.5% for doubtful debts on closing debtors.

Shri Ashok asks you to prepare Trading and Profit and Loss A/c for the year ended 31st December, 2012 and the balance sheet as on that date.

Hire–Purchase Instalment Payment System

11. Accent Ltd. has a hire-purchase department which fixes hire-purchase price by adding 40% to the cost of the goods. The following additional information is provided to you :

	₹
On 1st April, 2011 :	
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Instalments due	14,000
Transactions during the year :	
Hire-purchase price of goods sold	9,80,000
Instalments received	8,12,000
Value of goods repossessed due to defaults (hire-purchase instalments unpaid ₹ 5,600)	7,800
On 31st March, 2012:	
Goods out on hire-purchase (at hire-purchase price)	3,78,000

You are required to prepare Hire-purchase Trading Account, ascertaining the profit made by the department during the year ended 31st March, 2012.

Investments Accounts

12. Kumar invests and disinvests from time to time in 10% Non-convertible Debentures (NCD) of Apple Ltd. on FIFO basis. From the following transactions, prepare Investment account as it would appear in her books:

15.6.2011	Purchased	3,000 NCD, ex-interest @ ₹ 96 each
15.9.2011	Sold	3,000 NCD, ex-interest @ ₹ 100 each
15.12.2011	Purchased	2,000 NCD, cum interest @ ₹ 99 each
15.2.2012	Sold	2,000 NCD, cum interest @ ₹ 102 each

Opening balance of NCD of ₹ 100 each was ₹ 2,00,000 on 1.4.2011 and Cost of acquisition was ₹ 1,80,000. Interest payment dates on NCD are 30th June and 31st December. Kumar follows financial year as accounting year.

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Insurance Claim for Loss of Stock

13. A fire occurred in the premises of Hanuman Sons on 15th October, 2011 and normal business operations were restored on 1st April, 2012. The company had taken loss of profit policy for ₹ 1,50,000 with indemnity period of six months and a clause for adjustment of 20% to be made in respect of the expected incremental turnover.

From the following information compute amount of claim under "Loss of Profit" policy:

	₹
Actual turnover from 15th October, 2011 to 31st March, 2012	1,20,000
Turnover during the corresponding period of previous year	2,40,000
Turnover from 15th October, 2010 to 14th October, 2011	4,80,000
Net profit for the last financial year	90,000
Insured standing charges for the last financial year	67,500
Turnover for the last financial year	4,50,000

Partnership: Admission of a Partner

14. Aaj and Kal are partners in a firm, sharing Profits and Losses in the ratio of 3 : 2. The Balance Sheet of Aaj and Kal as on 1.1.2012 was as follow:

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Sundry Creditors		12,900	Building		26,000
Bill Payable		4,100	Furniture		5,800
Bank Overdraft		9,000	Stock-in-Trade		21,400
Capital Account:			Debtors	35,000	
Aaj	44,000		Less: Provision	200	34,800
Kal	36,000	80,000	Investment		2,500
			Cash		15,500
		1,06,000			1,06,000

'Shyam' was admitted to the firm on the above date on the following terms:

(i) He is admitted for 1/6th share in future profits and to introduce a Capital of ₹ 25,000.

(ii) The new profit sharing ratio of Aaj, Kal and Shyam will be 3 : 2 : 1 respectively.

(iii) 'Shyam' is unable to bring in cash for his share of goodwill, partners therefore, decide to raise goodwill account in the books of the firm. They further decide to

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calculate goodwill on the basis of Shyam's share in the profits and the capital contribution made by him to the firm.

(iv) Furniture is to be written down by 870 and Stock to be depreciated by 5%. A provision is required for Debtors @ 5% for Bad Debts. A provision would also be made for outstanding wages for ₹ 1,560. The value of Buildings having appreciated be brought upto ₹ 29,200. The value of investment is increased by ₹ 450.

(v) It is found that the creditors included a sum of ₹ 1,400, which is not to be paid off.

Prepare the following:

(i) Revaluation Account.

(ii) Partners' Capital Accounts.

(iii) Balance Sheet of New Partnership firm after admission of 'Shyam'.

Partnership: Death of a partner

15. M, N and O were partners of a firm sharing profits and losses in the ratio of 3 : 4 : 3. The Balance Sheet of the firm, as at 31st March, 2011 was as under:

Liabilities		₹	*Assets*		₹
Capital Accounts			Fixed Assets		1,00,000
M	48,000		Current Assets :		
N	64,000		Stock	30,000	
O	48,000	1,60,000	Debtors	60,000	
Reserve		20,000	Cash and Bank	30,000	1,20,000
Creditors		40,000			
		2,20,000			2,20,000

The firm had taken a Joint Life Policy for ₹ 1,00,000; the premium periodically paid was charged to Profit and Loss Account. Partner O died on 30th September, 2011. It was agreed between the surviving partners and the legal representatives of O that :

(i) Goodwill of the firm will be taken at ₹ 60,000.

(ii) Fixed Assets will be written down by ₹ 20,000.

(iii) In lieu of profits, O should be paid at the rate of 25% per annum on his capital as on 31st March, 2011.

Policy money was received and the legal heirs were paid off. The profits for the year ended 31st March, 2012, after charging depreciation of ₹ 10,000 (depreciation upto 30th September was agreed to be ₹ 6,000) were ₹ 48,000.

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Partners' Drawings Accounts showed balances as under :

M	₹ 18,000 (drawn evenly over the year)
N	₹ 24,000 (drawn evenly over the year)
O	(up-to-date of death) ₹ 20,000

On the basis of the above figures, please indicate the entitlement of the legal heirs of O, assuming that they had not been paid anything other then the share in the Joint Life Policy.

Accounting in Computerized Environment

16. "A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

Accounting Standards

AS-1

17. (a) Explain the concept of 'materiality' in brief.

AS-2

(b) In order to value the inventory of finished goods, Sona Ltd. has adopted the standard cost of raw material, labour and overheads. Income tax officer wants to know the method, as per AS-2, for the valuation of raw material.

AS-6

18. (a) Amar Ltd. has two divisions. It provides depreciation for both divisions on straight line basis as per rates prescribed by Schedule XIV to the Companies Act. While finalizing the accounts for the year ended 31-3-2012, it however wants to change the method to Written Down Value method for one of its divisions since in the opinion of the management the assets of the said division suffer faster wear and tear. Please advise the company on the above and also whether the change should be prospective or retrospective.

AS-7

(b) Mr. 'Lal' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'Lal' will receive an additional ₹ 2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. Lal wants to recognize this revenue since in the past he has been able to meet similar targets very easily.

AS-9

19. (a) Token company has taken a Transit Insurance Policy. Suddenly in the year 2011-2012 the percentage of accident has gone up to 7% and the company wants to

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recognise insurance claim as revenue in 2011-2012 in accordance with relevant Accounting Standard. Do you agree?

AS-10

(b) A newly set up Lion Private Ltd. manufacturing company has incurred following expenditures for the acquisition of plant & Machinery:

(i) Foreign tour expenses of directors for purchasing Plant & Machinery.

(ii) Technical staff's salary for erection of Plant & Machinery.

(iii) Non-techincal staff's salary during the period of installation of Plant & Machinery

(iv) Other sundry expenses such as stationery, printing, postage, telegram and telephone and local conveyance charge etc.

The company intends to capitalize the above expenses. Is the company justified? State with reasons.

AS-3

20. (a) Raman Ltd. acquired fixed assets viz. plant and machinery for ₹ 20 lakhs. During the same year it sold its furniture and fixtures for ₹ 5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS-3?

AS-13

(b) An unquoted long-term investment is carried in the books at cost of ₹ 2 lacs. The published accounts of unlisted company received in May, 2012 showed that the company has incurred cash losses with decline market share and the long-term investment may not fetch more than ₹ 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2012?

SUGGESTED ANSWERS/HINTS

1. 5% Redeemable Preference Share Capital Account

2013		₹	*2013*		₹
Feb. 1	To Preference Share holders A/c	4,00,000	Jan. 1	By Balance b/d	4,00,000
		4,00,000			4,00,000

Preference Shareholders Account

2013		₹	*2013*		₹
Feb. 1	To Bank A/c	4,20,000	Feb. 1	By 5% Redeemable	

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				Preference Share Capital A/c	4,00,000
				By Premium on Redemption A/c	20,000
		4,20,000			4,20,000

Premium on Redemption Account

2013		₹	2013		₹
Feb. 1	To Preference Share-holders A/c	20,000	Feb. 1	By Securities Premium A/c	20,000

Equity Shares Application and Allotment Account

2013		₹	2013		₹
Feb. 1	To Equity Share Capital A/c	1,70,000	Feb. 1	By Bank A/c	2,12,500
	To Securities Premium A/c	42,500			
		2,12,500			2,12,500

Capital Redemption Reserve Account

2013			₹	2013			₹
Feb. 1	To	Balance c/d	2,30,000	Feb. 1	By	Profit and Loss A/c	2,30,000
			2,30,000				2,30,000

Equity Share Capital Account

2013		₹	2013		₹
Feb. 1	To Balance c/d	3,70,000	Jan. 1	By Balance b/d	2,00,000
			Feb. 1	By Equity shares application and allotment A/c	1,70,000
		3,70,000			3,70,000

Securities Premium Account

2013		₹	2013		₹
Feb. 1	To Premium on		Jan. 1	By Balance b/d	50,000

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		Redemption A/c	20,000	Feb. 1	By	Equity Shares Application and	
	To	Balance c/d	72,500			Allotment A/c	42,500
			92,500				92,500

Cash and Bank Account

2013			₹	2013			₹
Jan. 1	To	Balance b/d	3,00,000	Feb. 1	By	Preference Share	4,20,000
Feb. 1	To	Equity Share				Holders A/c	
		Application and			By	Balance c/d	92,500
		Allotment A/c	2,12,500				
			5,12,500				5,12,500

Note: No dividend has been paid on preference shares in the above solution. Alternatively, dividend may be paid at the rate of 5% for one month because the redemption takes place on 1st February, 2013 assuming that the articles of the company and terms of contract of company with the preference shareholders provide for such dividend.

2. Profit and Loss Account

showing calculation of pre-incorporation and post-incorporation profit

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
		₹	₹			₹	₹
To Commission	(1:6)	375	2,250	By Gross Profit	(1:6)	14,000	84,000
To Advertisement	(1:6)	750	4,500	By Bad Debts Realised	Actual	500	-
To Discount	(1:6)	50	300				
To Directors Fees	Actual	-	9,000				
To Salaries	(1:3)	4,500	13,500				
To Depreciation	(1:3)	700	2,100				
To Insurance	(1:3)	150	450				
To Preliminary Expenses	Actual	-	700				
To Rent	(W.N.3)	60	630				
To Taxes	(W.N.3)	578	1,732				
To Bad Debts	(W.N.4)	386	864				
To Interest to vendor (upto 1-10-2011)	(1:1)	1,000	1,000				

To Audit Fees	(1:3)	500	1,500				
To Capital reserve		5,451					
To Net profit			45,474				
		14,500	84,000			14,500	84,000

Working Notes:

1. Calculation of Sales Ratio:

   Let average monthly turnover during first four months (April, May, June and July) = 100

   Average monthly turnover from September onwards = 100 x 2 = 200

   Monthly turnover during August = 150% of 200 = 300

   Turnover during pre-incorporation period = 100 x 3 = 300

   Turnover during post-incorporation period (for July + August + September to March)

   = 100 + 300 + (200 x 7) = 1,800

   Sales Ratio = 300: 1,800 = 1:6

2. Calculation of Time ratio:

   April 2011 to June 2011 : July 2011 to March 2012

   3 months : 9 months or 1:3

3. Break-up of Rent and Taxes:

   Rent = (20 x 3) + (70 x 9) = ₹ 690

   Taxes = 3,000 – 690 = 2,310.

4. Allocation of Bad Debts:

   Bad Debts from April to August = 1,250-350 = ₹ 900

   Sales ratio upto August (i.e. April, May and June): (July and August)

   (100 + 100 + 100) : (100 + 300) = 3:4

   ₹ 900 allocated in the ratio of 3:4 is ₹ 386 and ₹ 514

   Post-incorporation bad debts = 514 + 350 = ₹ 864

   and Pre-incorporation bad debts = ₹ 386

3. (a) (i) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 “Reserves created by Revaluation of fixed assets can not be capitalized.”

   (ii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, ‘Capital Reserve’ realized in cash can be utilized for issue of fully paid Bonus shares. Therefore, ₹ 1,60,000 being profit on sale of plant, is a capital profit which has been realized in cash, can be utilized for issue of the bonus

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shares. For remaining balance in capital reserve account, no further details of its constituents have been given. Therefore, no comment on it can be made.

(iii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, Securities Premium collected in cash only can be utilized for Bonus issue, therefore ₹ 80,000 (i.e. ₹ 1,00,000 – ₹ 20,000) can be utilized for Bonus issue.

(iv) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, no company can issue bonus shares to its shareholders without extending similar benefit to convertible debentureholders. Pending such conversion, necessary number of shares should be earmarked for convertible debentureholders. Therefore, convertible debentureholders are also entitled to the bonus shares in the same ratio as the equity shareholders.

(v) Minimum number of Equity shares to be issued as bonus shares

	In shares
Issue of Bonus Shares to existing Equity Shareholders	90,000
Add: Number of bonus shares to be issued after conversion of debentures $\left(\frac{20,00,000 \times 20\%}{10}\right) \times \frac{1}{4}$	10,000
Total bonus issue through equity shares	1,00,000

(vi) Minimum Authorised Share Capital

	Shares	*₹*
Equity share capital		
Existing Equity Shares	3,60,000	36,00,000
Bonus to Equity Shareholders	90,000	9,00,000
20% conversion of 12% Debentures	40,000	4,00,000
Bonus shares to be issued to Debentureholders after conversion	10,000	1,00,000
Authorised Equity Share Capital	5,00,000	50,00,000
Preference share capital		
12% Preference Shares	40,000	4,00,000
Minimum Authorised Capital		54,00,000

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(b) Cash Flow Statement of Mr. Kunaal
for the year ended 31.3.2012

			₹
(i)	**Cash flow from operating activities**		
	Net Profit (given)		1,80,000
	Adjustments for		
	Depreciation on Plant & Machinery (W.N.2)	72,000	
	Loss on Sale of Machinery (W.N.1)	8,000	80,000
	Operating Profit before working capital changes		2,60,000
	Decrease in Stock	40,000	
	Increase in Debtors	(80,000)	
	Increase in Creditors	16,000	(24,000)
	Net cash from operating activities		2,36,000
(ii)	**Cash flow from investing activities**		
	Sale of Machinery	20,000	
	Purchase of Land (4,40,000 – 3,00,000)	(1,40,000)	
	Net cash used in investing activities		(1,20,000)
(iii)	**Cash flow from financing activities**		
	Repayment of Mrs. Kunaal's Loan	(1,00,000)	
	Drawings (W.N.3)	(68,000)	
	Loan from Bank	40,000	
	Net cash used in financing activities		(1,28,000)
	Net decrease in cash		(12,000)
	Cash balance as on 1.4.2011		40,000
	Cash balance as on 31.3.2012		28,000

Working Notes:

1. Plant & Machinery A/c

	₹		₹
To Balance b/d (3,20,000 + 1,00,000)	4,20,000	By Bank – Sales	20,000
		By Provision for Depreciation A/c	12,000
		By Profit & Loss A/c – Loss on Sale (40,000 – 20,000 – 12,000)	8,000
		By Balance c/d (2,20,000+1,60,000)	3,80,000
	4,20,000		4,20,000

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2. Provision for depreciation on Plant and Machinery A/c

	₹		₹
To Plant and Machinery A/c	12,000	By Balance b/d	1,00,000
To Balance c/d	1,60,000	By Profit & Loss A/c (Bal.fig.)	72,000
	1,72,000		1,72,000

3. Mr. Kunaal's drawings

	₹
Opening Capital	5,00,000
Add: Net Profit	1,80,000
	6,80,000
Less: Closing Capital	(6,12,000)
Drawings (Bal. fig.)	68,000

4. Balance Sheet of New Old Express Ltd.
as at 1st Jan., 2013

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	3,60,000
2		Non-current liabilities		
	a	Long-term provisions	3	1,00,000
3		Current liabilities		
	a	Trade Payables		1,00,000
		Total		35,60,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	25,00,000
		Intangible assets	5	1,00,000
2		Current assets		
		Inventories		3,40,000
		Trade receivables		2,80,000

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Cash and cash equivalents	6	3,40,000
Total		35,60,000

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	30,000 Equity shares of ₹ 100 each		30,00,000
		Total	30,00,000
2	**Reserves and Surplus**		
	Reserve account		1,00,000
	Surplus		1,00,000
	Insurance reserve		1,00,000
	Employees profit sharing account		60,000
		Total	3,60,000
3	**Long-term provisions**		
	Provident fund		1,00,000
		Total	1,00,000
4	**Tangible assets**		
	Buildings		16,00,000
	Machinery		9,00,000
		Total	25,00,000
5	**Intangible assets**		
	Goodwill		1,00,000
		Total	1,00,000
6	**Cash and cash equivalents**		
	Balances with banks		2,30,000
	Cash on hand		1,10,000
		Total	3,40,000

The above solution is based on pooling of interests method.

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Alternative solution under the purchase method is given below :

Balance Sheet of New Old Express Ltd.
as at 1st Jan., 2013

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	32,00,000
	b	Reserves and Surplus	2	60,000
2		Non-current liabilities		
	a	Long-term provisions	3	1,00,000
3		Current liabilities		
	a	Trade Payables		1,00,000
		Total		34,60,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	25,00,000
		Intangible assets	5	0
2		Current assets		
		Inventories		3,40,000
		Trade receivables		2,80,000
		Cash and cash equivalents	6	3,40,000
		Total		34,60,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued, subscribed and paid up		
	32,000 Equity shares of ₹ 100 each		32,00,000
	Total		32,00,000
2	Reserves and Surplus		

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	Employees profit sharing account		60,000
	Total		60,000
3	Long-term provisions		
	Provident fund		1,00,000
	Total		1,00,000
4	Tangible assets		
	Buildings		16,00,000
	Machinery		9,00,000
	Total		25,00,000
5	Intangible assets		
	Goodwill	1,00,000	
	Less: Adjustment under scheme of amalgamation	(1,00,000)	0
	Total		0
6	Cash and cash equivalents		
	Balances with banks		2,30,000
	Cash on hand		1,10,000
	Total		3,40,000

Working Notes :

Calculation of Purchase Consideration

	New Express Ltd.	Old Express Ltd.
Total assets on 31.12.2012 (excluding goodwill)	22,60,000	12,00,000
Less: Provident fund	1,00,000	–
Employees profit sharing account	–	60,000
Sundry creditors	60,000	40,000
Net assets taken over	21,00,000	11,00,000

5. Journal Entries in the books of Mohan Ltd.

			₹	₹
(i)	Equity share capital (₹ 100) A/c	Dr.	1,00,00,000	
	To Equity Share Capital (₹ 40) A/c			40,00,000
	To Capital Reduction A/c			60,00,000
	(Being conversion of equity share capital of ₹ 100 each into			

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	₹ 40 each as per reconstruction scheme)		
(ii)	12% Cumulative Preference Share capital (₹ 100) A/c Dr.	50,00,000	
	To 12% Cumulative Preference Share Capital (₹ 60) A/c		30,00,000
	To Capital Reduction A/c		20,00,000
	(Being conversion of 12% cumulative preference share capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)		
(iii)	10% Debentures A/c Dr.	40,00,000	
	To 12% Debentures A/c		28,00,000
	To Capital Reduction A/c		12,00,000
	(Being 12% debentures issued to 10% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Sundry Creditors A/c Dr.	20,00,000	
	To Equity Share Capital A/c		12,00,000
	To Capital Reduction A/c		8,00,000
	(Being a creditor of ₹ 20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	1,00,000	
	Capital Reduction A/c Dr.	50,000	
	To Liability for Taxation A/c		1,50,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)		
(vi)	Capital Reduction A/c Dr.	99,50,000	
	To P & L A/c		6,00,000
	To Fixed Assets A/c		37,50,000
	To Current Assets A/c		55,00,000
	To Investments A/c		50,000
	To Capital Reserve A/c		50,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Preliminary Expenses, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		
(vii)	Liability for Taxation A/c Dr.	1,50,000	

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To Current Assets (Bank A/c)		1,50,000
(Being the payment of tax liability)		

Balance Sheet of Mohan Ltd. (and reduced) as on 31.3.2012

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	82,00,000
	b	Reserves and Surplus	2	50,000
2		Non-current liabilities		
	a	Long-term borrowings	3	28,00,000
3		Current liabilities		
	a	Trade Payables		30,00,000
		Total		1,40,50,000
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	4	87,50,000
	b	Investments	5	9,50,000
2		Current assets	6	43,50,000
		Total		1,40,50,000

Notes to accounts

			₹
1.	Share Capital		
	Equity share capital		
	Issued, subscribed and paid up		
	1,30,000 equity shares of ₹ 40 each		52,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	12% Cumulative Preference shares of ₹ 60 each		30,00,000
	Total		82,00,000
2.	Reserves and Surplus		

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	Capital Reserve		50,000
3.	Long-term borrowings		
	Secured		
	12% Debentures		28,00,000
4.	Tangible assets		
	Fixed Assets	1,25,00,000	
	Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
5.	Investments	10,00,000	
	Adjustment under scheme of reconstruction	(50,000)	9,50,000
6.	Current assets	45,00,000	
	Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

Working Note:

Capital Reduction Account

	₹		₹
To Liability for taxation A/c	50,000	By Equity share capital	60,00,000
To P & L A/c To Fixed assets	6,00,000 37,50,000	By 12% Cumulative preference share capital	20,00,000
To Current assets	55,00,000	By 10% Debentures	12,00,000
To Investment	50,000	By Sundry creditors	8,00,000
To Capital Reserve (balancing figure)	50,000		
	1,00,00,000		1,00,00,000

6. Calculation of average due date (Base date: 8th April)

Due Date	*Amount*	*No. of days from base date*	*Product*
	₹		₹
8th April	300	0	0
18th May	200	40	8,000
13th June	275	66	18,150
8th July	400	91	36,400
	1,175	91	62,550

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

$$= \text{8th April} + \frac{62{,}550}{1{,}175} = \text{8th April} + \text{53 days} = \text{31st May}$$

7. M in Account Current with L as at 30.04.2012

Date Due Date	Particulars	Amount	Days	Product	Date Due Date	Particulars	Amount	Days	Product
7.4.2012 to 10.6.2012	To Bills Payable A/c	5,000	–41	–2,05,000	1.4.2012 to 1.4.2012	By Balance b/d	10,000	30	3,00,000
10.4.2012 10.5.2012	To Sales A/c	15,000	–10	–1,50,000	12.4.2012 to 15.5.2012	By Bank A/c	7,500	–15	–1,12,500
20.4.2012 to 15.5.2012	To Purchase Return A/c	1,000	–15	–15,000	15.4.2012 to15.5.2012	By Purchases A/c	6,000	–15	–90,000
20.4.2012 to 20.4.2012	To Bills Receivable A/c	5,000	10	50,000	30.4.2012	By Interest A/c*	205.90		-
30.4.2012 to 30.4.2012	To Difference of Product	-		4,17,500	30.4.2012	By Balance c/d	2,294.10		-
		26,000		97,500			26,000		97,500

$*4{,}17{,}500 \times 18/100 \times 1/365 =$ ₹ 205.90

Note that no entry is required for transaction of April 10, 2012.

8 Total Debtors Accounts

2012		₹	2012		₹
Apr. 1	To Balance b/d	41,000	Apr. 1	By Balance b/d (Advance)	2,000
“ 30	To Credit Sales	44,100			
“ 30	To Bills Receivable A/c	1,000	“ 30	By Cash	39,300
“ 30	To Cash (Noting Charges)	10	“ 30	By Discount Account	950
“ 30	To Balance c/d (R)	1,800	“ 30	By Bad Debts Account (2100-450)	1,650
			“ 30	By Returns Inwards A/c (Om)	500
			“ 30	By Bills Receivable A/c	1,000
			“ 30	By Total Creditor A/c (Transfer) (Sohan)	1,800
			“ 30	By Balance c/d	40,710
		87,910			87,910
2012			2012		
May 1	To Balance b/d	40,710	May 1	To Balance b/d	1,800

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Working Notes:

	₹	₹
(i) Cash Received:		
From Ram		450
From R (Advance)		1,800
		2,250
Ex sales before April 1 (700)	27,300	
Ex sales during April	9,750	37,050
		39,300

(ii) Discount: ₹ 37,050 × 2½ / 97½ = ₹ 950

(iii) The creation of the Provision for Doubtful Debts will not affect the Total Debtors Account.

9. Income and Expenditure Account of Strong Club for the year ended 30th September, 2012

Expenditure		*Amount*	*Income*	*Amount*
		₹		₹
To Honoraria to secretary		9,600	By Subscriptions (W.N.3)	20,980
To Misc. expenses		3,060	By Sale of old newspapers	4,800
To Rates and taxes		2,520	By Entertainment fees	8,540
To Groundman's wages		1,680	By Bank interest	460
To Printing and stationary		940	By Bar receipts	14,900
To Telephone expenses		4,780	By Profit on sale of car (W.N.5)	2,200
To Bar expenses				
Opening bar stock	1,420			
Add: Purchases (W.N.2)	11,220			
	12,640			
Less: Closing bar stock	1,740	10,900		
To Repairs		640		
To Depreciation				
Club premises (W.N. 4)	1,020			
Car (W.N. 6)	4,680	5,700		
To Excess of income over expenditure transferred to capital fund		12,060		
		51,880		51,880

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Balance Sheet of Strong Club
as on 30th September, 2012

Liabilities		Amount	Assets	Amount
	₹	₹		₹
Capital fund (W.N. 1)	43,600		Club Premises	19,380
Add: Excess of income over expenditure	12,060	55,660	Car	26,520
			Bar stock	1,740
Outstanding liabilities for bar purchases		860	Outstanding subscription	1,960
			Cash and bank	6,920
		56,520		56,520

Working Notes:

1. Balance Sheet of Strong Club
as on 1st October, 2011

Liabilities	*Amount*	*Assets*		*Amount*
	₹			₹
Amount due for bar purchases	1,180	Club premises	58,000	
		Less: Depreciation	(37,600)	20,400
Capital fund on 1.10.2011 (balancing figure)	43,600	Car	24,380	
		Less: Depreciation	(20,580)	3,800
		Bar stock		1,420
		Outstanding subscription		2,400
		Cash at bank		16,760
	44,780			44,780

2. Calculation of bar purchases for the year:

	₹
Bar payments as per receipts and payments account	11,540
Add: Amount due on 30.9.2012	860
	12,400
Less: Amount due on 1.10.2011	(1,180)
	11,220

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3. Calculation of subscriptions accrued during the year:

	₹
Subscriptions received as per receipts and payments account	21,420
Add: Outstanding on 30.9.2012	1,960
	23,380
Less: Outstanding on 1.10.2011	(2,400)
	20,980

4. Depreciation on club premises and written down value on 30th September, 2012:

	₹
Written down value on 1.10.2011 (58,000-37,600)	20,400
Less: Depreciation for the year 2011-2012 @ 5% p.a.	(1,020)
	19,380

5. Calculation of profit on sale of car:

		₹
Sale proceeds of old car		6,000
Less: Written down value of old car:		
Cost of car on 1.10.2011	24,380	
Less: Depreciation upto 1.10.2011	(20,580)	(3,800)
		2,200

6. Depreciation on car and written down values on 30th September, 2012:

	₹
Cost of new car purchased (25,200 + 6,000)	31,200
Less: Depreciation for the year @ 15% p.a.	(4,680)
Written down value on 30.9.2012	26,520

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

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10. **Trading and Profit and Loss Account of Shri Ashok for the year ended 31st December, 2012**

		₹		₹
To Opening Stock		8,000	By Sales	73,050
To Purchases	45,600		By Closing stock	7,000
Less : For advertising	(900)	44,700		
To Freight inwards		3,000		
To Gross profit c/d		24,350		
		80,050		80,050
To Sundry expenses		14,200	By Gross profit b/d	24,350
To Advertisement		900	By Interest on investment	2
To Discount allowed –			$\left(\text{₹}100 \times \frac{4}{100} \times \frac{1}{2}\right)$	
Debtors	1,500		By Discount received	800
Bills Receivable	125	1,625	By Miscellaneous income	500
To Depreciation on furniture		650		
To Provision for doubtful debts		486		
To Net Profit		7,791		
		25,652		25,652

Balance Sheet as on 31st December, 2012

Liabilities		*Amount* ₹	*Assets*		*Amount* ₹
Capital as on 1st January, 2012	18,800		Furniture	6,000	
Less : Drawings	(7,904)		Additions during the year	1,000	
	10,896			7,000	
Add : Net Profit	7,791	18,687	*Less :* Depreciation	(650)	6,350
Sundry creditors		15,000	Investment		96
Outstanding expenses		1,800	Interest accrued		2
			Closing Stock		7,000
			Sundry debtors	19,450	

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			Less : Provision for doubtful debts	(486)	18,964
			Bills receivable		1,750
			Cash in hand and at bank		625
			Prepaid expenses		700
		35,487			35,487

Working Notes :

(1) Capital on 1st January, 2012

Balance Sheet as on 1st January, 2012

Liabilities	₹	*Assets*	₹
Capital (Balancing figure)	18,800	Furniture (w.d.v.)	6,000
Creditors	11,000	Stock at cost	8,000
Outstanding expenses	2,000	Debtors	16,000
		Cash in hand and at bank	1,200
		Prepaid expenses	600
	31,800		31,800

(2) Purchases made during the year

Creditors Account

	₹		₹
To Cash and bank A/c	39,200	By Balance b/d	11,000
To Discount received A/c	800	By Debtors A/c	400
To Bills Receivable A/c	2,000	By Purchases A/c (Bal.fig.)	45,600
To Balance c/d	15,000		
	57,000		57,000

(3) Sales made during the year

		₹
Opening stock		8,000
Purchases	45,600	
Less : For advertising	(900)	44,700
Freight inwards		3,000
		55,700

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Less : Closing stock		(7,000)
Cost of goods sold		48,700
Add : Gross profit (@ 50% on cost)		24,350
		73,050

(4) Debtors on 31.12.2012

Debtors Account

	₹		₹
To Balance b/d	16,000	By Cash and bank A/c	58,500
To Sales A/c	73,050	By Discount allowed A/c	1,500
To Creditors A/c (bill dishonoured)	400	By Bills receivable A/c	10,000
		By Balance c/d (Bal.fig.)	19,450
	89,450		89,450

(5) Additional drawings by Shri Ashok

Cash and Bank Account

	₹		₹
To Balance b/d	1,200	By Freight inwards A/c	3,000
To Sundry debtors A/c	58,500	By Furniture A/c	1,000
To Bills Receivable A/c	6,125	By Investment A/c	96
To Miscellaneous income A/c	500	By Expenses A/c	14,500
		By Creditors A/c	39,200
		By Drawings A/c (₹ 7,000+₹ 904)	7,904
		By Balance c/d	625
	66,325		66,325

(6) Amount of expenses debited to Profit and Loss A/c

Expenses Account

	₹		₹
To Prepaid expenses A/c (on 1.1.2012)	600	By Outstanding expenses A/c (on 1.1.2012)	2,000
To Bank A/c	14,500	By Profit and Loss A/c (Balancing figure)	14,200
To Outstanding expenses A/c (on 31.12.2012)	1,800	By Prepaid expenses A/c (on 31.12.2012)	700
	16,900		16,900

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(7) Bills Receivable on 31.12.2012

Bills Receivable Account

	₹		₹
To Debtors A/c	10,000	By Creditors A/c	2,000
		By Bank A/c	6,125
		By Discount on bills receivable A/c	125
		By Balance c/d (Bal.fig.)	1,750
	10,000		10,000

Note: As regards investment, it has been assumed that investment purchased for ₹ 96 was of the face value ₹ 100.

11. Accent Ltd.

Hire Purchase Trading Account

		₹			₹
To	Opening Balances: Hire purchase stock	2,10,000	By	Opening hire purchase stock reserve	60,000
	Instalments due	14,000	By	Bank (Instalments received)	8,12,000
To	Goods sold on hire purchase	9,80,000	By	Goods repossessed	7,800
To	Closing hire purchase stock reserve (W.N.3)	1,08,000	By	Goods sold on hire purchase (Loading) (W.N.2)	2,80,000
To	Profit and loss Account		By	Closing Balances:	
	(Transfer of profit)	2,34,200		Hire purchase stock	3,78,000
				Instalments due (W.N.4)	8,400
		15,46,200			15,46,200

Working Notes:

		₹
(i)	Opening hire purchase stock reserve = ₹ $2,10,000 \times \frac{40}{140}$	60,000
(ii)	Loading on goods sold = ₹ $9,80,000 \times \frac{40}{140}$	2,80,000
(iii)	Closing hire purchase stock reserve = ₹ $3,78,000 \times \frac{40}{140}$	1,08,000
(iv)	Closing instalments due:	
	Opening hire purchase stock	2,10,000
	Opening instalments due	14,000
	Goods sent on hire purchase	9,80,000
		12,04,000

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Less: Instalments received	8,12,000	
Unpaid instalments on repossessed goods	5,600	
Closing hire purchase stock	3,78,000	(11,95,600)
		8,400

12. In the books of Kumar

10% Non-Convertible Debentures (NCD) Account

	Particulars	Face Value ₹	Interest ₹	Cost ₹		Particulars	Face Value ₹	Interest ₹	Cost ₹
April 1	To Balance b/d	2,00,000	5,000	1,80,000	June 30	By Bank		25,000	
June 15	To Bank	3,00,000	13,750	2,88,000	Sept. 15	By Bank	3,00,000	6,250	3,00,000
Sept. 15	To P&L A/c			24,000	Dec. 31	By Bank		20,000	
Dec. 15	To Bank	2,00,000	9,167	1,88,333	Feb. 15	By Bank	2,00,000	2,500	2,01,500
Feb. 15	To P&L A/c			9,500	Mar.31	By balance c/d	2,00,000	5,000	1,88,333
Mar.31	To P&L A/c (Bal. fig.)		30,833						
		7,00,000	58,750	6,89,833			7,00,000	58,750	6,89,833

Working Notes

(i) Profit/Loss on sale of NCD

	₹
Sold on 15.09.2011	
Selling price (3,000 x 100)	3,00,000
Less: Cost of purchases	
2000 x 90 (opening)	(1,80,000)
1000 x 96 (purchases)	(96,000)
Profit	24,000

Sold on 15.02.2012

Selling price (2,000 x 102)	2,04,000
Less: Interest included	(2,500)
	2,01,500
Less: Cost of purchases (2000 x 96)	(1,92,000)
Profit	9,500

(ii) As the disinvestment is done on FIFO basis, NCDs purchased on 15.12.2011 remained in stock on 31.03.2012 at a cost of ₹ 1,88,333

(iii) Interest calculation on various dates:

₹

(a) <u>On 1.4.11</u>:

$2{,}00{,}000 \times 10\% \times \frac{3}{12} \rightarrow (1.1.09 - 31.3.09)$ = 5,000

(b) <u>On 15.6.11</u>:

$3{,}00{,}000 \times 10\% \times \frac{5.5}{12} \rightarrow (1.1.09 - 15.6.09)$ = 13,750

(c) <u>On 30.6.11</u>:

$5{,}00{,}000 \times 10\% \times \frac{6}{12} \rightarrow (1.1.09 - 30.6.09)$ = 25,000

(d) <u>On 15.9.11</u>:

$3{,}00{,}000 \times 10\% \times \frac{2.5}{12} \rightarrow (1.7.09 - 15.9.09)$ = 6,250

(e) On 15.12.11

$2{,}00{,}000 \times 10\% \times \frac{5.5}{12} \rightarrow (1.7.09 - 15.9.09)$ = 9,167

(f) <u>On 31.12.11</u>:

$4{,}00{,}000 \times 10\% \times \frac{6}{12} \rightarrow (1.7.09 - 31.12.09)$ = 20,000

(g) <u>On 15.2.2012</u>:

$2{,}00{,}000 \times 10\% \times \frac{1.5}{12} \rightarrow (1.1.10 - 15.2.10)$ = 2,500

(h) <u>On 31.3.2012</u>:

$2{,}00{,}000 \times 10\% \times \frac{3}{12} \rightarrow (1.1.10 - 31.3.10)$ = 5,000

13. Computation of the amount of claim for the loss of profit

	₹
(i) Ascertainment of turnover:	
Turnover from 15th October, 2010 to 31st March, 2011	2,40,000
Add: 20% expected increase	48,000

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	2,88,000
Less: Actual turnover from 15th October, 2011 to 31st March, 2012	(1,20,000)
Reduction in turnover due to fire	1,68,000
Gross profit on reduction in turnover @ 35% (see working note)	58,800

(ii) Claim amount:

Amount of claim without application of average clause ₹ 58,800

Application of average clause

$$= \frac{\text{Amount of Policy}}{\text{G.P. on Turnover}} \text{ X Amount of claim}$$

$$= \frac{1,50,000}{2,01,600} \text{ X } 58,800$$

= ₹ 43,750

Therefore, amount of claim = ₹ 43,750

Working Notes:

(i)

	₹
Rate of Gross Profit for last financial year:	
Net Profit	90,000
Add: Insured standing charges	67,500
	1,57,500
Turnover for the last financial year	4,50,000

$$\text{Rate of Gross Profit} = \frac{1,57,500}{4,50,000} \text{ X } 100 = 35\%$$

(ii)

	₹
Adjusted Annual Turnover:	
Turnover from 15th October, 2010 to 14th October, 2011	4,80,000
Add: 20% expected increase	96,000
	5,76,000
Gross Profit @ 35% on incremental turnover	2,01,600

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14. (i) Revaluation Account

Dr.	₹		Cr. ₹
To Furniture	870	By Building	3,200
To Stock	1,070	By Sundry creditors	1,400
To Provision of doubtful debts (₹ 1,750 – ₹ 200)	1,550	By Investment	450
To Outstanding wages	1,560		
	5,050		5,050

(ii) Partners' Capital Accounts

	Aaj ₹	Kal ₹	Shyam ₹		Aaj ₹	Kal ₹	Shyam ₹
To Balance c/d	71,000	54,000	25,000	By Balance b/d	44,000	36,000	–
				By Cash A/c	–	–	25,000
				By Goodwill A/c(W.N.)	27,000	18,000	-
	71,000	54,000	25,000		71,000	54,000	25,000

(iii) Balance Sheet of New Partnership Firm

(after admission of Shyam) as on 1.1.2012

Liabilities		₹	Assets		₹
Sundry Creditors (12,900 – 1,400)		11,500	Goodwill		45,000
			Building (26,000 + 3,200)		29,200
Bills Payable		4,100	Furniture (5,800 – 870)		4,930
Bank Overdraft		9,000	Stock-in-trade (21,400 – 1,070)		20,330
Outstanding wages		1,560	Debtors	35,000	
Capital Accounts:			Less:Provision for bad debt	(1,750)	33,250
Aaj	71,000		Investment (2,500 + 450)		2,950
Kal	54,000		Cash (15,500 + 25,000)		40,500
Shyam	25,000	1,50,000			
		1,76,160			1,76,160

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Working Note:

Calculation of goodwill:

Shyam's contribution of ₹ 25,000 consists only 1/6th of capital.

Therefore, total capital of firm should be ₹ 25,000 × 6 = ₹ 1,50,000.

But combined capital of Aaj, Kal and Shyam amounts ₹ 44,000 + 36,000 + 25,000 = ₹ 1,05,000.

Thus, Hidden goodwill is ₹ 45,000 (i.e. ₹ 1,50,000 – ₹ 1,05,000).

15. Computation of entitlement of legal heirs of O)

(1) Profits for the half year ended 31st March, 2012

	₹
Profits for the year ended 31st March, 2012 (after depreciation)	48,000
Add : Depreciation	10,000
Profits before depreciation	58,000
Profits for the first half (assumed : evenly spread)	29,000
Less : Depreciation for the first half	(6,000)
Profits for the first half year (after depreciation)	23,000
Profits for the second half (i.e., 1st October, 2011 to 31st March, 2012)	29,000
Less : Depreciation for the second half	(4,000)
Profits for the second half year (after depreciation)	25,000

(2) Capital Accounts of Partners as on 30th September, 2011

Dr. Cr.

	M ₹	N ₹	O ₹		M ₹	N ₹	O ₹
To Fixed Assets (loss on revaluation)	6,000	8,000	6,000	By Balance b/d	48,000	64,000	48,000
To Drawings	9,000	12,000	20,000	By Reserve	6,000	8,000	6,000
To O Executor's A/c			52,000	By Goodwill	18,000	24,000	18,000
To Balance c/d	57,000	76,000	–	By P & L Appropriation A/c (Interest on ₹ 48,000 @ 25% for 6 months)	—	—	6,000
	72,000	96,000	78,000		72,000	96,000	78,000

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(3) Application of Section 37 of the Partnership Act

Legal heirs of O have not been paid anything other than the share in joint life policy. The amount due to the deceased partner carries interest at the mutually agreed upon rate. In the absence of any agreement, the representatives of the deceased partner can receive at their option interest at the rate of 6% per annum or the share of profit earned for the amount due to the deceased partner.

Thus, the representatives of O can opt for

Either,

(i) Interest on ₹ 52,000 for 6 months @ 6% p.a. = ₹ 1,560

Or

(ii) Profit earned out of unsettled capital (in the second half year ended 31st March, 2012)

$$₹\ 25{,}000 \times \frac{52{,}000}{57{,}000 + 76{,}000 + 52{,}000} = ₹\ 7{,}027 \text{ (approx.)}$$

In the above case, it would be rational to assume that the legal heirs would opt for ₹ 7,027.

(4) Amount due to legal heirs of O

	₹
Balance in O's Executor's account	52,000
Amount of profit earned out of unsettled capital [calculated in (3)]	7,027
Amount due	59,027

16. The proposals will be evaluated and vendor will be selected considering the following criteria:

1. Quantum of services provided and whether the same matches with the requirements of the hospital.
2. Reputation and background of the vendor.
3. Comparative costs of the various propositions.
4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
5. Assurance of quality, confidentiality and secrecy.
6. Data storage and processing facilities.

17. (a) Para 17 of AS 1 'Disclosure of Accounting Policies', states that financial statements should disclose all material items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omission or

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misstatement. From a positive perspective, materiality has to do with the significance of an item or event to warrant attention in the accounting process. From a negative view point, materiality is critical because otherwise a great deal of time might be spent on trivial matters in the accounting process. Individual judgments are required to assess materiality, or to decide what the appropriate minimum quantitative criteria are to be set for given situations. What is material to one organization, may not be material for another organization.

For example, a long term investor is interested in the current value of fixed asset like building, while the banker may not consider it significant for a short-term loan. Similarly a pair of scissors, ball pens, sharpeners, waste-paper baskets could be used for a number of years but still it is treated as an expense and not an asset. The omission of "paise" in the financial statements is also due to their insignificant effect to the users of the financial statement in making a decision.

(b) The use of standard cost of elements of cost of production has been suggested by AS-2 as a matter of convenience only. In fact, AS-2 aims to suggest the use of absorption costing based on normal capacity. AS-2 says that standard cost system may be used for convenience if the results approximate the actual cost. If the company can adopt absorption costing for value of inventory, then the standard cost systems need not be adopted.

18. (a) According to the Guidance Note on Accounting for Depreciation in Companies issued by ICAI, it is permissible for a company to adopt more than one method of depreciation simultaneously that is to say that-

1. Company may follow different methods for different types of assets; and
2. Company geographical locations can follow different methods.

Only condition is that same methods should be consistently adopted from year to year.

Change in the method of depreciation is a change in accounting policy. According to AS 6, such a change is permissible only when at least one of the following 3 conditions is satisfied:-

(i) Such change is required by law.

(ii) Such change is required by the Accounting Standards

(iii) Such change will result in more appropriate presentation.

Here, from the facts given it appears that condition (iii) is satisfied i.e. change will lead to more appropriate presentation (since WDV method will better represent the pattern of faster wear & tear instead of SLM).

According to AS 6, change should be retrospective. Any difference arising thereon should be changed/ credited to P&L account in the year of change.

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(b) As per Revised AS-7 incentive payments are additional amounts payable to the contractor if specified performance standards are met. A contract may allow for an incentive payment to the contractor for early completion of the contracts. Incentive payments are included in contracts revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met and the amount of the incentive payment can be measured reliably. In the given problem, the contracts is not even begun and hence the contractor should not recognise any revenue of this account

19. (a) AS 9 on Revenue Recognition defines revenue as 'gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of the enterprise from the sale of goods, from the rendering of services and from the use by others of enterprise resources yielding interest, royalties and dividends'.

To recognise revenue AS 9 requires that revenue arises from ordinary activities and that it is measurable and there should be no uncertainty. As per para 9.2 of the Standard, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made.

In the given case, Token company wants to suddenly recognise Insurance claim because it has increased over the previous year. But, there are uncertainties involved in the settlement of the claim. Also, the claim does not seem to be in the course of ordinary activity of the company.

Hence, Token company is not advised to recognise the Insurance claim as revenue.

(b) (i) Yes, as foreign tour expenses of directors for purchase of Plant and Machinery is for the acquisition of the asset, therefore it should be capitalised.

(ii) Yes, salary of technical staff for erection of Plant and Machinery is the cost directly attributable for bringing the asset to its working conditions for its intended use. Therefore, it should be capitalised.

(iii) No, as per para 9 of AS 10 only salary of technical staff can be said to as directly attributable to bring the asset to its working conditions for its intended use. Therefore, salary of non-technical staff cannot be capitalised.

(iv) No, as per para 9.3 of AS 10, 'administration and other general overhead expenses are usually excluded from the cost of fixed assets because they do not relate to a specific fixed asset.' Hence the same should not be capitalized.

20. (a) According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis.

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Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard.

Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furniture and fixtures.

(b) As per para 32 of AS 13 'Accounting for Investments', investment classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. As per para 17 of the standard, indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

The facts of given case clearly suggest that there is decline in the market share of the company and the investment will not fetch more than ₹20,000. Therefore, the provision of ₹1,80,000 should be made to reduce the carrying amount of long term investment to ₹20,000 in the financial statements for the year ended 31st March, 2012.

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