PAPER – 1: ACCOUNTING

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

A. Applicable for November, 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 November, 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 Ind ASs are not applicable for the students appearing in November, 2014 Examination.

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. Kapil Ltd. has authorized capital of ₹50 lakhs divided into 5,00,000 equity shares of ₹10 each. Their books show the following balances as on 31st March, 2014:

	₹		₹
Inventory 1.4.2013	6,65,000	Bank Current Account	20,000
Discounts & Rebates	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Debenture interest (for the period of 6 months ended 30.9.2013)	10,000
Patterns	3,75,000		
Rate, Taxes and Insurance	55,000	Interest (bank loan)	91,000
Furniture & Fixtures	1,50,000	Calls in Arrear @ ₹2 per share	10,000
Purchases	12,32,500	Equity share capital (2,00,000 shares of ₹ 10 each)	20,00,000

Wages	13,68,000	4% Debentures (repayable after 10 years)	5,00,000
Freehold Land	16,25,000	Bank Overdraft	7,57,000
Plant & Machinery	7,50,000	Trade Payables (for goods)	2,40,500
Engineering Tools	1,50,000	Sales	36,17,000
Trade Receivables	4,00,500	Rent (Cr.)	30,000
Advertisement	15,000	Transfer fees received	6,500
Commission & Brokerage	67,500	Profit & Loss A/c (Cr.)	67,000
Business Expenses	56,000	Repairs to Building	56,500
		Bad debts	25,500

The inventory (valued at cost or market value, which is lower) as on 31st March, 2014 was ₹ 7,08,000. 4% Debentures amounting ₹ 5,00,000 were issued on 1.04.2013. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @10%. Provide 25,000 as doubtful debts after writing off ₹16,000 as bad debts. Create debenture redemption reserve @ 10% of Debentures. Provide for income tax @ 30%. Corporate Divided Tax Rate @ 16.995%.

You are required to prepare Statement of Profit & Loss for the year ended 31st March, 2014 and Balance Sheet as on that date.

Cash Flow Statement

2. The summarized Balance Sheets of Z Ltd. as on 31st March, 2013 and 31st March, 2014 are as under:

Liabilities	2012-13	2013-14	Assets	2012-13	2013-14
	₹	₹		₹	₹
Equity share capital	15,00,000	20,00,000	Goodwill	5,75,000	4,50,000
12% Redeemable pref. share capital	7,50,000	5,00,000	Land & Building	10,00,000	8,50,000
General Reserve	2,00,000	3,50,000	Plant & Machinery	4,00,000	10,00,000
Profit & Loss A/c	1,50,000	2,40,000	Trade receivables	8,00,000	12,60,000
Trade Payables	2,75,000	4,15,000	Inventory	4,85,000	4,35,000
Outstanding	1,00,000	80,000	Cash and	1,25,000	90,000

Expenses			Bank		
Provision for Tax	2,00,000	2,50,000			
Proposed Dividend	2,10,000	2,50,000			-
	33,85,000	40,85,000		33,85,000	40,85,000

Additional Information:

(i) Depreciation charged on Plant & Machinery and Land & Building during the year was ₹ 50,000 and ₹ 1,00,000 respectively.

(ii) Income-tax ₹ 1,75,000 was paid during the year 2013-14.

Prepare Cash Flow Statement as per AS 3 (Revised), using indirect method.

Profit or Loss for Pre and Post Incorporation Period

3. The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2013 by Sanjana Ltd., which was incorporated on 1st July, 2013. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2014 were available.

	₹	₹
Sales: Company period	40,000	
Prior period	10,000	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries	3,600	
Directors' Fees	1,200	
Interest on Capital (Upto 30.6.2013)	700	
Depreciation	2,800	
Rent	4,800	
Purchases	25,000	
Carriage Inwards	1,019	43,819
Net Profit		6,181

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to draw up a statement showing the amount of pre and post in corporation period profits stating the basis of allocation of expenses.

Accounting for Bonus Issue

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

Authorised capital:	₹
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Reserve (profit realized on sale of plant)	1,20,000
Securities premium	75,000
Profit and Loss Account	6,00,000

On 1st April, 2014, the Company has made final call @ ₹ 2 each on 2,70,000 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. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

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. Vinod Limited decided to reconstruct its business as it has accumulated huge losses. The following is the summarized Balance Sheet of the company as on 31.03.2014 before reconstruction:

Summarized Balance Sheet as on 31.03.2014

Particulars	₹	Particulars	₹
6,00,000 Equity shares of ₹ 10		Goodwill	10,40,000
each fully paid up	60,00,000	Patents	3,00,000
3,20,000, 6% Preference shares		Land & building	34,00,000
of ₹ 10 each fully paid up	32,00,000	Plant & machinery	4,00,000
6% Debentures (secured against		Investments (at cost)	4,40,000
land & building)	30,00,000	Trade receivables	34,80,000

Bank overdraft	11,60,000	Inventory	34,00,000
Trade payables	24,00,000	Profit & loss A/c	37,00,000
Provision for income tax	4,00,000		
	1,61,60,000		1,61,60,000

Following scheme of reconstruction is approved by all interested parties and the Court:

(1) All equity shares are reduced to ₹ 3 each and preference shares to ₹ 7 each.

(2) Debentureholders agreed to take over a part of land and building, book value of which is ₹ 14,00,000, towards their 50% claim. Rate of interest of balance 50% debentures will be increased to 9%.

(3) Goodwill and Patent will be written off.

(4) 10% of Trade receivables to be provided for bad debts.

(5) Inventory to be written off by ₹ 5,20,000.

(6) 50% of balance of Land & Building sold for ₹ 12,00,000 and remaining Land & Building valued at ₹ 12,00,000.

(7) Investments to be sold for ₹ 4,00,000.

(8) There are pending contracts amounting to ₹ 20,00,000. These contracts are to be cancelled on payment of penalty @ 5% of pending contract amount.

(9) The income tax liability of the company is settled at ₹ 6,12,000. Provision for income tax will be raised accordingly.

(10) 1/3 of trade payables decided to forgo their claim.

(11) After making all the above adjustments, balance amount available through scheme, will be utilized to write off the value of plant & machinery to that extent.

You are required to pass the necessary Journal Entries.

Amalgamation of Companies

6. The following are the summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st December, 2013:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Share Capital			Fixed Assets	7,00,000	2,50,000
Equity Shares of ₹ 10 each	6,00,000	3,00,000	Investment	80,000	80,000
10% Pref. Shares of ₹ 100 each	2,00,000	1,00,000	Current Assets: Inventory	– 2,40,000	3,20,000

Reserves and Surplus	3,00,000	2,00,000			
Secured Loans:			Trade receivables	4,20,000	2,10,000
12% Debentures	2,00,000	1,50,000	Cash at Bank	1,10,000	40,000
Current Liabilities:					
Trade payables	2,50,000	1,50,000			
	15,50,000	9,00,000		15,50,000	9,00,000

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	2,10,000
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	1,50,000

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.

(iii) 12% Debentureholders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

Average Due Date

7. A had the following bills receivable and bills payable against B. Calculate average due date when the payment can be made or received without any loss or gain of interest to either party.

Bills Receivable			Bills Payable		
Date of the Bill	Amount (₹)	Tenure in months	Date of bill	Amount (₹)	Tenure in months
1.6.13	18,000	3	29.5.13	12,000	2
5.6.13	15,000	3	3.6.13	18,000	3
9.6.13	20,000	1	10.6.13	20,000	2
12.6.13	16,000	2	13.6.13	14,000	2
20.6.13	24,000	3	27.6.13	22,000	1

Gazetted holiday intervening in the period are 15th August, 2013, 16th August, 2013, and 6th September, 2013.

Account Current

8. The following are the transactions that took place between Geet and Hari during the period from 1st October, 2013 to 31st March, 2014:

		₹
Oct.1, 2013	Balance due to Geet by Hari	6,000
Oct. 18, 2013	Goods sold by Geet to Hari	5,000
Nov. 16, 2013	Goods sold by Hari to Geet (due date November, 26)	8,000
Dec.7, 2013	Goods sold by Hari to Geet (due date December, 17)	7,000
Jan. 3, 2014	Promissory note given by Geet to Hari, at three months	10,000
Feb. 4, 2014	Cash paid by Geet to Hari	2,000
March 21, 2014	Goods sold by Geet to Hari	8,600
March 28, 2014	Goods sold by Hari to Geet (due date April, 8)	5,400

Draw up an Account Current upto March 31st, 2014 to be rendered by Geet to Hari, charging interest @10% per annum. Interest is to be calculated to the nearest rupee.

Self – Balancing Ledgers

9. How will you show the following items in General Ledger Adjustment Account in Debtors Ledger and General Ledger Adjustment Account in Creditors Ledger:

	₹
Opening Balance of debtors ledger	40,000

Opening Balance of creditors ledger	20,000
Credit sales	92,000
Credit purchases	59,600
Transfer from Debtors' Ledger to Creditors' Ledger	2,200
Transfer from Creditors' Ledger to Debtors' Ledger	3,800
Bill receivable endorsed to Creditors	8,000
Endorsed Bills dishonoured	2,000
Bad Debts written off (after deducting bad debts recovered ₹ 600)	4,400
Provision for Doubtful Debts	1,100
Provision for Discount on Debtors	2,000
Reserve for Discount on Creditors	4,000
Cash Sales	6,000
Cash Purchases	8,000
Bill Receivable Collected on maturity	10,000
Bills Receivable discounted	12,000
Bills Payable matured	14,000
Discount allowed	3,000
Discount received	1,200
Allowances from Creditors	6,400
Discount allowed to debtors ₹ 1,000 was recorded as discount received from creditors	
Closing Debtors Balance (As per General Ledger Adjustment Account)	1,20,000(Cr.)
Closing Creditors Balance (As per General Ledger Adjustment Account)	60,000 (Dr)

Financial Statements of Not-For-Profit Organizations

10. From the following information, prepare Opening and Closing Balance Sheet of a Club:

	31st Dec. 2012	*31st Dec. 2013*
Building (subject to 10% depreciation for the current year)	60,000	?
Furniture (subject to 10% depreciation for the current year)	-	20,000
Stock of Sports Materials	5,000	2,000
Prepaid Insurance	3,000	6,000
Outstanding Subscription	12,000	8,000
Advance Subscription	6,000	4,000

Outstanding Locker Rent		6,000
Advance Locker Rent received	-	2,000
Outstanding Rent for Godown	6,000	3,000
12% General Fund Investments	2,00,000	2,00,000
Accrued Interest on above	-	4,000
Cash Balance	1,000	64,000
Bank Balance	2,000	-
Bank Overdraft		2,000

Entrance Fees received ₹ 20,000, Life Membership Fees received ₹ 20,000, surplus from income & expenditure Account ₹ 60,000. It is the policy of the club to treat 60% of entrance fees and 40% of Life Membership Fees as of revenue nature. The furniture was purchased on 01.01.2013

Accounts from Incomplete Records

11. Mr. H 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
Stock 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. H'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.

Accounting for Hire -Purchase Transactions

12. (a) On 1.1.2011 Shaan Ltd. purchased a machine on hire purchase basis. The terms of agreement provided for 40% as cash down payment and the balance in three instalments of ₹ 1,63,000 on 31.12.2012, ₹ 1,20,000 on 31.12.2013 and ₹ 1,10,000 on 31.12.2014. The rate of interest charged by the vendor is 10% p.a. compound annually.

    You are required to calculate the cash Price and periodic interest charged by higher vendor.

    (b) On 1.1.2011 Beeta Ltd. purchased a machine from Yama Ltd. on hire purchase basis. The terms of agreement provided for 40% as cash down payment and the balance in three instalment of ₹ 1,30,000 on 31.12.2011, ₹ 1,42,000 on 31.12.2013 and ₹1,10,000 on 31.12.2014. The rate of interest charged by the vendor is 10% p.a. compounded annually. You are required to calculate the cash price when 2nd instalment is payable after two years.

Investment Accounts

13. Meera carried out the following transactions in the shares of Kumar Ltd.:

    (a) On 1st April, 2013 she purchased 40,000 equity shares of ₹ 1 each fully paid up for ₹ 60,000.

    (b) On 15th May 2013, Meera sold 8,000 shares for ₹ 15,200.

    (c) At a meeting on 15th June 2013, the company decided:

    (i) To make a bonus issue of one fully paid up share for every four shares held on 1st June 2013, and

    (ii) To give its members the right to apply for one share for every five shares held on 1st June 2013 at a price of ₹ 1.50 per share of which 75 paise is payable on or before 15th July 2013 and the balance, 75 paise per share, on or before 15th September, 2013.

    The shares issued under (i) and (ii) were not to rank for dividend for the year ending 31st December 2013.

    (a) Meera received his bonus shares and took up 4000 shares under the right issue, paying the sum thereon when due and selling the rights of the remaining shares at 40 paise per share; the proceeds were received on 30th September 2013.

    (b) On 15th March 2014, he received a dividend from Kumar Ltd. of 15 per cent in respect of the year ended 31st Dec 2013.

    (c) On 30th March he received ₹ 28,000 from the sale of 20,000 shares.

You are required to record these transactions in the Investment Account in Meera's books for the year ended 31st March 2014 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis.

Expenses and tax to be ignored.

Insurance Claim

14. The premises of Anmol Ltd. caught fire on 22nd January 2014, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2013 the stock at cost was ₹ 6,63,600 as against ₹ 4,81,100 on 31st March, 2012.

Purchases from 1st April, 2013 to the date of fire were ₹ 17,41,350 as against ₹ 22,62,500 for the full year 2012 -13 and the corresponding sales figures were ₹ 24,58,500 and ₹ 26,00,000 respectively. You are given the following further information:

(i) In July, 2013, goods costing ₹ 50,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2013-14, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 1,000 per week from 1st April, 2013 until the clerk was dismissed on 18th August, 2013.

(iii) The rate of gross profit is constant.

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

Partnership Accounts

15. (a) R and G are partners sharing profits and losses in the ratio of 3:2 after allowing ₹ 1,000 p.m. salary for each partner. However, the accounts have not been prepared for the last three years. From the following details, you are required to calculate the distribution of profits between the partners in total for the three years.

	₹
Assets as at the end of 3rd year	1,60,000
Liabilities as at the end of 3rd year	40,000
Drawings for three years in addition to Salaries:	
R	30,000
G	22,000
Capital on commencement:	
R	50,000
G	40,000
Introduction of fresh capital during three years	
R	10,000

(b) T and W are equal partners in Timber Business. The Balance Sheet of their firm as on 31st March, 2014 was as under:

Liabilities	*Amount*	*Assets*	*Amount*
Capital Accounts		Fixed Assets	2,50,000
T	1,60,000	Stocks	65,200
W	1,60,000	Cash & Bank	54,800
Creditors & Other payables	50,000		
	3,70,000		3,70,000

On 1st April, 2014, P is admitted as an equal partner. Prior to his admission, the partners agreed to bring into the books of the firm, stocks worth ₹ 80,000 that was received free of cost from a Business Associate. Consequent to P's entry into the firm the capital base of the firm was expanded to ₹ 6 lakhs with all the partners agreeing to adopt the proportionate capital principle. P brought in the agreed sum of ₹ 2,80,000 (₹ 2,00,000 towards capital and ₹ 80,000 towards his share of goodwill). The partners decided not to raise goodwill in the books of accounts.

You are requested to show Capital Accounts of the three partners and the Balance Sheet of the Firm as on 1st April, 2014.

Accounting in Computerized Environment

16. (a) A large business entity wants to go in for an ERP (Enterprise Resource Planning) package. Which factors should it consider for the choice of an ERP package?

(b) Briefly describe the advantages and disadvantages of using an Enterprise Resource Planning (ERP) software in computerized accounting system.

AS 1 "Disclosure of Accounting Policies"

17. A limited has sold its building for ₹ 50 lakhs and the purchaser has paid the full price. The Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March 2013, documentation and legal formalities are pending. The company has not recorded the sale. It has shown the amount received as advance. Do you agree with this treatment?

What accounting treatment should the buyer give in its financial statements?

AS 2 "Valuation of Inventories"

18. (a) A company had 5,000 units of stock "A", costing @ ₹ 50 each on 31.3.2014. Out of this stock, 3,000 units are to be supplied under a firm contract at ₹ 45 each. Show how the valuation will be done of such stock when

(i) the general selling price is ₹ 49 each.

(ii) the general selling price is ₹ 52 each.

AS 6 “Depreciation Accounting”

(b) 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 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

19. (a) 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 on 31st March, 2014. 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 (cost incurred till date) as at the end of financial year 2013-14.

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

	(₹ 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

AS-9 “Revenue Recognition”

(b) Victory Ltd. purchased goods on credit from Lucky Ltd. for ₹ 250 crores for export. The export order was cancelled. Victory Ltd. decided to sell the same goods in the local market with a price discount. Lucky Ltd. was requested to offer a price discount of 15%. The Chief Accountant of Lucky Ltd. wants to adjust the sales figure to the extent of the discount requested by Victory Ltd. Discuss whether this treatment is justified.

AS 10 "Accounting for Fixed assets"

20. (a) A Company is in the process of setting up a production line for manufacturing a new product. Based on trial runs conducted by the company, it was noticed that the production lines output was not of the desired quality. However, company has taken a decision to manufacture and sell the sub-standard product over the next one year due to the huge investment involved.

In the background of the relevant accounting standard, advise the company on the cut-off date for capitalization of the project cost.

AS 13 "Accounting for Investment"

(b) Albert Ltd. has made the following investments:

(i) Purchased the following equity shares from stock exchange on 1st June, 2013:

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

(ii) Purchased government securities at a cost of ₹ 5,00,000 on 1st April, 2013.

How will you treat these investments as per applicable AS in the books of the company for the year ended on 31st March, 2014, if the values of these investments are as follows:

Shares	₹	₹
Scrip X	1,90,000	
Scrip Y	40,000	
Scrip Z	70,000	3,00,000
Government securities		7,00,000

SUGGESTED ANSWERS / HINTs

1. Kapil Ltd.

BALANCE SHEET
as at 31st March, 2014

		Particulars	Note No.	(₹)
I	Equity and Liabilities			
	(1)	Shareholders' Funds		
		(a) Share Capital	1	19,90,000
		(b) Reserves and Surplus	2	67,616
	(2)	Non-Current liabilities		
		(a) Long-term Borrowings [4% Debentures]		5,00,000
	(3)	Current Liabilities		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	8,28,000
		(c) Short-Term Provisions	4	3,99,384
		Total		40,25,500
II	ASSETS			
	(1)	Non-Current Assets		
		(a) Fixed Assets		
		(i) Tangible Assets	5	29,30,000
	(2)	Current Assets		
		(a) Inventories		7,08,000
		(b) Trade Receivables	6	3,59,500
		(c) Cash and Cash Equivalents	7	28,000
		Total		40,25,500

Kapil Ltd.

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

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	Total Revenue [I + II]		36,53,500

IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		32,53,500
V	Profit before Tax (III-IV)		4,00,000
VI	Tax Expenses @ 30%		(1,20,000)
VII	Profit for the period		2,80,000

Notes to Accounts:

1. Share Capital

Authorised Capital	
5,00,000 Equity Shares of ₹ 10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of ₹10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of ₹10 each ₹ 8 paid	40,000
Call unpaid ₹10,000	19,90,000

2. Reserves and Surplus

Debenture Redemption Reserve		50,000
General Reserve		7000
Surplus i.e. Balance In Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	
Less: Proposed Equity Dividend [12% of (20,00,000-10,000)]	(2,38,800)	
Less: Corporate Dividend Tax [16.995% of 2,38,800]	(40,584)	
Less: Debenture Redemption Reserve [10% of ₹ 5,00,000]	(50,000)	10,616
		67,616

3. Other Current Liabilities

Bank Overdraft	7,57,000
Outstanding Expenses [25,000+36,000]	61,000
Interest accrued on Borrowings	10,000
	8,28,000

4. Short-term Provisions

Provision for Tax	1,20,000
Proposed Equity Dividend	2,38,800
Corporate Dividend Tax	40,584
	3,99,384

5. Tangible Assets

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		1,20,000	29,30,000

6. Trade Receivable

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	3,59,500

7. Cash & Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

9. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	25,000
	13,93,000

10. Finance Cost

Interest on Bank loan	91,000
Debenture Interest	20,000
	1,11,000

11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000
Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

2. Cash Flow Statement for the year ending 31st March, 2014

		₹	₹
A.	Cash flow from operating activities		
	Profit and Loss A/c as on 31.3.2014		2,40,000
	Less: Profit and Loss A/c as on 31.3.2013		(1,50,000)
	Net profit for the year after taxation		90,000
	Add Transfer to General Reserve	1,50,000	
	Back: Provision for Tax	2,25,000	
	Proposed Dividend	2,50,000	6,25,000
	Profit before Tax		7,15,000
	Adjustment for Depreciation:		
	Land and Building	1,00,000	
	Plant and Machinery	50,000	1,50,000

	Goodwill written off		1,25,000
	Operating profit before working capital changes		9,90,000
	Adjustment for working capital changes:		
	Decrease in outstanding expenses	(20,000)	
	Decrease in inventory	50,000	
	Increase in trade receivables	(4,60,000)	
	Increase in trade payables	1,40,000	(2,90,000)
	Cash generated from operations		7,00,000
	Income tax paid		(1,75,000)
	Net Cash generated from operating activities (a)		5,25,000
B.	Cash flow from investing activities		
	Proceeds from sale of Building		50,000
	Purchase of Plant and Machinery		(6,50,000)
	Net Cash used in investing activities (b)		(6,00,000)
C.	Cash flow from financing activities		
	Proceeds from issuance of share capital		5,00,000
	Redemption of Preference Shares		(2,50,000)
	Dividend paid		(2,10,000)
	Net cash inflow from financing activities (c)		40,000
	Net increase in cash and cash equivalents during the year (a+b+c)		(35,000)
	Cash and cash equivalents at the beginning of the year		1,25,000
	Cash and cash equivalents at the end of the year		90,000

Working Notes:

1. Provision for Tax Account

	₹		₹
To Bank	1,75,000	By Balance b/d	2,00,000
To Balance c/d	2,50,000	By Profit and Loss A/c	2,25,000
	4,25,000		4,25,000

2. Plant and Machinery Account

	₹		₹
To Balance b/d	4,00,000	By Depreciation A/c	50,000
To Bank A/c (Purchases) (Balancing figure)	6,50,000	By Balance c/d	10,00,000
	10,50,000		10,50,000

3. Land and Building Account

	₹		₹
To Balance b/d	10,00,000	By Depreciation A/c	1,00,000
		By Bank a/c (Sales) (Balancing figure)	50,000
		By Balance c/d	8,50,000
	10,00,000		10,00,000

3 Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd.

for the year ended 31st March, 2014

Particulars	Basis	Pre	Post
Sales (given)		10,000	40,000
Less: Purchases	1:3.3	5,814	19,186
Carriage Inwards	1:3.3	237	782
Gross Profit (i)		3,949	20,032
Less: Selling Expenses	1:4	700	2,800
Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200
Interest on capital		700	
Depreciation	1:3	700	2,100
Rent	1:3	1,200	3,600
Total of Expenses(ii)		4,200	13,600
Capital Loss/Net Profit (i-ii)		(251)	6,432

Working Notes:

1: Sales Ratio = 10,000 : 40,000 = 1 :4

2: Time Ratio = 3:9 = 1:3

3: Purchase Price Ratio

$\therefore$ Ratio is 3 : 9

But purchase price was 10% higher in the company period

$\therefore$ Ratio is 3 : 9 + 10%

3:9.9 = 1:3.3.

4. Journal Entries in the books of Manoj Ltd.

			₹	₹
1-4-2014	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-2014	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

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

	₹
Authorised Capital	
30,000 12% Preference shares of ₹10 each	3,00,000
3,67,500 Equity shares of ₹10 each (refer W.N.)	36,75,000
Issued and subscribed capital	
24,000 12% Preference shares of ₹10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ ₹10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	4,80,000

Working Note:

The authorized capital should be increased as per details given below:	₹
Existing authorized Equity share capital	30,00,000
Add: Issue of bonus shares to equity shareholders (25% of ₹ 27,00,000)	6,75,000
	36,75,000

Note: It is assume that all legal formalities for increasing of authorized share capital have already been complied with before issue of bonus shares.

5. Journal Entries in the books of Vinod Limited

			Dr. (₹)	Cr. (₹)
1.	Equity share capital A/c (₹ 10)	Dr.	60,00,000	
	To Equity share capital A/c (₹ 3)			18,00,000
	To Capital reduction A/c			42,00,000
	(Reduction of equity share of ₹ 10 each to shares of ₹ 3 each as per the reconstruction scheme)			
2.	6% Preference share capital A/c (₹ 10)	Dr.	32,00,000	
	To 6% Preference share capital A/c (₹ 7)			22,40,000
	To Capital reduction A/c			9,60,000
	(Reduction of preference share of ₹ 10 each to shares of ₹ 7 each as per the reconstruction scheme)			
3.	6 % Debentures A/c	Dr.	30,00,000	
	To Land & building A/c			14,00,000
	To 9% Debentures A/c			15,00,000
	To Capital reduction A/c			1,00,000
	(50% claim of debentureholders discharged by transfer of a part of land & building having book value ₹ 14,00,000 and rate of interest of balance 50% debentures increased to 9% as per the reconstruction scheme)			
4.	Bank A/c	Dr.	12,00,000	
	To Land & building A/c			10,00,000
	To Capital reduction A/c			2,00,000
	(50% of balance land & building having book value ₹ 10,00,000 sold as per the reconstruction scheme)			

5.	Land & building A/c	Dr.	2,00,000	
	To Capital Reduction A/c			2,00,000
	(50% of balance land & building having book value ₹ 10,00,000, valued at ₹ 12,00,000, as per the reconstruction scheme)			
6.	Bank A/c	Dr.	4,00,000	
	Capital reduction A/c	Dr.	40,000	
	To Investment A/c			4,40,000
	(All the investment sold as per the reconstruction scheme)			
7.	Trade payables A/c	Dr.	8,00,000	
	To Capital reduction A/c			8,00,000
	(1/3 of Trade payables decided to forgo their claim as per the reconstruction scheme)			
8.	Capital reduction A/c	Dr.	64,20,000	
	To Goodwill A/c			10,40,000
	To Patents A/c			3,00,000
	To Provision for doubtful debts A/c			3,48,000
	To Inventory A/c			5,20,000
	To Bank A/c			1,00,000
	To Provision for tax A/c			2,12,000
	To Profit & loss A/c			37,00,000
	To Plant & machinery A/c (Bal. fig.)			2,00,000
	(Written off goodwill, patent, profit & loss, part value of stock, plant & machinery, penalty paid for cancellation of contracts and provision made for doubtful debts, income tax, as per the reconstruction scheme)			

6. (a) Journal Entries in the Books of P Ltd.

		Dr. ₹	*Cr.* ₹
Fixed Assets	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of fixed assets at 15% above book value)			
Reserve and Surplus	Dr.	60,000	

To Equity Dividend (Declaration of equity dividend @ 10%)			60,000
Equity Dividend	Dr.	60,000	
To Bank Account (Payment of equity dividend)			60,000
Business Purchase Account	Dr.	4,90,000	
To Liquidator of Q Ltd. (Consideration payable for the business taken over from Q Ltd.)			4,90,000
Fixed Assets (115% of ₹ 2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹ 3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	20,000	
Investment	Dr.	80,000	
Cash at Bank (₹ 40,000 – ₹ 30,000 dividend paid)	Dr.	10,000	
To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in Q Ltd.			1,62,000
To Bills Payable			25,000
To Business Purchase Account			4,90,000
To Capital Reserve (Balancing figure) (Incorporation of various assets and liabilities taken over from Q Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			80,000
Liquidator of Q Ltd.	Dr.	4,90,000	
To Equity Share Capital			4,00,000
To 10% Preference Share Capital (Discharge of consideration for Q Ltd.'s business)			90,000
12% Debentures in Q Ltd. (₹ 1,50,000 × 108%)	Dr.	1,62,000	
Discount on Issue of Debentures	Dr.	18,000	
To 12% Debentures (Allotment of 12% Debentures to debenture holders of Q Ltd. at a discount of 10%)			1,80,000
Sundry Creditors	Dr.	10,000	

To Sundry Debtors (Cancellation of mutual owing)			10,000
Capital Reserve	Dr.	30,000	
To Bank (Being liquidation expenses reimbursed to Q Ltd.)			30,000

(b) Statement of Consideration payable by P Ltd. for 30,000 shares (payment method)

Shares to be allotted $\frac{30,000}{6} \times 8$ = 40,000 shares of P Ltd.

Issued 40,000 shares of ₹ 10 each i.e	₹ 4,00,000	(i)
For 10% preference shares, to be paid at 10% discount		
₹ $\frac{1,00,000 \times 90}{100}$	₹ 90,000	(ii)
Consideration amount [(i) + (ii)]	₹ 4,90,000	

7. Calculation of Average Due Date (taking base date as 12th July, 2013)

Date	*Due date including days of grace*	*Amount (₹)*	*No. of Days from July 12, 2013*	*Products (₹)*	*Remarks*
1.6.13	4.9.13	18,000	54	9,72,000	Bills Receivable
5.6.13	8.9.13	15,000	58	8,70,000	
9.6.13	12.7.13	20,000	0		
12.6.13	14.8.13	16,000	33	5,28,000	
20.6.13	23.9.13	24,000	73	17,52,000	
		93,000		41,22,000	
29.5.13	1.8.13	12,000	20	2,40,000	Bills Payable
3.6.13	5.9.13	18,000	55	9,90,000	
10.6.13	13.8.13	20,000	32	6,40,000	
13.6.13	14.8.13	14,000	33	4,62,000	
27.6.13	30.7.13	22,000	18	3,96,000	
		86,000		27,28,000	

Difference of Products = ₹ 41,22,000 – ₹ 27,28,000 = ₹ 13,94,000

Difference of Amount = ₹ 93,000 – ₹ 86,000 = ₹ 7,000

Average Due Date $= \text{Base Date} + \dfrac{\text{Difference of Products}}{\text{Difference of Amount}}$

$= \text{July 12} + \dfrac{13,94,000}{7,000}$

= July 12 + 199.14 or 199 days

= 27th January, 2014

Note:

(i)	B/R of 12.6.13	Due date changed due to holidays i.e. immediately preceding working day
(ii)	B/P of 3.6.13	Due date changed due to holidays i.e. immediately preceding working day
(iii)	B/P of 13.6.13	Due date changed due to holidays i.e. immediately preceding working day

8. In the books of Geet

Hari in Account Current with Geet

(Interest upto 31st March, 2014 @ 10% p.a.)

Date	Due date	Particulars	No. of days till 31.3.14	Amount	Product	Date	Due date	Particulars	No. of days till 31.3.14	Amount	Product
2013	2013			₹		2013	2013			₹	
Oct. 1,	Oct. 1,	To Balance b/d	182	6,000	10,92,000	Nov. 16	Nov. 26	By Purchases	125	8,000	10,00,000
Oct. 18,	Oct. 18	To Sales	164	5,000	8,20,000	Dec 7	Dec. 17	By Purchases	104	7,000	7,28,000
2014	2014					2014	2014				
Jan. 3	Apr. 6	To Bills payable	(6)	10,000	(60,000)	Mar. 28	Apr. 8	By Purchases	(8)	5,400	(43,200)
Feb. 4	Feb. 4	To Cash	55	2,000	1,10,000	Mar. 31	Mar. 31	By Balance of product			3,63,200
Mar. 21	Mar. 21	To Sales	10	8,600	86,000			By Balance c/d		11,300	
Mar. 31	Mar. 31	To Interest		100	-						
		(3,63,200 x 10%) /365		31,700	20,48,000					31,700	20,48,000

9. In Debtors Ledger

General Ledger Adjustment Account

Particulars	₹	Particulars	₹
To Debtors Ledger Adjustment A/c:		By Balance b/d	40,000
		By Debtors Ledger Adjustment A/c:	
Discount Allowed (₹ 3,000+ ₹ 1,000)	4,000		
BadDebts(4,400+600)	5,000	Sales	92,000
Transfer to creditor ledger	2,200	Endorsed Bills	
Transfer from creditor ledger	3,800	receivable dishonoured	2,000
To Balance c/d (1,20,000 – 1,000)	1,19,000		
	1,34,000		1,34,000

In Creditors Ledger

General Ledger Adjustment Account

Particulars	₹	Particulars	₹
To Balance b/d	20,000	By Creditors Ledger Adjustment A/c	
To Creditors Leger		Transfer from Debtors' ledger	2,200
Adjustment A/c:		Transfer to Debtors' ledger	3,800
Purchases	59,600	Bill receivable endorsed to creditors	8,000
Endorsed Bills		Discount received	200
receivable dishonoured	2,000	(₹ 1,200– ₹1,000)	
		Allowances	6,400
		By Balance c/d (60,000+1,000)	61,000
	81,600		81,600

Notes:

(i) The following items do not appear in GLA Account in Debtors' ledger:

1. Cash Sales
2. Provision for Doubtful Debts
3. Provision for Discount on Debtors
4. Bad Debts Recovered
5. Bills Receivable matured/collected on maturity
6. Bills Receivable discounted
7. Bills Receivable endorsed

(ii) The following items do not appear in GLA Account in Creditors' ledger:

1. Cash Purchases
2. Reserve for Discount on Creditors
3. Bills Payable matured

10. Balance Sheet as at 31st Dec., 2012

Liabilities	₹	*Assets*	₹
Outstanding Rent for godown	6,000	Building	60,000
		Stock of Sports Materials	5,000
Advance Subscription	6,000	Prepaid Insurance	3,000
Capital Fund *(Balancing Figure)*	2,71,000	Outstanding Subscription	12,000
		12% General Fund Investments	2,00,000
		Cash Balance	1,000
		Bank Balance	2,000
	2,83,000		2,83,000

Balance Sheet as at 31st Dec. 2013

Liabilities	₹	₹	*Assets*		₹
Outstanding Rent		3,000	Building		
Advance Subscription		4,000	Book Value	60,000	
Advance Locker Rent		2,000	*Less:* Depreciation	(6,000)	54,000
Bank Overdraft		2,000	Furniture Cost	20,000	
Capital Fund:			*Less:* Depreciation	(2,000)	18,000
Opening Balance	2,71,000		Stock of Sports Materials		2,000
Add: Entrance Fees [20,000 x 40%]	8,000		Prepaid Insurance		6,000
Add: Life Membership Fees [₹ 20,000 x 60%]	12,000		Outstanding Subscription		8,000
Add: Surplus	60,000	3,51,000	Outstanding Locker Rent		6,000
			12% General Fund Investment		2,00,000
			Accrued interest on 12% General Fund Investments		4,000
			Cash Balance		64,000
		3,62,000			3,62,000

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	Stock	10,450
		Debtors	550
		Cash at bank (W.N.1)	42,350
		Cash in hand	1,100
	1,64,450		1,64,450

(b) Calculation of loss for 3 months (1.1.2013 to 31.3.2013)

	₹
Capital as on 31.3.2013	1,61,700
Add: Drawings for 2 months (1.2.2013 to 31.3.2013)	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 (Bal. Figure)	1,80,400	Machinery	1,10,000	
Sundry Creditors	1,650	*Add:* Additions	33,000	1,43,000
		Stock		15,950
		Debtors		1,100
		Cash at bank (W.N.2)		20,350
		Cash in hand		1,650
	1,82,050			1,82,050

(d) Statement of Profit and Loss for the year ended 31.3.2014

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

Note: Depreciation has been ignored in the absence of information.

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. (a) Statement Showing the Computation of Cash Price and Periodic Interest

A *Instalment*	*B* *Balance due at the end after the payment of instalment*	*C* *Instalment Amount*	*D=B+C* *Total Amount Due at the end before the payment of instalment*	*E =* *Interest Dx10/110*	*F=D-E* *Balance Due at the Beginning*
III	NIL	1,10,000	1,10,000	10,000	1,00,000
II	1,00,000	1,20,000	2,20,000	20,000	2,00,000
I	2,00,000	1,63,000	3,63,000	33,000	3,30,000
	3,30,000	-	3,30,000	30,000	3,00,000

Let Cash Price be *X*

X = ₹ 3,00,000 + 40% of X

0.6 X = ₹ 3,00,000

X = ₹ 3,00,000/0.6 = ₹ 5,00,000, cash price = ₹ 5,00,000

(b) Statement Showing the Computation of Cash Price and Periodic Interest

A	B Balance Due at the end After the Payment of Instalment	C Instalment	D = B +C Total Amount Due at the end Before the payment of instalment	E =Dx10/110 interest	F=D-E Balance Due at the Beginning
III	Nil	1,10,000	1,10,000	10,000	1,00,000
II	1,00,000	1,42,000	2,42,000	22,000	2,20,000
	2,20,000	-	2,20,000	20,000	2,00,000
I	2,00,000	1,30,000	3,30,000	30,000	3,00,000

Let Cash Price be *X*

X = ₹ 3,00,000 + 40% of X

0.6 X = ₹ 3,00,000

X = ₹ 3,00,000/0.6 = ₹ 5,00,000, cash price = ₹ 5,00,000

13. In the books of Meera

Investment Account (Shares in Kumar Limited)

Date	*Particulars*	*No. of Shares*	*Income*	*Amount*	*Date*	*Particulars*	*No. of Shares*	*Income*	*Amount*
2013			₹	₹	*2013*			₹	₹
April 1	To Bank (Purchases)	40,000	-	60,000	May 15	By Bank (Sale)	8,000	-	15,200
May 15	To Profit & Loss A/c (W.N.1)	-	-	3,200	Sept. 30	By Bank (Sale of Right of 2,400 shares @ 40 paise per share)	-	-	960
June 15	To Bonus Issue	8,000	-	Nil	2014				
July 15	To Bank (@ 75 p. paid on 4,000 shares)	4,000	-	3,000	Mar. 15	By Bank (Dividend @ 15% on ₹ 32,000)		4,800	-
Sept. 15	To Bank (@ 75 p. paid on 4,000 shares)	-	-	3,000	Mar. 30	By Bank (Sale)	20,000	-	28,000
2014 March 31	To Profit & Loss A/c (W.N.2)			3,890	Mar. 31	By Balance c/d $\left(\frac{24,000}{44,000}\times 53,040\right)$	24,000	-	28,930
	To Profit & Loss A/c	-	4,800						
		52,000	4,800	73,090			52,000	4,800	73,090

Working Notes:

(1)	Profit on Sale on 15-5-2013:		
	Cost of 8,000 shares @ ₹1.50	₹ 12,000	
	Less: Sales price	₹ 15,200	
	Profit		₹ 3,200
(2)	Cost of 20,000 shares sold:		
	Cost of 44,000 shares (48,000 + 6,000)	₹ 54,000	
	Less: Amount received from rights	₹ 960	
	Cost of 44,000 shares		₹ 53,040
	$\therefore$ Cost of 20,000 shares $\left(\frac{₹\,53{,}040}{44{,}000\text{ shares}} \times 20{,}000\text{ shares}\right)$		₹ 24,110
	Profit on sale of 20,000 shares (₹ 28,000 – ₹ 24,110)		₹ 3,890

14. Ascertainment of rate of gross profit for the year 2012-13

Trading A/c for the year ended 31-3-2013

	₹		₹
To Opening stock	4,81,100	By Sales	26,00,000
To Purchased	22,62,500	By Closing stock	6,63,600
To Gross profit	5,20,000		
	32,63,600		32,63,600

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

$$= \frac{5{,}20{,}000}{26{,}00{,}000} \times 100 = 20\%$$

Memorandum Trading A/c for the period from 1-4-2013 to 22-01-2014

	₹	₹		₹	₹
To Opening stock		6,63,600	By Sales	24,58,500	
To Purchases	17,41,350		*Add*: Unrecorded cash sales (W.N.)	20,000	24,78,500
Less: Goods used for advertisement	(50,000)	16,91,350	By Closing stock		3,72,150
To Gross profit (20% of ₹ 24,78,500)		4,95,700			
		28,50,650			28,50,650

Estimated stock in hand on the date of fire was ₹ 3,72,150.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2013 to 18.8.2013 = 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹ 1,000 = ₹ 20,000.

15. (a) Statement showing distribution of profits between the partners

	₹	₹
Assets at the end of the 3rd year		1,60,000
Less: Liabilities at the end of the 3rd year		(40,000)
		1,20,000
Add: Drawings including partnership salary:		
R[30,000 + (1,000 x 12 x 3)]	66,000	
G [22,000 + (1,000 x 12 x 3)]	58,000	1,24,000
		2,44,000
Less: Opening Capital:		
R	50,000	
G	40,000	(90,000)
		1,54,000
Less: Introduction of capital:		
R		(10,000)
Net Profit		1,44,000

Profit and Loss Appropriation Account for 3 years

Particulars	₹	Particulars	₹
To Partner's Salary		By Net Profit for three years	1,44,000
R (1,000 x 12 x 3)	36,000		
G (1,000 x 12 x 3)	36,000		
To Share of Profit			
R 43,200			
G 28,800	72,000		
	1,44,000		1,44,000

(b) Partners' Capital Accounts

Particulars	T	W	P	Particulars	T	W	P
	₹	₹	₹		₹	₹	₹
To T & W (Goodwill)	-	-	80,000	By Balance b/d	1,60,000	1,60,000	-
To Bank	40,000	40,000	-	By Bank	-	-	2,80,000
To Balance c/d	2,00,000	2,00,000	2,00,000	By P	40,000	40,000	-
				By Stock A/c	40,000	40,000	-
	2,40,000	2,40,000	2,80,000		2,40,000	2,40,000	2,80,000

Balance Sheet of M/s T, W & P as on 1st April, 20114

Liabilities	₹	*Assets*	₹
Capital Accounts		Fixed Assets	2,50,000
T	2,00,000	Stocks	1,45,200
W	2,00,000	Cash & Bank	2,54,800
P	2,00,000		
Creditors & Other Payables	50,000		
	6,50,000		6,50,000

16. (a) The business entity should consider the following factors while choosing an ERP package:

(i) Functional requirement of the organization: The ERP that matches most of the requirements of the organization should be preferred to others.

(ii) Reports available in the ERP: The organization should visualize the reporting requirements and choose a vendor which fulfils them.

(iii) Background of the vendors: The service and deliverable record of a vendor is extremely important in choosing the vendor.

(iv) Budget of the organization: The budget constraint and fund position of the enterprise should also be taken into consideration.

(b) The followings are the advantages of using an Enterprise Resource Planning (ERP) software in computerized accounting:

(i) It covers most of the common functions.

(ii) It generates most of the desired reports which are standardize across industries and acceptable to users.

(iii) It being an integrated package, duplication is avoided.

(iv) Much more information is made available by this package than what is available otherwise.

The followings are the disadvantages of ERP:

(i) The user may have to modify his business procedures to use ERP effectively.

(ii) It is often too expensive for small and medium sized organizations.

(iii) There may be implementation hurdles.

(iv) It is a complex software. Large number of modules, parameter settings and configuration makes it a complex.

17. Although legal title has not been transferred, the economic reality and substance is that the rights and beneficial interest in the immovable property have been transferred. Therefore, recording of acquisition/disposal (by the transferee and transferor respectively) would, in substance, represent the purchase/sale. In view of this A Ltd., should record the sales and recognize the profit of ₹15 lakhs in its profit and loss account. It should eliminate building from its balance sheet. In notes to accounts, it should disclose that building has been sold, full consideration has been received, possession has been handed over to the buyer and documentation and legal formalities are pending.

The buyer should recognize the building as an asset in his balance sheet and charge depreciation on it. The buyer should disclose in his notes to account that possession has been received however documentation and legal formalities are pending.

18. (a) (i) Valuation of stock as on 31.3.2014 when general selling price is ₹ 49 each.

Value 3,000 units at ₹ 45 each (lower of cost and net realizable value). Value remaining 2,000 units at ₹ 49 each (lower of cost and net realizable value).

Units	*Cost*	*NRV*	*Lower of cost and NRV*	*Valuation*
1	*2*	*3*	*4*	*5 = 1x4*
3000	50	45	45	1,35,000
2000	50	49	49	98,000
				2,33,000

Valuation of stock should be ₹ 2,33,000.

(ii) Valuation of stock as on 31.3.2014 when general selling price is ₹ 52 each

Units	*Cost*	*NRV*	*Lower of cost and NRV*	*Valuation*
1	*2*	*3*	*4*	*5 = 1x4*
3000	50	45	45	1,35,000
2000	50	52	50	1,00,000
				2,35,000

Valuation of stock should be ₹ 2,35,000.

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

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

	₹
Purchase price of plant as on 01-04-2012	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 & 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 method of depreciation from WDV to SLM, it re-calculated the depreciation amount on the basis of useful life and has not continued with rate of depreciation as applied in WDV method.

19. (a)

(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

= $(1,500 / 3,250) \times 100 = 46.15\%$

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

(b) Lucky Ltd. had sold goods to Victory Ltd on credit worth for ₹ 250 crores and the sale was completed in all respects. Victory Ltd's decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Lucky Ltd. The price discount of 15% offered by Lucky Ltd. after request of Victory Ltd. was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. It is the special discount which is being allowed at the request of the buyer. Therefore, it would be appropriate to make a separate provision rather than to adjust the amount of revenue originally recorded. Therefore, such discount should be written off to the profit and loss account and not shown as deduction from the sales figure.

20. (a) As per provisions of AS 10 'Accounting for Fixed Assets', expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, is usually capitalized as an indirect element of the construction cost. However, the expenditure incurred after the plant has begun commercial production *i.e.,* production intended for sale or captive consumption, is not capitalized and is treated as revenue expenditure even though the contract may stipulate that the plant will not be finally taken over until after the satisfactory completion of the guarantee period. In the present case, the company did not stop production even when the output was not of the desired quality, and continued the sub-standard production due to huge investment involved in the project. Capitalization should cease at the end of the trial run, since the cut-off date would be the date when the trial run was completed.

(b) As per para 14 and 15 of AS 13 'Accounting for Investments', current investments should be carried at lower of cost and fair value determined either on an individual investment basis or by category of investment, but not on an overall (or global) basis. Also as per para 17 of the standard, long-term investments are carried at cost except when there is a decline, other than temporary, in the value of a long term investment, the carrying amount is reduced to recognise the decline.

(i) If the investment in shares is intended to be held as current investment then scrip X should be valued at cost i.e. ₹1,80,000 (lower of cost and fair value), scrip Y should be valued at fair value i.e. ₹ 40,000 (lower of cost and fair value) and scrip Z should be valued at fair value i.e. ₹ 70,000 (lower of cost and fair value). The total loss of ₹ 1,00,000 (₹ 4,00,000 – ₹ 3,00,000) on scrip's purchased on 1st June, 2013 is to be charged to profit and loss account for the year ended 31st March, 2014.

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

(ii) Value of government securities (purchased on 1st April, 2013) is to be shown at cost of ₹ 5,00,000 in the balance sheet as on 31.3.2014.

Applicability of Pronouncements/Legislative Amendments/Circulars etc. for November, 2014 – Intermediate (IPC) Examination

Paper 1: Accounting

Accounting Standards

AS 1 : Disclosure of Accounting Policies

AS 2 : Valuation of Inventories

AS 3 : Cash Flow Statements

AS 6 : Depreciation Accounting

AS 7 : Construction Contracts (Revised 2002)

AS 9 : Revenue Recognition

AS 10 : Accounting for Fixed Assets

AS 13 : Accounting for Investments

AS 14 : Accounting for Amalgamations

Non-Applicability of Ind ASs for November, 2014 Examination

The MCA has hosted on its website 35 Indian Accounting Standards (Ind AS) without announcing the applicability date. Students may note that these Ind ASs are not applicable for November, 2014 Examination.

Paper 2: Business Laws, Ethics and Communication

The Companies Act, 2013

The 53 sections of the Companies Act, 2013 along with the clarifications notified by the Ministry of Corporate Affairs.

Supplementary study material in this regard has been hosted on the student portal, ICAI at the following link http://220.227.161.86/32794ssp-p2blec-ipcc.pdf

Non-Applicability of the following /Circulars/Notifications

S.No.	Subject Matter
1.	*New 184 sections of the Companies Act, 2013 notified on 27th February, 2014 and 26th March, 2014.
2.	*Rules notified under the Companies Act, 2013

Interdepartmental Note-(For Examination Committee only) : * Strictly speaking, the matter regarding applicability of further notified sections of the Companies Act, 2013 and rules thereof are under consideration with the Board of Studies and then will be sent to Council.

Paper 4: Taxation

Applicability of the Finance Act, Assessment Year etc. for November, 2014 examination

The provisions of income-tax and indirect tax laws, as amended by the Finance Act, 2013, including circulars and notifications issued upto 30th April, 2014. The relevant assessment year for income-tax is A.Y. 2014-15.

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