Paper 5 – Financial Accounting

Q. 1.Choose Questions:

(i) The accounting measurement that is not consistent with the Going Concern concept is
- **(a) Historical Cost**
- **(b) Realization**
- **(c) The Transaction Approach**
- **(d) Liquidation Value**

(ii) The beginnings inventory of the current year is overstated by ₹ 5,000 and closing inventory is overstated by ₹ 12,000.
These errors will cause the net income for the current year by
- **(a) ₹ 17,000 (overstated)**
- **(b) ₹ 12,000 (understated)**
- **(c) ₹ 7,000 (overstated)**
- **(d) ₹ 7,000 (understated)**

(iii) Depreciation is a process of
- **(a) Valuation**
- **(b) Valuation and allocation**
- **(c) Allocation**
- **(d) Appropriation**

(iv) X Ltd., purchased goods for ₹ 5 lakh and sold 9/10th of the value of goods for ₹ 6 lakh. Net expenses during the year were ₹ 25, 000. The company reported its net profit as ₹ 75,000. Which of the following concept is violated by the company?
- **(a) Realization**
- **(b) Conservation**
- **(c) Matching**
- **(d) Accrual**

(v) Payment received from Debtor
- **(a) Decreases the Total Assets**
- **(b) Increases the Total Assets**
- **(c) Results in no change in the Total Assets**
- **(d) Increases the Total Liabilities**

Answer 1.

(i) — (d) Liquidation Value

[**Hints:** Liquidation value is the value of the business when the business is wound up and is under liquidation whereas the going concern concept assumes that the business will continue over a long time and therefore the accounting measurement "Liquidation Value" is inconsistent with going concern concept.]

(ii) — (c) ₹ 7,000 (overstated)

[**Hints:** Overstatement of closing stock results in overstatement of profit and overstatement of opening stock results in understatement of profit. In the instant case, there will be overstatement of profit by ₹ 12,000 - ₹ 5,000= ₹ 7,000.]

(iii) — (c) Allocation

[**Hints:** AS-6 on depreciation accounting defines 'depreciation' as the measure of wearing out, consumption or other loss of a value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is predetermined.]

(iv) — (c) Matching

[**Hints:** Matching concept requires the expenses must relate to the goods and services sold during that period to arrive at the net profits of the enterprise. Hence matching concept requires the recognition of revenue and expenses on a comparable basis. In the above question that amount of ₹ 75,000 as net profit was arrived at by deducting ₹ 5,00,000 (being cost of purchases) + ₹ 25,000 expenses from the sale proceeds of ₹ 6,00,000. This does not follow matching concept since the cost of goods sold is to be deducted and not the cost of purchases, since some purchases have been left in stock. So the net profit using matching concept is ₹ 6,00,000 less cost of goods ₹ 4,50,000 (i.e. ₹ 5,00,000 x 9/10) less expenses of ₹ 25,000 = ₹ 1,25,000]

(v) — (c) Results in no change in the Total Assets

[**Hints:** Payments received from debtors results in decrease of debtors and increase in cash. It does not result in any change in the total assets as decrease in one asset is compensated by increase in the other asset.]

Q. 2. How will you translate the following items of Singapore Branch for the year 2012-13 :

Fixed Assets as on 31.3.2013 $ 70,000, Balance of Loan (taken to purchase the fixed Assets) on 31.3.2013 $ 52,000, Depreciation as on 31.3.2013 $ 10,000, Interest paid during 2013 $ 11,520.

Fixed Assets having useful life of 10 years were purchased for $ 1,00,000 on 1.4.2010 after taking a loan of $ 88,000 @ 18% interest p.a. Annual loan installment of $ 12,000 and interest were paid on 31st March each year. Exchange Rate 1.4.2010 $ 1 = ₹ 25.50, Average of 2010-11 $ 1 = 25.70, 31.3.2011 $ 1 = ₹ 26.10, Average of 2011-12 $ 1 = ₹ 26.20, 31.3.2012, $ 1 = ₹ 26.40, Average of 2012-13 $ 1 = ₹ 36.50, 31.3.2013, $ 1 = ₹ 42.20.

Answer 2.

Statement showing the Translation of Fixed Assets and Depreciation

Particulars	**2010-11** ₹	**2011-12** ₹	**2012-13** ₹
A Book Value in the beginning of the year	25,50,000	23,42,520	21,02,507
B *Add* : Adjustment for increase in Foreign Currency liabilities	52,800	22,800	10,11,200
[Amount of outstanding Loan × (Closing Rate – Opening Rate)]	26,02,800	23,65,320	31,13,707
	2,60,280	2,62,813	3,89,214

C Adjusted Book Value of Fixed Assets (A+B)	23,42,520	21,02,507	27,24,493
D *Less* : Depreciation on Adjusted Book Value (Adjusted Book Value/Remaining Useful life)			

Statement showing the Translation of Long-term Loan and Interest

Particulars	2010-11	2011-12	2012-13
A Outstanding Long-term Loan in the beginning of the year (in foreign currency)	$ 88,000	$ 76,000	$ 64,000
B *Less* : Principal portion of the installment paid (in foreign currency)	$ 12,000	$ 12,000	$ 12,000
C Outstanding Long-term Loan at the end of the year (in foreign currency) [A–B]			
D Outstanding Long-term Loan at the end of the year (in Indian Rupees) [O/s Long-term Loan (in foreign currency)×Closing Rate]	₹ 19,83,600	₹ 16,89,600	₹ 21,94,400
E Interest on outstanding Long-term Loan in the beginning (in foreign currency) [O/s Long-term Loan (in foreign currency) × 18%]	$ 15,840	$ 13,680	$ 11,520
F Interest on outstanding Long-term Loan in the beginning (in Indian Rupees)			

Q. 3. Trans Co. records transactions relating to its hire purchase business on Stock & Debtors System, It sold to Rasheed a Handicam (Cost ₹ 27,000) for which Rasheed was required to pay in all ₹ 36,000 in the form of 12 monthly installments of ₹ 3,000 each. Rasheed paid four instalments in time but thereafter stopped paying installments. Trans Co. after the seventh instalment, had also become due (but before the eight installment had fallden due) repossessed the tape recorder. Trans Co. spent ₹ 6,000 on reconditioning of the tape recorder and sold the same for ₹ 30,000.

Required : Give the necessary journal entries relating to Goods repossessed and prepare the Goods Repossessed Account.

Case (a) If the repossessed tape recorder was valued at ₹ 19,500.

Case (b) If no other information is given.

Answer 3.

Case (a)

Journal

Particulars		Dr. (₹)	Cr. (₹)
Goods Repossessed A/c	Dr.	24,000	
To Hire Purchase Stock A/c			15,000
To HIre Purchase Debtors A/c			9,000
(Being 5 instalments not yet due credited to H.P. Stock A/c, 3 instalments due but not paid, credited to Hire Purchase Debtors A/c)			
Hire Purchase Adjustment A/c	Dr.	4,500	
To Goods Repossessed A/c			4,500
Being the repossessed goods valued at ₹ 19,500 and thus, the difference (i.e. ₹ 19,500 – ₹ 24,000) being debited to Hire Purchase Adjustment Account)			
Goods Repossessed A/c	Dr.	6,000	
To Bank A/c			6,000
(Being the reconditioning charges paid)			
Bank A/c	Dr.	30,000	
To Goods Repossessed A/c			30,000
(Being the repossessed goods sold)			
Goods Repossessed A/c	Dr.	4,500	
To Hire Purchase Adjustment A/c			4,500
(Being the profit on sale of repossessed goods transferred)			

Dr. **Goods Repossessed Account** *Cr.*

Particulars	₹	Particulars	₹
To Hire Purchase Stock A/c	15,000	By Hire Purchase Adjustment A/c	4,500
To Hire Purchased Debtors A/c	9,000	By Balance c/d	19,50
	24,000		24,000
To Balance b/d	19,500		30,000
To Bank A/c (Expenses)	6,000	By Bank A/c (Sale proceeds)	
To Hire Purchase Adjustment A/c	4,500		
	30,000		30,000

Case (b)

Journal

Particulars	Dr. (₹)	Cr. (₹)
Goods Repossessed A/c Dr.	24,000	
To Hire Purchase Stock A/c		15,000
To Hire Purchase Debtors A/c		9,000
(Being 5 instalments not yet due credited to H.P. Stock A/c, 3 instalments due but not paid, credited to Hire Purchase Debtors A/c)		
Hire Purchase Adjustment A/c Dr.	6,000	
To Goods Repossessed A/c		6,000
(Being the repossessed goods valued at theoretical cost of ₹ 6,000 and thus, the difference (i.e. ₹ 18,000 – ₹ 24,000) being debited to Hire Purchase Adjustment Account) [*Refer Note*]		
Goods Repossessed A/c Dr.	6,000	
To Bank A/c		6,000
(Being the reconditioning charges paid)		
Bank A/c Dr.	30,000	
To Goods Repossessed A/c		30,000
(Being the repossessed goods sold)		
Goods Repossessed A/c Dr.	6,000	
To Hire Purchased Adjustment A/c		6,000

Working Note: Calculation of the Value of goods repossessed

Value of goods reposessed = ₹ [27,000 /36,000] × Unpaid amount (whether due or not)

= ₹ [27,000 /36,000] × ₹ 24,000 = ₹ 18,000

Dr. **Goods Repossessed Account** *Cr.*

Particulars	₹	Particulars	₹
To Hire Purchase Stock A/c	15,00	By Hire Purchse Adjustment A/c	6,000
To Hire Purchased Debtors A/c	0	By Balance c/d	18.00
	24,000		24,000
	18,00		30,000
To Balance b/d	0	By Bank A/c (Sale proceeds)	
To Bank A/c (Expenses)	6,000		
To Hire Purchase Adjustment A/c	6,000		
	30,000		30,000

Q. 4. (a) M/s. Hot and Cold commenced business on 01.07.2007. When they purchased a new machinery at a cost of ₹ 8,00,000. On 01.01.2009 they purchased another machinery for ₹ 6,00,000 and again on 01.10.2011 machinery costing ₹ 15,00,000 was purchased. They adopted a method of charging depreciation @ 20% p.a. on diminishing balance basis.

On 01.07.2011, they changed the method of providing depreciation and adopted the method of writing off the Machinery Account at 15% p.a. under straight line method with retrospective effect from 01.07.2007, the adjustment being made in the accounts for the year ended 30.06.2012.

The depreciation has been charged on time basis. You are required to calculate the difference in depreciation to be adjusted in the Machinery on 01.07.2011, and show the Machinery Account for the year ended 30.06.2012.

(b) X Ltd. presented the following particular as on 31.3.2012: Compute the value of stock as on 31.3.2012.

The total cost of product:

	Cost per unit ₹
Cost of materials (₹ 12 each)	50
Manufacturing inputs	30
Total Cost	80
Profit	20
Selling Price	100

On 31.3.2012, selling price has gone down suddenly from ₹ 100 to ₹ 70. Price of raw material has also gone down to ₹ 8 each. X Ltd. had in its stock 6,000, units of materials which was bought as per the above rate on the same date.

Answer 4. (a)

In the books of M/s Hot and Cold

Dr. Machinery Account Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
01.07.11	To, Balance b/d	6,73,280	30.6.12	By Depreciation A/c	3,78,750
	To, Profit and Loss A/c (Depreciation Overcharged)	21,720		By Balance c/d	18,16,250
01.10.11	To, Bank A/c (Purchase)	15,00,000			
		21,95,000			21,95,000

Workings:

1. Statement of Depreciation:

Date	Particulars	Machine – I ₹	Machine – II ₹	Total Depreciation ₹
01.07.2007	Book Value	8,00,000		
30.06.2008	Depreciation @ 20%	1,60,000		1,60,000
01.07.2008	**W.D.V.**	6,40,000		
01.01.2009	Bank (Purchase)		6,00,000	
30.06.2009	Depreciation @ 20%	1,28,000	60,000	1,88,000
01.07.2009	**W.D.V.**	5,12,000	5,40,000	
30.06.2010	Depreciation @ 20%	1,02,400	1,08,000	2,10,400
01.07.2010	**W.D.V.**	4,09,600	4,32,000	
30.06.2011	Depreciation @ 20%	81,920	86,400	1,68,320
01.07.2011	**W.D.V.**	3,27,680	3,45,600	
		6,73,280		7,26,720

2. Depreciation Overcharged:

Now depreciation under Straight Line Method

On ₹ 8,00,000 @ 15% = ₹ 1,20,000 x 4 years (from 01.07.2007 to 30.06.2011) = ₹ 4,80,000
On ₹ 6,00,000 @ 15% = ₹ 90,000 x 2 years (from 01.01.2009 to 30.06.2011) = ₹ 2,25,000

₹ 7,05,000

Depreciation overcharged = Reducing Balance Basis – Straight Line Basis
= ₹ (7,26,720 – 7,05,000)
= ₹ 21,720

3. Depreciation for the year:

On ₹ 14,00,000 @ 15% for the year = ₹ 2,10,000
On ₹ 15,00,000 @ 15% for the 9 months = ₹ 1,68,750

₹ 3,78,750

Answer 4. (b)

According to para 24, AS 2, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, the materials are written-down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value. In this case, the total cost of ₹ 80 exceeds the net realisable value, i.e., selling price, of ₹ 70 (as the price of raw materials had gone down from ₹ 12 to ₹ 8). So, inventories should be valued @ ₹ 70 each and, as such, the total value of stock would be ₹ 4,20,000 (i.e., ₹ 6,000 units x ₹ 70).

Q. 5. Given below is the Balance Sheet of a Company as at the beginning of a Financial year (1st April)

Liabilities	₹	Assets	₹	₹
Share Capital: Equity Shares	2,00,000	Fixed Assets : Cost	5,00,000	
14% Preference Shares	1,00,000	Less : Depreciation	1,60,000	3,40,000
General Reserve	40,000			
12% Debentures	60,000	Stock-in-Trade		60,000
Current Liabilities	1,00,000	Sundry Debtors		80,000
		Cash		20,000
	5,00,000			5,00,000

The following information is available

- **Fixed Assets costing ₹1,00,000 to be installed on 1st April, would become operative on that date, payment is required to be made on 31st March (end of the financial year).**
- **The Fixed Assets Turnover Ratio would be 1.5 (on the basis of Cost of Fixed Assets)**
- **The Stock-Turnover Ratio would be 14.4 (on the basis of the Average of the Opening and Closing Stock).**
- **The break-up of Costs and Profit would be as follows: Materials – 40% ; Labour-25%; Manufacturing OH-10%; Admin. and Selling OH – 10%; Depreciation – 5%; and Profit - 10%; This Profit is subject to interest and Taxation at 50%.**
- **Debtors would be 1/9th of Sales while Creditors would be 1/5th of Materials Cost.**
- **Dividend at 10% would be paid on Equity Shares in March.**
- **₹50,000, 12% Debentures have been issued on 1st April.**

Prepare the Company's Balance Sheet as on 31st March (end of the financial year) and show the following resultant ratios- (a) Current Ratio; (b) Fixed Assets to Net Worth Ratio and (c) Capital Gearing Ratio. Show workings.

Answer 5.

1. Application of Ratios for computing missing figures

1. Sales : Fixed Assets Turnover Ratio = Turnover ÷ Fixed Assets = 1.5 (given)

F.A = Opg Bal. + Additions = 5,00,000 + 1,00,000 = 6,00,000.

Hence, Sales = 6,00,000 X 1.5 = ₹ 9,00,000

2. P & L Account : Since breakup of Cost and Profits is given , P & L is prepared below:

Particulars			₹	₹
Sales				9,00,000
Less : Expenses	Cost of Materials	(₹ 9,00,000 x 40%)	3,60,000	
	Labour	(₹ 9,00,000 x 25%)	2,25,000	
	Manufacturing Expenses	(₹ 9,00,000 x 10%)	90,000	
	Office and Selling Expenses	(₹ 9,00,000 x 10%)	90,000	(7,65,000)
Profit Before Depreciation , Interest and Tax				1,35,000
Less: Depreciation (₹ 9,00,000 x 5%)				(45,000)
Profit Before Interest and Tax				90,000
Less: Interest on Debentures [(₹ 60,000 + ₹ 50,000) x 12%]				(13,200)
Profit before Tax				76,800
Less: Provision for Taxation at 50%				(38,400)
Profit After Tax				38,400
Less: Preference Dividend for the year at 14% of ₹ 1,00,000				(14,000)
Balance				24,400
Less: Equity Dividend at 10% of ₹ 2,00,000				(20,000)
Balance carried to Balance Sheet				4,400

3. Average Stock: Stock Turnover Ratio = Sales ÷ Average Stock = 14.4 times

(It is Assumed that Sales is taken instead of Cost of Goods Sold)

Hence, ₹9,00,000 ÷ Average Stock = 14.4. Hence, Average Stock = ₹ 62,500

4. Closing Stock : Average Stock = (Opening Stock + Closing Stock) ÷ 2

62,500 = (60,000+Closing Stock) ÷ 2. Hence, Closing Stock = ₹ 65,000

5. Debtors : $1/9^{th}$ of Sales = 1/9 X ₹ 9,00,000 = ₹ 1,00,000

6. Creditors : $1/5^{th}$ of Cost of Materials = 1/5 X ₹ 3,60,000 = ₹ 72,000

7. Cash & Bank : The cash flows are analyzed to determine the closing balance as under

Inflows	₹	Outflows	₹
To Balance b/d - Opening balance.	20,000	By Increase in Current Assets:	
To Net Profit for the year	4,400	— Stock in Trade (65,000 - 60,000)	5,000
To Depreciation — Non Cash Item	45,000	— Trade Debtors (1,00,000 - 80,000)	20,000
To Debentures — proceeds of issue	50,000	By Decrease in Current Liabilities:	
To balance c/d (Overdraft Balance)	33,400	— Trade Creditors (1,00,000 -72,000)	28,000
(balancing figure)		By Asset Purchased	1,00,000
	1,53,000		**1,53,000**

2. Balance Sheet as at 31st March

Liabilities	₹	Assets	₹
Share Capital ; - Equity Share Capital	2,00,000	**Fixed Assets**:	
-14% Pref. Share Capital	1,00,000	Cost (5,00,000 + 1,00,000)	6,00,000
Reserve & Surplus:- General Reserve	40,000	**Less:** Depreciation (1,60,000 +45,000)	2,05,000
P & L A/c	4,400	Net Block	3,95,000
Long Term Loan:			
12% Debentures (50,000 +60,000)	1,10,000	**Current Assets:**	
Current Liabilities: Trade Creditors	72,000	Stock in Trade	65,000
Bank Overdraft	33,600	Sundry Debtors	1,00,000
	5,60,000		**5,60,000**

Q. 6. (a) From the following information, prepare the Subscription Account for the year ending on March, 31, 2012

(i) Subscription in arrears on 31.03.2011 ₹ 1,500
(ii) Subscription received in advance on 31.03.2011 ₹ 1,000
(iii) Amount of Subscription received during 2011-12 ₹ 40,000, which includes ₹ 1,000 for the year 2010-11, ₹ 1,500 for the year 2012-13.
(iv) Subscription outstanding ₹ 1,000.

(b) Explain, in short, the relevant Disclosures of Accounting Policies as per AS 1.

Answer 6. (a)

Dr. Subscription Account Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Balance b/d	1,500	By, Balance b/d	1,000
To, Income & Expenditure A/c	39,500	By, Bank A/c	40,000
		By, Balance c/d For 2010-11	500
To, Balance c/d For 2012-13	1,500	For 2011-12	1,000
	42,500		42,500

Answer 6. (b)

As per AS 1, the Disclosures of Accounting Policies are: All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.

The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be disclosed in one place.

Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

If the fundamental accounting assumptions, viz, Going Concern, Consistency and Accruals, are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

Q. 7. Kalyani and Ranu commenced business on 1st July, 2010 as partners with capitals of ₹ 1,80,000 and ₹ 1,20,000 respectively. The capitals would remain fixed and carry interest at 10% p.a. profit and losses were to be shared in proportion to their capitals.

They appointed Anita as their Manager on 1st July, 2010 at a salary of ₹ 9,600 per annum plus a bonus of 5% of the net profits after charging such bonus and interest as a partner from the commencement of the business. She had to deposit ₹ 80,000 as security, carrying an interest @ 12%p.a. It was agreed that she would be entitled to one-fifth share of the profits and her security deposit would be treated as her capital carrying interest @ 10% p.a. It was further agreed that this new arrangement should not result in Anita's share for any of these years being less than what she had already received under the original agreement and terms of her appointment.

The profits before charging Anita's bonus and interest on Capital of the partners or giving effect to the new arrangement were – (a) for the year 2010-11 — ₹ 60,000; (b) for the year 2011-12 — ₹ 1,20,000; (c) for the year 2012-13 — ₹ 1,60,000.

Show by a single journal entry to give effect to the new arrangement with explanatory computation.

***Points to be noted* :**

1. **As a Manager, Anita received (a) bonus @ 5% on Net Profits after charging such bonus and interest on capital at 10% p.a. to Kalyani and Ranu (b) Salary ₹ 9,600 p.a. (c) Interest on security deposit at 12% p.a.**
2. **As a Partner Anita is entitled to (a) Interest on Capital at 10% p.a. (b) 1/5th of profit after providing interest on capital at 10% p.a. to all partners including herself.**
3. **If total dues of Anita under (2) above is more than that under (1) above, she should get the difference. But if such dues under (1) above is more, she would not refund the excess already received.**

Answer 7.

Workings : (1) – Calculation of Anita's Dues as Manager

Particulars	2010-11 ₹	2011-12 ₹	2012-13 ₹
Salary	9,600	9,600	9,600
Interest on Security Deposit : 12% of 80,000	9,600	9,600	9,600
Bonus 5/105 of profit after charging interest on capitals of Kalyani and Ranu			
2010-11 = 5/105 of (60,000 – 10% of 3,00,000)	1,429		
2011-12 = 5/105 of (1,20,000 – 10% of 3,00,000)		4,286	
2012-13 = 5/105 of (1,60,000 – 10% of 3,00,000)			6,190
	20,629	23,486	25,390

(2) Calculation of Distributable profit under the new arrangement

Particulars	2010-11 ₹	2011-12 ₹	2012-13 ₹
Net profits given (after charging interest on security deposit and Anita's salary but before charging interest on capitals)	60,000	1,20,000	1,60,000
Add : Anita's Salary and Interest on Deposit no more payable [9,600 + 9,600]	19,200	19,200	19,200
	79,200	1,39,200	1,79,200
Less : Interest on Capitals to all partners @ 10% of [1,80,000 + 1,20,000 + 80,000]	38,000	38,000	38,000
Distributable Profits	41,200	1,01,200	1,41,200
Anita's Share of Profit = 1/5th of Distributable Profit	8,240	20,240	28,240

(3) Difference in Payments to Anita

Particulars	2010-11 ₹	2011-12 ₹	2012-13 ₹
A. Anita's Dues as Partner :	8,000	8,000	8,000
Interest on Capital @ 10% of 80,000	8,240	20,240	28,240
Share of Profit [as per workings 2]	16,240	28,240	36,240
B. Anita's Dues as manager [as per workings 1]	20,629	23,486	25,390
Difference Payable to Anita	-	4,754	10,850
Total			15,604

Journal

Date	Particulars		L.F.	Dr. Amount ₹	Cr. Amount ₹
	Kalyani's Current A/c [3/5 of 15,604]	Dr.		9,362	
	Ranu's Current A/c [2/5 of 15,604]	Dr.		6,242	
	To Anita's Current A/c				15,604
	[Adjustments made through Partners' Current A/cs to				

As capitals remained fixed and interest was calculated every year on these fixed capitals, the necessary adjustment has been made through current accounts.

Q. 8. On 1.4.2007 Mayami got a mining lease and from that date a part of the mine was sub-leased to Pathan. The terms of payment and the production of 5 years are as below :

Particulars	**Lessee**	**Sub-**
Royalty (₹/Tonne)	2.00	3.00
Dead Rent per anum (₹)	15,000	10,000
Short working recoverable (Years)	3	2
Production (Year ended....31.3.)		
2008	1,000	1,000
2009	3,000	2,000
2010	12,000	5,000
2011	9,000	2,000 (strike)
2012	5,000	12,000

In case of strike, royalty earned will discharge all liabilities for the year only. Show ledger accounts in the books of Mayami.

Answer 8.

In the Books of Mayami
Statement showing Royalties Payable

Fig in (₹)

Year	Output (Tons)	Actual Royalties	Min. Rent	Excess Short Workings	Shortworkings Occurred	Recouped	Written off	C/F	Amount Payable
2008	2,000	4,000	15,000	0	11,000	0	0	11,000	15,000
2009	5,000	10,000	15,000	0	5,000	0	0	16,000	15,000
2010	17,000	34,000	15,000	19,000	0	16,000	0	0	18,000
2011	11,000	22,000	15,000	7,000	0	0	0	0	22,000
2012	17,000	34,000	15,000	19,000	0	0	0	0	34,000

Statement showing Royalties Receivable

Fig in (₹)

Year	Output (Tons)	Actual Royalties	Min. Rent	Excess Short Workings	Shortworkings Occurred	Recouped	Written off	C/F	Amount Payable
2008	1,000	3,000	10,000	0	7,000	0	0	7,000	10,000
2009	2,000	6,000	10,000	0	4,000	0	0	11,000	10,000
2010	5,000	15,000	10,000	5,000	0	5,000	2,000	4,000	10,000
2011	2,000	6,000	6,000	0	0	0	4,000	0	6,000
2012	12,000	36,000	10,000	26,000	0	0	0	0	36,000

Dr. **Shortworkings Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.08	To Landlord A/c	11,000	31.03.08	By Balance c/d	11,000
		11,000			11,000
1.4.08	To Balance b/d	11,000	31.03.09	By Balance c/d	16,000
31.03.09	To Landlord A/c	5,000			
		16,000			16,000
1.4.09	To Balance b/d	16,000	31.03.10	By Royalty Payable A/c (recouped)	16,000
		16,000			16,000

Dr. **Shortworkings Suspense Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.08	To Balance c/d	7,000	31.03.08	By Pathan A/c	7,000
		7,000			7,000
31.03.09	To Balance c/d	11,000	1.04.08	By Balance b/d	7,000
			31.03.09	By Pathan A/c	4,000
		11,000			11,000
31.3.10	To Royalty Receivable A/c	5,000	1.04.09	By Balance b/d	11,000
	To P& L A/c	2,000			
	To Balance c/d	4,000			
		11,000			11,000
31.03.11	To P &L A/c	4,000	1.4.10	By Balance b/d	4,000
		4,000			4,000

Dr **Royalty Receivable Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.08	To Royalties Payable A/c (1,000 × 2)	2000	31.03.08	By Pathan A/c (1,000 × 3)	3,000
	To Profit & Loss A/c	1,000			
		3,000			3,000
31.03.09	To Royalties Payable A/c (2,000 × 2)	4000	31.03.09	By Pathan A/c (2,000 × 3)	6,000
	To Profit & Loss A/c	2,000			
		6,000			6,000
31.03.10	To Royalties Payable A/c (5,000 × 2)	10000	31.03.10	By Shortworkings Suspence A/c	5,000
	To Profit & Loss A/c	5,000		By Pathan A/c (5,000 × 2)	10,000
		15,000			15,000
31.03.11	To Royalties Payable A/c (2,000 × 2)	4000	31.03.11	By Pathan A/c (2,000 × 3)	6,000
	To Profit & Loss A/c	2,000			
		6,000			6,000
31.03.12	To Royalties Payable A/c (12,000 × 2)	24000	31.03.12	By Pathan A/c (12,000 × 3)	36,000
	To Profit & Loss A/c	12,000			
		36,000			36,000

Dr. **Royalty Payable Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.08	To Landlord A/c (2000*2)	4000	31.03.08	By Royalty Receivable A/c (1000*2)	2,000
				By Profit & Loss A/c	2,000
		4,000			4,000
31.03.09	To Landlord A/c (5000*2)	10000	31.03.09	By Royalty Receivable A/c (2000*2)	4,000
				By Profit & Loss A/c	6,000
		10,000			10,000
		16,000			
31.03.10	To Shortworkings A/c	18,000	31.03.10	By Royalty Receivable A/c (5000*2)	10,000
	To Landlord A/c (17000*2)			By Profit & Loss A/c	24,000
		34,000			34,000
31.03.11	To Landlord A/c (11000*2)	22000	31.03.11	By Royalty Receivable A/c (2000*2)	4,000
				By Profit & Loss A/c	18,000
		22,000			22,000
31.03.12	To Landlord A/c (17000*2)	34000	31.03.12	By Royalty Receivable A/c (12000*2)	24,000
				By Profit & Loss A/c	10,000
		34,000			34,000

Note :

1. Royalty to be paid to Landlord on total production including the production from sub-lessee.
2. Royalties receivable from sub lease to be adjusted against the payable amount to the extent of royalty payable to Landlord.

Dr. **Pathan's Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.08	To Royalties Receivable A/c	3,000	31.03.08	By Bank A/c	10,000
	To Shortworkings Susp. A/c	7,000			
		10,000			10,000
31.03.09	To Royalties Receivable A/c	6,000	31.03.09	By Bank A/c	10,000
	To Shortworkings Susp. A/c	4,000			
		10,000			10,000
31.03.10	To Royalties Receivable A/c	10,000	31.03.10	By Bank A/c	10,000
		10,000			10,000
31.03.11	To Royalties Receivable A/c	6,000	31.03.11	By Bank A/c	6,000
		6,000			6,000
31.03.12	To Royalties Receivable A/c	36,000	31.03.12	By Bank A/c	36,000
		36,000			36,000

Dr. **Landlord Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.08	To Bank A/c	15,000	31.03.08	By Royalties A/c By Shortworkings A/c	4,000 11,000
		15,000			15,000
31.03.09	To Bank A/c	15,000	31.03.09	By Royalties A/c By Shortworkings A/c	10,000 5,000
		15,000			15,000
31.03.10	To Bank A/c To Shortworkings A/c	18,000 16,000	31.03.10	By Royalties A/c	34,000
		34,000			34,000
31.03.11	To Bank A/c	22,000	31.03.11	By Royalties A/c	22,000
		22,000			22,000
31.03.12	To Bank A/c	34,000	31.03.12	By Royalties A/c	34,000
		34,000			34,000

Q. 9. (a) P Ltd. took a contract to construct a multistoried building for a consideration of ₹ 20,00,000 to be completed within 3 years for which total cost to be incurred is ₹ 16,50,000. The details are:

Particulars	*Year-I (₹)*	*Year-II (₹)*	*Year-III (₹)*
Total cost incurred	**3,50,000**	**8,00,000**	**16,50,000**
Estimated cost to be incurred for completion	**7,00,000**	**1,00,000**	**-**
Progress payment to be received	**2,50,000**	**9,00,000**	**12,00,000**
Progress payment received	**1,70,000**	**5,50,000**	**2,20,000**

Advise the company to prepare the accounts in completion AS– 7.

(b) On 01.01.2007 S Ltd. had 2,000, 12% Debentures of ₹ 100 each. On 01.05.2007 the company purchased 400 own Debentures at ₹ 97 cum-interest in the open market. Interest on debenture is payable on 30the June and 31st Dec. each year.

Required: **Give the necessary journal entires assuming (i) that the own Debentures purchased were cancelled immediately and (ii) the the own Debentures purchased were retained as investments till 31.12.2012 on which date they were cancelled.**

Answer 9. (a)

Estimated Profit to be calculated

Particulars	**Year- I**		**Year-II**		**Year-III**	
	₹	₹	₹	₹	₹	₹
Total Contract Price		20,00,000		20,00,000		20,00,000
Less: Cost of Contract						
Incurred	3,50,000		8,00,000		16,50,000	
Will be incurred	7,00,000	10,50,000	1,00,000	9,00,000	-	16,50,000
Estimated Profit		**9,50,000**		**11,00,000**		**3,50,000**

% of completion of Work:

Year - I	**Year-II**	**Year-III**
3,50,000x100/10,50,000	800,000x100/900,000	16,50,000x100/16,50,000
33 1/3%	89%	100%

Recognition of Revenue and Expenses to be calculated As:

Year	**Particulars**	**At the end of the year**	**Recognized in earlier years**	**Recognized in Current years**
		₹	₹	₹
I	Revenue (₹ 20,00,000 x33 1/3%)	6,66,667	-	6,66,667
	Less: Expenses (₹ 16,50,000 x 33 1/3%)	5,50,000	-	5,50,000
	Profit	1,16,667		1,16,667
II	Revenue (₹ 20,00,000 x 89%)	17,80,000	6,66,667	11,13,333
	Less: Expenses(16,50,000x89%)	14,68,500	5,50,000	9,18,500
	Profit	3,11,500	1,16,667	1,94,833
III	Revenue (₹ 20,00,000 x 100%)	20,00,000	17,80,000	2,20,000
	Less: Expenses(16,50,000x100%)	16,50,000	14,68,500	1,81,500
	Profit	3,50,000	3,11,500	38,500

Answer 9. (b)

(i) If own Debentures were cancelled immediately on date of purchase.

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2007					
May 01	12% Debentures A/c	Dr.		40,000	
	Debentures Interest A/c	Dr.		1,600	
	To Bank A/c				38,800
	To Capital Reserve A/c				2,800
	(Being 400 debentures cancelled by purchase				
	@ ₹ 97 cum-interest)				
June 30	Debentures Interest A/c	Dr.		9,600	
	To Bank A/c				9,600
	(Being the interest paid on ₹ 1,60,000 @ 12%				
	p.a. for 6 months)				
Dec. 31	Debenture Interest A/c	Dr.		9,600	
	To Bank A/c				9,600
	(Being the interest paid on ₹ 1,60,000 @ 12% p.a. for 6 months)				
Dec. 31	Profit & Loss A/c	Dr.		20,800	
	To Debenture Interest A/c				20,800
	(Being the transfer of debenture interest to P & L A/c)				
Dec. 31	Profit & Loss Appropriation A/c	Dr.		37,200	
	To Debenture Redemption Reserve A/c				37,200
	(Being the transfer of an amount equivalent to the cash sum applied (towards principal) in redeeming the debentures to DRR out of profits)				

(ii) If own debentures were cancelled on 31.12.2012.

Journal of X Ltd.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
May 01	Own Debentures A/c	Dr.		37,200	
	Debentures Interest A/c				1,600
	To Bank A/c				38,800
	(Being the purchase of 400 debentures @ ₹ 97 cum-interest)				
June 30	Debentures Interest A/c	Dr.		10,400	
	To Interest on Own Debentures A/c				800
	To Bank A/c				9,600
	(Being the Interest paid/credited on ₹ 1,60,000				
	debentures held by outsiders for 6 months & on				
	₹ 40,000 own debentures for 2 months)				
Dec. 31	Debenture Interest A/c	Dr.		12,000	
	To Bank A/c				9,600
	To Interest on Own Debentures A/c				2,400
	(Being the interest paid/credited on ₹ 1,60,000 debentures held by outsiders and ₹ 40,000 own debentures for 6 months)				
Dec. 31	Profit & Loss A/c	Dr.		24,000	
	To Debenture Interest A/c				24,000
	(Being the transfer of debenture interest to P & L A/c)				
Dec. 31	Interest on Own Debentures A/c	Dr.		3,200	
	To Profit & Loss A/c				3,200
	(Being the transfer of interest on own debentures to P & L A/c)				
Dec. 31	12% Debentures A/c	Dr.		40,000	
	To Own Debentures A/c				37,200

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	To Capital Reserve A/c				2,800
	(Being the cancellation of 200 own debentures)				
Dec. 31	Profit & Loss Appropriation A/c	Dr.		37,200	
	To Debenture Redemption Reserve A/c				37,200
	(Being the transfer of an amount equivalent to the cash sum applied in redeming the debentures)				

Q. 10. Mr. Gavaskar is the proprietor of a large business. The following Trial Balance was prepared from his books as on 30th June, 2012:

	₹		₹
Land & Buildings	80,000	12% Bank Loan (U.B.I.)	1,00,000
Cash at Bank	50,000	(No movement during the year)	
Motor Car	40,000	Capital Accounts	1,50,000
Furniture	20,000	Bills Payable	10,000
Sundry Debtors	1,20,000	Sundry Creditors	1,30,000
Cash in hand	10,000	Returns Outward	8,000
Stock (1.7.11)	1,10,000	Discount Received	2,000
Return Inward	10,000	Sales	9,00,000
Printing & Stationery	4,000		
Drawings	16,000		
Bills Receivable	10,000		
Travelling Expenses	12,000		
Discount Allowed	4,000		
Miscellaneous Expenses	38,000		
Postage	2,000		
Joint Venture Suspense A/c	2,000		

Investments (Market value			
₹ 28,000)	30,000		
Interest on Bank Loan	8,000		
Salaries (including advance			
For ₹ 4,000)	54,000		
Entertainment Expenses	4,000		
Purchases	6,50,000		
Carriage Inwards	8,000		
Advertisements	18,000		
	13,00,000		**13,00,000**

Additional Information:

(1) On 2nd January, 2012, Mr. Gavaskar entered into a Joint Venture with Mr. Shastri with an agreement to share the profits and losses equally. Shastri supplied goods totalling ₹ 60,000 which wrongly passed through the Purchase Day Book. The goods were sold for cash at profit of 25% on sales and stood credited to Sales Account. Shastri had earlier incurred an amount of ₹ 4,000 on account of Freight ad Insurance. Joint Venture Suspense Account represents expenses incurred by Gavaskar on Joint Venture.

(2) Bills Receivable for ₹ 8,000 endorsed on 21st March, 2012 in favour of creditors were subsequently dishonoured but no entry for the dishonoured has been passed.

(3) Three cheques of ₹ 3,000, ₹ 4,000 and ₹ 6,000 issued to parties on 29th June, 2012, were lying unpresented on 30th June, 2012.

(4) Sales included a sum of ₹ 60,000 received from sale of goods on behalf of Mr. Kapil, the cost of these goods to Mr. Kapil was ₹ 50,000. Mr. Gavaskar is entitled to a commission of 5% on sales, for which effect should be given and reimbursement of selling expenses of ₹ 2,000 were debited to Miscellaneous Expenses Account.

(5) 1/3rd of the advertisement expenses are to be carried forward.

(6) Of the Debtors a sum of ₹ 2,000 is to be written off as bad debt. Create provision for doubtful debts @ 2%.

(7) Depreciate fixed assets by 10% except Motor Car which is to be depreciated at 20%.

(8) Value of Stock at the end is ₹ 90,000.

(9) During the year some goods (Invoiced at ₹ 1,00,000) were sent to sundry customers on sales on approval. On 30th June, 2012 of these goods ₹ 20,000 remained with customers as

the period of approval did not expire as yet. Proper adjustment should be made in respect of the above. Mr. Gavaskar makes his invoices at cost plus 25%.

You are required to prepare Trading and Profit & Loss Account for the year ended 30th June, 2012 and a Balance Sheet as at 30th June, 2012.

Answer 10.

In the books of Mr. Gavaskar

Trading Account for the year ended 30th June, 2012

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To, Opening Stock		1,10,000	By, Sales	9,00,000	
To, Purchase A/c	6,50,000		Less : Return Inward	10,000	
Less : Return Outward	8,000			8,90,000	
	6,42,000		Less : Joint Venture sales	80,000	
Less : Supplies by				8,10,000	
Mr. Sastri	60,000	5,82,000	Less : Sales on		
To, Carriage Inward		8,000	Consignment	60,000	7,50,000
To, Profit & Loss A/c		1,56,000	By, Closing Stock	90,000	
- G. P. transferred			Add : Goods sold on		
			Approval	16,000	1,06,000
		8,56,000	[₹ 20,000 ×(100/125)]		8,56,000

Profit & Loss Account
for the year ended 30th June, 2012

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To, Printing & Stationery		4,000	By, Trading A/c		1,56,000
To, Travelling Expenses		12,000	- G. P. transferred		
To, Discount Allowed		4,000	By, Discount Received		2,000
To, Miscellaneous Exp.	38,000		By, Profit on Joint Venture		7,000
Less : Consignment			(W.N. 1)		
Expenses	2,000		By, Commission Received		3,000
To, Postage		36,000	(₹ 60,000 × 5%)		
To, Interest on Bank Loan		2,000			
To, Salaries	54,000	8,000			
Less : Advance Salary	4,000				
To, Entertainment Exp.		50,000			
To, Advertisement (W.N. 3)		4,000			
To, Bad Debts		18,000			
To, Provision for Doubtful		2,000			
Debts					
To, Depreciation:		2,520			
Land & Building	8,000				
Motor Car	8,000				
Furniture	2,000	1,68,000			1,68,000

Balance Sheet as at 30th June, 2012

Liabilities	₹	₹	Assets	₹	₹
Capital	1,50,000		Land & Building	80,000	
Less: Drawings	16,000		Less: Depreciation @ 10%		
	1,34,000			8,000	72,000
Add: Net Profit	7,480	1,41,480	Machinery	40,000	
12% Bank Loan (U.B.I.)		1,00,000	Less: Depreciation @ 20%	8,000	32,000
Creditors	1,30,000		Furniture	20,000	
Add: Bill endorsed			Less: Depreciation @ 10%	2,000	18,000
Dishonoured	8,000		Investment		30,000
	1,38,000		Stock		1,06,000
Less : Supplies by			Debtors	1,20,000	
Mr. Sastri	60,000	78,000	Add: Bill endorsed		
Consignment Creditors		55,000	dishonoured	8,000	
Amount due to Mr. Sastri				1,28,000	
(W.N. 2)		71,000	Less: Return In Ward not		
Bills Payable		10,000	recorded	2,000	
				1,26,000	
			Less: Provision for Bad		
			Debts	2,520	1,23,480
			Bills Receivable		10,000
			Cash at Bank		50,000
			Cash in hand		10,000
			Advance Salary		4,000
		4,55,480			4,55,480

Working Note

1.

In the books of Mr. Gavaskar Joint Venture Account

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
To, Mr. Sastri A/c		60,000	By, Cash A/c		80,000
To, Mr. Sastri A/c		4,000	(Sales Proceeds)		
- Freight & Insurance			[₹ 60,000 × (100/75)]		
To, Bank A/c		2,000			
- Expenses					
To, Profit on Venture :					
Mr. Sastri A/c	7,000				
Profit & Loss A/c	7,000	14,000			
		80,000			80,000

2.

Mr. Sastri Account

Dr. **Cr.**

Particulars	₹	₹	Particulars	₹	₹
			By, Joint Venture A/c		60,000
			By, Joint Venture A/c		4,000
To, Balance c/d		71,000	- Freight & Insurance		
			By, Joint Venture A/c		7,000
			- Share of Profit		
		71,000			71,000

3. After the date on which AS 26 became mandatory, the expenditure incurred on intangible items would have to be expensed off when they are incurred (as per Para 56 of AS 26). So, the Advertisement Expense is not carried forward to the next year and the full amount is shown in the Profit & Loss A/c.

Q. 11. From the following trial balance and the additional information, prepare a Balance Sheet of Lakshmi Bank Ltd. as at 31st March,2012:

Debit balance	**₹ (in Lakhs)**
Cash Credits	1,218.15
Cash in hand	240.23

Cash with Reserve Bank of India	67.82
Cash with other Banks	132.81
Money at call and short notice	315.18
Gold	82.84
Government securities	365.25
Current Accounts	42.00
Premises	133.55
Furniture	95.18
Term Loan	1,189.32
	3,882.33
Credit balance	**₹ (in Lakhs)**
Share Capital (29,70,000 equity shares of ₹ 10 each, fully paid up)	297.00
Statutory Reserve	346.50
Net Profit for the year (before appropriation)	225.00
Profit & Loss Account (Opening balance)	618.00
Fixed deposit Accounts	775.50
Savings Deposit Accounts	675.00
Current Accounts	780.18
Bills Payable	0.15
Borrowings from other Banks	165.00
	3,882.33

Additional Information **:**

(i) Bills for collection : ₹ 18,10,000

(ii) Acceptance and endorsements : ₹ 14,12,000

(iii) Claims against the bank not acknowledged as debts : ₹ 55,000

(iv) Depreciation charged on premises : ₹ 1,10,000 and Furniture : ₹ 78,000

Answer 11.

Lakshmi Bank Ltd.

Balance Sheet as on 31.3.2012

Details	**Schedule No.**	**Amount (₹ in Lakhs)**
Capital and Liabilities:		
Capital	1	297.00
Reserves and Surplus	2	1,189.50
Deposits	3	2,230.68
Borrowings	4	165.00
Other Liabilities and Provisions	5	0.15
Total		3,882.33
Assets :		
Cash and Balance with RBI	6	308.05
Balances with Banks and Money at Call and Short Notice	7	489.99
Investments	8	448.09
Advances	9	2,407.47
Fixed Assets	10	228.73
Total		3,882.33
Contingent Liabilities	12	14.67
Bills for Collection		18.10

Schedules

Schedule 1 - Capital

	₹ (in lakh)
Issued, Subscribed and Called – up Capital	297.00
(29,70,000 @₹ 10)	

Schedule 2 - Reserves and Surplus

	₹ (in lakh)	₹ (in lakh)
1. Statutory Reserve		346.50
Add: 20% of ₹ 2,25,00,000		45.00
(Assumed to be an unscheduled Bank)		391.50
2. Profit & Loss A/c Opening	6,18,000	
Add: Current Year		
₹ (2,25,00,000 – 45,00,000)	1,80,000	798.00
	1,198.50	1,189.50

Schedule 3 - Deposit

	₹ (in lakh)
1. Demand Deposits	780.18
2. Savings Bank Deposits	675.00
3. Term Deposit	775.50
	2,230.68

Schedule 4 - Borrowings

	₹ (in lakh)
Borrowings from other Banks	165.00

Schedule 5 - Outstandings and Provisions

	₹ (in lakh)
Bills Payable	0.15

Schedule 6 - Cash and Balances with RBI

	₹ (in lakh)
Cash in Hand	240.23
Balances with RBI	67.82
	308.05

Schedule 7 - Balances with Banks and Money at Call and Short Notice

	₹ (in lakh)
Cash with other Banks	132.81
Money at Call and short Notice	315.18
Current Accounts	42.00
	4,89.99

Schedule 8 - Investment

	₹ (in lakh)
Government securities	365.25
Gold	82.84
	4,48.09

Schedule 9 - Advances

	₹ (in lakh)
Cash Credit	1,218.15
Term Loans	1,189.32
	2,407.47

Schedule 10 - Fixed Assets

	₹ (in lakh)	₹ (in lakh)
Premises	1,34,65,000	
Less : Depreciation	(1,10,000)	133.55
Furniture	95,96,000	
Less : Depreciation	(78,000)	95.18
		228.73

Schedule 11 - Other Assets

Schedule 12 - Contingent Liabilities

	₹ (in lakh)	₹ (in lakh)
Acceptance and Endrosements	14.12	
Claims against the Bank not acknowledge as Debts	0.55	
		14.67

Q. 12. 'H' Electricity Company earned a profit of ₹ 60,00,000 (after tax) after paying ₹ 48,000 at 12% interest on debentures for the year ended 31.3.2012. The following further information is supplied to you:

	Amount (₹)
Share Capital	**2,50,00,000**
Reserve Fund Investment (invested in 8% Government Securities at par)	**60,00,000**
Contingencies Reserve Fund Investment (7%)	**25,00,000**
Loan from State Electricity Board	**50,00,000**
Development Reserve	**16,00,000**
Fixed Assets	**6,00,00,000**
Depreciation Reserve on Fixed Assets	**60,00,000**
Security Deposits of customers	**80,00,000**
Amount contributed by consumers towards cost of Fixed Assets	**4,50,000**
Intangible Assets	**17,50,000**
Tariffs and Dividends Control Reserve	**22,00,000**
Monthly average of Current Assets including amount due from customers ₹5,00,000	**36,00,000**

Show, how the profits of the company will be dealt with under the provisions of the Electricity Act, assuming the bank rate of the year was 8%. All working notes should form part of your answer.

Answer 12.

'H' Electricity Company

Statement of Distribution of Profit for the year ended 31.3.2012

Particulars	**Amount (₹)**	**Amount (₹)**
Fixed Assets as reduced by customers contribution (₹ 6,00,00,000 – ₹ 4,50,000)	5,95,50,000	
Intangible Assets	17,50,000	
Monthly average of Current Assets (Excluding amount due from customers i.e. ₹ 36,00,000 – ₹ 5,00,000)	31,00,000	
Contingencies Reserve Fund Investment	25,00,000	6,69,00,000
Deduct:		
Depreciation Reserve	60,00,000	
Loan from Electricity Board	50,00,000	
12% Debentures (₹ 48,000 x 100/12)	4,00,000	
Development Reserve	16,00,000	
Security Deposits of Customers	80,00,000	
Tariffs and Dividends Control Reserve	22,00,000	2,32,00,000
Capital Base		**4,37,00,000**

Reasonable Return

Particulars	**Amount (₹)**
10% (Bank Rate + 2%) on Capital Base	43,70,000
8% on Reserve Fund Investment	4,80,000
½% on Loan from Electricity Board	25,000
½% on Debentures	2,000
½% on Development Reserve	8,000
Reasonable Return	**48,85,000**

Surplus and its Disposal

Particulars	**Amount (₹)**
Clear Profit	60,00,000
Surplus (₹60,00,000 – ₹48,85,000)	11,15,000
Less: 20% of Reasonable Return (to be disposed off)	9,77,000
Amount refundable to consumers	**1,38,000**

Disposal of Surplus of ₹ 9,77,000

	Amount (₹)
1/3 of surplus over clear profit limited to 5% of reasonable return will be at the disposal of the company i.e. ₹ 3,25,667 > ₹ 2,44,250	2,44,250
Credit to Tariffs and Dividends Control Reserve (1/2 of remaining balance of 20% of Reasonable Return)	3,66,375
Credit to Consumers' Suspense Account	3,66,375
	9,77,000

Total amount at the disposal of the company

Particulars	**Amount (₹)**
Amount of reasonable return	48,85,000
Share in surplus	2,44,250
	51,29,250

Total amount refunded to consumers

Particulars	**Amount (₹)**
Surplus in excess of 20% of reasonable return	1,38,000
Share in surplus	3,66,375
	5,04,375

Q. 13. The following balances appeared in the books of Happy Mutual Life Assurance Society Ltd. as on 31st March 2012:

Dr. **(₹ in lakh) Cr.**

Particulars	₹	*Particulars*	₹
Claims less reassurance paid during		Life Assurance Fund at the beginning	1,00,000
The year		of the year	
By death	4,400	Premium less Reassurances	30,000
By maturity	3,000	Claims less reassurances	
Annuities	12	outstanding	
Furniture and Office Equipment at		At the beginning of the year:	
cost		By death	1,800
(including ₹80 lakh bought during	250	By maturity	1,200
the year)		Credit balances pending	120
Printing and Stationery	154	adjustments	
Cash with Bank in current account	2,700	Consideration for annuities granted	4
Cash and stamp in hand	60	Interest, dividends and rents	
Surrenders less Reassurances	80	Registration and other Fees	3,600
Commission	500	Sundry Deposits	4
Expenses of Management	6,200	Taxation Provision	200
Sundry Deposits with Electricity	2	Premium Deposits	600
Companies		Sundry Creditors	2,300
Advance Payment of Tax	100	Contingency Reserve	700
Sundry Debtors	100	Furniture and Office Equipment	300
Agents Balances	200	Depreciation Account	
Income Tax	900	Building Depreciation Account	80
Income Tax on Interest, Dividend	1,000		600
and Rents			
Loans on Policies	300		
Loans on Places	6,500		
Investments	1,04,000		
(₹500 lakh deposited with Reserve			
Bank of India)			
House Property at Cost			
(including ₹ 170 lakh added during	10,800		
the year)			
	1,41,508		1,41,508

From the foregoing balances and the following information, prepare the Balance Sheet of Happy Mutual Life Assurance Society Ltd. as on 31st March 2012 and its Revenue Account for the year ended on that date:

(i) Claims less reassurance outstanding at the end of the year: By death ₹ 1,200 lakh, By maturity ₹ 800 lakh.

(ii) Expenses outstanding ₹ 120 lakh and prepaid ₹ 30 lakh.

(iii) Provide ₹ 90 lakh for depreciation on buildings, ₹ 30 lakh for depreciation on furniture and office equipment and ₹ 220 lakh for taxation.

(iv) Premiums outstanding ₹4056 lakh, commission thereon ₹ 130 lakhs.

(v) Interests, dividends and rents outstanding (net) ₹ 60 lakh and interests and rents accrued (net) ₹ 700 lakh.

Answer 13.

Happy Mutual Life Assurance Society Ltd.

Form A-RA

Revenue Account for the Year Ended 31 st March 2012

Particulars	Schedule	Current Year (₹ in lakh)	Previous Year (₹ in lakh)
Premium earned-net	1	34,056	
Investment from Investments			
Interest, Dividends and Rent(Gross)		4,360	
Other Income:			
Annuities granted		4	
Registration and other Fees		4	
Total (A)		38,424	
Commission	2	630	
Operating Expenses	3	6,564	
Provision for Tax		1,520	
Total (B)		8,714	
Benefits paid (net)	4	6,492	
Total (c)		6,492	
Surplus (D)=A-B-C		23,218	

Form A-BS
Balance Sheet as on 31st March 2012

Particulars	Schedule	Current Year (₹ in lakh)	Previous Year (₹ in lakh)
Share Capital	5		
Reserves and Surplus	6	300	
Borrowings	7	2,500	
Life Assurance Fund		1,23,218	
Total		1,26,018	
Application of Funds	8	1,03,500	
Investment	9	6,800	
Fixed Assets	10	10,500	
Current Assets:			
Cash and Bank Balance	11	2,760	
Advances and Other Assets	12	5,748	
Sub-Total (A)		8,508	
Current Liabilities	13	3,070	
Provisions	14	220	
Sub-Total (B)		3,290	
Net Current Assets=Sub-Total (A)-Sub-Total (B)		1,26,018	

Note: Since the question is silent about the preparation of Profit & Loss Account, as such (From A-PL) is not prepared.
Thus Provision for Taxation and adjustments are shown in Revenue Account.
Schedules forming parts of Financial Statements

Workings:

Schedule 1: Premium Earned	₹
Premium Add: Outstanding	30,000 4,056
	34,056

Schedule 2: Commission	₹
Commission Paid Add: Commission on Re-Insurance Accepted	500 130
	630

Schedule 3: Operating Expenses	₹	₹
Expenses of management Add: Outstanding	6,200 120	
 Less: Prepaid	6,320 30	 6,290
Printing & Stationary Depreciation on: Building Furniture	 90 30	154 120
		6,564

Schedule 4: Benefit (Paid)	₹	₹
Claims: By Death- Paid Add: Outstanding at the ends	 4,400 1,200	
 Less: Out. at the beginning	5,600 1,800	 3,800
By Maturity- Paid Add: Outstanding at the end	 3,000 800	
 Less: Outstanding at beginning	3,800 1,200	 2,600
Annuities		12
Surrender, less Re-insurance		80
		6,492

Schedule 5: Share Capital	₹
Share Capital	Nil
	Nil

Schedule 6: Reserves & Surplus	₹
Contingency Reserve Add: Other Life Assurance Fund	300 1,23,218
	1,23,518
Schedule 7: Borrowings	₹
Premium Deposit Add: Sundry Deposits	2,300 200
	2,500

Schedule 8: Investments	₹	₹
Investment in House Property Additions	10,630 170	
 Less: Depreciation Other Investments	10,800 690	 10,110 1,03,500
		1,13,610

Schedule 9: Loans	₹
Mortgage Policies	300 6,500
	6,800

Schedule 10: Fixed Assets	₹
Furniture (420-30)	390
	390

Schedule 11: Cash and Book Balance	₹
Cash + Stamps Bank at Current A/c	60 2,700
	2,760

Schedule 12: Advance and Other Assets	₹	₹
Advances: Prepaid Expenses Adv. Payment of Tax	 30 100	 130
Other Assets: Int. Dividend & Rent Outstanding Int. Dividend Rent Accruing Outstanding Premium Agents' balance Sundry Debtors Deposit with RBI Deposit with Electricity Co.		60 700 4,056 200 100 500 2
		5,748

Schedule 13: Current Liabilities	₹
Creditors Outstanding Expenses Com. Due but not paid Claims outstanding Credit balance Pending adjustments	700 120 130 2,000 120
	3,070

Schedule 14: Provisions	₹
Provisions for Tax	220
	220

Schedule 15: Miscellaneous	₹
Misc. Expenses	Nil
	Nil

Q. 14. (a) Puskar Enterprise has its H.O. in Ranchi and a branch in Imphal. The following Trial Balance has been extracted from the books of accounts as at 31st March, 2013:

Particulars	**Head Office**		**Branch Office**	
	Dr. ₹	**Cr. ₹**	**Dr. ₹**	**Cr. ₹**
Capital	**---**	**16,50,000**	**---**	**---**
Debtors	**3,00,000**	**---**	**1,80,000**	**---**
Creditors	**---**	**1,50,000**	**---**	**---**
Purchases	**27,42,000**	**---**	**---**	**---**
Sales	**---**	**25,50,000**	**---**	**13,11,000**
Goods sent to Branch at I.P.	**---**	**11,40,000**	**11,25,000**	**---**
Fixed Assets (Net)	**10,50,000**	**---**	**2,00,000**	**---**
Stock (1.4.2012)	**24,000**	**---**	**60,000**	**---**
Stock Adjustment (Unrealised Profit)	**---**	**12,000**	**---**	**---**
H.O./Branch Current A/c	**5,25,000**	**---**	**---**	**3,60,000**
Administrative & Selling Expenses	**8,41,500**	**---**	**74,500**	**---**
Cash and Bank	**46,500**	**---**	**39,000**	**---**
Provision for Bad Debts	**---**	**27,000**	**---**	**7,500**
	55,29,000	**55,29,000**	**16,78,500**	**16,78,500**

Other relevant information:

(1) All goods are purchased by the H.O. Goods are sent to branch at cost plus 25%.
(2) Stock 31.3.2013 are valued at:
H.O. ₹ 36,000
Branch ₹ 45,000 (Invoice Price)
(3) Depreciation is to be provided on fixed assets at 10% on book value.
(4) Bad debts provision is to be maintained at 5% on debtors as at the end of the year.

(5) Cash-in-transit from branch to H.O. at 31st March 2013 was ₹1,50,000.
(6) Goods-in-transit from H.O. to branch at 31st March, 2013 at invoice price was ₹15,000.
Prepare in Columnar from, the branch and H.O. Trading and Profit and Loss Accounts for the year ended 31st March, 2013 and a combined Balance Sheet of Puskar Enterprises as on that date.

(b)On 1st May 2012 Superman Ltd. issued 5,000 Equity Shares of ₹ 100 each payable as follows:

	₹		₹	
On application	**20**	**On 1st Call**	**20**	**(Last date fixed for payment 31st July)**
On allotment	**30**	**On Final Call**	**30**	**(Last date fixed for payment 30th August)**

Applications were received on 15th May 2012 for 6,000 shares and allotment was made on 1st June 2012. Applicants for 2,500 shares were allotted in full, those for 3,000 shares were allotted 2,500 shares and applications for 500 shares were rejected.
Balance of amount due on allotment was received on 15th June.
The calls were duly made on 1st July, 2012 and 1st August 2012 respectively. One shareholder did not pay the 1st Call money on 150 shares which he paid with the final call together with interest at 5% p.a. Another shareholder holding 100 shares did not pay the final call money till end of the accounting year which ends on 31st October.
Required: Show the Cash Book and Journal Entries.

Answer 14. (a) **In the books of H.O.**

Columnar Trading and Profit and Loss Account

Dr. **Cr.**

Particulars	**H.O. ₹**	**Branch ₹**	**Particulars**	**H.O. ₹**	**Branch ₹**
To Opening Stock	24,000	60,000	By Sales	25,50,000	13,11,000
,, Purchases	27,42,000	---	,, Goods Sent to Branch	11,40,000	---
,, Goods from H.O.	---	11,25,000	,, Closing Stock	36,000	45,000
,, Gross Profit c/d	9,60,000	1,71,000			
	37,26,000	13,56,000		37,26,000	13,56,000
To Adm. & Selling Exp.	8,41,500	74,500	By Gross Profit b/d	9,60,000	1,71,000
,, Depreciation	1,05,000	20,000	,, Stock Adjustment	12,000	---
,, Stock Adjustment (20% of45,000+15,000)	12,000	---	,, Provision for Bad Debts (old)	27,000	7,500
,, Provision for Bad Debts (new)	15,000	9,000			
Net Profit	25,500	75,000			
	9,99,000	1,78,500		9,99,000	1,78,500

Balance Sheet (Combined) as at 31st March 2013

Liabilities		Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital		16,50,000		Fixed Assets	12,50,000	
Add: Net Profit		1,00,500	17,50,500	Less: Depreciation	1,25,000	11,25,000
(25,500 + 75,000)						
Current A/c – H.O.		5,25,000		Current Assets		
Less: Branch (Cr.)	3,60,000			Stock		
Cash-in-transit	1,50,000			H.O.	36,000	
Goods-in-transit	15,000	5,25,000	Nil	Branch	45,000	
					81,000	
				Less: Stock Adj.	12,000	69,000
Creditors			1,50,000			
				Goods-in-Transit		15,000
				Debtors		
				H.O.	3,00,000	
				Branch	1,80,000	
					4,80,000	
				Less; Prov. for Bad Debts	24,000	4,56,000
				Cash at Bank		
				H.O.	46,500	
				Branch	39,000	
				Cash-in-transit	1,50,000	2,35,500
			19,00,500			19,00,500

Answer 14. (b)

In the Books of Superman Ltd

Journals

			Dr.	Cr.
Date	Particulars	L.F.	(₹)	(₹)
1.6.12	Equity Share Application A/c Dr		1,20,000	
	To Equity Share Capital A/c			1,00,000
	To Share Allotment A/c			10,000
	To Share Allotment A/c			10,000
	(Being the transfer of application money @ ₹ 20 per share on 5,000 shares transferred to Share Capital A/c and @ ₹ 20 on 500 t/f to Share Allotment A/c and application money on 500 Share refunded			

			Dr.	Cr.
Date	Particulars	L.F.	(₹)	(₹)
1.6.12	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being the transfer of allotment money @ ₹ 30 per share transferred to Share Capital A/c)		1,50,000	1,50,000
1.7.12	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being the transfer of 1st call money @ ₹ 20 per share t/f to Share Capital A/c		1,00,000	1,00,000
1.8.12	Calls-in-Arrear A/c Dr. To Equity Share 1st call A/c (Being the transfer of 1st Call money on 150 equity shares @ ₹ 20 per share)		3,000	3,000
1.8.12	Equity Share Final Call A/c Dr. To Equity Share First Call A/c (Being the transfer of final call money @ ₹ 30 per share t/f to Share Capital A/c		1,50,000	1,50,000
1.9.12	Calls-in-Arrear A/c Dr. To Equity Share Final Call A/c (Being the transfer of final call money on 100 equity shares @ ₹ 30 per shares)		3,000	3,000
1.9.12	Sundry Shareholders A/c Dr. To Interest on Calls-in-Arrears A/c (Being the interest due on ₹ 3,000 @ 5% for two months)		25	25

Dr. **Cash Book (Bank Column)** Cr.

Date	Particulars	₹	Date	Particulars	₹
15.5.12	To Equity Share		1.9.12	By Equity Share	
	Application A/c	1,20,000		Application A/c (Refund	10,000

Date	Particulars	₹	Date	Particulars	₹
	(Application money			of application money @	
	@ ₹ 20 per share on			₹ 20 per share on	
	6,000 shares)			500 shares rejected)	
15.6.12	To Equity Share Allotment A/c (Balance of allotment money)	1,40,000	31.10.12	By Balance c/d	4,97,025.00
1.8.12	To Equity Share 1st Call A/c (1st Call money on 4,850 shares)	97,000			
1.9.12	To Equity Share Final A/c (Final call money on 4,900 Shares)	1,47,000			
1.9.12	To Calls-in-Arrear (Arrear of 1st Call money @ ₹ 20 per Share on 1,50 Shares)	3,000			
1.9.12	To Interest on Calls-in-Arrear A/c (Interest on ₹ 3,000 for two months @ 5% p.a.)	25.00			
		5,07,025.50			5,07,025.50

Statement of shares applied, allotted and amounts adjusted

Categories	A	B	C
(a) Applied (No. of shares)	2,500	3,000	500
(b) Allotted (No. of shares)	2,500	2,500	Nil
(c) Application money received [(a) x ₹ 20 per share]	50,000	60,000	10,000
(d) Application money required [(b) x ₹ 20 per share]	50,000	50,000	(Refunded)
(e) Excess Application money to be adjusted with allotment [(c)- (d)]	Nil	10,000	—
(f) Allotment money due [(b) x ₹ 30 per share]	75,000	75,000	—
(g) Amount received on allotment [(f) -(e)]	75,000	65,000	—

Q. 15. On 1st November, 2011 Squash Ltd. was incorporated with an authorized capital of ₹ 200 crores. It issued to its promoters equity capital of ₹ 10 crores which was paid for in full. On that day it purchased the running business of Jam Ltd. for ₹ 40 crores and allotted at par equity capital of ₹ 40 crores in discharge of the consideration. The net assets taken over from Jam Ltd. were valued as follows: Fixed Assets ₹ 30 crores, Inventory ₹ 2 crores, Customers' dues ₹ 14 crores and Creditors ₹ 6 crores. Squash Ltd. carried on business and the following information is furnished to you:

(a) Summary of cash/bank transactions (for year ended 31st October, 2012).

		(₹ in crores)
Equity capital raised:		
Promoters (as shown above)	**10**	
Others	**50**	**60**
Collections from customers		**800**
Sale proceeds of fixed assets (cost ₹ 18 crores)		**4**
		864
Payments to suppliers	**400**	
Payments to employees	**140**	
Payment for expenses	**100**	**640**
Investments in Upkar Ltd.		**20**

		(₹ in crores)
Payments to suppliers of fixed assets:		
Instalment due	120	
Interest	10	130
Tax payment		54
Dividend		10
Closing cash/bank balance		10
		864

(b)	On 31st October, 2012 Squash Ltd.'s assets and liabilities were:		(₹ in crores)
	Inventory at cost		3
	Customers' dues		80
	Prepaid expenses		2
	Advances to suppliers		8
	Amounts due to suppliers of goods		52
	Amounts due to suppliers of fixed assets		150
	Outstanding expenses		6

(c) Depreciation for the year under:

(i) Companies Act, 1956 ₹ 36 crores

(ii) Income tax Act, 1961 ₹ 40 crores

(d) Provide for tax at 38.5% of "total income". There are no disallowed expenses for the purpose of income taxation. Provision for tax is to be rounded off.

For Squash Ltd. prepare:

(i) Revenue statement for the year ended 31st October, 2012 and

(ii) Balance Sheet as on 31st October, 2012 from the above information.

Answer 15.

Name of the Company: Squash Ltd

Balance Sheet as at: 31st October, 2012 (₹ in '000)

Ref No.		Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
	1	EQUITY AND LIABILITIES			
		(a) Share capital	1	100	

Ref No.	Particulars		Note No.	As at 31st March, 2012	As at 31st March, 2011
		(b) Reserves and surplus	2	77.4	
		(c) Money received against share warrants			
	2	**Share application money pending allotment**			
	3	**Non-current liabilities**			
		(a) Long-term borrowings			
		(b) Deferred tax liabilities (Net)			
		(c) Other Long term liabilities			
		(d) Long-term provisions			
	4	**Current Liabilities**			
		(a) Short-term borrowings			
		(b) Trade payables	3	52	
		(c) Other current liabilities	4	156	
		(d) Short-term provisions	5	52	
		Total (1+2+3+4)		437.40	
	II	**ASSETS**			
	1	Non-current assets			
		(a) Fixed assets			
		(i) Tangible assets	6	260.4	
		(ii) Intangible assets			
		(iii) Capital work-in-progress			
		(iv) Intangible assets under development			
		(b) Non-current investments	7	20	
		(c) Deferred tax assets (Net)			
		(d) Long-term loans and advances	8	54	
		(e) Other non-current assets			

Ref No.	Particulars		Note No.	As at 31st March, 2012	As at 31st March, 2011
	2	**Current assets**			
		(a) Current investments			
		(b) inventories	9	3	
		(c) trade receivables	10	80	
		(d) Cash and cash equivalents	11	10	
		(e) Short-term loans and advances	12	10	
		(f) Other current assets			
		Total (1+2)		437.40	

Name of the Company : Squash Ltd

Profit and Loss Statement for the year ended: 31st October, 2012 (₹ in ……..)

Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
I	REVENUE FROM OPERATION	13	866	
	Less: Excise duty			
			866	
II	OTHER INCOME			
III	TOTAL REVENUE(I+II)		866	
IV	EXPENSES:			
	(a) Cost of material consumed	14	437	
	(b) Purchase of products for sale			
	(c) changes in inventories of finished goods, work-in-progress and products for sale			
	(d) Employees cost/ benefits expenses		140	
	(e) Finance cost		10	
	(f) Depreciation and amortization expenses		36	

Ref No.	Particulars	Note No.	As at 31st March, 2012	As at 31st March, 2011
	(g) Other expenses	15	104	
	TOTAL EXPENSES		727	
V	PROFIT BEFORE EXCEPTIONAL AND EXTRAORDINARY ITEMS AND TAX (III-IV)		139	
VI	EXCEPTIONAL ITEMS			
VII	PROFIT BEFORE EXTRAORDINARY ITEMS AND TAX (V-VI)		139	
VIII	EXTRAORDINARY ITEMS		0.4	
IX	PROFIT BEFORE TAX FRON CONTINUING OPERATIONS (VII-VIII)		139.40	
X	Tax expenses:			
	(1) Current Tax		52	
	(2) deferred tax			
XI	PROFIT AFTER TAX FOR THE YEAR FROM CONTINUING OPERATION(IX-X)		87.4	
XII	Profit (loss) from discontinuing operations			
XIII	Tax expenses from discontinuing operations			
XIV	Profit(loss) from discontinuing operations (after tax)(XII-XIII)			
XV	PROFIT (LOSS) FOR THE PERIOD (XI+XIV)		87.4	
	Balance brought forward from previous year			
	Profit available for appropriation		87.4	
	Appropriation:			
	Proposed dividend		10	
	Balance carried forward		77.40	
XVI	Earning per equity share:			
	(1) Basic			
	(2) Diluted			

(₹ In crores)

Note 1. Share Capital	**As at 31st March, 2012**	**As at 31st March, 2011**
Authorized Equity share capital of ₹ 10 each	200	
Issued, Subscribed and paid-up Share capital: 10 Crores Equity share of ₹ 10 each (of which 4 crores equity share have been issued for a consideration other than cash, on take-over of business of Jam Ltd.	100	
Total	100	

RECONCILIATION OF SHARE CAPITAL

FOR EQUITY SHARE	**As at 31st March, 2012**		**As at 31st March, 2011**	
	Nos.	**Amount (₹)**	**Nos.**	**Amount (₹)**
Opening Balance as on 01.04.11 (Figure in crores)	10	100		
Add: Fresh Issue (Including Bonus shares, right shares, split shares, share issued other than cash)				
	10	100		
Less: Buy Back of share				
Total	10	100		

Note 2. Reserve & Surplus	**As at 31st March, 2012**	**As at 31st March, 2011**
Profit and loss A/c	77.40	
Total	77.40	

Note 3. Trade Payables	**As at 31st March, 2012**	**As at 31st March, 2011**
Sundry Creditors	52	
Total	52	

Note 4. Other Current Liabilities	**As at 31st**	**As at 31st**

	March, 2012	March, 2011
Amount due to supplier of fixed assets	150	
Outstanding expenses	6	
Total	156	

Note 5. Short- term provisions	**As at 31st March, 2012**	**As at 31st March, 2011**
Provision for Taxation	52	
Total	52	

Note 6. Tangible Assets		**As at 31st March, 2012**	**As at 31st March, 2011**
Fixed Assets taken over from Jam Ltd	30		
Add: Purchase (120+150)	270	300	
Less: Sale proceeds	3.60		
Less: Depreciation	36	39.60	
Total		260.40	

Note 7. Non-current Investments	**As at 31st March, 2012**	**As at 31st March, 2011**
Investments in Upkar Ltd	20	
Total	20	

Note 8. Long term loans and advances	**As at 31st March, 2012**	**As at 31st March, 2011**
Advance Tax	54	
Total	54	

Note 9. Inventories	**As at 31st March, 2012**	**As at 31st March, 2011**
Inventories at cost	3	
Total	3	

Note 10. Trade receivables	**As at 31st March, 2012**	**As at 31st March, 2011**
Customer's Due	80	
Total	80	

Note 11.Cash and cash equivalents	**As at 31st March, 2012**	**As at 31st March, 2011**
Cash/bank balance	10	
Total	10	

Note 12. Short-term loans and advances	**As at 31st March, 2012**	**As at 31st March, 2011**
Advance to suppliers	8	
Prepaid expenses	2	
Total	10	

Note 13. Revenue from operation	**As at 31st March, 2012**	**As at 31st March, 2011**
Sales (net of Excise Duty)	866	
Total	866	

Note 14. Cost of materials Consumed	**As at 31st March, 2012**	**As at 31st March, 2011**
Prepaid Expenses	2	
Stock taken over	438	
Purchase	440	
Less: Closing Stock	3	
Total	437	

Note 15. Other Expenses	**As at 31st March, 2012**	**As at 31st March, 2011**
Payment for expenses	100	
Add: Outstanding expenses	6	
Less: Prepaid expenses	(2)	
Total	104	

Working Notes:

		(₹. in crores)
(1)	Net assets of Jam Ltd. taken over:	
	Fixed Assets	30
	Inventory	2
	Customers' dues	14
		46
	Less: Creditors	6
		40

Purchase consideration: 4 crores equity shares of ₹ 10 each.

(2) **Customers' Account**

Dr. **Cr.**

Particulars		₹	**Particulars**		₹
To	Business Purchase A/c	14	By	Bank A/c	800
To	Sales A/c (Balancing figure)	866	By	Balance c/d	80
		880			880

Suppliers' (Goods) Account

		₹			₹
To	Bank A/c (400 – 8)	392	By	Business Purchase A/c	6
To	Balance c/d	52	By	Purchases A/c	438
				(Balancing figure)	
		444			444

Q. 16. The following Trail Balance has been extracted from the books of Mr. Agarwal as on 31.3.2012:

Trial Balance as on 31.3.2012.

Particulars	*Dr.* (₹)	*Particulars*	*Cr.* (₹)
Purchase	6,80,000	Sales	8,38,200
Sundry Debtors	96,000	Capital Account	1,97,000
Drawings	36,000	Sundry Creditors	1,14,000
Bad Debts	2,000	Outstanding Salary	2,500
Furniture & Fixtures	8,100	Sale of Old Papers	1,500
Office Equipments	54,000	Bank Overdraft (UBI)	60,000
Salaries	24,000		
Advanced Salary	1,500		
Carriage Inward	6,500		
Miscellaneous Expenses	12,000		
Travelling Expenses	6,500		
Stationery & Printing	1,500		
Rent	18,000		
Electricity & Telephone	6,800		
Cash In Hand	5,900		
Cash at Bank (SBI)	53,000		
Stock (1.4.2011)	50,000		
Repairs	7,500		
Motor Car	56,000		
Depreciation:			
Furniture 9,000			
Office Equipment 6,000	15,000		
	12,13,200		12,13,200

Additional Information:

(i) Sales includes ₹ 60,000 towards goods for cash on account of a joint venture with Mr. Reddy who incurred ₹ 800 as forwarding expenses. The joint venture earned a profit of ₹ 15,000 to which
Mr. Reddy is entitled to 60%

(ii) To motor car account represents an old motor car which was replaced on 1.4.2011 by a new motor car costing ₹ 1,20,000 with an additional cash payment of ₹ 40,000 laying debited to Purchase Account.

(iii) UBI has allowed an overdraft limit against hypothecation of stocks keeping a margin of 20%. The present balance is the maximum as permitted by the Bank.

(iv) Sundry Debtors include ₹ 4,000 as due from Mr. Trivedi and Sundry Creditors include ₹ 7,000 as payable to him.

(v) On 31.3.2012 outstanding rent amounted to ₹ 6,000 and you are informed that 50% of the total rent is attributable towards Agarwal's resident.

(vi) Depreciation to be provided on motor car @ 20% (excluding sold item).
Mr. Agarwal requests you to prepare a Trading and Profit & Loss Account for the year ended 31.3.2012 and a Balance Sheet as on that date.

Answer 16. **In the books of Mr. Agarwal**

Trading and Profit and Loss Account

Dr. **for the year ended 31st March, 2012.** Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To, Opening Stock		50,000	By, Sales	8,38,200	
` Purchases	6,80,000		Less: Sale on account of Joint Venture	60,000	7,78,200
Less: Motor Car	40,000	6,40,000			
			` Closing Stock		75,000[3]
` Carriage Inward		6,500			
` Profit & Loss A/c. -Gross Profit transferred		1,56,700			
		8,53,200			8,53,200
To, Salaries		24,000	By, Trading A/c. -Gross Profit transferred		1,56,700
` Travelling Expenses		6,500	` Sale of old papers		1,500
` Printing & Stationery		1,500	` Profit on Joint Venture (40% of ₹ 15,000)		6,000
` Electricity & Telephone		6,800	` Profit on replacement of Motor Car [(1,20,000–(56,000+40,000)]		24,000[2]
` Rent	18,000				
Add: Outstanding	6,000				
	24,000				
Less: Drawings	12,000	12,000			
` Bad Debts		2,000			
` Miscellaneous Expenses		12,000			
` Repairs		7,500			
` Depreciation on:					
Furniture	9,000				
Office Equipment	6,000				
Motor Car	24,000[1]	39,000			
` Capital Account - Net Profit transferred		76,900			
		1,88,200			1,88,200

Balance Sheet
as at 31st March, 2013

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account	1,97,000		Furniture & Fixtures	90,000	
Add: Net Profit	76,900		Less: Depreciation	9,000	
	2,73,900				81,000
Less: Drawings (36,000+12,000)	48,000		Office Equipment	60,000	
		2,25,900	Less: Depreciation	6,000	
Bank Overdraft		60,000			54,000
Creditors	1,14,000		Motor Car	56,000	
Less: Due to Trivedi	4,000		Additions	1,20,000	
		1,10,000		1,76,000	
			Less: Sold	56,000	
				1,20,000	
			Less: Depreciation	24,000	
Amount payable to Reddy (60,000 - 6,000)		54,000			96,000
Outstanding Liabilities:			Stock		75,000
Salaries	2,500		Debtors	96,000	
Rent	6,000		Less: Due from Trivedi	4,000	
		8,500			92,000
			Cash		9,500
			Bank		53,000
			Prepaid Salary		1,500
		4,58,400			4,58,400

Workings

1. **Depreciation on Motor Car**

   on new motor car i.e., @ 20% on ₹ 1,20,000 = ₹ 24,000

2. **Profit on Replacement of Motor Car**

		₹
Cost of new Motor Car		1,20,000
Less: Exchange Value	56,000	
Cash Payment	40,000	96,000
Profit on replacement		**24,000**

3. **Closing Stock**

Maximum allowable limit of overdraft subject to a margin of 20% of stock.

Overdraft which is given ₹ 60,000 that is equal to 80%.

So, value of closing stock = ₹ 60,000 x (100/80) = ₹ 75,000.

Q. 17. (a) Ram Ltd. which depreciates its machinery at 10% p.a. on Diminishing Balance Method, had on 1st January, 2012 ₹ 9,72,000 on the debit side of Machinery Account.

During the year 2012 machinery purchased on 1st January, 2010 for ₹ 80,000 was sold for ₹ 45,000 on 1st July, 2012 and a new machinery at a cost of ₹ 1,50,000 was purchased and installed on the same date, installation charges being ₹ 8,000.

The company wanted to change the method of depreciation from Diminishing Balance Method to Straight Line Method with effect from 1st January, 2009. Difference of depreciation up to 31st December, 2012 to be adjusted. The rate of depreciation remains the same as before. Show Machinery Account.

(b) On 1.1.2007, Z Ltd acquired a freehold land & building for ₹ 10,00,000. It decided the following for the purpose of depreciation on such building:

(i) the building part, valued ₹ 8,00,000 depreciated on straight line method for 25 years having no scrap value.

(ii) the land part valued ₹ 2,00,000, no depreciation will be charged on it.

On 1.1.2012, it was decided that the value of land and building would be ₹ 20,00,000, divided into: Land ₹ 5,00,000 and building ₹ 15,00,000.

It has also been further estimated that the useful life of the Land and Building would be further 20 years.

Ascertain the amount of depreciation to be charged annually over the useful life of Land and Building, the WDV of the same to be shown in Balance Sheet of every year.

Calculate also the surplus on revaluation of land and building in (1) Before Revaluation, and (2) After the Revaluation.

Answer 17. (a)

Solution :

In the books of Ram Ltd.

Dr. **Machinery Account** ***Cr.***

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.01.12	To, Balance b/d	9,72,000	01.07.12	By, Depreciation A/c [W.N.3]	3,240
	(9,07,200+64,800)			By, Bank A/c - Sale	45,000
				By, Loss on sale of Machine A/c	
01.07.12	To, Bank A/c (1,50,000 + 8,000)	1,58,000		[W.N.4]	16,560
			31.12.12	By, Depreciation A/c:	
				- For the year 2012	1,12,000
				- For year	7,900
				By, Profit & Loss A/c : Adjustment	11,200
				By, Balance c/d : - M_1 (9,07,200 – 1,12,000 – 11,200)	7,84,000
				- M_2	Nil
				- M_3 (1,58,000 – 7,900)	1,50,100
		11,30,000			11,30,000

Working Notes :

(1) At 10% depreciation on Diminishing Balance Method : ₹

If balance of machinery in the beginning of the year is 10

Depreciation for the year is 1

Balance of Machinery at the end of the year 9

By using the formula, balance of asset on 1st January 2009 will be calculated as follows :
₹

Balance as on 1st January, 2012 9,72,000

Balance as on 1st January, 2011 is 9,72,000 x (10/9) = 10,80,000

Balance as on 1st January, 2010 is 10,80,000 x (10/9)= 12,00,000

This balance, ₹ 12,00,000 is composed of 2 machines, one of ₹ 11,20,000 and another of ₹ 80,000.

₹

Depreciation at 10% p.a. on Straight Line Method on ₹ 11,20,000 1,12,000

Total Depreciation for 2010 and 2011 (₹ 1,12,000 x 2)	2,24,000
Total Depreciation charged for 2010 and 2011 on Diminishing Balance Method (1,12,000 + 1,00,800)	2,12,800
Balance to be charged in 2012 to change from Diminishing Balance Method to Straight Line Method	11,200

(2) Machine purchased on 1st January, 2010 for ₹ 80,000 shows the balance of ₹ 64,800 on 1st January 2012 as follows :

	₹
Purchase price	80,000
Less : Depreciation for 2010	8,000
	72,000
Less : Depreciation for 2011	7,200
Balance as on Jan. 1, 2012	64,800

(3) On second machine (original purchase price ₹ 80,000), depreciation at 10% p.a. on ₹ 64,800 for 6 months, *viz.*, ₹ 3,240 has been charged to the machine on July 1 2012 *i.e.*, on date of sale.

(4) Loss on sale of (ii) machine has been computed as under :

	₹
Balance of the machine as on 1.1.2012	64,800
Less : Depreciation for 6 months up to date of sale	3,240
Balance on date of sale	61,560
Less : Sale proceeds	45,000
Loss on sale	16,560

Answer 17. (b)

(i) **Before the Revaluation**

Annual depreciation on Building = = ₹ 32,000

Naturally, for the 1st 5 years, annual depreciations to be made @ ₹ 32,000 each.

The W.D.V of Building for the year ended:

Particulars	₹
31.12.2007 (₹ 10,00,000 – ₹ 32,000)	9,68,000
31.12.2008 (₹ 9,68,000 – ₹ 32,000)	9,36,000
31.12.2009 (₹ 9,36,000 – ₹ 32,000)	9,04,000
31.12.2010 (₹ 9,04,000 – ₹ 32,000)	8,72,000
31.12.2011 (₹ 8,72,000 – ₹ 32,000)	8,40,000

(ii) **After the Revaluation**

Depreciation to be charged on building by the following new rate = ₹ 75,000 p.a.

From 1.1.2012, the WDV of the building to be reduced by ₹ 75,000. The building part will totally be depreciated after 20 years but the value of the land will be ₹ 5,00,000.

Profit on Revaluation

	₹
Value of Land and Building	20,00,000
Less: Net Book Value as on 31.12.2011	8,40,000
∴ Surplus	**11,60,000**

As per para 30, AS, 10, this surplus amounting to ₹ 11,60,000 should be transferred to Revaluation Reserve.

Q. 18. Brick, Sand and Cement were partners in a firm sharing profits and losses in the ratio of 3:2:1 respectively.

Following is their Balance Sheet as on 31st December, 2012.

Liabilities	₹	₹	**Assets**	₹
Capital Accounts :			Land & Buildings	50,000
Brick	30,000		Furniture	15,000
Sand	20,000		Stock	20,000
Cement	10,000		Bill Receivable	5,000
		60,000	Debtors	7,500
Reserve		29,800	Cash in hand and at Bank	2,500
Creditors				
Bills Payable		1,00,000		1,00,000

Lime is to be admitted as a partner with effect from 1st January, 2013 on the following terms

(a) Lime will bring in ₹ 15,000 as Capital and ₹ 12,000 as premium for goodwill. Half of the premium will be withdrawn by the partners.

(b) Lime will be entitled to : 1/6th share in the profits of the firm.

(c) The assets will be revalued as follows Land and Building—₹ 56,000; Furniture —₹ 12.000; Stock— ₹ 16,000; Debtors — ₹ 7,000

(d) The claim of a creditor for ₹ 2,300 is paid at ₹ 2,000.

(e) Half of the Reserve is to be withdrawn by the partners.

Record the Journal entries (including cash transactions) in the books of the firm and show the opening Balance Sheet of the new firm.

Answer 18.

Books of Brick, Sand, Cement and Lime

Journal Entries

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
01.01.13	Bank A/c Dr. To Lime's Capital A/c [Being amount contributed by lime on admission as a new partner]		15,000	 15,000
"	Bank A/c Dr. To Brick's Capital A/c [3/6] To Sand's Capital A/c [2/6] To Cement's Capital A/c [1/6] [Being premium for goodwill brought in by new partner and credited to old partners Capitals in their sacrifice ratio 3:2:1]		12,000	 6,000 4,000 2,000
"	Land and Buildings A/c Dr. To Revaluation A/c [Being value of Land & Buildings appreciated on revaluation]		6,000	 6,000
"	Revaluation A/c Dr. To Furniture A/c To Stock A/c To Provision for Bad Debts A/c [Being values of assets decreased on revaluation]		7,500	 3,000 4,000 500
"	Creditors A/c Dr. To Bank A/c To Revaluation A/c [Being creditors claim discharged at a discount]		2,300	 2,000 300

"	Brick's Capital A/c Dr. Sand's Capital A/c Dr. Cement's Capital A/c Dr. To Revaluation A/c [Loss on revaluation debited to' old partners in old		600 400 200	1,200
"	Reserve A/c Dr. To Brick's Capital A/c To Sand's Capital A/c To Cement's Capital A/c [Reserve A/c closed and credited to old partners in		29,800	14,900 9,933 4,967
"	Brick's Capital A/c Dr. Sand's Capital A/c Dr. Cement's Capital A/c Dr. To Bank A/c [Half of the Reserve withdrawn by old partners]		7,450 4,967 2,483	14,900
"	Brick's Capital A/c Dr. Sand's Capital A/c Dr. Cement's Capital A/c Dr. To Bank A/c [Half of the premium money withdrawn by old		3,000 2,000 1,000	6,000

Balance Sheet as on 1.1.2013

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Accounts : [Note3]			Land & Buildings		56,000
Brick	39,850				
Sand	26,566		Furniture		12,000
Cement	13,284		Stock		16,000
Lime	15,000		Debtors	7,500	
		94,700	*Less* : Provision for Bad		
Creditors [6,200 – 2,300]		3,900	Debts	500	7,000
Bills Payable		4,000	Bill Receivable		
		1,02,600	Cash in hand and at		1,02,600

Working Notes :

1. It is assumed that after giving 1/6th share of profits to Lime, the balance will be shared by old partners in old ratio 3 : 2 : 1. So, Sacrifice Ratio = Old Ratio = 3 : 2 : 1.

2. Cash and Bank	₹
As per last Balance Sheet	2,500
Add: Lime's Capital Contribution and Premium (net)	27,000
	29,500
Less: Paid to creditors	2,000
Less: Portion of Reserve withdrawn	14,900
Less: Share of premium withdrawn	6,000

3. Capital	**Brick**	**Sand**	**Cement**	**Lime**
Balances	30,000	20,000	10,000	—
Add: Capital brought in	—	—	—	15,000
Add: Share of Premium for Goodwill	6,000	4,000	2,000	—
Add: Share of Reserves	14,900	9,933	4,967	—
Less: Share of Reserves withdrawn	7,450	4,967	2,483	—
Less: Share of Premium for goodwill withdrawn	3,000	2,000	1,000	—
Less: Loss on Revaluation	39,850	26,566	13,284	15,000

Q. 19. The following was the balance sheet of Diamond Ltd. as at 31st March, 2012.

Liabilities	**₹ in lakhs**
10% Redeemable Preference Shares of ₹ 10 each, fully paid up	**2,500**
Equity Shares of ₹ 10 each fully paid up	**8,000**
Capital Redemption Reserve	**1,000**
Securities Premium	**800**
General Reserve	**6,000**
Profit and Loss Account	**300**
9% Debentures	**5,000**
Sundry creditors	**2,300**

Sundry Provisions	**1,000**
	26,900

Assets	**₹ in lakhs**
Fixed assets	**14,000**
Investments	**3,000**
Cash at Bank	**1,650**
Other Current assets	**8,250**
	26,900

On 1st April, 2012 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹ 20 per share. In order to make cash available, the company sold all the investments for ₹ 3, 150 lakh and raised a bank loan amounting to ₹ 2,000 lakhs on the security of the company's plant.

Pass journal entries for all the above mentioned transactions including cash transactions and prepare the company's balance sheet immediately thereafter. The amount of securities premium has been utilized to the maximum extent allowed by law.

Answer 19.

Journal Entries

	Particulars		**Debit**	**Credit**
			₹	₹
1.	Bank A/c	Dr.	3,150	3,000
	To Investment A/c			
	To Profit and Loss A/c			150
	(Being sale of investments and profit thereon)			
2.	Bank A/c	Dr.	2,000	
	To Bank Loan A/c			2,000
	(Being loan taken from bank)			

	Particulars		Debit	Credit
			₹	₹
3.	10% Redeemable preference Share capital A/c	Dr.	2,500	
	Premium on redemption of preference shareholder A/c	Dr.	200	
	To Preference shareholder A/c (Being redemption of preference shares)			2,750
4	Preference shareholders A/c	Dr.	2,750	
	To Bank A/c (Being payment of amount due to preference shareholders)			2,750
5.	Securities premium A/c	Dr.	250	
	To Premium on redemption of preference share A/c (Being use of securities premium to provide premium on redemption of preference shares)			250
6.	Equity Share capital A/c	Dr.	2,000	
	Securities premium A/c [800 - 250]	Dr.	550	
	General reserves A/c	Dr.	1,450	
	[(200×20) - 2000 - 550]			
	To Equity shareholders A/c			4,000
	(being buy back of equity shares)			
	Note : Balance of General Reserve			
	[6000 - 1450] = ₹ 4550.			
7.	General Reserves A/ c	Dr.	4,500	

	Particulars		Debit	Credit
			₹	₹
	To Capital redemption reserve A/c (2000 + 2500)			4,500
	(Being creation of capital redemption reserve to the extent of the face value of preference share redeemed and equity shares bought back).			
	Note: Balance in General reserve as on 01.04.2012			
	(4550 - 4500) = ₹ 50.			
8.	Equity shareholders A/c	Dr.	4,000	
	To Bank A/c			4,000
	(Being payment of amount due to equity shareholders).			
	Note : Cash at Bank			
	[1650+3150+2000-2750-4000] = ₹ 50			

Balance Sheet of Diamond Ltd., as on 01.04.2012

Balance Sheet as at: 01.04.2012 **(₹ in lakhs)**

Ref No.	Particulars	Note No.	Current Year Reporting Period	Previous Year Reporting Period
			₹	₹
1	**EQUITY AND LIABILITIES**			
	(a) Share capital	1	6,000	
	(b) Reserves and surplus	2	6,000	

	(c) Money received against share warrants			
2	**Share application money pending allotment**			
3	**Non-current liabilities**			
	(a) Long-term borrowings	3	7,000	
	(b)Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			
	(d) Long-term provisions			
4	**Current Liabilities**			
	(a) Short-term borrowings			
	(b) Trade payables		2,300	
	(c)Other current liabilities			
	(d) Short-term provisions	4	1,000	
	Total(1+2+3+4)		22,300	
1	**ASSETS**			
	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	5	14,000	
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investments (Market value of Investment)			

	(c)Deferred tax assets (Net)			
	(d) Long-term loans and advances			
	(e) Other non-current assets			
2	**Current assets**			
	(a)Current investments			
	(b) inventories			
	(c) trade receivables			
	(d) Cash and cash equivalents		50	
	(e)Short-term loans and advances			
	(f) Other current assets		8,250	
	Total(1+2)		22,300	

Notes to the Accounts

(₹ in crores)

Note 1. Share Capital	**Current Year Reporting Period (₹)**	**Previous Year Reporting Period(₹)**
Issued Capital , Subscribed and Paid Up capital		
Equity Shares of ₹ 10 each	6,000	
Total	6,000	

Note 2. Reserve and Surplus	**Current Year Reporting Period**	**Previous Year Reporting Period**
Capital Redemption Reserve (1,000+4,500)	5,500	
General Reserve	50	
Profit and Loss(300+150)	450	
Total	6,000	

Note 3. Long Term borrowings	**Current Year Reporting Period**	**Previous Year Reporting Period**
9% Debenture	5,000	
Bank Loan	2,000	
Total	7,000	

Note 4. Short Term Provisions	**Current Year Reporting Period**	**Previous Year Reporting Period**
As per Balance Sheet	1,000	
Total	1,000	

Note 4. Tangible Assets	**Current Year Reporting Period**	**Previous Year Reporting Period**
As per Balance Sheet	14,000	
Total	14,000	

Q. 20. Partners M, N and P have called upon you to assist them in winding up the affairs of their partnership on 30th June, 2012. Their Balance Sheet as on that date is given below :

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Sundry Creditors	**17,000**	**Cash at Bank**	**6,500**
Capital		**Sundry Debtors**	**22,000**
Accounts : M	**67,000**	**Stock in trade**	**13,500**
N	**45,000**	**Plant and Equipment**	**99,000**
P	**31,500**	**Loan : M**	**12,000**
		Loan : N	**7,500**
	1,60,500		**1,60,500**

(a) The partners share profits and losses in the ratio of 5 : 3 : 2.

(b) Cash is distributed to the partners at the end of each month.

(c) A summary of liquidation transaction are as follows :

July :

₹ 16,500 — collected from Debtors; balance is irrecoverable.

₹ 10,000 — received from sale of entire stock.

₹ 1,000 — liquidation expenses paid.

₹ 8,000 — cash retained in the business at the end of the month.

August :

₹ 1,500 — liquidation expenses paid; as part of the payment of his capital, P accepted an equipment for ₹ 10,000 (book value ₹ 4,000).

₹ 2,500 — cash retained in the business at the end of the month.

September :

₹ 75,000 — received on sale of remaining plant and equipment.

₹ 1,000 — liquidation expenses paid. No cash is retained in the business.

Required : Prepare a Schedule of cash payments as on 30th September, showing how the cash was distributed.

Answer 20.

Statement showing the Distribution of Cash (According to Proportionate Capital Method)

Particulars	Creditors ₹	Capital M ₹	Capital N ₹	Capital P ₹
A. Balance Due	17,000	55,000	37,500	31,500
B. Amount distributed as on 31st July	17,000	—	—	6,500
C. Balance Due (A – B)	—	55,000	37,500	25,000
D. Cash paid to 'N' and Equipment given to P on 31st August.		—	4,000	10,000
E. Balance due (C – D)		55,000	33,500	15,000
F. Amount paid to partners on 30th September		41,500	25,400	9,600
G. Loss on Realisation (Unpaid Balance) [E – F]		13,500	8,100	5,400

Working Notes :

(i) Statement showing the Calculation of Highest Relative Capital

Particulars	M	N	P
A Balance of Capital Accounts	67,000	45,000	31,500
B Less : Loan	12,000	7,500	—
C Actual Capital (A – B)	55,000	37,500	31,500
D Profit sharing ratio	5	3	2
E Actual Capital ÷ Profit sharing ratio	11,000	12,500	15,750
F Proportionate Capitals taking M's Capital as Base Capital	55,000	33,000	22,000
G Excess of Actual Capitals over Proportionate Capitals (C - F)		4,500	9,500
H Profit Sharing Ratio	—	3	2
I Surplus Capital ÷ Profit Sharing Ratio	—	1,500	4,750
J Revised Proportionate Capital taking N's Capital as Base Capital	—	4,500	3,000
K Excess of Surplus Capital over Revised Proportionate Capitals (G - J)	—	—	6,500

Scheme of distribution of available cash : First instalment up to ₹ 6,500 will be paid to P. Next instalment up to ₹ 7,500 will be distribution between N and P in the ratio of 3 : 2. Balance realisation will be distributed among M, N and P in the ratio of 5 : 3 : 2.

(ii) Statement showing the Calculation of Cash Available for Distribution

Particulars	July ₹	August ₹	September ₹
A Opening Balance	6,500	8,000	2,500
B Add : Net amount realised (Gross amount — Expenses)	25,000	(1,500)	74,000
C Less : Closing Balance	8,000	2,500	—
D Amount available for distribution (A + B – C)	23,500	4,000	76,500

(iii) Statement showing the Manner of Distribution of amount available in August and September

Particulars	July ₹	August ₹	September ₹
First ₹ 7,500	—	4,500	3,000
Balance ₹ 83,000	41,500	24,900	16,600
(Cash and Equipment)	41,500	29,400	19,600
Less : Actual Distribution in August	—	4,000	10,000
Manner of Distribution in September	41,500	25,400	9,600

Q. 21. Anumod Ltd. is a retail store having 2 Departments P and Q. The Company maintains a Memorandum Stock Account & Memorandum Mark Up Account for each of the Departments. Supplies issued to the Departments are debited to the Memorandum Stock Account of the Department at Cost plus Mark Up, and Departmental Sales are credited to this Account. The Mark Up on supplies issued to the Departments is credited to the Mark Up Account for the Department. When it is necessary to reduce the Selling Price below the Normal Selling Price, i.e. Cost plus Mark Up, the reduction (Mark Down) is entered in the Memorandum Stock Account & Mark Up Account. Department P has a mark up of 33-1/3% on Cost, and Department Q has a mark-up of 50% on cost.

The following information has been extracted from the records of the Company for a year ended 31st December, 2012.

Particulars	P (₹)	Q (₹)
Opening Stock (at Cost)	24,000	36,000
Purchases	162,000	190,000
Sales	210,000	285,000

1. **Opening Stock of Department P includes goods on which the Selling Price has been marked down by ₹ 510. These goods were sold in January at the reduced Selling Price.**
2. **Certain goods purchased during the year for ₹ 2,700 for Department P, were transferred during the year to Department Q & sold for ₹ 4,500. Purchases & Sales are recorded in the Purchases of Department P & the Sales of Department Q respectively, but no entries have been made in respect of the transfer.**
3. **Goods purchased during the year were marked down as follows :**

Particulars	P (₹)	Q (₹)
Cost	8,000	21,000
Mark down	800	4,100

At the end of the year there were some items in the stock of Department Q, which had been marked down to ₹ 2,300. With this exception, all goods marked down during the year were sold during the year at reduced prices.

4. **During stock-taking at the end of the year, goods which had cost ₹ 240 were found to be missing in Department P. It was determined that loss should be regarded as irrecoverable.**
5. **The Closing Stock in both Departments are to be valued at Cost for the purpose of the annual accounts.**

Prepare for the year ended 31st December the following accounts - (a) Trading Account; (b) Memorandum Stock Account and (c) Memorandum Mark Up Account.

Answer 21.

Dr. **1. Memorandum Stock Account** ***Cr.***

Particulars	**P (₹)**	**Q (₹)**	**Particulars**	**P (₹)**	**Q (₹)**
To Balance b/d (given cost + 33-1/3% & 50% mark up)	32,000	54,000	By Balance b/d (mark down - given)	510	
To Purchases (given)	162,000	190,000	By Sales (given)	210,000	285,000
To Memorandum Mark Up (33-1/3% & 50% on pur.)	54,000	95,000	By Internal Transfer -per contra	2,700	—
To Internal Transfer - per contra	—	2,700	By Memorandum Mark Up (Mark up on Transfer)	900	—
To Memorandum Mark Up (50% on Internal Tfr)	—	1,350	By Memorandum Mark Up (Mark Down - given)	800	4,100
To Memorandum Mark Up (on Marked Down Goods still in stock - See **Note 1)**	—	344	By Abnormal Loss-Cost transferred to P & L A/c	240	—
			By Memorandum Mark Up (Mark up on Stock Lost)		
			By Balance c/d (Closing Stock - balancing figure)		
	248,000	**343,394**		**248,000**	**343,394**

Note 1 : Mark Down in Unsold Stock of Department Q

$$\frac{\text{Total Mark down} \times \text{Value of Stock}}{\text{Value of Mark down goods}} = \frac{4{,}100 \times 2{,}300}{27{,}400\,*} = ₹\ \mathbf{344}$$

* Value of Mark Down Goods =

Cost	=	₹ 21,000
Add: Normal Mark Up 50%		₹ 10,500
Less: Amount Marked Down	=	₹ 4,100 (given)
	=	**₹ 27,400**

Note 2 : Valuation of Closing Stack at cost :

Department	P (₹)	Q (₹)
Closing Stock at Invoice Price as per Memorandum Stock A/c	32,770	54,294
Closing Stock at Cost after reducing 1/3 and 1/2 on cost = 1/4 and 1/3 on the Invoice Price respectively	32,770 – 1/4 thereon = 24,578	54,294 - 1/3 thereon = **36,196**

Dr. **2. Trading Account for the year ended 31st December, 2012** **Cr.**

Particulars	P (₹)	Q (₹)	Particulars	P (₹)	Q (₹)
To Opening Stock	24,000	36,000	By Sales	210,000	285,000
To Purchases	162,000	190,000	By Internal Transfer	2,700	—
To Internal Transfer	—	2,700	By Abnormal Loss	240	—
To Gross Profit	51,518	92,496	By Closing Stock (Note 2)	24,578	36,196
	237,518	**321,196**		**237,518**	**321,196**

Dr. **3. Memorandum Mark Up Account** **Cr.**

Particulars	P (₹)	Q (₹)	Particulars	P (₹)	Q (₹)
To Balance b/d (Mark Down-given - per contra)	510	—	By Balance b/d (33-1/3% and 50% on cost given)	8,000	18,000
To Memorandum Stock A/c (Mark up on Transfer)	900		By Memorandum Stock (Mark Up on Purchase)	54,000	95,000
To Memorandum Stock A/c (Mark Down - given)	800	4,100	By Memorandum Stock (Mark Up on Int. transfer)	1,350	
To Memorandum Stock A/c (Mark up on Goods Lost) still in stock)	80	—	By Memorandum Stock A/c (marked down goods	344	
To Gross Profit (as above)					
To Balance c/d (bal. fig.)	**63,694**	**1,13,000**		**63,694**	**1,13,000**

4. Confirmation / Verification of Gross Profit

Department	P (₹)	Q (₹)
Sales (given)	210,000	285,000
Add back : Reduction/Mark down	(510+800) = 1,310	(4,100-344) = 3,756
Total	211,310	288,756
Normal Gross Profit at 1/4 and 1/3 of above	(1/4) = 52,828	(1/3) = 96,252
Gross Profit (as per Memo Mark Up A/c)	**51,518**	**92,496**

Q. 22. A, B and C are in partnership sharing profit and losses equally and agreed to dissolve the firm on 30.06.2012. On that date their Balance Sheet stood on follows:

Balance Sheet
as at 30th June, 2012

Liabilities		Amount ₹	Asset	Amount ₹
Capital A/c			Sundry Asset	50,000
A	34,000		Profit & Loss A/c	12,000
B	24,000	58,000	Capital A/c	
Creditors		12,000	C	8,000
		70,000		70,000

The assets are realised at 50% of the book value. Realization expenses amounted to ₹ 5,000. C became insolvent and received ₹ 2,000 from his estates.Close the book of the firm under (i) Fixed Capital Method and (ii) Fluctuating Capital Method applying Garner Vs. Murray principles.

Answer 22. **In the books of A, B & C**

Dr. **Realization Account** **Cr.**

Particulars	Amount ₹	Particulars		Amount ₹
To Sundry Asset A/c	50,000	By Bank A/c		
` Bank A/c		Amount Realised		25,000
Expense	5,000	` Capital A/c		
		Loss on Realization		
		A	10,000	
		B	10,000	
		C	10,000	30,000
	55,000			55,000

Working:

(a) Under Fixed Capital Method

Deficiency of the insolvent partner Mr. C must be borne by the solvent partner A and B as per their last agreed capital given in the Balance Sheet i.e., 17:12.

(b) Under Fluctuating Capital Method

Deficiency of the insolvent partner Mr. C must be borne by the solvent partners A & C as the following adjusted capital which will be considered as the last agreed capital i.e., after adjusting the debit balance of Profit and Loss Account.

Particulars	A ₹	B ₹
Capital as per Balance Sheet	34,000	24,000
Less: Debit balance of P&L A/c (equally)	(-) 4,000	(-) 4,000
	30,000	20,000

∴ Ratio = 3:2

(a) Capital Account under Fixed Capital Method

Dr. **Capital Account** **Cr.**

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Balance b/d	---	---	8,000	By Balance b/d	34,000	24,000	---
` Realisation A/c				` Bank A/c	---	---	2,000
Loss	10,000	10,000	10,000	` Bank A/c	10,000	10,000	---
` Profit & Loss A/c				` A's Capital	---	---	11,724
Loss	4,000	4,000	4,000	` B's Capital	---	---	8,276
` Z's Capital A/c	11,724	8,276	---				
` Bank A/c (bal. fig.)	18,276	11,724	---				
	44,000	34,000	22,000		44,000	34,000	22,000

Dr. **Bank Account** **Cr.**

Particulars			₹	Particulars	₹
To Balance b/d			25,000	By Realisation A/c	
` Capital A/c				Expenses	5,000
	A	10,000		` Creditors	12,000
	B	10,000		` Capital A/c	
	C	2,000		A	18,276
			22,000	B	11,724
			47,000		47,000

(b) Under Fluctuating Capital Method

Dr. **Capital Account** **Cr.**

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Balance b/d	---	---	8,000	By Balance b/d	34,000	24,000	---
` Realisation A/c				` Bank A/c	10,000	10,000	---
Loss	10,000	10,000	10,000	` Bank A/c	---	---	2,000
` Profit & Loss A/c				` A's Capital	---	---	12,000
Loss	4,000	4,000	4,000	` B's Capital	---	---	8,000
` C's Capital A/c	12,000	8,000	---				
` Bank A/c	18,000	12,000	---				
(bal. fig.)							
	44,000	34,000	22,000		44,000	34,000	22,000

Dr. **Bank Account** **Cr.**

Particulars	₹	Particulars	₹
To Realisation A/c	25,000	By Realisation A/c	
Assets realized		Expenses	5,000
` Capital A/c		` Creditors	12,000
A	10,000	` Capital A/c	
	10,000		

B C	2,000	A B	18,000 12,000
	47,000		47,000

Q. 23. (a) The financial statements of Ankita Ltd. for the year ended 31.3.2012 were considered and approved by the Board of Directors on 20.5.2012.

"The company was engaged in construction work involving ₹ 10 crores. In the course of execution of work a portion of factory shed under construction came crashing down on 30.5.2012. Fortunately there was no loss of life, but the company will have to rebuild the construction at an additional cost of ₹ 2 crores which cannot be recovered from the contractee."

How should this event be reported?

(b) M Ltd. has obtained an institutional loan of ₹ 680 lakhs for modernisation and renovation of its Plant and Machinery. Plant and Machinery acquired under the Modernisation Scheme and installation completed on 31.3.2012 amounted to ₹ 520 lakhs. ₹ 30 lakhs has been advanced to suppliers for additional assets and the balance loan of ₹ 130 lakhs has been utilised for Working Capital purpose. The total interest paid for the above loan amounted to ₹ 68 lakhs during 2011-2012.

You are required to state how the interest on the institutional loan is to be accounted for in the year 2011-2012.

(c) Compute EPS:

i) Net profit for 2010 ₹ 11,00,000
Net profit for 2011 ₹ 15,00,000

ii) Nos. of shares outstanding prior to Right Issue: 5,00,000 shares as on 1-01-2011

iii) Right Issue: one new share for 5 outstanding i.e. 1,00,000 new shares

iv) Right price: ₹ 15

v) Last date of right option: 1st March 2011

vi) Fair value prior to the right option on 1st march 2011 : ₹ 21 per equity share

Answer 23. (a)

As per AS 4 "Events Occurring After the Balance Sheet Date" are those significant events, both favourable and unfavourable, that occur between the Balance Sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in case of any other entity.

However, in the present case, financial statements were prepared for the year ended 31.3.2012, the final statements were approved by the Board of Directors on 20.5.2012, and a portion of construction crashed down on 30.5.2012, The present unfavourable event is not an event which comes under "Events Occurring After the Balance Sheet Date." As such, no adjustment is required against assets and liabilities and, at the same time, it does not require to disclose the matters in the financial statement.

But as it is, no doubt, a material change which affects the financial position and which happened as a result of the event occurred after the Balance Sheet date, the same should be mentioned in the Directors' Report of the company.

Answer 23. (b)

Interest on borrowed Capital which are used for the purpose of acquisition/construction of fixed asset during the period up to the completion stage or acquisition should be added to the gross book value of the concerned fixed assets. As such, the institution loan amounting to ₹ 520 lakhs together with interest of ₹ 52 lakhs (shown below) should be added to the gross book value of the fixed asset.

But, advance to supplier for additional assets amounting to ₹ 30 lakhs together with interest of ₹ 3 lakhs (shown below) may be treated as capital work-in-progress and the same should be capitalised at a subsequent date.

Similarly, loan taken for working capital purpose amounting to ₹ 130 lakhs and interest on it of ₹ 13 lakhs (shown below) should be charged against current year's Profit and Loss Account.

Thus, the whole matter stands as:

Items	Percentage of Term Loans to Total	Amount ₹	Amount of Interest ₹
Acquisition of Plant & Machinery	76.47%	520	52
Advance to Suppliers	4.41%	30	3
Working Capital Loan	19.12%	130	13
	100.00%	680	68

Answer 23. (c)

1) Theoretical ex-right fair value per share:

   [(₹ 21 x 5,00,000) + (₹ 15 x 1,00,000)] / (5,00,000+ 1,00,000)

   i.e. 1,20,00,000/6,00,000 = ₹ 20/-

2) Adjustment factor:- fair value prior to exercise of rights/theoretical ex-right value. i.e. 21/20=1.05

3) Computation of EPS:

Year 2010	Year 2011
EPS as originally reported	
₹ 11.00,000/5,00,000 shares	₹ 2.20
EPS restated for right issue	
₹ 11,00,000/(5,00,000 x ₹ 1.05)	₹ 2.10
EPS-for 2011 including rights	
₹ 15,00,000/(5,00,000x 1.05x2/12) + (6.00,000x 1 0/12)	₹ 2.55

Q. 24. Two partnership firms, carrying on business under the style of R & Co. (Partners A & B) and W & Co. (Partners C & D) respectively, decided to amalgamate into RW & Co. with effect from 1st April 2013. The respective Balance Sheets of both the firms as on 31st March, 2013 are in below :

Liabilities	*R (₹)*	*W (₹)*	*Assets*	*R (₹)*	*W (₹)*
Capital B	19,000	-	Goodwill	-	5,000
Capital C	-	10,000	Machinery	10,000	-
Capital D	-	2,000	Stock-in-trade	20,000	5,000
Bank Loan Creditors	15,000	-	Sundry Debtors	10,000	10,000
	10,000	9,500	Cash in hand	-	1,500
			Capital - A		
	44,000	21,500		44,000	21,500

Profit sharing ratios are : A & B = 1:2; C & D = 1:1. Agreed terms are :

1. **All fixed assets are to be devalued by 20%.**
2. **All stock in trade is to be appreciated by 50%.**
3. **Red & Company owes ₹ 5,000 to White & Co. as on 31st March 2013. This is settled at ₹ 2,000. Goodwill is to be ignored for the purpose of amalgamation.**
5. **The fixed capital accounts in the new firm (RW & Co.) are to be : Mr A ₹ 2,000; Mr. B ₹ 3,000; Mr C ₹ 1,000 and D ₹ 4,000.**
6. **Mr. B takes over bank overdraft of Red & Co. and contributed to Mr. A the amount of money to be brought in by Mr. A to make up his capital contribution.**
7. **Mr C is paid off in cash from White & Co. and Mr. D brings in sufficient cash to make up his required capital contribution.**

Pass necessary Journal entries to close the books of both the firms as on 31st March 2013.

Answer 24.

Calculation of Purchase Consideration

Assets taken over :		**R & Co.**	**W & Co.**
Plant & Machinery		8,000	-
Stock-in-trade		30,000	7,500
Sundry Debtors [(* After adjustment (₹ 10,000 – 3000)]		10,000	*7,000
	(A)	48,000	14,500
Liability taken over:			
Sundry Creditors	(B)	7,000	9,500
Purchase consideration (A-B)		41,000	5,000

In the books of R & Co.

Journals

Date	**Particulars**	**L.F**	**Dr. Amount ₹**	**Cr. Amount ₹**
31.3.13	Realisation A/c Dr. To Plant and Machinery A/c To Stock-in-trade A/c To Sundry Debtors A/c (Different assets transferred)		40,000	 10,000 20,000 10,000
	Sundry Creditors A/c Dr. To Realisation A/c (Sundry creditors transferred to Realisation Account)		10,000	 10,000
	Bank Loan A/c Dr. To B Capital A/c (Bank overdraft taken over by B)		15,000	 15,000
	RW & Co. A/c Dr. To Realisation A/c (Purchase consideration due)		41,000	 41,000
	Realisation A/c (Note 2) Dr. To A Capital A/c To B Capital A/c (Profit on realisation transferred to partners capital in the ratio of 1:2)		11,000	 3,667 7,333
	B Capital A/c Dr. To A Capital A/c (Deficit in A's capital made good by B)		2,333	 2,333
	A Capital A/c Dr. B Capital A/c Dr. To RW & Co. A/c (Capital accounts of the partners closed by transfer to RW & Co.)		2,000 39,000	 41,000

Note: It should be noted that the credit balance in B's capital account is ₹ 39,000. His agreed capital in RW & Co is ₹ 3,000 only. Since there is no liquid assets in Black & Co. from which B can be repaid, the excess amount of ₹ 36,000 should be taken over by RW & Co. as loan from B.

In the books of W & Company

Journals

Date	Particulars		L.F	Dr. Amount ₹	Cr. Amount ₹
31.3.13	Realisalion A/c To Goodwill A/c To Stock-in-trade A/c To Sundry Debtors A/c (Different Assets	Dr.		20,000	 5,000 5,000 10,000
	Sundry Creditors A/c To Realisation A/c (Sundry creditors transferred)	Dr.		9,500	 9,500
	RW & Co. A/c To Realisation A/c (Purchase consideration due)	Dr.		5,000	 5,000
	C's Capital A/c D's Capital A/c To Realisation A/c (Loss on realisation transferred to Capital Account equally)	Dr. Dr.		2,750 2,750	 5,500
	Bank A/c To D's Capital A/c (Being the necessary amount brought in by D to make up his required capital contribution)	Dr.		4,750	 4,750
	C's Capital A/c D's Capital A/c To R & Co. A/c To Bank A/c (Capital accounts of the partners closed by transfer to RW & Co. and balance paid by	Dr. Dr.		7,250 4,000	 5,000 6,250

Realization Account

Dr. *Cr.*

Particulars	R & Co. ₹	W & Co. ₹	Particulars	R & Co. ₹	W & Co. ₹
To Goodwill	-	5,000	By Creditors	10,000	9,500
" Machinery	10,000	-	By RW & Co.	41,000	5,000
" Stock-in-trade	20,000	5,000	By C's Capital		2,750
" Sundry Debtors	10,000	10,000	By D's Capital		2,750
" Cash in hand	-				
" A's Capital	3,667				
" B's Capital					
	51,000	20,000		51,000	20,000

Q. 25. The Balance Sheet of Pixel Ltd. as on 31st March 2012 is given below:

Liabilities	₹ in Lakh	Assets	₹ in Lakh
Share Capital:		Fixed Assets	140
10,00,000 Equity shares of		Investments	40
₹ 10 each	100	Stock	46
1,00,000 Redeemable Pref.		Debtors	30
shares of ₹100 each	100	Bank	30
Less: Call-in-arrears on	(4)		
20,000 shares			
Security premium account	15		
Reserve	30		
Profit and Loss account	15		
Creditors	30		
	286		286

On 1st April 2012, fixed assets costing ₹ 40 Lakh were sold for ₹ 32 Lakh. On the same date it was decided to redeem the preference shares at a premium of 20% by issuing sufficient number of equity shares at a discount of 10% subject to leaving a balance of ₹ 10 Lakh in the reserve. All the payments were made except to a holder of 10000 shares who could not be traced. The

company also made bonus issue to the existing equity shareholders in the ratio of 1: 10. You are required to pass the necessary journal entries.

Answer 25.

Workings:

Requirement of Fund for Redemption

	No.	**Rate**	₹ in Lakh
Pref Shares	1,00,000	100	100
Calls in Arrear	20,000	100	20
Bal. to be redeemed	80,000		80
Prem on redemption		20%	16
Total Fund requirement			96

Sources	Nominal	Premium	Total
	Value		
Requirement	80	16	96
Securities Prem. A/c		15	15
P/L A/c	6	1	7
General Reserve	20		20
Balance fund requirement	54		54
(From fresh issue)			
Discount (10%)	6		
New Issue	60		

Actual payment made = (80000-10000)*120 = ₹ 84 Lakh

Transfer to Capital Redemption Reserve	₹ in Lakh	₹ in Lakh
From P/L A/c		
Balance	15	
Less: Loss on Sale of Assets	8	
Balance	7	
Less: Used for Premium on Redemption of		
Pref. Shares	1	6
From General Reservet		20
Total		26

In the books of Pixel Ltd.

Journal entries

		Dr.	Cr.
Journal Entry		₹ in Lakh	₹ in Lakh
Red. Pref. Share Capital A/c Premium on Redemption A/c To Red. Pref. Shareholders A/c (Amount due on Redemption)	Dr. Dr.	80 16	 96
Bank A/c Profit and Loss A/c To Fixed Assets A/c (Sale of Fixed Assets, Loss transferred)	Dr. Dr.	32 8	 40
Bank A/c Discount on issue of Shares A/c To Equity Share Capital A/c	Dr. Dr.	54 6	60

		Dr.	Cr.
Journal Entry		₹ in Lakh	₹ in Lakh
(Issue of new shares)			
Securities Premium A/c Profit and Loss A/c To Premium on Redemption A/c (Transfer)	Dr. Dr.	15 1	 16
Red. Pref. Shareholders A/c To Bank A/c (Payment to Pref. Shareholders)	Dr.	84	 84
General Reserve A/c Profit and Loss A/c To Capital Redemption Reserve A/c (Transfer)	Dr. Dr.	20 6	 26
Capital Redemption Reserve A/c To Bonus to Shareholders A/c (Bonus declared)	Dr.	16	 16
Bonus to Shareholders A/c To Equity Share Capital A/c (Conversion of Bonus Shares to Equity Shares)	Dr.	16	 16

Q. 26. (a) On 01.01.2007 S Ltd. had 2,000, 12% Debentures of ₹ 100 each. On 01.05.2007 the company purchased 400 own Debentures at ₹ 97 cum-interest in the open market. Interest on debenture is payable on 30the June and 31st Dec. each year.

Required: **Give the necessary journal entires assuming (i) that the own Debentures purchased were cancelled immediately and (ii) the the own Debentures purchased were retained as investments till 31.12.2012 on which date they were cancelled.**

(b) On 1st April 2008. H Ltd. issued 442, 10% Debentures of ₹ 1000 each at a discount of 10% redeemable at a premium of 5% after 4 years. It was decided to create a Sinking

Fund for the purposes of accumulating sufficient funds to redeem the Debentures and to invest in some radily convertible securities yielding 10% interest p.a. Reference to the table shows that ₹ 1.00 p.a. at 10% compound interest amounts to ₹ 4.641 in 4 years. Investments are to be made in the Bonds of ₹ 1000 each available at par.

On 31st March 2012, the investments realised ₹ 3,40,000 and debentures were redeemed. The bank balance as on that date was ₹ 50,000.

***Required:* Prepare Debenture Redemption Fund Account and Debenture Redemption Fund Investments Account for 4 years.**

Answer 26. (a)

(i) If own Debentures were cancelled immediately on date of purchase.

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2007					
May 01	12% Debentures A/c	Dr.		40,000	
	Debentures Interest A/c	Dr.		1,600	
	To Bank A/c				38,800
	To Capital Reserve A/c				2,800
	(Being 400 debentures cancelled by purchase				
	@ ₹ 97 cum-interest)				
June 30	Debentures Interest A/c	Dr.		9,600	
	To Bank A/c				9,600
	(Being the interest paid on ₹ 1,60,000 @ 12%				
	p.a. for 6 months)				
Dec. 31	Debenture Interest A/c	Dr.		9,600	
	To Bank A/c				9,600
	(Being the interest paid on ₹ 1,60,000 @ 12%				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	p.a. for 6 months)				
Dec. 31	Profit & Loss A/c	Dr.		20,800	
	To Debenture Interest A/c				20,800
	(Being the transfer of debenture interest to P & L A/c)				
Dec. 31	Profit & Loss Appropriation A/c	Dr.		37,200	
	To Debenture Redemption Reserve A/c				37,200
	(Being the transfer of an amount equivalent to the cash sum applied (towards principal) in redeeming the debentures to DRR out of profits)				

(ii) If own debentures were cancelled on 31.12.2012.

Journal of X Ltd.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
May 01	Own Debentures A/c	Dr.		37,200	
	Debentures Interest A/c				1,600
	To Bank A/c				38,800
	(Being the purchase of 400 debentures @ ₹ 97 cum-interest)				
June 30	Debentures Interest A/c	Dr.		10,400	
	To Interest on Own Debentures A/c				800
	To Bank A/c				9,600
	(Being the Interest paid/credited on ₹ 1,60,000				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	debentures held by outsiders for 6 months & on				
	₹ 40,000 own debentures for 2 months)				
Dec. 31	Debenture Interest A/c	Dr.		12,000	
	To Bank A/c				9,600
	To Interest on Own Debentures A/c				2,400
	(Being the interest paid/credited on ₹ 1,60,000 debentures held by outsiders and ₹ 40,000 own debentures for 6 months)				
Dec. 31	Profit & Loss A/c	Dr.		24,000	
	To Debenture Interest A/c				24,000
	(Being the transfer of debenture interest to P & L A/c)				
Dec. 31	Interest on Own Debentures A/c	Dr.		3,200	
	To Profit & Loss A/c				3,200
	(Being the transfer of interest on own debentures to P & L A/c)				
Dec. 31	12% Debentures A/c	Dr.		40,000	
	To Own Debentures A/c				37,200
	To Capital Reserve A/c				2,800
	(Being the cancellation of 200 own debentures)				
Dec. 31	Profit & Loss Appropriation A/c	Dr.		37,200	
	To Debenture Redemption Reserve A/c				37,200

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	(Being the transfer of an amount equivalent to the cash sum applied in redeeming the debentures)				

Answer 26. (b)

DRF = Debenture Redemption Fund, DRFI = Debenture Redemption Fund Investment

Dr. **Discount on Issue of Debentures Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.09	To Balance c/d	1,00,000	31.03.09	By P & L App. A/c	1,00,000
31.03.10	To Balance c/d	2,10,000	01.04.09	By Balance b/d	1,00,000
			31.03.10	By Interest on DRFI A/c	10,000
				By P & L App. A/c	1,00,000
		2,10,000			2,10,000
31.03.11	To Balance c/d	3,31,000	01.04.10	By Balance b/d	2,10,000
31.03.11				By Interest on DRFI A/c	21,000
				By P & L App. A/c	1,00,000
		3,31,000			3,31,000
31.03.12	To Loss on issue of		01.04.11	By Balance b/d	3,31,000
	Debentures			By Interest on DRFI A/c	33,100
	(premium)	22,100		By P & L App. A/c	91,000
	To Debenture			By Debenture Red.	
	Redemption			Fund Investment A/c	
	Reserve A/c	4,52,000		(profit)	19,000
		4,74,100			4,74,100

Dr. **Debentures Redemption Fund Investment (DRFI) Account** Cr.

Date	Particulars	₹	Date	Particulars	₹
31.03.09	To Bank A/c	1,00,000	31.03.09	By Balance c/d	1,00,000
01.04.09	To Balance b/d	1,00,000	31.03.10	By Balance c/d	2,10,000
31.03.10	To Bank A/c	1,10,000			
		2,10,000			2,10,000
01.04.10	To Balance b/d	2,10,000	31.03.11	By Balance c/d	3,31,000
31.03.11	To Bank A/c	1,21,000			
		3,31,000			3,31,000
01.04.11	To Balance b/d	3,31,000	31.03.12	By Bank A/c	3,50,000
31.03.12	To Debenture			(Sales)	
	Redemption				
	Fund A/c (Profit)	9,000			
		3,50,000			3,50,000

Working Note:

(i) Calculation of the amount of profit set aside

		₹
a.	Face Value of Debentures	4,42,000
b.	Premium Premium Payable on Redemption	22,100
c.	Depreciable Cost (A + B)	4,64,100
d.	Value of annuity per Re 1	4,641
e.	Annual amount to be charged (C/D)	1,00,000

(ii) Calculation of the amount of investments and interest

Year	Opening Balance	Interest	Saving	Investments	Closing Balance
a	b	c = b×10/100	d	e = c + d	f = b + e
2008-09	—	—	1,00,000	1,00,000	1,00,000
2009-10	1,00,000	10,000	1,00,000	1,10,000	2,10,000
2010-11	2,10,000	21,000	1,00,000	1,21,000	3,31,000
2011-12	3,31,000	33,100	1,00,000	—	—

Q. 27. The following are the Financial Statements of Whole selling Company, for the last two years –

Profit and Loss Account **(in ₹ 000s)**

Year ending 31st December	Last Year		This Year	
Turnover - Credit Sales	2,200		2,640	
- Cash Sales	200		160	
	2,400		2,800	
Less: Cost of Sales	(1,872)		(2,212)	
Gross Profit		528		588
Less: Indirect Expenses				
Distribution Costs	278		300	
Administration Expenses	112	(390)	(114)	(414)
Operating Profit		138		174
Less: Interest Payable		-		(32)
Profit on Ordinary Activities before Tax		138		142

Balance Sheet as at the end of the last two years(in ₹ 000s)

Particulars	Last Year (₹)		This Year (₹)	
Tangible Fixed Assets		220		286
Current Assets:				
— Stocks	544		660	
— Debtors	384		644	
— Cash at Bank	8		110	
	936		1,414	
Less : Trade Creditors	(256)		(338)	
Net Current Assets		680		1,076
Total Capital Employed (Fixed Assets + Net Current Assets)		900		1,362
Less: Debentures and Loans		-		(320)
Shareholders' Funds		900		1,042

You may assume that:

- The range of products sold by the Company remained unchanged over the two years.
- The Company managed to acquire its products this year at the same prices as it acquired them last year.
- The effects of any inflationary aspects have been taken into account in the figures.

Ignore taxation and show all calculations to one decimal place. You are required, using the information above, to assess and comment briefly on the Company, from the point of view of—(a) Profitability and (b) Liquidity.

Answer 27.

1. Computation of Profitability related indicators **(Amount in ₹ 000s)**

Ratios	Last Year	This Year
1. Gross Profit Ratio = Gross Profit ÷ Turnover	= 528/2,400 = 22%	=588/2,800 =21%
2. Cost of Sales to Sales ratio = Cost of Sales ÷ Sales	= 1872/2,400 = 78%	=2212/2,800 = 79%
3.Net Profit Ratio = Net Profit ÷ Turnover	=138/2,400 = 5.8%	=142/2,800 = 5.1%
4.Distribution Costs to Sales = Distribution Cost ÷ Sales	= 278/2,400 = 11.6%	=300/2,800 = 10.7%

5. Administration Exp. to sales = Admn. Cost ÷ Sales	=112/2,400 = 4.7%	=114/2,800 = 4.1%
6. Interest Payable	-	₹32,000
7.Pre-Tax Profit ÷ Shareholders funds	= 138/900 = 15.3%	=142/1,042 = 13.6%

2. Analysis of Profitability Ratios

Gross Profit Ratio: There is a drop in the gross margin from 22% to 21% and also increase in the ratio of Cost of Sales to Turnover. This may be because of — (a) an increase in the cost of sales; or (b) a drop in the selling price. Since, the cost of purchase of materials has not changed, the cost of operation like labour has gone up or the sales price has been marginal lowered.

Fall in Net Profit Ratio: There is a marginal fall in Net Profit Margin which is due to a combination of factors like ----(a) Drop in the Gross Profit margin and (b) Incremental interest outflow due to raising of Loan Capital for expansion during the year.

Reduction in ratio of other costs to Turnover: The fall in Net Profit Margin has been curtailed due to the drop in the ratio of Distribution Costs and Administration Costs to Turnover.

Increase in Sales: The sales during the year has raised by 20%. This may be due to the expansion programme financed by the Loan Capital.

Return on Shareholders' Funds: The Return on Shareholders' Funds has dropped and due to the overall drop in the Profit Margin.

3. Computation of Liquidity related Ratios **(Amount in ₹ 000s)**

Ratios	Last Year	This Year
1. Current ratio = Current Assets ÷ Current Liabilities	936÷ 256 = **3.7 times**	1,414 ÷ 338 = **4.2 times**
2. Quick Ratio = Quick Assets ÷ Current Liabilities = (Debtors + Bank) : Current Liabilities	392 ÷ 256 = **1.5 times**	754 ÷ 338 = **2.2 times**
3. Stock Turnover Ratio = Cost of Sales ÷ Closing Stock	1,872 ÷ 544 = **3.4 times**	2,212 ÷ 660 = **3.4 times**
4. Stock Holding Period = 365 ÷ Stock Turnover Ratio	365 ÷ 3.4 = **107 days**	365÷3.4 = **107 days**
5. Debtors Turnover Ratio = Sales ÷ Closing Debtors	2,200 ÷ 384 = **5.7 times**	2,640 ÷ 644= **4.1 times**
6. Avg Credit Period = 365 ÷ Debtors Turnover Ratio	365 ÷ 5.7 = **64 days**	365 ÷ 4.1 = **89 days**
7. Cash at Bank	₹8,000	₹1,10,000
8. Gearing Ratio = Debt ÷ Equity	NIL	320 ÷ 1042 = **0.31**

4. Analysis of Liquidity Ratios

1. **Improvement in Current and Liquid Ratio**: Current Ratio and Quick Ratio have improved. Part of this is due to the additional loan raised during the year.
2. **Stock Turnover Ratio**: The Company has been steady in it sales as is reflected in the unchanged Stock Turnover Ratio.
3. **High Collection Period:** The time taken for collection of dues from Debtors has increased during the period from 64 days to 89 days. Debtors now take almost 25 more days to settle their accounts. This may be due to —(a) Poor Credit Control; and /or (b) Extension of more credit to stimulate Sales.
4. **Cash Balance**: The Cash Balance represents the idle funds as at the year end and they generate no return. Hence, they should be put to work to earn a return.

Q. 28. X, Y and Z are partners sharing profits and losses in the ratio of 2 : 1 : 1. They took out a joint life policy of ₹ 1,20,000 on 1.1.2009, for the purpose of providing fund for repayment of their share of capital and goodwill in the event of death. The annual premium of ₹ 5,000 was payable on 1st February every year and last premium was paid on 1st February, 2012. Y died on 10th March, 2012 and policy money was received on 30th April 2012. The surrender value of the policy as on 31st December each year were : 2009 - Nil; 2010- ₹ 1,000; 2011- ₹ 1,600.

Show the necessary accounts and Balance Sheet (as on 31st December every year) assuming :

(i) that the insurance premium is charged every year to the Profit and Loss Account of the firm as business expenses;

(ii) that the insurance premium is debited to Joint Life Policy Account but an adjustment is made through the Profit and Loss Account each year to bring the policy to its surrender value; and

(iii) that a sum equal to the annual insurance premium is charged to Profit and Loss Appropriation Account each year and credited to Joint Life Policy Reserve Account through which the adjustment is made to bring the policy to its surrender value.

Answer 28.

Under Method (i)

In the book of X, Y and Z

Dr. **Joint Life Policy Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 April 30	To Capital A/c — Transferred X (2/4) 60,000 Y (1/4) 30,000 Z (1/4) <u>30,000</u> -	1,20,000	2012 April 30	By Bank A/c — Policy Money Received	1,20,000
		1,20,000			1,20,000

Under Method (ii)

Dr. **Joint Life Policy Account** ***Cr.***

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009 Feb. 1	To Bank A/c — Premium paid	5,000	2009 Dec. 31	By Profit and Loss A/c	5,000
		5,000			5,000
2010 Feb. 1	To Bank A/c — Premium paid	5,000	2010 Dec. 31	By Profit & Loss A/c " Balance c/d	4,000 1,000
		5,000			5,000
2011 Jan. 1 Feb. 1	To Balance b/d To Bank A/c — Premium paid	1,000 5,000	2011 Dec. 31	By Profit & Loss A/c " Balance c/d	4,400 1,600
		6,000			6,000
2012	To Balance b/d " Bank A/c — Premium paid " Capital A/c		2012 April 30	By Bank A/c — Policy money received	

Jan. 1 Feb. 1 April 30	— Transferred X (2/4) 56,700 Y (1/4) 28,350 Z (1/4) 28,350	1,600 5,000			1,20,000
		1,20,000			1,20,000

Under Method (iii)

Dr. **Joint Life Policy Account** ***Cr.***

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009 Feb. 1	To Bank A/c — Premium paid	5,000	2009 Dec. 31	By Joint Life Policy Reserve A/c	5,000
		5,000			5,000
2010 Feb. 1	To Bank A/c — Premium paid	5,000	2010 Dec. 31	By Joint Life Policy Reserve A/c " Balance c/d	4,000 1,000
		5,000			5,000
2011 Jan. 1 Feb. 1	To Balance b/d " Bank - Premium paid	1,000 5,000	2011 Dec. 31	By Joint Life Policy Reserve A/c " Balance c/d	4,400 1,600
		6,000			6,000

2012 Jan. 1	To Balance b/d	1,600	2012 April 30	By Bank — Policy Received Money	1,20,000
Feb. 1	" Bank A/c — Premium paid	5,000		— Joint Life Policy Reserve A/c	1,600
April 30	" Capital A/c - Transferred X 57,500 Y 28,750 Z 28,750	1,15,000		— Balance transferred	
		1,21,600			1,21,600

Q. 29. a) The life insurance fund of Prakash Life Insurance Co. Ltd. was ₹ 34,00,000 on 31st March, 2012. Its actuarial valuation on 31st March, 2012 disclosed a net liability of ₹ 28,80,000. An interim bonus of ₹ 40,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward ₹ 1,10,000 and to divide the balance between the policyholders and the shareholders. Show *(i)* the Valuation Balance Sheet, *(ii)* the net profit for the two-year period, and (iii) the distribution of the profits.

b) The Partners of Saheb & Co decided to convert partnership into a Private Limited Company called Kings Agencies P Ltd. with effect from 1st January. The consideration was agreed at ₹11,70,000 based on the Firm's Balance Sheet as on that date.
However, due to some procedural difficulties, the Company could be incorporated only on 1st April. Meanwhile, the business was continued on behalf of the Company and the consideration was settled on that day with interest at 12% p.a. The same books of account were continued by the Company, which closed its account for the first time on 31st March of the next year and prepared the following summarized Profit and Loss Account.

Particulars	₹	₹
Sales		**2,34,00,000**
Less: Cost of Goods Sold and Other Expenses		
Cost of Goods Sold	**1,63,80,000**	
Salaries	**11,70,000**	
Depreciation	**1,80,000**	
Advertisement	**7,02,000**	
Discounts	**11,70,000**	
Managing Director's Remuneration	**90,000**	
Miscellaneous Office Expenses	**1,20,000**	
Office-cum-Show Room Rent	**7,20,000**	
Interest-	**9,51,000**	**2,14,83,000**
Profit		**19,17,000**

The Company's only borrowal was a loan of ₹50,00,000 at 12% p.a. to pay the Purchase Consideration due to the Firm and for Working Capital requirements.
The Company was able to double the average monthly Sales of the Firm from 1st April but the Salaries trebled from that date. It had to obtain additional space from 1st July, for which rent was ₹30,000 per month.

Prepare a Profit and Loss Account in columnar form apportioning costs and revenue between pre-incorporation and post-incorporation periods. Also, suggest how the pre-incorporation profits are to be dealt with.

Answer 29.

a) In the Books of Prakash Life Insurance Co. Ltd.

Valuation Balance Sheet *as on 31st March,* 2012

Liabilities	Amount (₹)	Assets	Amount (₹)
To Net liability	2,880,000	By Life Assurance Fund	3,400,000
To Net Profit	520,000		
	3,400,000		3,400,000

Net profit for the two-year period	
Profit as per Valuation Balance Sheet	5,20,000
Add: Interim Bonus paid during the previous two years	40,000
Net Profit	5,60,000
Distribution of the profits	
Net Profit	5,60,000
Less: Amount proposed to be carried forward	1,10,000
Balance	4,50,000
Share of policyholders (95% of ₹ 4,50,000)	4,27,500
Less: Interim bonus paid	40,000
Amount due to policyholders	3,87,500
Share of Shareholders (5% of ₹ 4,50,000)	22,500

b) 1.Calculation of Ratios for apportionment purposes

Particulars	**Pre-incorpn.**	**Post-Incorpn.**
(a) Period in Months (**Time Ratio**)	1st Jan-31st Mar	1st April-31st Mar next
	=3 months	= 12 months
(b) Sales per month ratio (given)	₹ 1	(double of earlier period) i.e .₹2
© Overall Sales ratio (a)x(b)	3x1=3	12x2=24
Upon simplification, Sales Ratio is	1	8
(d)Salary per month ratio (given)	₹1	(treble of earlier period) i.e. ₹3
(e) Total Salary Ratio (a) x(d)	3x1=3	12x3=36
Upon simplification, Salary Ratio is	**1**	**12**
(f) Rent for additional premises (from 1st July)	-	30000x9=2,70,000
(g) So, Balance Rent (7,20,000-2,70,000) in 3:12 (time)	90,000	3,60,000
(h) Total Rent Cost (f)+(g)	**90,000**	**6,30,000**
(i) Interest allocable to Company	-	6,00,000
(Rs.50Lakhs x 12% from 1st Apr to 31st Mar next)		
(j) Hence, Balance Interest for Pre-Incorporation Period	**3,51,000**	

Notes:

- Expenses apportioned on Sales Ratio Basis: (a) Cost of Goods old;(b) Advertisement; and (c) Discounts.
- Expenses apportioned on Time Ratio Basis: (a) Depreciation,(b) Miscellaneous Office Expenses.

2. Profit & Loss Account of Kings Agencies P Ltd. For 15 months ended 31st March (in ₹ 000's)

Particulars	1stJan-31st Mar	1st Apr-31st Mar next	Particulars	1st Jan-31st Mar	1st Apr-31st Mar next
To Cost of Goods Sold (1:8)	1,820	14,560	By Sales	2,600	20,800
To Salaries (1:12)	90	1,080	By Net Loss	19	
To Depreciation (1:4)	36	144	- Pre Icorp	Loss	
To Advertisement (1:8)	78	624			
To Discounts (1:8)	130	1,040			
To MD's Remuneration (direct)	-	90			
To Misc. Office Exps. (1:4)	24	96			
To Rent **(W N 1)**	90	630			
To interest **(W N 1)**	351	600			
To Net Profit- Post Incorp Pft	-	**1,936**			
Total	**2,619**	**20,800**	**Total**	**2,619**	**20,800**

Treatment of Negative Profit prior to Incorporation:

- The Loss may be considered as a reduction from any **Capital Reserve** arising on acquisition.
- Alternatively, such loss may be as **Goodwill** and shown under Assets.

Q. 30. A fire occurred in the office premises of lessee in the evening of 31.3.2012 destroying most of the books and records. From the documents saved, the following information is gathered :

Short-working recovered :

2009-10 ₹ 2,000 (towards short-workings which arose in 2006-07)

2010-11 ₹ 4,000 (including ₹ 1,000 for short-working 2007-08)

2011-12 ₹ 1,000

Short-working lapsed :

2008-09 ₹ 1,500

2009-10 ₹ 1,800

2011-12 ₹ 1,000

A sum of ₹ 25,000 was paid to the landlord in 2008-09. The agreement of Royalty contains a clause of Minimum Rent payable for fixed amount and recoupment of short-workings within 3 years following the year in which Short-workings arise.

Information as regards payments to landlord subsequent to the year 2008-09 is not four years ended 31.3.2012.

Answer 30.

Before preparing the respective ledger accounts we are to compute the following information :

Year	**Royalty** ₹	**Short-working** ₹	**Short-working recovered** ₹	**Short-working Lapsed** ₹	**Payment to Landlord** ₹
2008-09	—	—	—	1,500	25,000
2009-10	—	—	₹ 2,000 (for 2006-07)	1,800	—
2010-11	—	—	₹ 4,000 (including ₹ 1,000 for 2007-08)	—	—
2011-12	—	—	1,000	1,000	—

From the above statement it is quite clear that :

(i) Short-working lapsed in 2011-12 ₹ 1,000 which relates to 2008-09 as per terms, short-working should be recouped within three years i.e., 2011-12 is the last year for recoupment.

(ii) Short-working recovered in 2010-11 ₹ 4,000, out of which ₹ 1,000 for 2007-08 and the balance ₹ 3,000 for the year 2005-06.

(iii) Short-working recovered in 2011-12 ₹ 1,000 which is also related to 2008-09 in which year actually is arose.

Thus, the total short-working balance in 2008-09 amounted to ₹ 5,000 (i.e., ₹ 1,000 + ₹ 3,000 + ₹ 1,000). Now, we can prepare our usual statement as under :

Hence,	Actual Royalty	= Payment to Landlord + Recoupment – Short-working
For,	2008-09	= ₹ 25,000 + Nil – ₹ 5,000
		= ₹ 20,000.
For,	2009-10	= ₹ 25,000 + ₹ 2,000 – Nil
		= ₹ 27,000
For,	2010-11	= ₹ 25,000 + ₹ 4,000 – Nil
		= ₹ 29,000
For,	2011-12	= ₹ 25,000 + ₹ 1,000 – Nil
		= ₹ 26,000

Year	Royalty ₹	Short-working ₹	Recoupment ₹	Tr. to P&L A/c ₹	Payment to Landlord ₹
2008-09	20,000	5,000	—	1,500	25,000
2009-10	27,000	—	2,000	1,800	25,000
2010-11	29,000	—	4,000	—	25,000
2011-12	26,000	—	1,000	1,000	25,000

In the books of Lessee

Royalty Account

Dr. *Cr.*

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.3.09	To Landlord A/c	20,000	31.3.09	By Profit and Loss A/c	20,000
		20,000			20,000
31.3.10	To Short-working A/c	2,000	31.3.10	By Profit and Loss A/c	27,000
	" Landlord A/c	25,000			
		27,000			27,000
31.3.11	To Short-working A/c	4,000	31.3.11	By Profit and Loss A/c	29,000
	" Landlord A/c	25,000			
		29,000			29,000
31.3.12	To Short-working A/c	1,000	31.3.12	By Profit and Loss A/c	29,000
	" Landlord A/c	25,000			
		26,000			26,000

Dr. **Short-working Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.3.09	To Balance b/d	6,300	31.3.09	By Profit and Loss A/c	1,500
	" Landlord A/c	5,000		" Balance c/d	9,800
		11,300			11,300
31.3.10	To Balance b/d		31.3.10	By Royalty A/c	
		9,800		" Profit and Loss A/c	2,000
				" Balance c/d	1,800
					6,000
31.3.11	To Balance b/d	9,800	31.3.11	By Royalty A/c	9,800
	" Landlord A/c			" Balance c/d	
		1,000			4,000
		5,000			2,000
31.3.12	To Balance b/d		31.3.12	By Royalty A/c	
		6,000		" Profit and Loss A/c	6,000

This includes the following :

			₹
Lapsed :	in	2008-09	1,500
	in	2009-10	1,800
Recoupment :	in	2009-10	2,000
	in	2010-11	1,000
			6,300