INTERMEDIATE EXAMINATION

(REVISED SYLLABUS - 2008)

GROUP - I

Paper-5 : FINANCIAL ACCOUNTING

Q. 1. Multiple Choice Questions :

(i) A and B are partners sharing profits in the ratio 1:2. C is admitted and the new profit sharing ratio is 1:2:3. Sacrificing ratio is

(A) 1:3

(B) 2:1

(C) 3:1

(D) 1:2

(ii) P to whom 100 shares of ₹ 10 each were allotted at par paid the application money of ₹ 2 and allotment money of ₹ 4 per share. He did not pay the call money of ₹ 4 per share. His shares were forfeited. The amount to be credited to Share forfeiture account is

(A) ₹ 400

(B) ₹ 1000

(C) ₹ 600

(D) None of the above

(iii) Total assets of a firm is ₹ 1,20,000,outside liability amounted to ₹ 60,000, total capital contributed by the partners would be

(A) ₹ 60,000

(B) ₹ 40,000

(C) ₹ 1,00,00

(D) ₹ 20,000

(iv) What would be the cost of goods sold from the following details–

Opening Stock	₹ 4,000
Sales	₹ 45,000
Direct Expenses	₹ 5,000
Indirect Expenses	₹ 6,000
Closing Stock	₹ 2,000
Gross Profit	₹ 5,000

(A) ₹ 28,000

(B) ₹ 33,000

(C) ₹ 32,000

(D) ₹ 27,000

(v) PQR Ltd. held an average inventory of finished goods of ₹ 40,000 (CP) with an inventory turnover ratio of 5. If the gross profit is 25% on the cost of goods sold. What is the total sales during the year?

(A) ₹ 2,00,000

(B) ₹ 2,50,000

(C) 1,25,000

(D) ₹ 2,40,000

(vi) ABC Ltd. issued 1,00,000 14% debentures of ₹ 100 each . The total amount of interest payable on the debentures will be

(A) ₹ 14,00,000

(B) ₹ 14.00

(C) ₹ 100,00,000

(D) ₹ 1,40,000

(vii) The profit margin of a company is 10% and the asset turnover is 3 times. What is the Return on Investment of the company?

(A) 33.33%

(B) 10%

(C) 30%

(D) 3%

(viii) MGS Co. purchased a machine costing ₹ 1,25,000 for its manufacturing operations and paid shipping costs of ₹ 30,000. MGS spent an additional ₹ 12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine? (AS-10)

(A) ₹ 1,25,000

(B) ₹ 1,55,000

(C) ₹ 1,67,000

(D) ₹ 42,000

(ix) Mugdha Ltd. had 1,800 equity shares outstanding as on 01.01.2012 fully paid of ₹ 10. On 31.10.2002 it issued 600 equity shares of ₹ 10each,₹ 5 paid. Calculate weighted number of equity shares as on 31.12.2012.

(A) 2,200

(B) 1,850

(C) 2,100

(D) 2,400

Answer 1.

(i) (D) 1:2

(ii) (C) ₹ 600

Workings : ₹ (2 + 4) × 100 shares = ₹ 600

(iii) (A) ₹ 60,000

Workings : Total capital contributed by the partners

= Total assets – Outside liability = ₹ 1,20,000 – ₹ 60,000 = ₹ 60,000

(iv) (B) ₹ 33,000

Workings : Cost of Goods Sold = (Sales + Closing Stock) – (Op Stock + Direct Expenses + Gross Profit)

= ₹ 47,000 – ₹ 14,000 = ₹ 33,000

(v) (B) ₹ 2,50,000

Workings : $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$ = Inventory Turnover Ratio i.e. $\frac{\text{Cost of Goods Sold}}{₹40{,}000} = 5$

∴ Cost of Goods Sold = ₹ 40,000 × 5 = ₹ 2,00,000

Sales = Cost of Goods Sold + Gross Profit = ₹ 2,00,000 + 25% of ₹ 2,00,000 = ₹ 2,50,000.

(vi) (A) ₹ 14,00,000

Workings : ₹ 100 × 1,00,000 units × 14% = ₹ 14,00,000

(vii) (C) 30%

Workings : Profit Margin × Assets Turnover = 10% × 3 = 30%

(viii) (C) ₹ 1,67,000

Workings : ₹ (1,25,000 + 30,000 + 12,000) = ₹ 1,67,000

(ix) (B) 1,850

Workings : $\left\{\left(1{,}800 \times \frac{12}{12}\right) + \left(\frac{600}{2} \times \frac{2}{12}\right)\right\}$ = 1,850 Shares

Q. 2. Multiple Choice Questions :

(i) Independent Branch meant when separate account are maintained by :

(A) H. O.

(B) Branch

(C) Both

(D) None of these

(ii) Which of the following item of cost is not a part of inventory

(A) Storage expenses

B) Normal wastages

(C) Inward freight

(D) Customs duties

(iii) In case of Hire-Purchase the total sum payable by the hire-purchaser as per terms in order to complete the transactions is

(A) Net Cash Price

(B) Net Hire-Purchase Charges

(C) Hire-Purchase Price

(D) Cash Price Instalment.

(iv) Which of the following statement is true

(A) The shares are bought back to increase the holding of the promoters

(B) The shares are bought back to improve the financial health of the company

(C) The shares are bought back to increase the Earning per share

(D) All of above.

(v) Both total assets and owners capital are increased by....

(A) Credit Purchase

(B) Retained Earning

(C) Bank Loan

(D) Drawings

(vi) The Accounting Standard on 'the Effect of Changes in foreign exchange rates' is

(A) AS -11

(B) AS -15

(C) AS -18

(D) None of these

(vii) Arrangement of balance sheet in a proper way is known as

(A) Marshalling of Balance Sheet

(B) Formatting of Balance Sheet

(C) Finalization of Balance Sheet

(D) Grouping of Balance Sheet

(viii) Overall limit for managerial remuneration is provided in sec __________ of the Companies Act.

(A) 199

(B) 210

(C) 198

(D) 377

(ix) __________ debentures are those which can be transferred by mere delivery

(A) Naked

(B) Registered

(C) Bearer

D) Floating

(x) On an equity share of ₹ 20, the company has called up ₹ 16 but actually received ₹ 18, the difference of ₹ 2 will be

A) Debited to calls in advance A/c

(B) Credited to calls in advance A/c

(C) Credited to calls in Suspense A/c

(D) Debited to calls in Doubt A/c

Answer 2.

(i) (B) Branch

(ii) (A) Storage expenses

(iii) (C) Hire-Purchase Price

(iv) (D) All of above

(v) (B) Retained Earning

(vi) (A) AS-11

(vii) (A) Marshalling of Balance Sheet

(viii) (C) 198

(ix) (C) Bearer

(x) (B) Credited to cells in advance A/c

Q. 3. State whether the following statements are 'True' or 'False' :

(i) For life business premium income is to be recognized on receipt basis.

(ii) The Contract of insurance is a contract of guarantee.

(iii) A company cannot redeem Preference Shares unless they are fully paid up.

(iv) Land is a depreciable asset.

(v) The valuation balance sheet is prepared every day.

(vi) Selling Commission is apportioned among departments in the ratio of Sales of each department.

(vii) Depreciation is a non-cash expense.

(viii) Discount on issue of share is a revenue loss.

(ix) While calculating EPS preference dividends are deducted from the net income on preference share that is non-cumulative, whether dividends on the preference share have been declared or not. Is true?

(x) Dividend is payable on the calls paid in advance by the shareholders.

Answer 3.

(i) False

(ii) False

(iii) Ture

(iv) False

(v) False

(vi) True

(vii) True

(viii) False

(ix) False

(x) False

Q. 4. Answer the following questions :

(i) Explain the term Reversionary Bonus.

(ii) Explain the accounting treatment of donation received for specific purpose in the case of charitable society.

(iii) When all Forfeited Shares are not issued what are the procedures to be followed by the company?

(iv) What do you understand by Receipts and Payment Account?

(v) What is Redeemable Dead Rent?

(vi) *Write a short note on* Double Column method of recording transactions in relation to Dependent Branch.

(vii) Give four examples of extraordinary items as per AS-5.

(viii) What is Net Realisable Value as per AS-2?

(ix) When do you recognize revenue in the following cases as per AS-9?

(a) Installation Fee

(b) Advertisement Commission

(c) Revenue from Royalty

(d) Sales made in instalment

(x) Write a short note on Research Cost as per AS-26.

Answer 4.

(i) Reversionary Bonus : In the case of life policies with profits, policyholders are given the right to participate in the profits of the business. After nationalization, policyholders are given 95% of profits of L.I.C. by way of bonus. Bonus can be paid in cash, adjusted against the future premiums due from the policyholders or it can be paid on the maturity of the policy, together with the policy amount. Bonus paid in the end along with the policy amount is called Reversionary Bonus.

(ii) Donations may have been raised either for meeting some revenue or capital expenditure; those intended for meeting revenue expenditures are credited directly to the Income and Expenditure Account but others, if the donors have declared their specific intention, are credited to special fund account and in the absence thereof, to the Capital Fund Account. If any investments are purchased out of a special fund or an asset is acquired there from, these are disclosed separately. Any income received from such investments or any donations collected for a special purpose are credited to an account indicating the purpose and correspondingly the expenditure incurred in carrying out the purpose of the fund is debited to this account. On no account any such expense is charged to the Income and Expenditure Account. The term “Fund” is strictly applicable to the amounts collected for a special purpose when these are invested, e.g. Scholarship Fund, Prize Fund etc. In other cases, when the amounts collected are not invested in securities or assets distinguishable from those belonging to the institution, the word “Account” is more appropriate e.g. Building Account, Tournament Account etc.

(iii) When all forfeited shares are not issued, i.e. only a part of such shares is issued, the company should spread the amount of shares forfeited account on all such forfeited shares and of the amount relating to the part of forfeited shares which has been reissued, discount on reissue of shares should be deducted from such amount and the balance is transferred to capital reserve being capital profit. The amount relating to that part of shares forfeited account which has not been reissued should be shown on the liability side of Balance Sheet as Shares Forfeited Account.

(iv) It is an Account which contains all Cash and Bank transaction made by non-profit organization during a particular financial period. It starts with the opening balance of Cash and Bank. All Cash receipts both capital and revenue during the period are debited to the Receipts and Payment Account and all cash payments both capital and revenue are credited to this account. this account ends with the closing Cash and Bank Balances. It follows Real Account and it is a summary of Cash Book.

(v) Redeemable Dead Rent /Short Workings is the amount by which the minimum rent exceeds the actual royalty. It is the difference between actual Rent and Minimum rent.

Suppose royalty per ton of production is ₹ 10 and the minimum (annual) rent is ₹ 2,00,000. Now the actual production is 17,500 tons, then actual royalty would become ₹ 1,75,000. In this case the Redeemable Dead Rent/ Short Workings is ₹ 25,000 (Rs.2,00,000-1,75,000).

Where there is Redeemable Dead Rent /Short Workings in a period the lease is liable to pay the minimum rent and, in effect, Redeemable Dead Rent /Short Workings become the part of the minimum rent and not represented by the use of rights.

The question of Redeemable Dead Rent /Short Workings will arise only when there is a stipulation for minimum rent in the agreement.

(vi) Double Column method of recording transactions in relation to Dependent Branch :

The Branch Account under this method will contain two columns to record the transactions.

Which are– (a) Cost Column and

(b) Invoice Price Column

(a) **Cost Column and** – Entries recorded hereunder will part of Double Entry System and show the value of goods sent out to Branch at Cost.

(b) **Invoice Price Column** – This column will contain entries recorded at selling price. They do not form part of the entity's double entry system and do not disclose the Profit/Loss of the Branch. They would balance by including the value of closing stock provided trere has been no physical loss of stock.

Branch Account

Particulars	Invoice Price	Cost	Particulars	Invoice Price	Cost
To Balance b/d	xxx	xxx	By Cash Sales	xxx	xxx
- Opening Stock			By Credit Sales	xxx	xxx
To Goods Sent to Branch	xxx	xxx	By Balance c/d	xxx	xxx
To Stock Adjustment A/c	xxx	xxx	- Closing Stock	xxx	xxx
To Gross Profit -Transferred to P & L A/c	xxx	xxx			
Total	xxx	xxx	Total	xxx	xxx

(vi) Examples of extraordinary items as per AS-5 are :

(a) Government grants becoming refundable

(b) Loss due to earthquakes

(c) Government grants for giving immediate financial support with no further cost

(d) Attachment of property

(viii) Net realizable value is the estimated selling price in ordinary course of business, less estimated cost of completion and estimated cost necessary to make the sale. It is estimated on the basis of most reliable evidence at the time of valuation after taking into account the purpose for which the inventory is held.

(ix) (a) If installation are other than incidental to the sale of products, they should be recognized as revenue after installation of equipment and acceptance by the customer.

(b) Media commission will normally be recognized by the advertising agencies when the related advertisement or commercials appears before the public.

(c) Revenue from royalty should be recognized on accrual basis as per the terms of the agreement.

(d) Revenue of sale price excluding interest should be recognized on the date of sale and the interest should be recognized proportionately to the unpaid balance.

(x) As per this standard Research Cost be expensed as and when incurred, in other words the cost of research cannot be capitalized. The intangible asset arising from research should not be recorded as an asset and therefore the research cost of internal project shall be treated as an expense in financial statement.

Q. 5. Karthik who was closing his books on 31.03.2012 failed to take the actual Stock which he did only on 09.04.2012, when it was ascertained by his to be worth ₹ 27,000.

It was found that sales are entered in the Sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the Purchases day book once the invoices are received.

It was found that sales between 31.03.2012 and 09.04.2012 as per Sales day book are ₹ 2,720. Purchases between 31.03.2012 and 09.04.2012 as per Purchases day book are ₹ 170, out of these goods amounting to ₹ 80 were not received until after the stock was taken. Goods invoiced during the month of March,2012 but goods received only on 4th April, 2012 amounted to ₹ 200 rate of gross profit is 33 $\frac{1}{3}$ % on cost.

Ascertain the Value of Physical stock as on 31.03.2012.

Answer 5.

Value of Physical Stock as on 31.03.2012

Particulars		**Amount ₹**
Stock on 09.04.2012		27,000
Add : Cost of goods sold during 1-9 April	₹	
Sales	2,720	
Less : Profit (25% of sales)	680	2,040
		24,960
Less : Goods purchased and received during 1-9 April		
	(170-80)	90
Value of Stock on 31.03.2012		24,870
Less : Goods purchased before 31.03.2012		
but delivered on 04.04.2012		200
Value of physical stock on 31.03.2012		24,670

It must be noted that physical stock on 31.03.2012 is ₹ 24,670. But value of stock on 31.03.2012 is ₹ 24,870 because ₹ 200 goods delivered on 04.04.2012 are purchases of the year ending on 31st March,2012 as purchases are entered in the purchases day book once the invoices are received.

Q. 6. The Profit and Loss Account of Mayavi showed a net profit of ₹ 36,000,after considering the closing stock of ₹ 22,500 on 31st March,2012. Subsequently the following information was obtained from scrutiny of the books:

(i) Purchases for the year included ₹ 900 paid for new electric fittings for the shop;

(ii) Mayavi gave away goods valued at ₹ 2,400 as free samples for which no entry was made in the books of accounts;

(iii) Invoices for goods amounting to ₹ 15,000 have been entered on 27th March, 2012, but the goods were not included in stock;

(iv) In March, 2012 goods of ₹ 12,000 sold and delivered were taken in the Sales for April, 2012; and

v) Goods costing of ₹ 4,500 were sent on sale or return in March, 2012 at a margin of Profit of 33S $\frac{1}{3}$% on cost. Though approval was given in April, 2012 these were taken as sales for March, 2012.

Calculate the value of stock on 31st March, 2012 and the adjusted Net Profit for the year ended on that date.

Answer 6.

Dr. **Profit and Loss Adjustment Account** ***Cr.***

Particulars	Amount ₹	Particulars	Amount ₹
To Advertisement (samples)	2,400	By Net Profit	36,000
To Sales (Goods approved in April to be taken as April sales : 4,500+1,500)	6,000	By Electric Fittings	900
		By Samples	2,400
		By Stock (Purchases of March, not included in stock)	15,000
To Adjusted Net Profit	62,400	By Sales (goods sold in March wrongly taken as April sales)	12,000
		By Stock (goods sent on approval basis not included in stock)	4,500
	70,800		70,800

Calculation of value of stock on 31st March, 2010

Stock on 31st March, 2012 (given)	₹ 22,500
Add : Purchases of March, 2012 not included in stock	₹ 15,000
Goods lying with customers on approval basis	₹ 4,500
	₹ 42,000

Q. 7. On 31st December, 2011 two machines, which were purchased on 1st October, 2008 costing ₹ 1,50,000 and ₹ 24,000 respectively had to be discarded and replaced by two new machines costing ₹ 40,000 and ₹ 30,000 respectively.

One of the discarded machines was sold for ₹ 16,000 and other for ₹ 6,000.

The balance of Machinery Account as on April 1, 2008 was ₹ 5,00,000 against which the description provision stood at ₹ 2,10,000. Depreciation was provided @ 10% on WDV method.

Prepare the Machinery Account, Provision for Depreciation Account and Machinery Disposal Account.

Answer 7.

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

Date	Particulars	Amount	Date	Particulars	Amount
2011		₹	2011		₹
April 1	To Balance b/d	5,00,000	Dec 31	By Machinery Disposal A/c	54,000
Dec 31	To Bank	70,000	2012	By Balance c/d	5,16,000
			Mar 31		
		5,70,000			5,70,000
2013					
April 1	To Balance b/d	5,16,000			

Dr. **Provision for Depreciation Account** *Cr.*

Date	Particulars	Amount	Date	Particulars	Amount
2011		₹	2011		₹
April 1	To Machinery Disposal A/c	12,448	April 1	By Balance b/d	2,10,000
2012			2012		
Mar 31	To Balance c/d	2,24,146	Mar 31	By P & L A/c	26,594
		2,36,594			2,36,594
			2012		
			April 1	By Balance b/d	2,24,146

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

Date	Particulars	Amount	Date	Particulars	Amount
2011		₹	2011		₹
Dec 31	To Machinery A/c	54,000	Dec 31	By Provision for Depreciation A/c	12,448
				By Depreciation (on two (machines for 9 months)	3,116
				By Bank	16,000
				By P & L A/c (Bal fig.)	16,436
			2012		
			Mar 31	By Balance c/d	6,000
		54,000			54,000
2012					
April 1	To Balance b/d	6,000			

Working Notes :

(1) Depreciation on the two machines till April 1,2012

	₹
For 2008-09	2,700
For 2009-2010 (10% of (54,000 – 2,700))	5,130
For 2010-11 (10% on ₹ 46,170)	4,618
	12,448

(2) Depreciation on discarded machines

Book value on April 1, 2011	41,552
Depreciation @10% for 9 months till 31 Dec, 2011	(3,116)
	38,436

(3) Depreciation of machinery in use:

		₹
Value of Machinery on 1st April, 2011		5,00,000
Less: Cost of discarded machines:		(54,000)
		4,46,000
Less: Provision for Depreciation on 1 April, 2011	2,10,000	
Less: Depreciation on discarded machines:	(12,448)	(1,97,552)
		2,48,448
Depreciation @ 10% on ₹ 2,48,448		24,845
Add: Depreciation for 3 months on ₹ 70,000		1,750
		26,595

Q. 8. Prof. R wrote a book on Economics and gave the right of its publication to M/s Sarswati Book Agency at a royalty of 10% on the printed price of the copies sold up to 31st March each year. The printed price of the book is ₹ 150. The amount of royalty is paid on 31st October following but the books are closed on 31st March.

The publisher submitted the following information :

Year	Copies	Damaged	Specimen given	Closing Stock
31.3.2009	**2,000**	**50**	**150**	**400**
31.3.2010	**2,500**	**100**	**200**	**600**
31.3.2011	**3,500**	**200**	**400**	**800**
31.3.2012	**5,000**	**300**	**600**	**1,000**

Show the necessary ledger accounts in the books of M/s Sarswati Book Agency .

Answer 9.

In the books of M/s Sarswati Book Agency

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

Date	Particulars	Amount	Date	Particulars	Amount
2009		₹	2009		₹
March 31	To Prof R A/c	21,000	March31	By Profit & Loss A/c	21,000
2010			2010		
March 31	To Prof R A/c	30,000	March 31	By Profit & Loss A/c	30,000
2011			2011		
March 31	To Prof R A/c	40,500	March 31	By Profit & Loss A/c	40,500
2012			2012		
March 31	To Prof R A/c	58,500	March 31	By Profit & Loss A/c	58,500

Dr. **Prof. R Account** ***Cr.***

Date	Particulars	Amount	Date	Particulars	Amount
		₹			₹
2009 March 31	To Balance c/d	21,000	2009 March 31	By Royalty A/c	21,000
		21,000			21,000
2009 Oct. 31	To Bank A/c	21,000	2009 April 1	By Balance b/d	21,000
2010 March 31	To Balance c/d	30,000	2010 March 31	By Royalty A/c	30,000
		51,000			51,000
2010 Oct. 31	To Bank A/c	30,000	2010 April 1	By Balance b/d	30,000
2011 March 31	To Balance c/d	40,500	2011 March 31	By Royalty A/c	40,500
		70,500			70,500
2011 Oct. 31	To Bank A/c	40,500	2011 April 1	By Balance b/d	40,500
2012 March 31	To Balance c/d	58,500	2012 March 31	By Royalty A/c	58,500
		99,000			99,000
			2012 April 1	By Balance b/d	58,500

No. of copies sold = Copies Printed – Damaged – Specimen given – Closing Stock + Opening Stock

Workings :

Year	Copies Printed	Damaged	Specimen given	Closing Stock	Opening Stock	Copies sold	Rate per copy	Total Amount	Royalty @ 10%
2009	2,000	50	150	400	—	1,400	150	2,10,000	21,000
2010	2,500	100	200	600	400	2,000	150	3,00,000	30,000
2011	3,500	200	400	800	600	2,700	150	4,05,000	40,500
2012	5,000	300	600	1,000	800	3,900	150	5,85,000	58,500

Q. 9. On 01.07.2011,Pustak Printers purchased a printing machine from Mitra Ltd. on a Hire-Purchase basis, payments to be made ₹ 8,000 on the said date and the balance in three half-yearly instalments of ₹ 6,560; ₹ 5,952; ₹ 5,040; commencing from December 31, 2011. The vendor charged interest at 10% p.a. calculated on half-yearly rates. Pustak Printers closes their books annually on December 31, and provide depreciation at 10% p.a. on Diminishing Balances eanh year. Work out the Cash Price of the machine and show the necessary ledger accounts in the books of Pustak Printers.

Answer 9.

Calculation of Cash Price :

[(P+i) = Instalment

Since rate of interest is @10% p.a. for half-yearly rates, it will be 5%

(100+5)= ₹ 105 $\therefore \frac{5}{105} = \frac{1}{21}$

	₹
Last Instalment	5,040
Less : Interest @ $\frac{1}{21}$	240
Principal	4,800
Add : Instalment	5,952
	10,752
Less : Interest @ $\frac{1}{21}$	512
	10,240
Add : Instalment	6,560
	16,800
Less : Interest @ $\frac{1}{21}$	800
Principal	16,000
Add : Down Payment	8,000
Cash Price	24,000

In the books of Pustak Printers

Machinery Account

Date	Particulars	Amount	Date	Particulars	Amount
2011		₹	2011	₹	
July 31	To Mitra Ltd. A/c	24,000	Dec. 31	By Depreciation A/c (for 6 months)	1,200
				By Balance c/d	22,800
		24,000			24,000
2012 Jan. 1	To Balance b/d	22,800	2012 Dec. 31	By Depreciation A/c	2,280
				By Balance c/d	20,520
		22,800			22,800

Dr. **Mitra Ltd. Account** ***Cr.***

Date	Particulars	Amount	Date	Particulars	Amount
2011		₹	2011	₹	
July 1	To Bank A/c	8,000	July 1	By Machinery A/c	24,000
Dec. 31	To Bank A/c	6,560	Dec. 31	By Interest A/c	800
	To Balance c/d	10,240			
		24,800			24,800
2012			2012		
June 30	To Bank	5,952	Jan. 1	By Balance b/d	10,240
Dec. 31	To Bank	5,040	June 30	By Interest A/c	512
			Dec. 31	By Interest A/c	240
		10,992			10,992

Q. 10. On 2.6.2011 the stock of Mr. White was destroyed by fire. However, following particulars were furnished from the records saved :

	₹
Stock at cost on 1.4.2010	**2,70,000**
Stock at 90% of cost on 31.3.2011	**3,24,000**
Purchases for the year ended 31.3.2011	**12,90,000**
Sales for the year ended 31.3.2011	**18,00,000**
Purchases from 1.4.2007 to 2.6.2011	**4,50,000**
Sales from 1.4.2011 to 2.6.2011	**9,60,000**

Sales upto 2.6.2007 includes ₹ 1,50,000 being the goods not dispatched to the customers. The sales invoice price is ₹ 1,50,000.

Purchases upto 2.6.2007 includes a machinery acquired for ₹ 30,000.

Purchases upto 2.6.2007 does not include goods worth ₹ 60,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire.

Value of stock salvaged from fire ₹ 45,000 and this has been handed over to the insurance company.

The insurance policy is for ₹ 2,40,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

Answer 10.

In the books of S Ltd.
Hire Purchase Trading Account
for the year ended on 31st March, 2011

Particulars	₹	Particulars	₹
To Hire Purchase Stock	6,40,000	By Hire Purchase Stock Reserve (W.N.1)	2,40,000
To Instalments due	40,000	By Bank A/c (Cash received)	22,40,000
To Goods sold on Hire Purchase	32,00,000	By Goods Repossessed A/c	32,000
To Hire Purchase Stock Reserve (W.N.3)	5,40,000	By Goods sold on hire purchase (loading) (W.N.2)	12,00,000
To Profit and Loss A/c (balancing figure)	8,52,000	By Hire purchase stock	14,40,000
		By Instalments due (W.N.4)	1,20,000
	52,72,000		52,72,000

Working Notes :

1. Opening H.P. Stock reserve $6,40,000 \times \frac{60}{160}$ ₹ 2,40,000

2. Loading on goods sold on H.P. $32,00,000 \times \frac{60}{160}$ ₹ 12,00,000

3. Closing H.P. Stock reserve $14,40,000 \times \frac{60}{160}$ ₹ 5,40,000

4. Calculation of Instalments due at the end of the year

Opening H.P. Stock + Opening Instalments due + H.P. Sales during the year (i.e., 6,40,000 + 40,000 + 32,00,000)			₹ 38,80,000
Less :	Cash received from customers	₹ 22,40,000	
	Instalments unpaid for repossessed goods	₹ 80,000	
	Closing balance of H.P. Stock	₹ 14,40,000	₹ 37,60,000
Closing Instalments Due			₹ 1,20,000

In the books of Mr. Black

Trading Account for the year ended 31.3.2011

Particulars	₹	Particulars	₹
To Opening Stock	2,70,000	By Sales	18,00,000
To Purchases	12,90,000	By Closing Stock at cost	3,60,000
To Gross Profit	6,00,000	(₹ 1,62,000 × $\frac{100}{90}$)	
	21,60,000		21,60,000

Memorandum Trading A/c

for the period from 1.4.2007 to 02.06.2007

Particulars		₹	Particulars		₹
To Opening Stock at cost		3,60,000	By Sales	9,60,000	
To Purchases	4,50,000		Less : Goods not		
Add : Goods received but	60,000		Dispatched	1,50,000	8,10,000
invoice not received			By Closing stock (bal. fig.)		3,00,000
	5,10,000				
Less : Machinery	30,000	4,80,000			
To Gross Profit (Refer working note)		2,70,000			
		11,10,000			11,10,000

Calculation of Insurance Claim

Claim subject to average clause = Actual loss of stock x Amount of Policy / Value of stock

on the date of fire = ₹ 3,00,000 × $\frac{₹\ 2,40,000}{₹\ 3,00,000}$ = ₹ 2,40,000

Working Note :

G.P. ratio = $\frac{₹\ 6,00,000}{₹\ 18,00,000}$ × 100 = 33.33%

• Salvaged stock amounting ₹ 45,000 handed over to the insurance company is also a loss to Mr. White.

Q. 11. The following is the Income and Expenditure Account of Mumbai Youth Club for the year ended 31st March, 2011.

Dr. **Income and Expenditure Account for the year ended 31st March, 2011** ***Cr.***

	Particulars	₹	Particulars	₹
To	Salaries	19,500	By Subscription	68,000
To	Rent	4,500	By Donation	5,000
To	Printing	750		
To	Insurance	500		
To	Audit Fees	750		
To	Games and Sports	3,500		
To	Subscription Written off	350		
To	Misc. Expenses	14,500		
To	Loss on sale of furniture	2,500		
To	Depreciation:			
	Sports Equipment	6,000		
	Furniture	3,100		
To	Excess of income over expenditure	17,050		
		73,000		73,000

Additional Information :

	31.3.2010 ₹	31.3.2011 ₹
Subscription in arrears	2,600	3,700
Advance Subscription	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fees	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	—	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2010, there was no cash in hand but Bank Overdraft for ₹ 15,000. On 31st March, 2011 Cash in hand amounted to ₹ 850 and the rest was Bank balance.

Prepare Receipts and Payment Account of the club for the year ended 31st March, 2011.

Answer 11.

Dr. **Income and Expenditure Account for the year ended 31st March, 2011** ***Cr.***

Particulars	₹	Particulars		₹
To Subscription A/c (1)	67,050	By Balance b/d		15,000
To Donation A/c	5,000	Bank		
To Entrance Fees A/c	4,000	By Salary	19,500	
To Furniture A/c (Sale of Furniture)	4,500	Add : Outstanding last year	1,200	
		Less : Outstanding this year	350	20,350
		By Rent	4,500	
		Add : Outstanding last year	500	
		Less : Outstanding this year	800	4,200
		Printing		750
		By Insurance	500	
		Add : Prepaid this year	150	650
		By Audit Fees	750	
		Add : Outstanding last year	500	
		Less : Outstanding this year	750	500
		By Games & Sports		3,500
		By Misc. Expenses A/c		14,500
		By Sports Equipment A/c (Purchased) (2)		5,000
		By Furniture A/c (Purchased)(3)		8,000
		By Balance c/d		
		Cash		850
		Bank (balancing figure)		7,250
	80,550			80,550

Working Notes :

1. Calculation of subscription received during the year 2010-11.

	₹	₹
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2010-11	3,700	
Advance in 2010-11	1,000	4,700
		63,300
Add: Arrears of 2009-10	2600	
Advance for 2011-12	1,500	4,100
		67,400
Less: Written off during 2010-11		350
		67,050

2. Calculation of Sports Equipment Purchased during 2010-11.

Dr. **Sports Equipment Account** *Cr.*

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	25,000	By Income & Expenditure A/c	6,000
To Receipts and Payment A/c	5,000	(depreciation)	
(balancing figure)		By Balance c/d	24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2010-11

Dr. **Furniture Account** *Cr.*

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	30,000	By Receipts and Payment A/c*	4,500
To Receipts and Payment A/c	8,000	By Income & Expenditure A/c	2,500
(balancing figure)		(loss on sale)	
		By Income & Expenditure A/c	3,100
		(Depreciation)	
		By Balance c/d	27,900
	38,000		38,000

*** Sale Value of furniture, having book value of ₹ 7,000 ans sold at a loss of ₹ 2,500, is ₹ 4,500.**

Q. 12. The Balance Sheet of Central City College as at 31st March, 2011 was as follows :

Liabilities	Amount ₹ in lakhs	Assets	Amount ₹ in lakhs
Capital Fund	21	Land & Buildings	20
Building Construction Fund	8	Furniture	3
General Fund Outstanding	6.4	Laboratory Equipment	2.5
Salary (teachers)	1.6	Library Books	3.6
		Investments	6.5
		Accrued Tution Fee	0.1
		Cash & Bank	1.3

The Receipts and Payments account for the year ended 31st March 2011 was drawn as under :

Receipts	Amount ₹ in lakhs	Payment	Amount ₹ in lakhs
To Opening Balance (1.4.2011)	1.3	By Salaries & Allowances	
To Govt. Grants (revenue)	50	– Teaching Staff	42
To Donation for Building	2	By Non-Teaching Staff	20
Constraction		By Printing & Stationery	0.8

To Tuition Fees & Session Charges	18.2	By Laboratory Expenses	0.6
To Investment income	0.7	By Laboratory Equipment	1.2
To Rental Income (College Hall)	0.4	By Library Books	2.5
		By Office Expenses	0.6
		By Electricity & Telephone	0.75
		By Audit Fees	0.02
		By Municipal Taxes	0.01
		By Building Repairs	0.4
		By Purchase of furnitures	0.8
		By Games & Sports	0.2
		By Welfare Expenses	0.3
		By New Investments	1.5
		By Closing Balance (31.3.2012)	0.92
	72.60		72.60

Other Information :

(i) Tution fee outstanding as on 31.3.2012- ₹ 40,000

(ii) Salary of teaching staff outstanding for March 2012- ₹ 2,50,000

(iii) Books received as donations from various parties- ₹ 30,000

(iv) Outstanding Building repair expenses as on 31.3.2012- ₹ 15,000

(v) Applicable depreciation rates;

Land & Building	**2%**
Furniture	**8%**
Laboratory Equipment	**10%**
Library Books	**20%**

You are required to prepare the Income and Expenditure account for the year ended 31st March, 2012 and a Balance Sheet as on that date.

Answer 12.

Cetral City College

Dr. **Income and Expenditure Account for the year ended 31st March, 2011** ***Cr.***

Particulars	₹	₹	Particulars	₹	₹
To Salaries			By Tuition Fees & Session	18,00,000	
Teaching staff	42,00,000		Charges		
Add: Outstanding	2,50,000		Add : Outstanding	40,000	
	44,50,000			18,60,000	
Less: Last year liability	1,60,000	42,90,000	Less : Accrued last year	10,000	18,50,000
To Non-Teaching Staff		20,00,000	By Revenue Grant		50,00,000
To Building Repairs	40,000		By Investment Income		70,000
Add: Outstanding	15,000	55,000	By Rental Income		40,000
To Printing & Stationery		80,000	By Value of donation of books		30,000
To Laboratory Expenses		60,000			

To Electricity & Telephone		75,000			
To Audit Fee		2,000			
To Municipal Tax		1,000			
To Games & Sports		20,000			
To Welfare Expenses		30,000			
To Office Expenses		60,000			
To Depreciation:					
Building	40,000				
Furniture	30,400				
Lab. Equipment	37,000				
Books	1,28,000	2,35,400			
To Excess of income over Expenditure Transferred to General Fund		81,600			
		69,90,000			69,90,000

Balance Sheet as on 31.3.2011

Liabilities	₹	₹	Assets	₹	₹
Capital Fund		21,00,000	Land & Buildings	20,00,000	
Building contribution	8,00,000		Less : Depreciation	40,000	19,60,000
Fund			Furniture	3,00,000	
Add: Donation	2,00,000	10,00,000	Additions	80,000	
General Fund	6,40,000			3,80,000	
Add:Transfer from income			Less : Depreciation	30,400	3,49,600
& Expenditure A/c	81,600	7,21,600	Lab Equipment	2,50,000	
Outstanding Teachers'			Addition	1,20,000	
Salary		2,50,000		3,70,000	
Outstanding Building			Less : Depreciation	37,000	3,33,000
Repair Expenses		15,000	Library Books	3,60,000	
			Addition	2,50,000	
			Donated Value	30,000	
				6,40,000	
			Less : Depreciation	1,28,000	5,12,000
			Investments	6,50,000	
			Addition	1,50,000	8,00,000
			Tuition Fee accrued		40,000
			Cash and Bank		92,000
		40,86,600			40,86,600

Q. 13. On 31st On 31st December, 2011 Narayana Murthi Ltd. was incorporated whith an authorized share capital of ₹ 20,00,000 in share of ₹ 10 each to take over the business on that date by the partnership A, B and C.

The Balance Sheet of the partnership on 31st December, 2011 showed the following position.

Dr. **Partners' Capital Accounts** ***Cr.***

Capital & Current A/c	A	B	C	Total	Represented by	Cost	Depre	Total
Capital Accounts :	2,40,000	1,80,000	1,50,000	5,70,000	Fixed Assets :			
					Freehold land and			
Current Accounts :					buildings	2,60,000	—	2,60,000
Balance as on					Plant and Machinery	4,20,000	2,20,000	2,00,000
31.12.2010	1,19,400	84,800	60,000		Motor Vehicles	1,97,000	47,000	1,50,000
Add : Interest on						8,77,000	2,67,000	6,10,000
Capital Accounts	7,200	5,400	4,500		Current Assets :			
Add : Share of profit					Stock		2,24,000	
for the year	61,260	61,260	40,840		Debtors		1,22,000	
	1,87,860	1,51,460	1,05,340		Balance at Bank		1,97,000	
Less : Drawings	89,260	87,260	40,640				5,43,000	
	98,600	64,200	64,700	2,27,500	Less : Creditors		3,56,000	1,87,000
				3,42,500				3,42,500

You are given the following information :

(i) Freehold land and buildings are to be transferred to the limited company at a valuation of ₹ 3,00,000 and Plant and Machinery at ₹ 1,50,000. Stocks, debtors and creditors are to be transferred to the company at book value as on 31st December, 2011.

(ii) The motor vehicles are to be withdrawn from the business by the partners at the following valuation :

A ₹ 49,000; B ₹ 35,000; and C ₹ 36,000.

(iii) It is estimated that the company will require an opening balance at bank of ₹ 1,50,000.

(iv) Sufficient 9% Unsecured Debenture is to be issued by the company to the partners so that they will receive the same interest as received on capital in the partnership for the year ended 31st December, 2011.

(v) Equity Shares are to be issued at par to each partner in the proportion to their shares in the partnership profits.

(vi) Any surplus or deficiency on partners' account on realization after taking into account debentures and shares issued is to be withdrawn or paid in, whichever the case may.

Required **:**

(a) Your computation of the Shares and Debentures in Narayana Murthi Ltd. to be issued to each partners,

(b) Partners' Capital Accounts in columnar form; and

(c) A Balance Sheet of the company upon completion.

Answer 13.

Computation of Debentures to be issued to each Partners

Partners	Interest on Capital for the year ended 31.12.2011	9% Debentures to be issued
A	₹ 7,200	₹ 7,200 × $\frac{100}{9}$ = ₹ 80,000
B	₹ 5,400	₹ 5,400 × $\frac{100}{9}$ = ₹ 60,000
C	₹ 4,500	₹ 4, 500 × $\frac{100}{9}$ = ₹ 50,000

Computation of Shares to be Issued

Assets and Laibilities takenover :		Sharing Profit for the year ended 31.12.2011
Freehold land and buildings	3,00,000	₹ Ratio
Plant and Machinery	1,50,000	A 61,260 3
Stock	2,24,000	B 61,260 3
Debtors	1,22,000	C 40,840 2
Bank	1,50,000	Therefore, 40,000 equity shares of ₹ 10 each will
	9,46,000	be Distributed to A, B and C as under :
Less: Creditors	3,56,000	A : 15,000; B : 15,000; C : 10,000
Purchase Consideration	5,90,000	
Less: Debentures to be issued	1,90,000	
	4,00,000	

Dr. **Partners' Capital Accounts** *Cr.*

Particulars	A	B	C	Particulars	A	B	C
To Realisation A/c (Vehicles)	49,000	35,000	36,000	By Balance b/d	2,40,000	1,80,000	1,50,000
				By Partners' Current A/c	98,600	64,200	64,700
To Realisation A/c (Loss)	15,000	15,000	10,000	By Bank A/c	—	15,800	—
To Debentures in N Ltd. A/c	80,000	60,000	50,000				
To Shares in N Ltd. A/c	1,50,000	1,50,000	1,00,000				
To Bank A/c	44,600	—	18,700				
	3,38,600	2,44,200	2,14,700		3,38,600	2,44,200	2,14,700

Realisation Accounts

Particulars	Amount ₹	Particulars	Amount ₹
To Freehold land and building A/c	2,60,000	By Provision for Depreciation A/c	
To Plant and Machinery A/c	4,20,000	Plant and Machinery	2,20,000
To Motor Vehicles A/c	1,97,000	Motor Vehicles	47,000
To Stock A/c	2,24,000	By Creditors A/c	3,56,000
To Debtors A/c	1,22,000	By N Ltd. A/c (Purchase	
To Bank A/c	1,50,000	Consideration)	5,90,000
		By Partners' Capital A/cs Vehicles taken over :	1,20,000
		By Partners' Capital A/cs (A- ₹ 15,000; B-₹ 15,000; C-₹ 10,000)	40,000
	13,73,000		13,73,000

Bank Accounts

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	1,97,500	By Realisation A/c	1,50,000
To Partners' Capital Account :		By Partners' Capital Account :	
B	15,800	A	44,600
		C	18,700
	2,13,300		2,13,300

Balance Sheet of Narayan Murthi Ltd. as on 31st December, 2011

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital :		**Fixed Assets :**	
Authorised		Freehold land and building	3,00,000
2,00,000 Equity Shares of ₹ 10 each	20,00,000	Plant and Machinery	1,50,000
Issued and Subscribed		**Current Assets :**	
40,000 Equity Shares of ₹ 10 each	4,00,000	Stock	2,24,000
Unsecured Loan :		Debtors	1,22,000
9% Debentures	1,90,000	Bank	1,50,000
Current Liabilities :			
Creditors	3,56,000		
	9,46,000		**9,46,000**

Q. 14. Ram, Lakshman and Bharat are partners, sharing Profit and loss in the ratio of 5:3:2. It was decided that Bharat would retire on 31.03.2012 and in his place Shatrughna would be admitted as a partner with new profit sharing ratio between Ram, Lakshman and Shatrughna at 3:2:1

Balance Sheet Ram, Lakshman and Shatrughna as at 31.03.2012

Liabilities		₹	Assets	₹
Capital	**Ram**	**80,000**	**Cash in hand**	**16,000**
	Lakshman	**1,20,000**	**Cash at Bank**	**80,000**
	Shatrughna	**1,60,000**	**Sundry Debtors**	**4,00,000**
General Reserve		**1,60,000**	**Stock in trade**	**1,60,000**
Sundry Creditors		**6,40,000**	**Plant and Machinery**	**2,40,000**
Loan from Shatrughna		**1,60,000**	**Land and Building**	**4,24,000**
Total		**13,20,000**	**Total**	**13,20,000**

Retirement of Bharat and admission of Shatrughna is in the following terms:

1. **Plant and Machinery to be depreciated by ₹ 24,000.**
2. **Land and Building to be valued at ₹ 4,80,000.**
3. **Stock to be valued at 95% of book value.**
4. **Provision for Doubtful debts @ 10% to be provided on debtors.**

5. **General Reserve to be apportioned amongst Ram, Lakshman and Bharat.**
6. **The firms goodwill to be valued at 2years purchase of the average profits of the last 3 years. The relevant figures are :**
   - **(a) year ended 31.03.2009 - Profit ₹ 40,000**
   - **(b) year ended 31.03.2010 - Profit ₹ 48,000**
   - **(c) year ended 31.03.2011 - Profit ₹ 44,000**

Out of the amount due to Bharat ₹ 1,60,000 would be retained as loan by the firm and the balance will be settled immediately. Shatrughna's capital should be equal to 50% of the combined capital of Ram and Lakshman.

Prepare : Capital accounts of the Partners; and Balance Sheet of the Reconstituted Firm.

Answer 14.

Partners Capital Account

Particulars	Ram ₹	Lakshman ₹	Bharat ₹	Shatrughna	Particulars	Ram ₹	Lakshman ₹	Bharat ₹	Shatrughna
To Revaluation A/c	8,000	4,800	3,200	—	By Balance b/d	80,000	1,20,000	1,60,000	—
To Loan			1,60,000	—	By General Reserve				
To Cash			46,400	—	(5:3:2)	80,000	48,000	32,000	—
To Balance b/d	1,96,000	1,89,000		—	By Goodwill (5:3:2)	44,000	26,400	17,600	—
Total	2,04,000	1,94,400	2,09,600	—	Total	2,04,000	1,94,400	2,09,600	—
To Goodwill (3:2:1)	44,000	29,334	—	14,667	By Balance b/d	1,96,000	1,89,600	—	—
To Balance c/d	1,52,000	1,60,266	—	1,56,134	By Loan				1,60,000
				(Note : 2)	By Bank (bal. fig.)				10,801
Total	1,96,000	1,89,600	—	1,70,801	Total	1,96,000	1,89,600	—	1,70,801

Note : Computation of Goodwill

1. Goodwill = 2 × Average of Last 3 years Profit

= 2 × ₹ (40,000 + 48,000 + 44,000)/3 = ₹ 1,32,000/3 = ₹ 88,000

2. Closing Capital of Shatrughna : 50% of Closing Capital of Ram and Lakshman

= 50% of ₹ (1,52,000 + 1,60,266) = ₹ 1,56,133

3. As per AS-10 "Accounting for Fixed Assets", only purchased Goodwill should be recorded in the books.

Hence, the goodwill created upon retirement of Bharat is written off between new partners in the new profit sharing ratio.

2. Revaluation Account

Particulars	₹	Particulars	₹
To Plant and Machinery	24,000	By Land and Building	56,000
To Stock	8,000	By Loss on Revaluation	
To Debtors	40,000	– Ram	8,000
		– Lakshman	4,800
		– Bharat	3,200
Total	72,000	Total	72,000

3. Balance Sheet as at 31.03.2012 after admission of Shatrughna

Liabilities		₹	Assets	₹
Partner's	Ram	1,52,000	Plant and Machinery	2,16,000
	Lakshman	1,60,266	Land and Building	4,80,000
	Shatrughna	1,56,134	Cash in Hand	16,000
Sundry Creditors		6,40,000	Cash at Bank	44,400
Loan from Bharat		1,60,000	Debtors	3,60,000
			Stock in Trade	1,52,000
		12,68,401		12,68,400

Q. 15. (a) M,N and O were partners sharing profits in the ratio of 9:4:3 respectively. It was provided for in the partnership deed that in the event of death or retirement of a partner, his legal representatives would receive: (*a*) the balance at the credit of his capital account as at that date, (*b*) his share of goodwill as calculated on the basis of two and a half years, purchase of average profits of the previous four years and (*c*) his share of profit from the date of last accounting to the date of death or retirement on the basis of profit for the previous year.

O died on 16th December, ₹ 2010. His capital on 1st April, 2010 was ₹ 70,000 and drawings to the date of death were ₹ 12,000. The profit of the firm were 2006-07 ₹ 85,500; 2007-08 ₹ 1,02,500; 2008-09 ₹ 1,08,000 and 2009-10 ₹ 1,32,000, the account having been closed every year on 31st March. The partners had severally insured their lives as follows : M- ₹ 1,00,000, N- ₹ 80,000 and O- ₹ 60,000: the premium were charged to Profit & Loss Account . The surrender values of the policies at the time of O's death were 25 % of the face value.

Prepare O's Capital Account, showing the amount payable to O's Executor.

(b) The firm of ABC was dissolved on 31.3.2012 at which date its Balance Sheet stood as :

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	**3,00,000**	**Fixed Assets**	**67,50,000**
Bank Loan	**7,50,000**	**Cash at Bank**	**3,00,000**
A's Loan	**15,00,000**		
Capital :			
A	**22,50,000**		
B	**15,00,000**		
C	**7,50,000**		
	70,50,000		**70,50,000**

Partners share profits equally. A firm of Chartered Accountant is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which are to include all expenses is fixed at ₹ 1,50,000. No loss is expected on realization; semi-fixed assets include valuable land and building.

Realisation are :

1. ₹ 7,50,000 (including Cash and Bank); 2. ₹ 22,50,000; 3. ₹ 22,50,000; 4. ₹ 45,00,000.

The Chartered Account firm decided to pay off the partner in High Relative Capital Method.

You are required to prepare a statement showing distribution of Cash with necessary working.

Answer 15. (a)

(i) Calculation of O's Share of Goodwill :

Total Profits for the last four years = ₹ (85,500 + 1,02,500 + 1,08,000 + 1,32,000) = ₹ 4,28,000

Average Profit = ₹ 4,28,000/4 = ₹ 1,07,000

Total Goodwill at $2\frac{1}{2}$ years purchase = ₹ 1,07,000 $\times \frac{5}{2}$ = ₹ 2,67,500

O's share = ₹ 2,67,500 $\times \frac{3}{16}$ = ₹ 50,156.25

(ii) O's share of profit for $8\frac{1}{2}$ months up to the date of his death on the basis of profits for the year 2009-10 :

₹ $\frac{1,32,000}{12} \times \frac{17}{2} \times \frac{3}{16}$ = ₹ 17,531.25

(iii) O's share of policies :

	₹
O's policy	60,000
Surrender values of M's and N's policies (₹ 25,000 + ₹ 20,000)	45,000
	1,05,000

O's share ₹ 1,05,000 $\times \frac{3}{16}$ = ₹ 19,687.50

O's Capital Account

Date	Particulars	₹	Date	Particulars	₹
2010			2010		
Dec 15	To Drawings	12,000.00	April 15	By Balance b/d	70,000.00
"	To O's Executors A/c - Transfer	1,45,375.00	Dec. 15	By Goodwill	50,156.25
			"	By Profit & Loss A/c	17,531.25
			"	By Insurance Policies A/c	19,687.50
		1,57,375.00			1,57,375.00

Answer 15. (b)

Computation of Absolute Surplus :

	A ($\frac{1}{3}$)	B ($\frac{1}{3}$)	C ($\frac{1}{3}$)
Capital as per Balance Sheet	22,50,000	15,00,000	7,50,000
Less : Capital as per profit-sharing ratio taken C's capital as basis	7,50,000	7,50,000	7,50,000
	15,00,000	10,00,000	—
Less : Capital as per profit-sharing ratio, Taken B's Capital as basis	7,50,000	7,50,000	
Absolute Surplus	7,50,000		

Statement showing the Distribution

Particulars	Total Realisation ₹	Creditors	Loan	Bank/A's Loan	Capital		
					A ₹	B ₹	C ₹
Amount Due		3,00,000	7,50,000	15,00,000	22,50,000	15,00,000	7,50,000
Payment out of 1st Realisation	7,50,000						
Less: Liquidation Expenses	1,50,000						
Balance to creditors and Bank	6,00,000	1,71,429	4,28,571				
Loan in 2:5		1,28,571	3,21,429				
Payment out of 2nd Realisation							
₹ 1,28,571 To Creditor							
₹ 3,21,429 To Bank Loan		1,28,571	3,21,429				
₹ 15,00,000 To A's Loan							
₹ 3,00,000 Balance to A				15,00,000	3,00,000		
₹ 22,50,000	22,50,000				19,50,000		
Payment out of 3rd Realization					4,50,000		
₹ 4,50,000 To A					15,00,000	15,00,000	
₹ 7,50,000 To A					7,50,000	7,50,000	
₹ 7,50,000 To B					7,50,000	7,50,000	7,50,000
₹ 3,00,000 To A, B and C					1,00,000	1,00,000	1,00,000
₹ 22,50,000	22,50,000				6,50,000	6,50,000	6,50,000
Payment out of 4th Realisation							
₹ 45,00,000 to A,B and C equally	45,00,000				15,00,000	15,00,000	15,00,000
Profit Realisation	45,00,000				8,50,000	8,50,000	8,50,000

Alternatively, applying Maximum possible loss method :

Particulars	₹	Total ₹	Creditors ₹	Loan ₹	Bank/A's ₹	Capital		
						A ₹	B ₹	C ₹
Balance Due		70,50,000	3,00,000	7,50,000	15,00,000	22,50,000	15,00,000	7,50,000
Cash at Bank	3,00,000							
(+)1st Realisation	4,50,000							
	7,50,000							
(-)Liquidation Exp.	1,50,000							
Available Cash	6,00,000	6,00,000	1,71,429	4,28,571	—	—	—	—
To be distributed								
in o/s liability								
ratio (30:75)								
		64,50,000	1,28,571	3,21,429	15,00,000	22,50,000	15,00,000	7,50,000
2nd Realisation	22,50,000							
(-) payment to								
Creditors	1,28,571							
(-) payment of		1,28,571						
Bank Loan	3,21,429							
Available cash	18,00,000	3,21,429	1,28,571	3,21,429				
		60,00,000						
(-)L's Loan	15,00,000	15,00,000			15,00,000			
		45,00,000	Nil	Nil	Nil	22,50,000	15,00,000	7,50,000

Balance Due								
Available cash	3,00,000	(-)3,00,000						
Maximum Loss (in Capital contribution ratio) i.e. 3:2:1		42,00,000				(21,00,000)	(14,00,000)	(7,00,000)
Payment to Partners						1,50,000	1,00,000	50,000
Balance Due	42,00,000					21,00,000	14,00,000	7,00,000
3rd Realisation	22,50,000							
Maximum Loss (in Capital contribution ratio) i.e. 3:2:1	19,50,000					(9,75,000)	(6,50,000)	(3,25,000)
Payment to Partners						11,25,000	7,50,000	3,75,000
Balance Due	19,50,000					9,75,000	6,50,000	3,25,000
4th Realisation	45,00,000							
Profit (in Capital contribution ratio) i.e. 3:2:1	25,50,000					12,75,000	8,50,000	4,25,000
						22,50,000	15,00,000	7,50,000

Q. 16. (a) Rajput Ltd. operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price plus 20%. Following is the information regarding one of the outlets for the year ended 31.03.2012 :

	₹		₹
•Stock at outlet, 01.04.2011	**60,000**	**• Goods-Lost-by fire**	**?**
•Goods invoiced to the outlet during the year	**6,48,000**	**• Expenses of the outlet for the year**	**40,000**
•Gross Profit made by the outlet	**1,20,000**	**• Stock at the outlet 31.03.2012**	**72,000**

You are required to prepare the following accounts in the books of Rajput Ltd. for the year ended 31.03.2012; (*a*) Outlet Stock Account; (*b*) Outlet Profit and Loss Account; (*c*) Stock Reserve Account.

(b) M Ltd. Has a retail branch at Noida. Goods are sold on 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Calcutta head office to Noida branch at wholesale price. From the following particulars , ascertain the profit made at head office and branch for the year ended 31.12.2011:

	H.O (₹)	**Branch (₹)**		**H.O (₹)**	**Branch (₹)**
Stock on 1.1.2011	**1,75,000**	**-**	**Expenses (Selling)**	**56,000**	**7,000**
Purchases	**10,50,000**	**-**	**Sales**	**10,71,000**	**3,50,000**
Goods sent (invoice price)	**3,78,000**	**-**	**Stock on 31.12,2011**	**4,20,000**	**63,000**

Answer 16. (a)

Let the Cost Price be ₹ 100, Wholesale price = Cost Price + 25% .i.e. ₹ 100 + ₹ 25 = ₹ 125. Similarly, Retail Price = Wholesale price + 20% of Wholesale price = ₹ 125 + ₹ 25 = ₹ 150. Gross Profit = Wholesale Price-Retail Price.

In the books of Rajput Ltd.

Dr. **Outlet Stock Account** *Cr.*

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011	To Balance b/d	60,000	2012	By Sales A/c	7,20,000
April 1			Mar. 31	By Abnormal Loss A/c	
				- Destroyed by fire (bal. fig.)	36,000
2012	To Goods sent to outlet A/c	6,48,000			
Mar. 31	To Outlet P & L A/c	1,20,000		By Balance c/d	72,000
	- Gross Profit c/d	8,28,000			8,28,000

Dr. **Outlet Profit and Loss Account** *Cr.*

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Expenses A/c	40,000	?	By Outlet Stock A/c	1,20,000
				- Gross Profit b/d	
	To Abnormal Loss A/c				
	- Destroyed by fire	36,000			
	To General Profit & Loss A/c	44,000			
	- Net Profit	1,20,000			1,20,000

Dr. **Stock Reserve Account** *Cr.*

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012	To Balance c/d	14,400	?	By Balance b/d	12,000
Mar. 31				- Opening Stock Reserve	
				By General Profit & Loss A/c	2,400
		14,400			14,400

Working :

1. Retail Sale Price
   = ₹ 1,20,000 × (150/25) = ₹ 7,20,000
2. Opening Stock Reserve
   = ₹ 60,000 × (25/125) = ₹ 12,000
3. Closing Stock Reserve
   = ₹ 72,000 × (25/125) = ₹ 14,400
4. Abnormal Loss/Destroyed by fire
   This amount has already been found out which is the difference or balancing figures in Outlet Stock A/c.
   (i.e. ₹ 60,000 + ₹ 6,48,000 + ₹ 1,20,000)

Answer 16. (b)

Dr. **Head Office Trading and Profit & Loss Account** ***Cr.***

Particulars	₹	₹	Particulars	₹	₹
To Opening Stock	1,75,000	–	By Sales	10,71,000	3,50,000
To Purchases	10,50,00	–	By Goods Sent to Branch	3,78,000	–
To Goods Sent to Branch	–	3,78,000	By Closing Stock	4,20,000	63,000
To Gross Profit c/d	6,44,000	35,000			
	18,69,000	4,13,000		18,69,000	4,13,000
To Expenses (Selling)	56,000	7,000	By Gross Profit b/d	6,44,000	35,000
To Stock Reserve (Note 1)	18,000	–			
To Net Profit	5,70,000	28,000			
	6,44,000	35,000		6,44,000	35,000

Working Notes :

(1) Goods sent to branch at invoice price should be treated as sale of the head office. Some of the goods are still unsold at the branch. For calculating actual profit of the head office, a stock reserve is to be created by debiting head office Profit and Loss Account. The amount of loading will be 40/140 × ₹ 63,000 = ₹ 18,000.

Q. 17. A firm has two departments- Cloth and ready-made clothes department. The cloths are made by the firm itself out of cloth supplied by the cloth department at its usual selling price. From the following figures, prepare departmental Profit and Loss Account for the year 2011 :

	Cloth Department	Ready-made clothes Department
Opening Stock	**1,44,000**	**28,800**
Purchases	**10,80,000**	**14,400**
Sales	**12,00,000**	**3,60,000**
Transfer to Ready-made clothes department	**2,40,000**	**—**
Expenses –Manufacturing	**—**	**40,800**
Expenses- selling	**24,000**	**2,400**
Closing Stock	**1,80,000**	**36,000**

The stocks in the ready-made clothes department may be considered as consisting of 80% cloth and the rest as expenses. The cloth department made a gross profit of 25% in 2010. General expenses of the business as a whole came to ₹ 1,08,000.

Answer 17.

Dr. **Departmental Profit & Loss Account for the year 2011** ***Cr.***

Particulars	Clothes ₹	Ready-made clothes ₹	Particulars	Clothes ₹	Ready-made clothes ₹
To Opening Stock	1,44,000	28,800	By Sales	12,00,000	3,60,000
To Purchases	10,80,000	14,400	By Ready-made department (transfer)	2,40,000	—
To Cloth Department Transfer	—	2,40,000	By Closing stock	1,80,000	36,000
To Manufacturing expenses	—	40,800			
To Gross Profit c/d	3,96,000	72,000			
	16,20,000	3,96,000		16,20,000	3,96,000
To General Expenses (ratio of sales 24:6)	86,400	21,600	By Gross Profit b/d	3,96,000	72,000
			By Stock	5,760	—
To Selling Expenses	24,000	2,400			
To Stock Reserve (closing)	7,920	—			
To Net Profit	2,83,440	48,000			
	4,01,760	72,000		4,01,760	72,000

Working Notes :

(i) Opening stock Reserve

Cost of cloth in ready-made department

80% of ₹ 28,800 ₹ 23,040

Gross Profit @ 25% ₹ 5,760

(ii) Gross Profit Rate in cloth department in 2011

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 \text{ or, } \frac{3,96,000}{14,40,000} \times 100 = 27.5\%$$

(iii) Stock Reserve on closing stock in 2011 : 27.5% of ₹ 28,800 = ₹ 7,920.

Alternatively, stock reserve may be charged to combined Profit and Loss Account.

Q. 18. (a) M Ltd. sold its building for ₹ 100 to N Ltd. and has also given the possession to N Ltd. The book value of the building is ₹ 60 Lakhs. As on 31st March 2012, the documentation and legal formalities are pending. The company has not recorded the sale and has shown amount received as advance. Do youagree with this treatment?

(b) A major fire has damaged the assets in a factory of a limited company on 2nd April-two days after the year end closure of account. The loss is estimated at ₹ 10 crores out of which ₹ 6 crores will be recoverable from the insurers. Explain briefly how the loss should be treated in the final accounts for the previous year.

(c) Some long term investment no longer considered for holding purpose, to be reclassified as current investment. The original cost of these was ₹ 32 lakhs but had been written down to ₹ 14 lakhs to recognise permanent decline, as per AS-13.

Answer 18. (a)

The economic reality and substance of the transaction is that the right and beneficial interest in the property has been transferred although legal title has not been transferred. M Ltd. should record the sale and recognize the profit of ₹ 40 lakhs in its Profit and loss Account. The building should be eliminated from the Balance Sheet.

Answer 18. (b)

Disclosure of the event should be made in the report of the approving authority. If it is considered that loss will effect going concern then accounts have to be prepared by not following going concern assumption.

Answer 18. (c)

The transfer should be made at carrying amount (being lower of ₹ 32 lakhs and ₹ 14 lakhs) and hence these reclassified current investments should be carried at ₹ 14 lakhs.

Q. 19. (a) Ice crème Ltd. takes over Cake Ltd. on April 01, 2012 and discharges consideration for the business as follows :

(i) Issued 25,000 fully paid equity shares of ₹ 10 each at par to the equity shareholders of Cake Ltd.

(ii) Issued fully paid up 18% Preference Shares of ₹ 100 each to discharge the preference shareholders (₹ 1,80,000) of Cake Ltd. at a premium of 10%.

(iii) It is agreed that the debentures of ₹ Cake Ltd. (₹ 1,00,000) will be converted into equal number and amount of 13% debentures of Ice crème Ltd.

Calculate the purchase consideration.

(b) What is the accounting entry to be passed as per AS-10 for the following situations :

(i) Increase in value of fixed assets by ₹ 20,00,000 on account of revaluation.

(ii) Decrease in the value of fixed asset by ₹ 20,00,000 on account of revaluation.

(c) A company uses horses to transport material from one place to another place on hilly area where construction activity is going on. It purchased 4 horses for ₹ 1,00,000 on 01.04.2006. Useful life of the horse was estimated at 8 years, the company decided to write off depreciation on horses as per SLM over 5 years. Comment.

Answer 19. (a)

Calculation of purchase consideration :

(i)	25,000 equity shares @ ₹ 10	= ₹ 2,50,000
(ii)	18% Preference shares of ₹ 1,80,000 × 110%	= ₹ 1,98,000
		₹ 4,48,000

(iii) Not to be included in purchase consideration as it is payment to debentureholders.

Answer 19. (b)

The entries are :

(a) Fixed Asset A/c To, Revaluation Reserve A/c (Increase in Value of fixed assets by revaluation)	Dr.	₹ 20,00,000	 ₹ 20,00,000
(b) Profit and Loss A/c To, Fixed Assets (Decrease in value of fixed by downward revaluation assuming that there was no upward revaluation of this asset earlier)	Dr.	₹ 20,00,000	 ₹ 20,00,000

Answer 19. (c)

The treatment followed by the company is not correct as per AS-6 Para 1(v) Depreciation Accounting is not applicable to Live Stock.

Q. 20. (a) Amrit Co. Ltd. had deferred research and development cost of ₹ 200 lakhs. Sales expected in the subsequent years are as under :

Years	Sales (₹ in lakhs)
I	500
II	375
III	250
IV	125

You are asked to suggest how should research and development cost is to be charged to Profit and Loss Account.

If at the end of the III year, it is felt that no further benefit will accrue in the IV year, how the unamortized expenditure would be dealt with in the account of the company?

(b) Write a note on Pre–incorporation expenses.

Answer 20. (a)

Years	Research and Development cost allocation (₹ in lakhs)
I	$\frac{500}{1,250} \times 200 = 80$
II	$\frac{375}{1,250} \times 200 = 60$
III	$\frac{250}{1,250} \times 200 = 40$
IV	$\frac{125}{1,250} \times 200 = 20$

If at the end of III year, the circumstances do not justify that further benefit will accrue in IV year, then the company has to charge the unamortized amount i.e. remaining ₹ 60 lakhs i.e. [₹ 200 – (80+60)] as an expense immediately.

Answer 20. (b)

Pre–incorporation expenses denote expenses incurred by the promoters for the purposes of the company before its incorporation.

Broadly, these include expenses in connection with :

(a) preliminary analysis of the conceived idea,

(b) detailed investigation in terms of technical feasibility and commercial viability to establish the soundness of the proposition,

(c) preparation of 'project report' or 'feasibility report' and its verification through independent appraisal authority (before giving final approval to the proposition) and

(d) organisation of funds, property and managerial ability and assembling of other business elements.

These expenses should be properly capitalised and shown in the balance sheet under the heading "Miscellaneous Expenditure". There is no legal requirement to write–off these expenses to profit and loss account within any specified period of time nor is there any rigid accounting convention in regard to this matter. However, good corporate practice recognises the need to write off these expenses to profit and loss account within a period of 3 to 5 years.

Q. 21. Utkal Ltd. makes an issue of 15,000 Equity Shares of Rs.100 each at a premium of Rs.12.50 per share payable as follows :

(i) ₹ 12.50 on Application

(ii) ₹ 25.00 on Allotment (including Premium)

(iii) ₹ 50.00 on First Call

(iv) ₹ 15.00 on Second Call

(v) ₹ 10.00 on Final Call

The application and allotment money is duly received and, in addition, holders of 7,500 shares paid in full on allotment. Holders of 300 shares fail to pay the first call and, after due notice, their shares are forfeited. The amounts payable on second call (made after the forfeiture) are paid in full except that a holder of 150 shares fails to pay. 225 of the 300 shares forfeited are reissued, credited with ₹ 90 paid for ₹ 65 per share. The new holder pays for these shares in full. The balance of ₹ 10 per shares is being treated as call-in-advance. The final call is met in full invluding the arrear of the second call.

Show the necessary journal entries including cash in the books of Utkal Ltd.

Answer 21.

In the books of Utkal Ltd.

Date	Particulars	L.F	Debit ₹	Credit ₹
?	Bank A/c Dr. To Equity Share Application A/c (Application money of 15,000 shares @ ₹ 12.50 received)		1,87,500	 1,87,500
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Application money of 15,000 Shares @ ₹ 12.50 transferred to Share Capital A/c as per Board's Resolution dated ......)		1,87,500	 1,87,500

Contd....

Date	Particulars		L.F	Debit ₹	Credit ₹
	Equity Share Allotment A/c	Dr.		3,75,000	
	To Equity Share Capital A/c				1,87,500
	To Securities Premium A/c				1,87,500
	(Allotment money of 15,000 shares @ ₹ 12.50 transferred to Share Capital A/c and the premium money transferred to Securities Premium A/c as per Board's Resolution dated...)				
	Bank A/c	Dr.		9,37,500	
	To Equity Share Allotment A/c				3,75,000
	To Calls-in-Advance A/c				5,62,500
	(Allotment money together with premium of 15,000 shares @ ₹ 25.00 and advance paymentof call money on 7500 shares @ ₹ 75 received)				
	Equity Share First Call A/c	Dr.		7,50,000	
	To Equity Share Capital A/c				7,50,000
	(Share First Call money of 15,000 shares @ ₹ 50 shares transferred to Share Capital A/c as per Board's Resolution dated ......)				
	Bank A/c	Dr.		3,60,000	
	Calls-in-Advance A/c	Dr.		3,75,000	
	Calls-in-Arrear A/c	Dr.		15,000	
	To Equity Share First Call A/c				7,50,000
	(Share First Call money received, except on 300 shares)				
	Equity Share Capital A/c (300 × 75)	Dr.		22,500	
	To Calls-in-Arrear A/c				15,000
	To Share Forfeiture A/c				7,500
	(300 shares were forfeited for non-payment of share first call money of ₹ 50 per share as per Board's Resolution dated.....)				
	Equity Share Second Call A/c (14,700 × ₹ 15)	Dr.		2,20,500	
	To Equity Share Capital A/c				2,20,500
	(Share second call money of 14,700 shares @ ₹ 15 per share transferred to Share Capital A/c as per Board's Resolution dated.....)				
	Bank A/c	Dr.		1,05,750	
	Calls-in-Advance A/c (7,500 × ₹ 15)	Dr.		1,12,500	
	Calls-in-Arrear A/c (150 × ₹ 15)	Dr.		2,250	
	To Equity Share Second Call A/c				2,20,500
	(Share Second Call money received except on)				

	Bank A/c (225 × ₹ 65)	Dr.		14,625	
	Share Forfeiture A/c	Dr.		5,625	
	To Equity Share Capital A/c (225 × ₹ 90)				20,250
	[225 (out of 300 forfeited shares) shares were reissued at ₹ 65 each, credited to ₹ 90 per share as per Board's Resolution dated.....]				
	Bank A/c (225 × ₹ 10)	Dr.		2,250	
	To Calls-in-Advance A/c				2,250
	(New holders paid in full, i.e. ₹ 10 per share in advance)				
	Equity Share Final Call A/c	Dr.		1,49,250	
	To Equity Share Capital A/c				1,49,250
	(Share final call money of 14,925 shares @ ₹ 10 transferred to Share Capital A/c as per Board's Resolution dated.....)				
	Bank A/c	Dr.		74,250	
	Calls-in-Advance A/c	Dr.		77,250	
	To Equity Share Final Call A/c				1,49,250
	To Calls-in Arrear A/c				2,250
	(Share final call money received on 14,700 shares @ ₹ 10 together with the arrears of share second call money)				

Q. 22. (a) Autumn Ltd. issued 1,20,000 Equity shares of ₹ 10 each . It wanted to buy back 20,000 equity shares at par. It issued 6% 2,000 Preference Shares of ₹ 100 each, the proceeds being utilized for the purpose of buy-back. Expenses relating to the buy-back amounted to ₹ 18,000.

Show entries.

(b) Bhagavati Ltd. has the following capital structure on 31st March 2011.

Particulars	**₹ in crores**
Equity share capital (Share of ₹ 10 each)	**300**
Reserve :	
General Reserve	**270**
Security Premium	**100**
Profit and Loss A/c	**50**
Export Reserve (Statutory reserve)	**80**
Loan Funds	**800**

The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 12th April, 2011 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following sale of one of its divisions.

The market price was hovering in the range of ₹ 25/- and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.

Advice the company on maximum number shares that can be bought back and record journal entries for the same assuming the buyback has been completed in full within the next three months.

If borrowed funds were ₹ 1200 Lakhs, and ₹ 1500 Lakhs respectively would your answer change?

Answer 22. (a)

In the books of Autumn Ltd.

Date	Particulars		L.F	Debit ₹	Credit ₹
?	Bank A/c (2,000 × ₹ 100)	Dr.		2,00,000	
	To 6% Preference Share Capital A/c				2,00,000
	(2,000, 6% Preference Shares of ₹ 100 each issued at par as per special resolution dated....)				
	Equity Share Capital A/c (20,000 × ₹ 10)	Dr.		2,00,000	
	To Equity Shareholders A/c				2,00,000
	(20,000 equity shares are bought back at par as per special resolution dated....)				
	Equity Shareholders A/c	Dr.		2,00,000	
	To Bank A/c				2,00,000
	(Amount paid to equity shareholders)				
	Buy-back Expenses A/c	Dr.		18,000	
	To Bank A/c				18,000
	(Buy-back expenses paid)				
	Profit and Loss A/c	Dr.		18,000	
	To Buy-back Expenses A/c				18,000
	(Buy-back expenses transferred to Profit and Loss A/c)				

Answer 22. (b)

Maximum Shares that can be bought back :

		Situtation I	Situation II	Situation III
a.	Shares outstanding test (WN#1)	7.5	7.5	7.5
b.	Resource test (WN#2)	6	6	6
c.	Debt Equity Ratio test (WN#3)	10.67	4	-
d.	Maximum number of shares for Buy back –LEAST of the above	6	4	-

Particulars		Situation I		Situation II	
		Debit ₹	Credit ₹	Debit ₹	Credit ₹
a. Shares bought back A/c	Dr.	180		120	
To Bank A/c			180		120
(Being purchase of shares from public)					
b. Share Capital A/c	Dr.	60		40	
Security Premium A/c	Dr.	100		80	
General Reserve A/c	Dr.	20		-	
(Balancing figure)					
To Shares Bought back A/c			180		120
(Being cancellation of shares bought on buy back)					
c. General Reserve A/c	Dr.	60		40	
To Capital Redemption Reserve A/c			60		40
(Being transfer reserves to capital redemption reserve to the extent capital is redeemed)					

Note : Under situation III, the company does not qualify the debt equity ratio test. Therefore the company cannot perform the buy back of shares (Under section 77A of the Companies Act, 1956)

Working Notes :

WN# 1 : Shares outstanding test

	Particulars	Amount
a.	No. of shares outstanding	30 crores
b.	25% of shares outstanding	7.5 crores

WN# 2 : Resource test (₹ in crores)

	Particulars	Amount
a.	Paid up capital	300
b.	Free Reserves	420
c.	Shareholders fund (a + b)	720
d.	25% of shareholders fund	180
e.	Buyback price per share	₹ 30
f.	Number of shares that can be bought back	6 crores

WN# 3 : Resource test (₹ in crores)

	Particulars	Situation I	Situation II	Situation III
a.	Borrowed Funds	800	1200	1500
b.	Minimum equity to be maintained after buy back in the ratio 2:1	400	600	750
c.	Present equity	720	720	720
d.	Maximum possible dilution in equity	320	120	-
e.	Maximum shares that can be bought back @ ₹ 30/- per share	10.67	4	-

Q. 23. On 1-1-2007, a company issued ₹ 15,00,000 12% Debentures. According to the agreement, 25% of net profit is applied for redemption on first day of the next accounting year. By 31-12-2010, ₹ 9,00,000 debentures were redeemed. Payment of interest on debentures are made on 31st December every year. Profit for the year 2010 amounted to ₹ 9,00,000.

On 31-12-2010, Investment in Own Debenture Account showed a balance of ₹ 2,70,000 (face value ₹ 3,00,000). On 1-1-2011, Own debentures were cancelled by applying 25% of the net profit for the year 2003. On the same date, a six months notice as per the agreement was given for redemption of debenture at 10% premium. On 1-7-2011, the remaining own debentures were cancelled and redemption process was completed.

Pass the necessary journal entries.

Answer 23.

Debentures Outstanding on 1-1-2011: 15,00,000 – 9,00,000 = 6,00,000. These are redeemed as followes :

On 1-1-2011 : Cancellation of Own debentures of face value of ₹ 2,25,000

On 1-7-2011 : Redemption of ₹ 3,00,000 debentures held by outsiders by repayment.

On 1-7-2011 : Cancellation of remaining own debentures.

Debenture of Interest for 6 months on ₹ 3,75,000 — 3,00,000 (Outstanding Debentures) / 75,000 (Own Debentures)

Journal Entries

Date	Particulars		L.F	Debit ₹	Credit ₹
1-1-2011	Profit and Loss Appropriation A/c	Dr.		2,25,000	
	To General Reserve/Debenture Redemption Reserve A/c				2,25,000
	(For annual appropriation equivalent to 25% of net profit)				
	Debenture A/c	Dr.		2,25,000	
	To Own Debenture A/c				2,02,500
	To Capital reserve A/c				22,500
	(For cancellation of own debentures out of profit)				
1-7-2011	Debenture A/c	Dr.		3,00,000	
	Premium on redemption of Debenture A/c	Dr.		30,000	
	To Debentureholders A/c				3,30,000
	(For redemption of debentures held by outsiders)				
	Debentureholders A/c	Dr.		75,000	
	To Bank A/c				75,000
	(For payment to Debentureholders)				
	Debentures A/c	Dr.		75,000	
	To Own debenture A/c				67,500
	To Capital Reserve a/c				7,500
	(For calcellation of remaining own debentures)				
	Capital reserve A/c	Dr.		30,000	
	To Premium on Redemption of Debentures A/c				30,000
	(For writing off premium on redemption of debentures)				

	Debenture Interest A/c Dr.		22,500	
	To Debentureholders A/c			18,000
	To Interest on Own Debentures A/c			4,500
	(For debenture interest up to the date of redemption and cancellation)			
	Profit and Loss A/c Dr.		22,500	
	To Debenture Interest A/c			22,500
	(For transfer of debenture interest to profit and loss account)			

Q. 24. 24. The following trial balance has been extracted from the books of Sugrib Ltd. as at 31st March, 2012. You are required to prepare Profit and Loss Appropriation Account for the year ended March 31, 2012 and Balance Sheet (in a vertical form) as at that date required under Part I (B) of Schedule VI of the Companies Act, 1956.

Trial Balance as at 31st March,2012

Debit Balance	₹ ('000)	Credit Balance	₹ ('000)
Cash and Bank	**2,750**	**12% Debentures (1/4/2011)**	**15,000**
Loose Tools	**500**	**Profit and Loss (1/4/2011)**	**500**
Short Term Investments at cost	**2,250**	**Security Deposits from dealers**	**1,200**
(Market Value ₹ 22,00,000)			
Advances to Staff	**600**	**Securities Premium**	**5,000**
Debtors	**12,250**	**Investment Allowance Reserves**	**1,500**
Stores	**4,000**	**Creditors**	**11,500**
Fixed Assets	**71,500**	**Provision for Doubtful Debts**	**250**
Finished Goods	**7,500**	**Provision for Depreciation on Fixed Assets**	**15,000**
Amalgamation Adjustment	**1,030**	**Loan from Customers**	**2,000**
Advance Tax	**2,000**	**General Resrve**	**21,000**
Capital Work-in-progress	**3,200**	**Equity Share Capital (₹ 100)**	**20,000**
Interest on Debenture (net)	**1,620**	**10% Preference Share Capital (₹ 100)**	**8,000**
Interest on other loans	**800**	**Profit during the year (before Interest and Tax)**	**9,050**
	1,10,000		**1,10,000**

Additional Information :

(i) Dividend is proposed on share capital at the rate of 10%

(ii) Assume TDS on interest on debentures – 10%; corporate dividend tax- 10% ans corporate income tax-50%

(iii) Amalgamation Adjustment A/c will come in Balance Sheet under Miscellaneous Expenditure.

(iv) Schedules are not to be given. However, grouping should form part of your answer.

Answer 24.

2. Revaluation Account

Particulars	₹ ('000)	Particulars	₹ ('000)
To Proposed Dividend :		By Balance b/d	500
Equity Shares	2,000	By Net Profit	3,200
Preference Shares	800		
To Corporate Dividend Tax	280		
To Balance c/d	620		
	3,700		3,700

Balance Sheet of Sugrib Ltd.as at 31st March, 2012

	₹ ('000)	₹ ('000)
I. Source of Funds :		
1. Shareholders Fund		
a. Capital	28,000	
b. Reserves and Surplus	28,120	
2. Loan Funds:		56,120
a. Secured Loan	15,000	
b. Unsecured Loan	3,200	18,200
TOTAL		74,320
II. Application of Funds :		
1. Fixed Assets		
a. Gross Block	71,500	
b. *Less* : Depreciation	(15,000)	
c. Net Block	56,500	
d. Capital work-in-progress	3,200	59,700
2. Short term Investment at realizable value		2,200
3. Current Assets, Loan and Advances :		
a. Inventories	12,000	
b. Debtors less provision	12,000	
c. Cash and Bank Balance	2,750	
d. Loans and Advances	600	
Less : Current Liabilities and Provisions :		
a. Liabilities	(11,680)	
b. Provisions	(4,280)	
Net Current Assets		11,390
4. Miscellaneous Expenditure : Amalgamation Adjustment A/c		1,030
TOTAL		74,320

Working Notes :

Particualrs	**₹ ('000)**	**₹ ('000)**
1. Profit during the year		9,050
Less: Interest on Debenture		(1,800)
Interest on Loan		(800)
Loss on Revaluation of Investment		(50)
		6,400
Less: Tax @50%		(3,200)
Profit after Tax		3,200
2. **Provisions :**		
Provision for Income Tax	3,200	
Less: Advance Tax	(2,000)	1,200
Proposed Dividend:		
Equity Shares	2,000	
Preference Shares	800	2,800
Corporate Dividend Tax		280
		4,280
3. **Share Capital :**		
Equity Share Capital		20,000
10% Preference Share Capital		8,000
		28,000
4. **Reserves and Surplus :**		
Securities Premium		5,000
Investment Allowance Reserve		15,00
General Reserve		21,000
Profit and Loss Account		6,200
		28,120
5. **Current Assets, Loans and Advances :**		
Inventories :		
Loose Tools		500
Stores		4,000
Finished Goods		7,500
Debtors	12,250	
Less: Provisions	(250)	12,000
Cash at Bank		2,750
Advance to Staff		600
		27,350

6. **Unsecured Loans :**		
Securities Deposits from Dealers		1,200
Loan from Customers		2,000
		3,200
7. **Current Liabilities :**		
Creditors		11,500
TDS on Interest on Debentures		1,800
		11,680

Q. 25. (a) The following is the Profit and Loss Account of the Vinapani Paper Ltd. for the year ending 31st March :

Particulars	Amount ₹	Particulars		Amount ₹
To Admn, Selling & Finance Expenses	5,74,800	By Balance b/d		4,15,000
To National Defence Fund	30,000	By Balance from Trading Account		38,35,400
To Directors Fees	54,700	By Interest on Investment		11,500
To Interest on Debentures	21,050	By Transfer Fee		550
To Managing Director's Remuneration	3,75,000	By Profit on Sale of Plant		
To Depreciation of Fixed Assets	4,69,700	Amount realized	40,000	
To Provision for Taxation	11,40,000	Less: Book Value	(32,000)	8,000
To General Reserve	5,00,000			
To Debenture Sinking Fund	4,000			
To Investment Revaluation Reserve	9,200			
To Balance c/d	10,92,000			
	42,70,450			42,70,450

As an Auditor you are required to comment on the managerial remuneration.

Answer 25. (a)

1. Computation of Net Profit under Section 349

Particulars	₹	₹
Balance from Trading Account		38,35,400
Add: interest on Investment		11,500
Transfer Fee received		550
Profit on Sale of Plant		8,000
Total		**38,55,450**
Less: Admn, Selling & Finance Expenses	5,74,800	
Contribution to National Defence Fund	30,000	
Directors Fees	54,700	
Interest on Debentures	21,050	
Depreciation of Fixed Assets	4,69,700	11,50,250
		27,05,200

2. Maximum Remuneration Payable to the Managing Director u/s 309
   = 5% of Net Profit u/s 349 = 5% × ₹ 27,05,200 = ₹ 1,36,260
   However, Managing Director's Remuneration as per the above P & L Account is ₹ 3,75,000

3. Maximum Remuneration Payable under Schedule XIII- Inadequate Profit :
   By virtue of Section 310, where the Company has no profits or its profits e inadequate, it may pay Remuneration to any Managerial Person, within the limits specified in Schedule XIII, Part II, Section II. The ceiling limits are based on the Effective Capital of the Company. In the above case, the Effective Capital of the Company is not known. However, presuming the basic limit of Effective Capital of "Less than ₹ 1 Crore, "the maximum permissible remuneration is ₹ 75,000 per month or ₹ 9,00,000 per annum.

4. Audit Observation: Remuneration of ₹ 3,75,000 paid to Managing Director exceeds the limits u/s 309, but is within the limit specified by Section 310 and Schedule XIII.

Q. 25. (b) Vikram Industries Private Ltd. was incorporated on 1.2.2010. It took over the proprietary business of Vikram, With effect from 1.1.2010. The Balance Sheet of Vikram as at 31st December 2009 is as follows :

Liabilities	₹	Assets	₹
Capital	**3,45,200**	**Sundry Debtors**	**20,560**
Trade Creditors	**13,600**	**Building**	**88,000**
Loans	**6,800**	**Machinery**	**2,40,000**
Creditors Expenses	**2,000**	**Loss**	**19,040**
	3,67,600		**3,67,600**

It was agreed to pay ₹ 3,60,000 in equity shares to Vikram. The company decided to close its first year's accounts as at 31st December 2010. The following are the further details furnished to you :

Sales ₹ 2,40,000; Purchases ₹ 1,12,000; Salaries and wages ₹ 32,000; General Expenses ₹ 25,600; Freight ₹ 3,760; Interest Paid ₹ 6,400; Stock-in-trade ₹ 17,600; additions to Building ₹ 30,400; Depreciation may be provided at 10% on assets including additions.

The company has requested you to prepare :

(i) Vikram' Account; and (ii) Profit and Loss Account showing separately pre-incorporation and post-incorporation profits for the year ended 31st December, 2010.

Answer 25. (b)

Dr. **M/s Vikram Account** ***Cr.***

Particulars	₹	Particulars	₹
To Share Capital	3,60,000	By Sundries (net assets taken over)	3,60,000
	3,60,000		3,60,000

Particulars	Notes	Total	Pre-incorporation 1.2.2010 31.12.2010	Post incorporation 1.2.2010 31.12.2010		Notes	Total	Pre-incorporation 1.2.2010 31.12.2010	Post-incorporation 1.2.2010 31.12.2010
To Salaries & wages		32,000	2,667	29,333	By Gross Profit	1	1,41,840	11,820	1,30,020
To General expenses		25,600	2,133	23,467	(Sales+Clsoing Stock)				
To Interest paid		6,400	533	5,867	(Purchase+Freight)				
To Depreciation :					i.e.				
On building	2	11,840	987	10,853	₹ (2,40,000+17,600)				
On Machinery		24,000	2,000	22,000	₹ (1,12,000+3,760)				
To Net profit-		42,000							
Transferred to :									
- Capital Reserve			3,500	–					
- P/I Appociation			–	38,500					
		1,41,840	11,820	1,30,020			1,41,840	11,820	1,30,020

Working Notes :

(1) For lack of information, gross profit and all expenses have been apportioned on the basis of time, i.e 1:11.

(2) Depreciation on Building: 10% ₹ (88,000 + 30,400) = ₹ 1,18,400.

Q. 25. (c) Mangalam Ltd. incorporated on 1st May, received the certificate to commence business on 31st May. It had acquired a running business from Mittal & Co. with effect from 1st January. The purchase consideration was ₹ 50,00,000 of which ₹ 10,00,000 was to be paid in cash and ₹ 40,00,000 in the form of fully paid shares.

The company also issued shares for ₹ 40,00,000 for cash. Machinery Costing ₹ 25,00,000 wasthen installed.

During the year ended 31st December, the total sales were ₹ 1,80,00,000, the Sales per month in the first half year being one half of what they were in the latter half year.

The Net Profit of the Company, after charging the following expenses,was ₹ 10,00,000 :

Particulars	₹
Depreciation	**5,40,000**
Directors' Fees	**86,000**
Preliminary Expenses	**10,000**
Office Expenses	**2,40,000**
Selling Expenses	**1,98,000**
Interest to Vendors	**50,000**

Ascertain the Pre-Incorporation and Post –Incorporation Profits and prepare the Balance Sheet of the Company as on 31st December. The Closing Stock was valued at ₹ 7,00,000.

Answer 25. (c)

Particulars	**₹ ’000**
Net Profit after Expense and Depreciation	10,00
Add : Expense and Depreciation charged	
Depreciation	5,40
Director’s Fees	8,6
Preliminary Expenses	1,0
Office Expenses	2,4
Selling Expenses	1,98
Interest to Vendors	5,0
Gross Profit	21,24

2. Calculation of Sales Ratiuo and Time Ratio

Particulars	**Pre-Incorporation Period**	**Post-Incorporation Period**
Number of Months =Time Ratio	1st Jan-30th April = 4 months	1st May- 31st Dec=8 months
Sales per month ratio (½ : 1) between first and second half years	Re. ½ each for the four months	Re. ½ for May and June ; Re. 1 each for the balance six months
Overall Sales Ratio	½ × 4 months =2	(½ × 2 months) + (1 × 6 months) = 7

3. Trading and Profit and Loss Account of Mangalam Ltd. for the year ended31st December.

Particulars	**₹ ’000**	**Particulars**	**₹ ’000**
To Opening Stock (taken over)	6,00	By Sales	180,0
To Purchases (balancing Figure)	1,59,76	By Closing Stock	7,00
To Gross Profit (See WN 1)	21,24		
Total	**1,87,00**	**Total**	**1,87,00**

Patticulars	**Pre Inc.**	**Post Inc.**	**Particulars**	**Pre Inc.**	**Post Inc.**
To Depreciation (Time 1:2)	1,80	3,60	By Gross Profit b/d (In Sales Ratio of 2:7)	4,72	16,52
To Director’s Fees (direct)	–	86			
To Prelim. Exp. w/off (Direct)	–	10			
To Office Exp. (Time 1:2)	80	1,60			
To Selling Exp (Sales 2:7)	44	1,54			
To Interest to Vendors (note)	40	10			
To Capital Reserve –bal fig. Pre-Incorporation Profit	1,28				
To Net Profit-bal fig. Post Incorporation Profit		8,72			
	4,72	**16,52**		**4,72**	**16,52**

Note: It is assumed that the Purchase Consideration due to Vendors is finally settled on 31st May i.e. Certificate of Commencement of Business. Accordingly, interest is apportioned in the ratio of time months due i.e.4:1 between Pre-Incorporation and Post-Incorporation Period.

4. Cash/Bank Account

Receipt	₹ '000	Payments	₹ '000
To Equity Shares	40,00	By Vendors A/c	10,00
To Sales	1,80,00	By Machinery	25,00
		By Expenses (Excluding Depreciation)	5,84
		By Purchase-b/d from Trading A/c	1,59,76
		By Balancr c/d-balancing figure	19,40
	2,20,00		**2,20,00**

Note: It is assumed that the Company's transactions are all for cash as there are no Debtors and Creditors.

5. Balance Sheet of Mangalam Ltd as at 31st December

Receipt	₹	Payments		₹
Share Capital (40+40)	80,00	Goodwill	₹ 10,00	
(of the above, ₹ 40,00 Shares issued		*Less* : Pre Incorporation Profit	1,280	8,72
to Vendors, towards acquisition of		Machinery (30+25)	₹ 55,00	
business without payment being		*Less* : Depreciation	5,40	49,60
received in Cash)		Patents		4,00
Profit and Loss A/c	8,72	Stock		7,00
		Cash		19,40
	88,72			88,72

Note: Goodwill on acquisition =Purchase Consideration – Net Assets (Machinery, Stock and Patents) taken over = 50,00 – (30,000 + 6,000 + 4,000) = 10,000. Pre – Incorporation Profit are adjusted against this Goodwill.

Q. 26. (a) Tathastu Insurance Co. Ltd. furnishes you the following information :

(i) On 31.3.2011 it had reserve for unexpired risks to the tune of ₹ 50 crore. It comprised of ₹ 16 crore in respect of machine insurance business; ₹ 20 crore in respect of fire insurance business and ₹ 7 crore in respect of miscellaneous insurance business.

(ii) It is the practice of Tathastu Insurance Co. Ltd. to create reserve at 100% of net premium income in respect of marine insurance policies and at 50% of net premium in respect of fire and miscellaneous insurance business.

(iii) During the year 31st March , 2012 the following business was conducted :

	Marine ₹ crores	Fire ₹ crores	Miscellaneous ₹ crores
Premia collected from:			
(a) Insured (other than insurance companies) in respect of policies issued	**20**	**42.3**	**15**
(b) Other insurance companies in respect of risks undertaken	**8**	**9**	**5**
Premia paid/payable to other insurance companies on business ceded	**6.8**	**4.3**	**8**

Tathastu Insurance Co. Ltd. asks you to :

(i) Pass journal entries relating to "unexpired risks reserve"

(ii) Show in columnar form Unexpired Risks Reserve Account for the year ended 31st March, 2012.

Answer 26. (a)

Journal Entries

Date	Particulars	L.F	Debit ₹ Crore	Credit ₹ Crore
2012 March 31	Marine Revenue A/c Dr. To Unexpired Risks Reserve A/c (Excess of closing provision for unexpired risks of ₹ 21.20 crore over opening provision of ₹ 16 crore charged to Marine Revenue A/c)		5.2	5.2
	Fire Revenue A/c Dr. To Unexpired Risks Reserve A/c (Excess of closing provision for unexpired risks of ₹ 23.50 crore over opening provision of ₹ 20 crore charged to Fire Revenue A/c)		3.5	3.5
	Unexpired Risks Revenue A/c Dr. To Miscellaneous Revenue A/c (Excess of opening provision for unexpired risks of ₹ 7.00 crore over the required closing balance of ₹ 6.00 crore in the provision account credited to Miscellaneous Reserve Account.)		1.00	1.00

Working Notes :

Required closing balance in Unexpired Risks Reserve Account:

For Marine business = ₹ (20 + 8 – 6.8) = ₹ 21.20

For Fire business = $\frac{₹\,(42.3+4.7)}{2}$ = ₹ 23.50

For miscellaneous business = $\frac{₹\,(15+5-8)}{2}$ = ₹ 6.00

Dr. **Unexpired Risks Reserve Account** *Cr.*

Date	Particulars	Marine	Fire	Misc.	Date	Particulars	Marine	Fire	Misc.
2012		₹ in crore	₹ in crore	₹ in crore			₹ in crore	₹ in crore	₹ in crore
March 31	To Revenue A/c	–	–	1.00	2011 Apr. 1	By Balance b/d	16.00	20.00	7.00
March 31	To Balance c/d	21.20	23.50	6.00	2012 Mar. 31	By Revenue A/c	5.20	3.50	–
		21.20	23.50	7.00			21.20	23.50	7.00

Q. 26. (b) On 31 March, 2011 Victory Bank Ltd. had a balance of ₹ 18 crores in "rebate on bill discounted" account. During the year ended 31st March, 2012, Victory Bank Ltd. discounted bills of exchange of ₹ 8,000 crores charging interest at 18% p.a., the average period of discount being for 73 days. Of these, bills of exchange of ₹ 1,200 crores were due for realization from the acceptor/customers after 31st March, 2012, the average period outstanding after 31st March, 2012 being 36.5 days.

Victory Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to:

(i) Discounting of Bills of Exchange; and

(ii) Rebate on bill Discounted.

Answer 26. (b)

In the books Victory Bank Ltd.

Journal

Date	Particulars		L.F	Debit ₹ Crore	Credit ₹ Crore
2012	Rebate on Bill Discounted A/c	Dr.		18	
	To Interest and Discount A/c				18
	(Being the transfer of opening balance to Rebate on Bill Discounted Account)				
	Bills Purchasesd and Discounted A/c	Dr.		8,000	
	To Client A/c				7712.00
	To Interest and Discount A/c				288.00
	(Being the discounting of bills during the year)				
	Interest and Discount A/c (Note 2)	Dr.		21.60	
	To Rebate on Bills Discounted A/c				21.60
	(Being the provision for unexpired discount as on 31.03.2012)				
	Interest and Discount A/c	Dr.		284.40	
	To Profit and Loss A/c				284.40
	(Being the transfer of Interest and Discount Account balance to Profit and Loss Account)				

Ledger of Victory Bank Ltd.

Rebate on Bills Discounted Account

Date	Particulars	Amount ₹ Crores	Date	Particulars	Amount ₹ Crores
2012			2011		
March	To Interest and Discount A/c	18.00	April 1	By Balance b/d	18.00
31	To Balance c/d	21.60	2012 March	By Interest and Discount (Rebate required)	21.600
		39.60			39.60

Interest and Discount Account

Date	Particulars	Amount ₹ Crores	Date	Particulars	Amount ₹ Crores
2012 March 31	To Rebate on Bills Discount A/c	21.60	2012 March 31	By Rebate on Bills	18.00
”	To Profit and Loss A/c (Transfer)	284.40	”	By Bills Discounted and Purchased A/c	288.00
		306.00			306.00

Q. 27. (a) From the following information, prepare Profit & Loss Account of East Bank of Bharat Ltd. as on 31st March, 2011.

	(₹ in ’000)
Interest and discount	**65,80**
Income from Investments	**2,30**
Interest on Balances with RBI	**4,60**
Commission, exchange and brokerage	**14,40**
Profit on sale of investment	**2,20**
Interest on deposits	**26,50**
Interest to RBI	**3,44**
Payment to and provision for employees	**22,88**
Rent, taxes and lighting	**4,40**
Printing and stationery	**4,60**
Advertisement and publicity	**2,90**
Depreciation	**1,84**
Directors’ fees	**3,30**
Auditor’s fees	**2,20**
Law charges	**4,60**
Postage, telegram and telephone	**1,50**
Insurance	**1,16**
Repair and maintenance	**86**

Other information :

(i) Interest and discount mentioned above is after adjustment for the following :

	(₹ in ’000)
Tax provisionfor the year	**4,60**
Provision during the year for doubtful debt	**2,04**
Loss on sale of investment	**22**
Rebate on bills discounted	**1,14**

(ii) 20% of profit is transferred to statutory reserve.

5% of the profit is transferred to revenue reserve.

Profit brought forward from last year — 44

Answer 27. (a)

	(₹ in '000)
Interest and discount	65,80
Tax provision	4,60
Provision for doubtful debts	2,04
Loss on sale of Investment	22
Interest and discount before rebate	72,66

Profit and Loss Account for the year ended 31st March,2011

Particulars	Schedule	₹ in '000
Income		
Interest earned	13	79,56
Other income	14	16,38
		95,94
Expenditure :		
Interest expended		
Operating Expenses	15	29,94
Provision and contingencies	16	50,24
		80,18
Net Profit for the year		15,76
Profit brought forward		44
		16,20
Appropriations :		
Transfer to statutory reserve		315.2
Transfer to Revenue Reserve		78.8
Balance carried to balance sheet		12,26.00
		16,20.00

Schedule 13 Interest Earned

	Particulars	₹ in '000
I	Interest and discount	72,66
II	Income from Investments	2,30
III	Interest on balance with RBI	4,60
		79,56

Schedule 14 Other Income

	Particulars	₹ in '000
I	Commission, exchange and brokerage	14,40
II	Profit on sale of Investment	2,20
	Loss on sale of Investment	(22)
		16,38

Schedule 15 Interest Expemded

	Particulars	₹ in '000
I	Interest on deposits	26,50
II	Interest on RBI	3,44
		29,94

Schedule 16 Operating Expenses

	Particulars	₹ in '000
I	Payment to and provision for employees	22,88
II	Rent, taxes and lighting	4,40
III	Printing and stationery	4,60
IV	Advertisement and publicity	2,90
V	Depreciation	1,84
VI	Directors' fees	3,30
VII	Auditor's fees	2,20
VIII	Law charges	4,60
IX	Postage, telegram and telephone	1,50
X	Insurance	1,16
XI	Repair and maintenance	86
		50,24

Provisions and Contingencies

Particulars	₹ in '000
Provision for Income Tax	4,60
Provision for doubtful debts	2,04
	6,64

Q. 27. (b) Mr. Fox carrying on business as contractor undertook a contract for Rs.1,20,000 from 1.1.2010 and his expenditure during the calendar year was: Plant purchased on the data of commencement ₹ 12,000; Machinery ₹ 8,000; Material purchased ₹ 36,480; Wages ₹ 17,600; Direct Expenses ₹ 3,840; Charges for Administration expenses ₹ 6,400.

Part of machinery costing ₹ 3,200 being unsuitable for the work was disposed of for ₹ 4,000.

On 31st Dec.2010, there were wages accrued ₹ 1,600 and the value of machinery and materials in hand were ₹ 2,400 and ₹ 7,200 respectively. The plant had a effective life of three years.

Mr. Fox received the progress payment of ₹ 70,920 being 90% of the certified value of the work completed up to 31st Dec,2010.

To arrive at the figure of profit made on the contract for the first year the contractor estimated the additional expenditure that would be required to complete the construction and took to the credit of reserve for the year that portion of net estimated profit to be realized on the contract which the certified value of the work done bore to contract price.

His estimates were :

(i) The contract would take, in all, 18 months to complete.

(ii) The additional machinery and materials to the value of ₹ 800 and ₹ 8,000 would be required to be purchased in the subsequent period and direct expenses and wages would be ₹ 1,600 and ₹ 9,600, respectively.

(iii) Charges for administration would continue to be the same every month.

(iv) Provision for contingencies in the subsequent period to be made at 2% of the total cost of the contract.

Answer 27. (b)

In the books of Mr. Fox

Dr. **Contract Account** ***Cr.***

Particulars		Amount ₹	Particulars		Amount ₹
To Materials		36,480	By Bank A/c		
" Wages	17,600		- Sale of Machinery		4,000
Add : Outstanding	1,600	19,200	" Work-in-progress c/d		
			Material	7,200	
" Direct Expenses		3,840	Machinery	2,400	
" Administration Expenses		6,400	Plant (12,000-4,000)	8,000	
" Plant		12,000	Worked certified		
" Machinery		8,000	$\left(₹\,70{,}920 \times \frac{100}{90}\right)$	78,800	96,400
" Profit and Loss A/c					
- Profit on sale of machinery		800			
" Notional Profit c/d		13,680			
		1,00,400			1,00,400
To Profit & Loss A/c (Proportionate Profit)		10,662	By Notional Profit b/d		13,680
" Provision		3,018			
		13,680			13,680

Proportionate Profit to be calculated as under :

	₹	₹
Cost to date ₹ (36,480+19,200+3,840 + 6,400+12,000+8,000+800-4,000-7,200 -2,400-8,000)		65,120
Add: Estimated Cost		
Materials (₹ 7,200 + ₹ 8,000)	15,200	
Wages	9,600	
Direct Expenses	1,600	
Administration Expenses $\left(₹\,6{,}400 \times \frac{1}{2}\right)$	3,200	

Plant (8,000-6,000) for 6 months	2,000	
Machinery (2,400+800)	3,200	34,800
		99,920
Add : Provision for Contingencies $\left(₹\,99{,}920 \times \frac{2}{98}\right)$		2,039
		1,01,959
Contract price		1,20,000
Estimated total Profit		18,041

Now, Estimated Total Profit to be transferred to Profit & Loss A/c

$₹\,18{,}041 \times \frac{₹\,70{,}920}{₹\,1{,}20{,}000}$ i.e. (Estimated Profit × $\frac{\text{Work Certified}}{\text{Total Contract Cost}}$) = ₹ 10,662.

Q. 28. (a) The following information is available from the account records of ESLT Electricity Ltd. for the financial year ended 31st March, 2012 :

	₹ (in Crores)
Share Capital	**75.00**
Fixed assets (tangible) at cost	**145.00**
Accumulated Depreciation	**50.00**
Intangible Assets	**7.50**
Investments :	
Depreciation Reserve Fund	**50.00**
Contingencies Reserve	**5.00**
Loan form State Electricity Board	**12.50**
12% Debentures	**25.00**
Tariff and Dividend Control Reserve	**7.50**
Net Profit after Tax	**15.25**
Customers' Security deposits	**7.5**
Monthly average of Current asset	**8.75**

The monthly average of current assets includes ₹ 1,25,00,000 (1.25 Crore) due from customers. Investments yield 10% return p.a. The applicable bank rate is 9% p.a.

You are required to calculate :

(i) The Capital Base;

(ii) The Reasonable Return;

(iii) the Disposal of Profit.

Answer 28. (a)

Calculation of -	₹	₹
(i) Capital Base :		
Tangible fixed assets at cost	145,00,00,000	
Intangible Assets	7,50,00,000	
Contingency Reserve Investment	5,00,00,000	
Current Assets (Net)	7,50,00,000	165,00,00,000
Deduct :		
Accumulated Depreciation	50,00,00,000	
S.E.B. Loan	12,50,00,000	
12% Debentures	25,00,00,000	
Customer's Security Deposit	7,50,00,000	
Tariff and Dividend Control Reserve	7,50,00,000	102,50,00,000
Capital Base		62,50,00,000
(ii) Reasonable Return :		
Standard Yield on Capital Base 9% +2% = 11%	₹ 6,87,50,000	
Return on Depreciation Fund Investments		
10% of ₹ 50 crores	₹ 5,00,00,000	
½% on SEB Loan	₹ 6,25,000	
½% on Debentures	₹ 12,50,000	
	₹ 12,06,25,000	
Profit after Tax	₹ 15,25,00,000	
Less : Reasonable Return	₹ 12,06,25,000	
Disposable Surplus	₹ 3,18,75,000	
Excess upto 20% of reasonable return	₹ 2,41,25,000	
Amount to be credited to Customers"		
Rebate reserve	₹ 77,50,000	

Allocation of Surplus of ₹ 2,41,25,000	₹
(a) $\frac{1}{3}$ for the Company subject to 5% of reasonable return	60,31,250
(b) ½ of the balance to tariff and dividend control reserve	90,46,875
(c) ½ of the balance to be credited to customer's rebate reserve	90,46,875
	2,41,25,000

Q. 28. (b) The Agra Electricity Limited decides to replace one of its old plants with a modern one with a large capacity. The plant when installed in the company cost ₹ 48 lakhs, the component of materials, labour and overheads being in the ratio of 5:3:2. It is ascertained that the costs of materials and labour have gone up by 40% and 80% respectively. The proportion of overheads to total costs is expected to remain the same as before.

The cost of the new plant as per improved design is ₹ 120 lakhs and in addition, material recovered from the old plant of a value of ₹ 4,80,000 has been used in the construction of the new plant. The old plant was scrapped and sold for ₹ 15,00,000.

The accounts of the company are maintained under Double account system. Indicate how much would be capitalized and the amount that would be charged to revenue. Show the ledger accounts.

Answer 28. (b)

Dr. **Agra Electricity Company Limited Plant Account** ***Cr.***

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	48,00,000	By Balance c/d	98,40,000
To Bank A/c	45,60,000		
To Replacement A/c (Old parts)	4,80,000		
	98,40,000		98,40,000
By Balance c/d	98,40,000		

Dr. **Agra Electricity Company Limited Plant Account** ***Cr.***

Particulars	Amount ₹	Particulars	Amount ₹
To Bank A/c (current cost of replacement)	74,40,000	By Bank A/c (sale of scrap)	15,00,000
		By Plant Account (old material used)	4,80,000
		By Revenue Account (transfer)	54,60,000
	74,40,000		74,40,000

Working Notes :

(1) Cost to be incurred for replacement of present plant :

	Cost of Existing Plant ₹	Increase %	Current Cost ₹
Materials	24,00,000	40	33,60,000
Labour	14,40,000	80	25,92,000
			59,52,000
Overheads ($\frac{1}{4}$ of above or $\frac{1}{5}$ of total)			14,88,000
Current Replacement Cost			74,40,000
Current Replacement Cost			74,40,000
Total Cast Cost			120,00,000
Amount capitalised, excluding old materials used			45,60,000

Q. 29. (a) The following extracts of financial information relate to Marti Bhumi Ltd. :

(₹ lakhs)

Balance Sheet as on 31st December	2011	2012
Share Capital	10	10
Reserves And Surplus	30	10
Loan funds	60	70
	100	90
Fixed assets (net)	30	30
Current assets :		
Stocks	30	20
Debtors	30	30
Cash and Bank Balance	10	20
Other Current assets	30	10
	100	80
Less : Current Liability	30	20
Net	70	60
Total assets	100	90
Sales	270	300

(i) Calculate, for the two years debt-equity ratio, and working capital turnover ratio.

(ii) Find sales volume that should have been generated in 2011 if the company were to have maintained its working capital turnover ratio.

Answer 29. (a)

(i) Calculation of Ratios :

		2011	2012
(a)	Debt Equity Ratio		
	= Debt/Equity = Loan funds/(Share capital + Reserves)	= 60/40=1.5:1	= 70/20=3.5:1
(b)	Quick Ratio		
	= Quick assets/Quick liabilities=(Debtors+ cash)/Quick liabilities	=(30+10)/30	= (30+20)/20
		= 1.33:1	= 2.5:1
	(Assumed that all current liabilities are Quick Liabilities)		
(c)	Working Capital Turnover Ratio = Sales/Working capital	= 270/70	= 300/60
	(Working Capital = Current assets – Current liabilities)	= 3.86 times	= 5 times

(ii) Sales Volume to be maintained

5 = Required Sales/70

Sales required for 2011 = ₹ 350 (Lakhs)

Q. 29. (b) The Balance Sheet of MM Ltd. stood as follows as on :

Liabilities	31.3.2011	31.3.2010	Assets	31.3.2011	31.3.2010
Capital	500	500	Fixed Asseds	800	600
Reserves	232	200	Less : Department	280	200
Loan	200	240		520	400
Creditors and other Current liabilities	258	50	Investment	80	60
			Stock	240	200
			Debtors	140	100
			Cash/Bank	40	40
			Other Current assets	50	50
			Misc. Expenditure	120	140
	1,190	990		1,190	990

You are given the following information for the year 2010-11 :

Sales	**₹ 1,200**
PBIT	**₹ 300**
Interest	**₹ 48**
Provision for Tax	**₹ 120**
Proposed Dividend	**₹ 100**

All the figures given above are rupees in lakhs.

From the above particulars, calculate for the year 2010-11 :

(i) Return on Capital Employed Ratio

(ii) Stock Turnover Ratio

(iii) Return on Net Worth Ratio

(iv) Current Ratio

(v) Proprietary Ratio

Answer 29. (b)

(i) Return on Capital Employed Ratio = $\frac{\text{PBIT}}{\text{Average capital employd}} \times 100 = \frac{₹300}{₹936} \times 100$ = 32.05 %

(ii) Stock Turnover Ratio = $\frac{\text{Sales}}{\text{Average Stock}} = \frac{₹1,200}{₹220}$ = 5.45 times

(iii) Return on Net worth Ratio = $\frac{\text{PAT}}{\text{Average net worth}} \times 100 = \frac{₹132}{₹586} \times 100$ = 22.53%

(iv) Current Ratio = $\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{₹470}{₹258}$ =1.82

(v) Proprietary Ratio = $\frac{\text{Net worth on 31.3.2011}}{\text{Total Assets}} = \frac{₹612}{₹(1,190-120)}$ = 0.57

Working Notes :

1. Average capital employed

Capital employed	= Capital + Reserves + Loan
Capital employed as on 31.3.2011	= ₹ (500 + 232 + 200) = ₹ 932
Capital employed as on 31.3.2010	= ₹ (500 + 200 + 240) = ₹ 940
Average capital employed	= ½ of ₹ (932 + 940) = ₹ 936

2. Average net worth

Net Worth	= Capital + Reserves – Misc. Expenditure
Net worth as on 31.3.2011	= ₹ (500 + 232 – 120)= ₹ 612
Net worth as on 31.3.2010	= ₹ (500 + 200 – 140)= ₹ 560
Average net worth	= ½ of ₹ (612 + 560) = ₹ 586

3.	Profit after Tax	= PBIT – Interest – Provision for tax
		= ₹ (300 – 48 – 120) = ₹ 132
4.	Current Assets as on 31.3.2011	= Stock + Debtors + Casah/Bank + Other Current Assets
		= ₹ (240 + 140 + 40 +50) = ₹ 470

Q. 30. Using the following data, complete the Balances Sheet of Fortune Ltd.as at 31.03.2012 :

(a)	**Gross Profit**	**25% of sales**
(b)	**Gross Profit**	**₹ 2,40,000**
(c)	**Shareholders Equity**	**₹ 40,000**
(d)	**Credit Sales to Total Sales**	**80%**
(e)	**Total Turnover to Total Assets**	**4 times**
(f)	**Cost of Sales to Inventory**	**10times**
(g)	**Average Collection Period**	**5 days, assume 365 days in a year**
(h)	**Long –term Debt**	**?**
(i)	**Current Ratio**	**1.5**
(j)	**Sundry Creditors**	**₹ 1,20,000**

Balance Sheet of Fortune Ltd. as at 31.03.2012

Liabilities	₹	Assets	₹
Sundry creditors	?	Cash	?
Long-Term debt	?	Sundry debtors	?
Share Capital	?	Inventory	?
		Fixed assets	
	?		?

Answer 30.

Working Notes :

(1) Sales

Gross Profit = 25%of sales (given)

Gross Profit (given) = ₹ 2,40,000

Hence, Total Sales = ₹ 2,40,000 × 100 /25 = ₹ 9,60,000

Credit Sales = ₹ 9,60,000 × 80% = ₹ 7,68,000

(2) Cost of Goods Sold = Sales – Gross Profit = ₹ 9,60,000 – ₹ 2,40,000 = ₹ 7,20,000

(3) Closing Inventory

Cost of Sales to Inventory = 10 times (given)

Cost of Sales/Inventory = 10

₹ 7,20,000 / Inventory = 10

Inventory = ₹ 7,20,000 /10

= ₹ 72,000

(4) Total Assets

Total turnover to total assets = 4 times

Total turnover/ Total assets = 4

₹ 9,60,000 / Total assets = 4

Total assets = ₹ 9,60,000/4 = ₹ 2,40,000

(5) Current Assets

Current Ratio = 1.5 (given)

Current assets/Current liabilities = 1.5

Current assets/₹ 1,20,000 = 1.5

Current assets = ₹ 1,20,000 × 1.5 = ₹ 1,80,000

(6) Debtors

Average collection Period = 5 days (given)

(Debtors/Credit sales)X No. of days in year = 5 days

(Debtors/₹ 7,68,000) × 365 = 5

Debtors = (₹ 7,68,000 × 5)/365 = ₹ 10,520 (approx)

(7) Cash

Current Assets = ₹ 1,80,000

Cash + Debtors + Inventory = ₹ 1,80,000

Cash + ₹ (10,520 + 72,000) = ₹ 1,80,000

Cash = ₹ 1,80,000 – ₹ (10,520 + 72,000) = ₹ 97,480

Balance Sheet of Fortune Ltd. as at 31.03.2012

Liabilities	₹	Assets	₹
Sundry creditors	1,20,000	Cash	97,480
Long-Term debt	80,000	Sundry debtors	10,520
Share Capital	40,000	Inventory	72,000
		Fixed assets	60,000
	2,40,000		2,40,000