INTERMEDIATE EXAMINATION

(REVISED SYLLABUS - 2008)

GROUP - I

Paper-5 : FINANCIAL ACCOUNTING

Q. 1. State whether following statements are True/False.

(i) Issue of bonus shares does not change the amount of equity in the balancesheet.

(ii) The concept of deferred revenue expenditure is not relevant in the asset-liability measurement approach.

(iii) Depreciation is charged on "Wasting Assets".

(iv) Stock of fire bricks in a furnace should be included in inventory.

(v) Equity share holders are deemed owners of a company because their claim is residual in nature.

(vi) Board of directors of a company is not permitted to change accounting policy unless such a change is required by law or by a new accounting standard.

(vii) An enterprise, which provides courier service, should recognize the service charges as revenue immediately on billing.

(viii) For buy back of shares, a company has to open a Current bank account.

(ix) Each department is charged with a share of the common expenses which is apportioned equally.

(x) Stock and debtors system is generally used when the goods are sent to the branch at cost price.

(xi) A policy can be surrendered if it is a general insurance policy.

(xii) Convertible debentures can only be fully convertible.

(xiii) When a fixed asset is acquired in exchange for another asset, the cost of the asset acquired should be recorded at replacement cost.

(xiv) Royalties revenue should be recognized on an accrual basis.

(xv) Cost-plus contract is a contract in which price is agreed upon in advance but subject to change in future.

(xvi) Interest on overdue payment and interest on overdraft should be treated as cash flow from investing activities.

(xvii) The purchase price, transport and handling cost, tax and import duties are all examples of cost of purchase, cost of conversion and other costs.

(xviii) The hire purchaser can record the asset at its hire purchase price.

(xix) Upon death of a partner, when a memorandum revaluation account is prepared, assets and liabilities appear in the balance sheet at revalued figure.

(xx) If the unrecorded liabilities are taken over by the new firm, it is transferred to partners' capital account.

Answer 1.

(i) The Statement is **True** : Issue of bonus share results in transfer of an amount from one component of equity in the balance sheet to another component. Issue of bonus share is a book adjustment.

(ii) The Statement is **True**. The asset-liability measurement approach focuses on recognition of assets and liabilities, and, therefore, the question of fictitious assets does not arise.

TUTORIAL NOTE : Let us take an example. In 2011 DIL Ltd spent Rs. 1 million on advertisement to launch its new mango juice. The expenditure is much higher than the amount normally being spent by company on advertisement. The company estimates the life cycle of the product at five years. Therefore it plans to amortise Rs. 0.20 million every year for five years. Thus in the profit and loss account for the year 2011, only Rs. 0.20 million will be recognised as an expense, and the balance of Rs. 0.80 million will be carried forward to subsequent years. This balance of RS.0.80 million will be shown on the 'asset' side of the balance sheet as at 31 december ,2011 under the head Miscellaneous expenditure to the extent not written off. The un amortised expenditure of Rs. 0.80 million is termed as a fictitious asset, because it does not conform to the definition of an asset as no future economic benefits, in terms of advertising services, are expected to flow to the enterprise from this expenditure. The brand equity is not recognized in the balance sheet, because of difficulties in measuring the asset reliably in monetary terms.

The question of fictitious assets usually arise when an enterprise follow the deferral and matching approach, which focus on matching revenues and expenses.Under the asset-liability measurement approach, the total amount of Rs. 1 million in the given example, should be recognized as an expense in the income statement for the year 2011, and no portion should be carried forward to subsequent years.

(iii) The Statement is **False**. Accounting Standard 6 is not applicable on "wasting Asset".

(iv) The Statement is **False**. It should be included in W.I.P.

(v) The Statement is **True**. Assets of a firm are jointly owned by all financiers (e.g., suppliers of equity capital and debt capital). However, the law gives the ownership to providers of equity capital because investment in equity capital is exposed to business risks and consequently the claim of equity shareholders is residual.

(vi) The Statement is **False**. Board of directors is allowed to change the accounting policy provided that it can establish that the new accounting policy will improve the presentation of financial statements.

(vii) The Statement is **False**. Revenue should be recognized upon delivery of the package.

(viii) The Statement is **False**. A company has to open an escrow account.

TUTORIAL NOTE : An arrangement made under contractual provisions between transacting parties, whereby an independent trusted third party receives and disburses money and/or documents for the transacting parties, with the timing of such disbursement by the third party dependent on the fulfillment of contractually-agreed conditions by the transacting parties.

Some of the advantages of the Escrow alc include :

Greater security and comfort, Compliance with regulatory requirements, Safe custody of cash / documents.

An Escrow account is typically used for lending arrangements, project financing, securitisations, M&A's, buy-back of shares, take-overs, custody, litigations, purchase & sale of land, custody of software source code, etc.

(ix) The Statement is **False**. It is apportioned on a suitable basis.

(x) The Statement is **False**. This system is generally used when the goods are sent to the branch at an invoice price.

(xi) The Statement is **False**. A policy can be surrendered if it is a life insurance policy.

(xii) The Statement is **False**. Convertible debentures can be fully or partly convertible.

(xiii) The Statement is **False**. It should be recorded at fair value.

(xiv) The Statement is **False**. It should be recognized on an accrual basis in accordance with the terms of the relevant agreement.

(xv) The Statement is **False**. The price is not agreed upon in advance.

(xvi) The Statement is **False**. These should be treated as cash flow from operating activities.

(xvii) The Statement is **False**. These are examples of cost of purchase.

(xviii) The Statement is **False**. It can be record at its cash down price.

(xix) The Statement is **False**. Upon death of a partner, when a memorandum revaluation account is prepared, assets and liabilities appear in the balance sheet at old figure.

(xx) The Statement is **False**. It is transferred to realization account along with other liabilities.

Q. 2A. Choose the correct alternative :

(i) In accounting equation :

(a) Equity and assets are dependent variables.

(b) Assets and liabilities are dependent variables.

(c) Equity and liabilities are dependent variables.

(d) None of the above.

(ii) An increase in current assets results in :

(a) Increase in cash flow from operations.

(b) Decrease in cash flow from operations.

(c) Increase in cash flow from operations, if the operating result for the period is profit.

(d) None of the above.

(iii) Payment of Rs. 1,00,000 towards salaries and wages results in :

(a) Increase in equity by Rs. 1,00,000.

(b) Decrease in equity by Rs.1,00,000.

(c) Decrease in equity by Rs. 1,00,000, if it does not include any advance payment of salaries and wages.

(d) None of the above.

(iv) A decrease in working capital leads to :

(a) Increase in cash flow from operations.

(b) Decrease in cash flow from operations.

(c) Decrease in cash flow from operations , if the operating result for the period is loss.

(d) None of the above.

(v) Pre-paid insurance premium should be classified as a :

(a) Current asset.

(b) Fictitious asset.

(c) Non-current asset.

(d) None of the above.

(vi) Payment of dividend by a company results in :

(a) Decrease in equity that represents a loss.

(b) Decrease in equity that represents distribution to owners.

(c) Decrease in equity that represents an expense.

(d) None of the above.

(vii) Deferred revenue expenditure is expenditure :

(a) That should be recognized as an asset.

(b) That is in the nature of revenue expenditure , but recognition of the same as an expense is deferred as a matter of prudence.

(c) That does not pass the test of asset recognition , but recognition of the same as an expense is deferred to match revenue with expenses.

(d) That though benefiting more than one reporting period ,does not pass the tests of asset recognition.

(viii) The discount allowed on re-issue of forfeited shares is debited to the :

(a) Share capital account.

(b) Capital reserve account.

(c) Discount allowed account.

(d) Forfeited shares account.

(ix) Which of the following items should not appear under the head 'unsecured loans' in the balance sheet of a company?

(a) Sinking funds.

(b) Loans and advances from subsidiaries.

(c) Short-term loans and advances from banks.

(d) Fixed deposit accepted.

(x) As per Schedule VI to the Companies Act,1956 'unclaimed dividends' are to be shown as :

(a) Reserves and surplus.

(b) Provisions.

(c) Secured loans.

(d) Current liabilities.

Answer 2A.

(i) (d) Assets and liabilities are independent variables.

(ii) (b) Decrease in cash flow from operations.

(iii) (c) Decrease in equity by Rs. 1,00,000, if it does not include any advance payment of salaries and wages.

(iv) (a) Increase in cash flow from operations.

(v) (a) Current asset.

(vi) (b) Decrease in equity that represents distribution to owners.

(vii) (c) That does not pass the test of asset recognition , but recognition of the same as an expense is deferred to match revenue with expenses.

(viii) (d) The discount allowed on re-issue of forfeited shares is a loss and is debited to forfeited shares account. Any surplus in forfeited shares account is transferred to capital reserve A/c.

(ix) (a) Sinking fund is created out of profits. It is the part of profits and should be listed under the head "Reserves and surplus" and not under the head 'Secured loans'.

(x) (d) As per Schedule VI of the Companies act,1956 unclaimed dividends are to be shown under the head Current liabilities.

Q. 2B. Fill up the blanks :

(i) A private limited company is also known as _________ company.

(ii) The terms equity and _________ are used interchangeably.

(iii) Dividends are usually paid as a percentage of _________ .

(iv) Debenture holders are _________ of a company.

(v) Minimum partners required for a non-banking partnership firm are _________ .

(vi) In case of fixed capital accounts method salary payable to partners will be credited to _________ account.

(vii) Every partner is bound to attend diligently to his _________ in the conduct of the business of the firm.

(viii) Compensation given to old partners for sacrifice made in favour new partner is known as _________ .

(ix) Partners X,Y and Z change their profit sharing ratio from 5:3:2 to 3:2:1 respectively and goodwill for the purpose is valued at Rs.10,00,000. goodwill will be raised by partners in _________ ratio.

(x) Goodwill valuation depends predominantly on _________ .

Answer 2B.

(i) Closely held company.

(ii) Net worth.

(iii) Paid up capital.

(iv) Creditors.

(v) 2.

(vi) Current account.

(vii) Duties.

(viii) Premium.

(ix) Old profit sharing ratio.

(x) Future profit earning potential.

Q. 3. Excel Ltd. of Kolkata obtained on 1st April, 2007 the use of patent from Access Ltd. of New York on the terms mentioned below :

(i) A royalty of 1% on sales subject to a minimum of $ 300 per annum will be paybale in U.S. dollars; all payments to be free of the Indian income-tax.

(ii) The royalty will be payable on 15th April following the year to which it related.

(iii) Excel Ltd. will have the right of recouping any shortworkings in the first three years of the agreement.

Sales affected by Excel Ltd. were as follows :

For the year ended 31st March, 2008	**Rs. 8,40,000**
For the year ended 31st March, 2009	**Rs. 12,00,000**
For the year ended 31st March, 2010	**Rs. 16,80,000**
For the year ended 31st March, 2011	**Rs. 22,50,000**

The income-tax rate concerned is 25%. The value of one U.S. dollar was Rs. 32 till September 5, 2008 and Rs. 50 thereafter. Prepare accounts in the ledger of Excel Ltd. for the first four years of the contract.

Answer 3.

Ledger of Excel Ltd.

Royalties Account

Dr. *Cr.*

Date	Particulars	Rs.	Date	Particulars	Rs.
2008			2008		
Mar. 31	To Access Ltd. (1% of		Mar. 31	By Profit & Loss Account	11,200
	Rs. 8,40,000)	8,400			
	To Income-tax Payable*	2,800			
		11,200			11,200
2009			2009		
Mar. 31	To Access Ltd. (1% of		Mar. 31	By Profit & Loss Account	16,000
	Rs. 12,00,000	12,000			
	To Income-tax Payable	4,000			
		16,000			16,000
2010			2010		
Mar. 31	To Access Ltd. (1% of		Mar. 31	By Profit & Loss Account	22,400
	Rs. 16,80,000)	16,800			
	To Income-tax Payable	5,600			
		22,400			22,400
2011			2011		
Mar. 31	To Access Ltd. (1% of		Mar. 31	By Profit & Loss Account	30,000
	Rs. 22,50,000)	22,500			
	To Income-tax Payable	7,500			
		30,000			30,000

* Income-tax is 25% of gross or 25/75 of the amount paid. Tax is therefore 1/3 of the net amount payable. The point to not is that Access Ltd. must be paid net on the basis of 1% of sales.

Access will be paid Rs. 9,600; on this the tax due is Rs. 3,200; the Royalties Account has been debited by Rs. 2,800 in this respect; the balance of Rs. 400 will be debited to the Shortworking Account.

Access Ltd.

Date	Particulars	Rs.	Date	Particulars	Rs.
2008			2008		
Mar. 31	To Balance c/d	9,600	Mar. 31	By Royalties Account	8,400
			" "	By Shortworkings Account*	1,200
		9,600			9,600
2008			2008		
Apr. 15	To Bank	9,600	Apr. 1	By Balance b/d	9,600
			" "	By Shortworkings Account*	1,200
2009			2009		
Mar. 31	To Balance c/d	15,000	Mar. 31	By Royalties Account**	12,000
			" "	By Shortworkings Account**	3,000
		24,600			24,600
2009			2009		
Apr. 15	To Bank	15,000	Apr. 1	By Balance b/d	15,000
2010			2010		
Mar. 31	To Shortworkings Account	1,800	Mar. 31	By Royalties Account	16,000
" "	To Balance c/d	15,000			
		31,800			31,800
2010			2010		
Apr. 15	To Bank	15,000	Apr. 1	By Balance b/d	15,000
2011			2011		
Mar. 31	To Balance c/d	22,500	Mar. 31	By Royalties Account	22,500
		37,500			37,500
			2011		
			Apr. 1	By Balance b/d	22,500

* The total amount due is Rs. 9,600, i.e., $ 300 @ Rs. 32. Hence, additional credit of Rs. 1,200.

** This time the amount payable is Rs. 15,000, i.e., $ 300 @ Rs. 50.

Shortworking Accounts

Date	Particulars	Rs.	Date	Particulars	Rs.
2008			2008		
Mar. 31	To Access Ltd.	1,200	Mar. 31	By Balance c/d	1,600
" "	To Income-tax Payable	400			
		1,600			1,600
2008			2009		
Apr. 1	To Balance b/d	1,600	Mar. 31	By Balance c/d	5,600
" 31	To Access Ltd.	3,000			
" "	To Income-tax Payable A/c	1,000			
		5,600			5,600

2009			2010		
Apr. 1	To Balance b/d	5,600	Mar. 31	By Access Ltd.	1,800
			" "	By Income-tax Payable A/c	600
			" "	By Profi & Loss Account—irrecoverable amount	3,200
		5,600			5,600

Income-tax Payable Accounts

Date	Particulars	Rs.	Date	Particulars	Rs.
2008			2008		
Mar. 31	To Balance c/d	3,200	Mar. 31	By Royalties Account	2,800
			" "	By Shortworking A/c	400
		3,200			3,200
2008			2008		
Apr. 15	To Bank	3,200	Apr. 1	By Balance b/d	3,200
2009			2009		
Mar. 31	To Balance c/d	5,000	Mar. 31	By Royalties Account	4,000
			" "	By Shortworkings A/c	1,000
		8,200			8,200
2009			2009		
Apr. 15	To Bank	5,000	Apr. 1	By Balance b/d	5,000
2010			2010		
Mar. 31	To Shortworkings A/c*	600	Mar. 31	By Royalties Account	5,600
" "	To Balance c/d	5,000			
		10,600			10,600
2010			2010		
Apr. 15	To Bank	5,000	Apr. 1	By Balance b/d	5,000
2011			2011		
Mar. 31	To Balance c/d	7,500	Mar. 31	By Royalties Account	7,500
		12,500			12,500
			2011		
			Apr. 1	By Balance b/d	7,500

* Royalties Account has been debited with Rs. 5,600 in respect of income-tax but only Rs. 5,000 will be payable. since Access Ltd. is being paid only Rs. 15,000. The saving of Rs. 600, because of recovery of shortworkings, is credited to Shortworkings Account.

Q. 4. JBL Agencies started business on 1.4.2010. During the year ended 31.3.2011, they sold undermentioned durabales under two schemes — Cash Price Scheme (CPS) and Hire Purchase Scheme (HPS).

Under CPS they priced the goods at cost plus 25% and collected it on delivery.

Under the HPS the buyers were required to sign a Hire Purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 instalments, the value being calculated at cash price plus 50%.

The following are the details available at the end of 31.3.2011 with regard to the products :

The following were the expenses during the year :

Product	Numbers Purchased	Numbers sold under CPS	Numbers sold under HPS	Cost per Unit (Rs.)	Number of instalments due during the year	Number of instalment received during the year
TV sets	90	20	60	16,000	1,080	1,000
Washing Machines	70	20	40	12,000	840	800

The following were the expenses during the year.

Rent Rs. 1,20,000; Salaries Rs. 1,44,000; Commission to salesmen Rs. 12,000; Office expenses Rs. 1,20,000.

From the above information, you are required to prepare :

(a) Hire Purchase Trading Account; (b) Trading and Profit and Loss Account.

Answer 4.

In the books of JBL Agencies

Dr. **Hire Purchase Trading Account** *Cr.*

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.11	To Goods Sold on HP A/c (Note 2)	27,00,000	31.3.2011	By Goods Sold on HP A/c (Loading —Note 3)	12,60,000
31.3.11	To Stock Reserve A/c (Note 8)	4,62,000	?	By Bank A/c (Note 5)	16,00,000
31.3.11	To Profit and Loss A/c	7,98,000	31.3.11	By Balance c/d :	
				HP Stock (Note 6)	9,90,000
				HP Debtors (Note 7)	1,10,000
		39,60,000			39,60,000

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

Dr. *Cr.*

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Purchases :			By Sales (CPS) :		
TV Sets (90 × Rs. 16,000)	14,40,000		TV Sets (20 × Rs. 20,000)	4,00,000	
Less : Cost of TV sold on			Washing Machines		
HP	9,60,000	4,80,000	(20 × Rs. 15,000)	3,00,000	7,00,000
Washing Machines			By Closing Stock :		
(70 × Rs. 12,000)	8,40,000		TV Sets (Note 9)	1,60,000	
Less : Cost of Washing			Washing Machine	1,20,000	2,80,000
Machine sold on HP			(Note 9)		
(40 × Rs. 12,000)	4,80,000	3,60,000			
To Grsoss Profit c/d		1,40,000			
		9,80,000			9,80,000
To Salaries		1,44,000	By Gross Profit b/d		1,40,000
To Rent		1,20,000	By HP Trading A/c		7,98,000
To Commission to Salesmen		12,000			
To Office Expenses		1,20,000			
To Net Profit		5,42,000			
		9,38,000			9,38,000

Working Notes :

(1) Calculation of Cash Price and Hire Purchase Price per Unit

Product	Cost per Unit (Rs.)	Cash Price per Unit (Rs.)	Hire Purchase Price per Unit (Rs.)
TV Sets	16,000	16,000 × 125% = Rs. 20,000	20,000 × 150% = 30,000
Washing Machines	12,000	12,000 × 125% = 15,000	15,000 × 150% = 22,500

(2) Calculation of H. P. Sales

	Rs.
T. V. Sets : Rs. 30,000 × 60	18,00,000
Washing Machines : Rs. 22,500 × 40	9,00,000
	27,00,000

(3) Loading on Goods Sold on Hire Purchase **Rs.**

	Rs.
T. V. Sets : (Rs. 30,000 – Rs. 16,000) = Rs. 14,000 × 60	8,40,000
Washing Machines (Rs. 22,500 – Rs. 12,000) = Rs. 10,500 × 40	4,20,000
	12,60,000

(4) Calculation of Amount of Each Instalment **Rs.**

$$\text{Instalment Amount} = \frac{\text{Hire Purchase Price}}{\text{Number of Instalments}}$$

T. V. Set = Rs. 30,000 / 30 = 1,000. Washing Machines = Rs. 22,500 / 30 = 750.

(5) Instalments Received **Rs.**

	Rs.
T. V. Sets = 1,000 × Rs. 1,000	10,00,000
Washing Machines = 800 × Rs. 750	6,00,000
	16,00,000

(6) Calculation of Hire Purchase Stock on 31st March, 2011

Product	Total Number of Instalments	Number of Instalment Due during the year	Instalment Not yet due	Amount (Rs.)
TV Sets	1,800	1,080	1,800 – 1,080 = 720	720 × Rs. 1,000 = 7,20,000
Washing Machines	1,200	840	1,200 – 840 = 360	360 × Rs. 750 = 2,70,000
				9,90,000

(7) Calculation of Hire Purchase Debtors on 31st March, 2011

Product	Instalments Due during the year	Instalments Paid during the year	Instalments due but not paid during the year	Amount (Rs.)
TV Sets	1,080	1,000	80	80×Rs. 1,000 = 80,000
Washing Machines	840	800	40	40×Rs. 750 = 30,000
				1,10,000

(8) Calculation of Stock Reserve

$$\text{Stock Reserve} = \frac{\text{Loading per Unit}}{\text{Number of instalment per unit}} \times \text{Number of instalments not yet due}$$

	Rs.
T. V. Sets $= \frac{\text{Rs. 14,000 (Note 3)}}{30} \times 720 \text{ (Note 6)}$	3,36,000
Washing Machines $= \frac{\text{Rs. 10,500 (Note 3)}}{30} \times 360 \text{ (Note 6)}$	1,26,000
	4,62,000

Alternatively :

If cost is Rs. 100, selling price is Rs. 100 × 125% × 150% = Rs. 187.50

Therefore, profit is Rs. 87.50 or 87.5% on cost.

T. V. sets = Rs. 7,20,000 / 187.50 × 87.50 = Rs. 3,36,000. Washing machines = Rs. 2,70,000 / 187.50 × 87.50 = Rs. 1,26,000.

(9) Value of Closing Stock at Shop on 31st March, 2011

Product	Number of Units Purchased	Number of Units sold	Stock (Nos.)	Cost per Unit (Rs.)	Value (Rs.)
TV Sets	90	80	10	16,000	1,60,000
Washing Machines	70	60	10	12,000	1,20,000
					2,80,000

Q. 5. Healthy Sports Club presents the following information to you :

Receipts and Payments Account for the year ended 31st March, 2011

Receipts	Rs.	Payments	Rs.
To Opening Cash and Bank balances	52,000	By Salaries	1,50,000
To Subscriptions	3,48,000	By Rent and Taxes	54,000
To Donations	1,00,000	By Electricity Charges	6,000
To Interest on Investments	12,000	By Sports Goods	20,000
To Sundry Receipts	3,000	By Library Books	1,00,000
		By Newspapers and Periodicals	10,800
		By Miscellaneous Expenses	54,000
		By Closing Cash and Bank balances	1,20,200
	5,15,000		5,15,000

	As on 31.3.2010 Rs.	As on 31.3.2011 Rs.
Liabilities :		
Outstanding expenses :		
Salaries	10,000	20,000
Rent and taxes	4,500	4,500
Electricity charges	990	1,030
Newspapers and periodicals	890	910
Assets :		
Library books	1,00,000	
Sports goods	80,000	
Furniture and fixatures	1,00,000	
Subscription receivable	30,000	25,000
Investment in Government securities	5,00,000	
Accrued interest	6,000	6,000

Provide depreciation on :

Furniture and fixtures @ 10% p.a.

Sports goods @ 20% p.a.

Library books @ 10% p.a.

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2001 and the balance sheets as on 31st March, 2010 and 31st March, 2011. Treat donations as capital receipt. Assume that sports goods and library books have been purchased evenly throughout the year.

Answer 5.

Balance Sheet as on 31st March, 2010

Liabilites	**Rs.**	**Rs.**	***Assets***	**Rs.**
Outstanding Expenses :			Fixed Assets :	
Salaries	10,000		Furniture and Fixatures	1,00,000
Rent and Taxes	4,500		Library Books	1,00,000
Electricity	990		Investments :	
Newspapers and			Government Securities	5,00,000
Periodicals	890	16,380	Current Assets :	
Capital Fund			Sports Goods	80,000
(balancing figure)		8,51,620	Subscriptions Receivable	30,000
			Accrued Interest	6,000
			Cash and Bank balances	52,000
		8,68,000		8,68,000

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

Expenditure	**Rs.**	**Rs.**	***Income***	**Rs.**
To Salaries		1,60,000	By Subscriptions	3,43,000
To Rent and Taxes		54,000	By Interest on Investments	12,000
To Electricity Charges		6,040	By Sundry Receipts	3,000
To Newspapers and				
Periodicals		10,820		
To Miscellaneous Expenses		54,000		
To Depreciation on				
— Furniture and Fixtures	10,000			
— Sports Goods, W.N. (i)	17,000			
— Library Books, W.N. (i)	15,000	42,000		
To Surplus i.e. Excess of				
Income over Expenditure		31,140		
		3,58,000		3,58,000

Balance Sheet as on 31st March, 2011

Liabilites	Rs.	Rs.	*Assets*	Rs.
Outstanding Expenses :			Fixed Assets : W.N. (ii)	
Salaries	20,000		Furniture and Fixtures	90,000
Rent and Taxes	4,500		Library Books	1,85,000
Electricity charges	1,030		Investment :	
Newspapers and Periodicals	910	26,440	Government Securities	5,00,000
			Current Assets :	
Capital Fund :			Sports Goods: W.N. (iii)	83,000
Opening balance	8,51,620		Subscriptions Receivable	25,000
Add : Donation	1,00,000		Accrued Interest	6,000
Add : Surplus for the year	31,140	9,82,760	Cash and Bank balances	1,20,200
		10,09,200		10,09,200

Working Note :

		Rs.
(i)	Depreciation on Sports Goods @ 20% p.a. :	
	On Rs. 80,000 for full year	8,000
	On Rs. 20,000 for six months	1,000
	Total	9,000
	Depreciation on Library books @ 10% p.a. :	
	On Rs. 1,00,000 for full year	10,000
	On Rs. 1,00,000 for six months	5,000
	Total	15,000
(ii)	Furniture and Fixatures :	
	Opening balance	1,00,000
	Less : Depreciation @ 10% p.a.	10,000
	Amount shown in balance sheet	90,000
	Library Books :	
	Opening balance	1,00,000
	Add : Additions	1,00,000
		2,00,000
	Less : Depreciation @ 10% p.a.	15,000
	Amount shown in balance sheet	1,85,000
(iii)	Sports Goods :	
	Opening balance	80,000
	Add : Additions	20,000
		1,00,000
	Less : Depreciation @ 20% p.a.	17,000
	Amount shown in balance sheet	83,000

(iv) Calculation of expenses incurred for the year ended 31st March, 2011 :

	Salaries Rs.	**Rent and Taxes** Rs.	**Electricity Charges** Rs.	**Newspapers and Periodicals** Rs.
Amount paid	1,50,000	54,000	6,000	10,800
Add : Outstanding on 31.3.2011	20,000	4,500	1,030	910
	1,70,000	58,500	7,030	11,710
Less : Outstanding on 31.3.2010	10,000	4,500	990	890
Expenses for the year	1,60,000	54,000	6,040	10,820

(v) Calculation of income earned for the year ended 31st March, 2011 :

	Subscriptions Rs.	**Interest** Rs.
Amount received	3,48,000	12,000
Add : Receivable on 31.3.2011	25,000	6,000
	3,73,000	18,000
Less : Receivable on 31.3.2010	30,000	6,000
Income for the year	3,43,000	12,000

Q. 6. The Receipts and Payments Account of Young Women's prepared on 31st March, 2011 is :

Receipts and Payments Account

Receipts	**Rs.**	**Amount Rs.**	***Payments***	**Amount Rs.**
To Balance b/d		**450**	**By Expenses (including Payment for sports material Rs. 2,700)**	**6,300**
" Annual income from Subscription	**4,950**		**" Loss on Sale of Furniture (cost price Rs. 450)**	**180**
***Add* : Outstanding of last year received this year**	**180**		**Balance c/d**	**90,450**
	4,770			
***Less* : Prepaid of the last year**	**90**	**4,680**		
" Other Fees		**1,800**		
" Donation for Building		**90,000**		
		96,930		**96,930**

***Addtional Information* :**

Young Women's Club had balances as on 1.4.2010.

Sports material Furniture Rs. 1,800; Investment at 5% Rs. 27,000;

Balance as on 31.3.2011 : Subscription receivable Rs. 270;

Subscription received in advance Rs. 90;

Stock of sports material Rs. 1,800.

Do you agree with the above Receipts and Payments Account? If not, prepare correct Receipts and Payments Account and Income and Expenditure account for the year ended 31st March 2011 and the Balance Sheet on that date.

Answer 6.

In the books of Young Women's Club

Corrected Receipts and Payments Account

for the year ended 31st March 2011

Date	Receipts	Amount Rs.	Date	Payments	Amount Rs.
	To Balance b/d	450		By Expenses	3,600
	" Subscription	4,500[2]		(Rs. 6,300 – 2,700)	
	" Other Fees	1,800		" Sports Material	2,700
	" Donation for Building	90,000		" Balance c/d	90,720
	" Sale of Furniture	270[3]		(Cash in hand and at Bank)	
		97,020			97,020

Dr. **Income and Expenditure Account** *Cr.*

for the year ended 31st March 2011

Expenditure	Rs.	Income	Rs.
To Sundry Expenses	3,600	By Subscription	4,590
" Consumption of Sports Materials	7,560[4]	" Other Fees	1,800
" Loss on Sale of Furniture	180	" Interest on Investment	1,350
		(95% on Rs. 27,000)	
		" Deficit — Excess of Expenditure over Income	3,600
	11,340		11,340

Balance sheet

as on 31st March 2011

Liabilities	***Rs.***	***Rs.***	***Assets***		***Rs.***
Capital Fund	36,000[1]		Furniture	1,800	
Less : Excess of Expenditure			*Less* : Sold	450	1,350
over Income	3,600	32,400	5% Investment		27,000
Building Fund		90,000	Interest Accrued on Investment		1,350
Subscription Received in			Sports Materials		1,800
Advance		90	Subscription Receivable		270
			Cash in Hand and at Bank		90,720
		1,22,490			1,22,490

Workings :

1. Balance Sheet

as on 1st April, 2010

Liabilities	*Rs.*	*Assets*	*Rs.*
Subscription received in Advance	90	Furniture	1,800
Capital Fund	36,000	Investment	27,000
(bal. fig.)		Sports Material	6,660
		Subscription Receivable	180
		Cash in hand and at Bank	450
	36,090		36,090

2. Subscription Received

	Rs.
Subscription (Annual Income)	4,590
Less : Receivable as on 31.3.2011	270
	4,320
Add : Advance received for the year 2011-12	90
	4,410
Add : Receivable on 31.3.2010	180
	4,590
Less : Advance Received as on 31.3.2010	90
	4,500

3. Sale of Furniture

	Rs.
Cost of Furniture	450
Less : Loss on Sale	180
∴ Sale of furniture	270

4. Consumption of Sports Material

Consumption = Opening Stock + Purchase – Closing Stock

= Rs. 6,660 + Rs. 2,700 – Rs. 1,800

= Rs. 7,560

Q. 7. The Balance Sheet of G and S, who share profits and losses in the ratio of 3 : 2, as on 31.3.2011 appears as below :

Liabilities		Rs.	*Assets*	Rs.
Capital	**G**	**48,000**	**Other Assets**	**1,20,000**
	S	**32,000**	**Cash**	**10,000**
Reserve		**10,000**		
Creditors		**40,000**		
		1,30,000		**1,30,000**

They admit R as a partner on 1.4.2011. You are required to prepare Partners' Capital Accounts and the Balance Sheet of the new firm under each of the following cases :

(a) R is to *contribute* to the firm Rs. 27,000 for 1/6the share in the partnership.

(b) R is to *purchase* 1/6th share in the partnership from the existing partners G and S in the ratio of 3 : 2, for Rs. 27,000.

Answer 7.

(a) Here, R is admitted by investing additional capital in the partnership. In effect, both the total assets and the total capital of the firm are increased by the amount of capital brought in by R.

Since R is given 1/6th share, G and S get 5/6th share in the partnership.

Following is the calculation of premium for goodwill brought in by R :	**Rs.**
Total capital of G and S for 5/6th share (Rs. 48,000 + 32,000 + 10,000)	90,000
Total capital after the admission of R will be (Rs. 90,000 / 5 × 6)	1,08,000
R is to bring in 1/6th of Rs. 1,08,000	18,000
Total amount brought in by R for capital and premium for goodwill	27,000
Therefore, premium for goodwill brought in by him (Rs. 27,000 – 18,000)	9,000

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

Date	Particulars	G	S	R	Date	Particulars	G	S	R
1.4.11	To Cash A/c (Premium withdrawn)	5,400	3,600	—	1.4.11	By Balance b/d	48,000	32,000	—
					"	By Reserve A/c	6,000	4,000	—
					"	By Cash A/c	—	—	18,000
"	To Balance c/d	54,000	36,000	18,000	"	By Premium for Goodwill	5,400	3,600	—
		59,400	39,600	18,000			59,400	39,600	18,000

Balance Sheet (after R's admission)

as at 1st April, 2011

Liabilities			Rs.	*Assets*	Rs.
Capitals :	G	54,000		Other Assets	1,20,000
	S	36,000		Cash (Rs. 10,000 + 27,000 – 9,000)	28,000
	R	18,000	*1,08,000		
Creditors			40,000		
			1,48,000		1,48,000

* Total capital of the firm is increased from Rs. 90,000 to Rs. 1,08,000, i.e., the amount of capital brought in by R.

(b) Here, R is admitted by purchase of an interest from the old partners G and S. Since the capital interest of the incoming partner R is obtained from the old partners G and S, neither the total assets nor the total capital of the partnership firm is affected.

Following is the calculation of premium for goodwill brought in by R	**Rs.**
Total capital after R's admission will be same as before (Rs. 48,000 + 32,000 + 10,000)	90,000
R is to bring in 1/6th of Rs. 90,000	15,000
Total amount brought in by R for capital and premium for goodwill	27,000
Therefore, premium for goodwill brought in by him (Rs. 27,000 – 15,000)	12,000

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

Date	Particulars	G	S	R	Date	Particulars	G	S	R
1.4.11	To Cash A/c (Bal. figure)	16,200	10,800	—	1.4.11	By Balance b/d	48,000	32,000	—
					"	By Reserve A/c	6,000	4,000	—
"	To Balance c/d (required)	45,000	30,000	15,000	"	By Cash A/c	—	—	15,000
					"	By Premium for Goodwill	7,200	4,800	—
		61,420	40,800	15,000			61,420	40,800	15,000

Balance Sheet (after R's admission)

as at 1st April, 2011

Liabilities			Rs.	*Assets*	Rs.
Capitals :	G	45,000		Other Assets	1,20,000
	S	30,000		Cash	10,000
	R	15,000	*90,000		
Creditors			40,000		
			1,30,000		1,30,000

* Total capital of the firm is same as before. Out of Rs. 90,000, R gets Rs. 15,000. The balance of capital of Rs. 75,000 is shared by G and S in the ratio of 3 : 2.

Q. 8. (a) P, Q and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet as on 31.3.2011 is as under :

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital — P	**60,000**	**Machinery**	**80,000**
Capital — Q	**50,000**	**Furniture**	**15,000**
Capital — R	**40,000**	**Motor Car**	**30,000**
Sundry Creditors	**72,000**	**Stock**	**50,000**
Bank Loan	**30,000**	**Sundry Debtors**	**60,000**
Other Liabilities	**20,000**	**Cash at Bank**	**37,000**
	2,72,000		**2,72,000**

P retired on 1.4.2011and the partnership deed provided inter alia that in the event of admission, retirement or death of a partner, the assets and liabilities are to be revalued and that goodwill of he firm is to be computed on the basis of 2 years' purchase of the correct profit of the last 4 years.

It is discovered that the accounts required adjustments owing to certain mistakes in earlier years. On 1.10.2008 repairs to machinery for Rs. 6,000 had been wrongly debited to the Machinery Account, and on 1.4.2009 a piece of furniture, whose book value was Rs. 2,000 was disposed of for Rs 800 but the proceeds were wrongly credited to Sales Account. The partners had been charging depreciation on all fixed assets at 10% p.a. on the reducing balance system on a time basis. Profits for the last four years without adjusting the above mentioned mistakes were as follows :

2007-08 Rs. 20,000; 2008-09 Rs. 24,000; 2009-10 Rs. 32,000; 2010-11 Rs. 36,000.

Revaluation on the date orretIrement was :

Machinery- Rs. 90,000; Furniture- Rs.10,000; Motor car- Rs. 22,000.

Q and R decided to share future profits, after P's retirement, in the ratio of 3 : 2. It was further agreed that the retiring partner shall be credited with his due proportion of goodwill, without raising a Goodwill Account in the books.

P is to be paid 50% of the amount due to him on rewement immediately and the balance is to be transferred to his Loan Account carrying interest at 6% p.a. Q and R are to bring necessary cash (in their new ratio) subject to the condition that a cash balance of Rs. 20,000 is to be maintained as working capital.

Show the Capital Account of the partners and the Balance Sheet of the firm after all the above mentioned transactions have been carried out. Ignore fractions. (All working should form part of your answer.)

(b) W and X are equal partners. They admit Y and Z as partners with 1/5 and 1/6 share respectively. What is the profit sharing ratio of all the partners?

Answer 8. (a)

In the books of the Firm

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

Particulars	P	Q	R	Particulars	P	Q	R
To Revaluation A/c	1,500	1,000	500	By Balance b/d	60,000	50,000	40,000
To P Capital – goodwill (Note 3)	—	14,101	12,339	By Q Capital A/c – goodwill	14,101	—	—
To Cash A/c	42,470	—	—	By R Capital A/c – goodwill	12,339	—	—
To P Loan A/c	42,470	–	—	By Cash A/c (Note 4)	—	15,282	10,188
To Balance c/d	—	50,181	37,349				
	86,440	65,282	50,188		86,440	65,282	50,188

Balance Sheet as at 1 April, 2011

Liabilities	**Rs.**	***Assets***	**Rs.**
Capital — Q	50,181	Machinery	90,000
Capital — R	37,349	Furniture	10,000
Sundry Creditors	72,000	Motor car	22,000
Bank Loan	30,000	Stock	50,000
P Loan	42,470	Sundry Debtors	60,000
Other Liabilities	20,000	Cash at Bank	20,000
	2,52,000		2,52,000

Working Notes :

Dr. **(1) Revaluation Account** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Motor Car A/c	8,000		By Machinery A/c	10,000
	To Furniture A/c	5,000		By Partner's Capital A/cs (P-Rs. 1,500; Q-Rs. 1,000; R-Rs. 500)	3,000
		13,000			13,000

(2) Ascertainment of Adjusted Profits

	2007-08	2008-09	2009-10	2010-11
Profits without adjustment	20,000	24,000	32,000	36,000
Less : Repairs previously capitalised		(–) 6,000		
Add : De reciation wrongly charged on the above		(+) 300	(+) 570	(+) 513
Less : Sale of Furniture wrongly credited to Sales			(–) 800	
Less : Loss on sale of Furniture not recorded (Rs 2,000 – 800)			(–) 1,200	
Add : Depreciation on Furniture wrongly provided			(+) 200	(+) 180
Adjusted Profits	20,000	18,300	30,770	36,693

(3) Ascertainment of the Value of Goodwill and its Adjustment

Aggregate adjusted profits for 4 years: Rs. 1,05,763; Average Profits — 1,05,763 / 4 = Rs. 26,440.

Goodwill at 2 years' purchase of average profit = Rs. 52,880 (Rs. 26,440 × 2).

Adjustment in Regard to Goodwill

Partners		A	B	C
Right of goodwill prior to retirement (3: 2 : 1)	(Rs.)	26,440	17,627	8,813
Right of goodwill after retirement (3 : 2)	(Rs.)	—	31,728	21,152
Gain (+) / Sacrifice (–)	(Rs.)	(–) 26,440	(+) 14,101	(+) 12,339

Therefore, p will get Rs. 26,440 for goodwill, payable by Q — Rs. 14,101 and R — Rs. 12,339.

(4) Required Cash to be brought in by Q and R

Particulars	Rs.
Amount payable to P immediately (1/2 of Rs. 84,940)	42,470
Add : Required Bank Balance	20,000
	62,470
Less : Existing Bank Balance	37,000
Amount to be brought in by, Q and R in the ratio 3 : 2	25,470
Therefore, Q will bring in 3/5 of Rs. 25,470 = Rs. 15,282. R will bring in 2/5 of Rs. 25,470 = Rs. 10,188.	

Dr. **Bank Account** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	37,000		By P Capital A/c	42,470
	To Q Capital A/c	15,282		By Balance c/d	20,000
	To R Capital A/c	10,188			
		62,470			62,470

Answer 8. (b)

Let total profits or losses of the firm be 1

Shares of W and Z is 1/5 and 1/6 respectively.

Balance remaining : 1 – (1/5 + 1/6) = 1 – 11/30 = 19/30

19/30 to be shared equally by W and X as 9.5/30 : 9.5/30

New Profit sharing ratio will be W : X : Y : Z

[9.5/30 × 2/2] : [9.5/30 × 2/2] : [1/5 × 12/12] : [1/6 × 10/10]

Thus new profit sharing ratio of all the partners will be 19 : 19 : 12 : 10.

Q. 9. S and U have been in partnership business for some years, sharing profits in the proportions of 3/5th and 2/5th respectively, after salary entitlements of Rs. 8,000 and Rs. 12,000 per annum respectively. Accounts are made upto 30th June in each year.

Their partnership agreement provides, on the death of a partner for : (i) revaluation of the firm's assets— net gain or loss to be dealt with in the capital accounts in the profit-sharing ratio; (ii) the amount due to a deceased partner's personal respresentatives to be the amount standing to the credit of his Capital Account, including salary and profits to date of death, less drawings on account; (iii) Rs. 10,000 to be paid immediately and the balance one year after death; and (iv) an annuity of Rs. 6,000 payable half-yearly in arrears to a deceased partner's widow.

S died on 31.12.2010, when the lease of the partnership premises was deemed to be worth Rs. 40,000, goodwill Rs. 25,000 and all other assets at their book values. Non-profit life insurance policies had been taken out on each partner's policy, being debited to him. S's life was insured for Rs. 50,000 and U's for Rs. 20,000. The surrender value of the policy on U's life on 31.12.2010 was Rs. 2,200, and the benefit thereof was assigned to him at that value by S's personal representatives.

On 31.3.2011, V was taken into partnership by U on the terms that he should : (i) introduce Rs. 25,000 as partnership capital; and (ii) receive 1/5th share of profits, after charging the annuity to S's widow, with no provision for partners' salaries.

Profits and losses are assumed to accrue evently throughout the year. The partnership Trial Balance as on 30.6.2011 was as follows :

Particulars	Dr. (Rs.)	Cr. (Rs.)
Lease	15,000	
Stock on 30th June, 2011	65,000	
Gross trading Profit for year ended 30.6.2011		1,82,000
Office salaries and expenses	82,000	
Life Assurance Policy Premium :		
On S's life, paid in Nov., 2010	650	
On U's life, paid in May, 2011	250	
Cash from life assurance policy on S's life		50,000
Annuity to S's widow, paid on 30.6.2011	3,000	
Balance at bank	61,000	
Capital Account— S (30.6.2010)		37,000
Capital Account— U (30.6.2010)		12,900
Sundry Debtors	33,000	
Sundry Creditors		41,000
Cash paid in by V		25,000
Cash paid to personal representative of S	10,000	
Partners' Drawings — S	27,000	
Partners' Drawings — U	46,000	
Partners' Drawings — V	5,000	
Total	3,47,900	3,47,900

You are required to prepare : (a) the Capital Accounts of partners and the account of the personal representative of S, covering the year ended 30.6.2011; (b) the Partnership Balance Sheet as on 30.6.2011.

Answer 9.

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

Particulars	S	U	V	Particulars	S	U	V
To Bank A/c— Drawings	27,000	46,000	5,000	By Balance b/d	37,000	12,900	—
To Insurance Premium :				By Revaluation A/c	15,000	10,000	—
on S's life (see note)	—	650	—	By Goodwill A/c	15,000	10,000	
On U's life	—	250	—	By Salaries A/c	4,000	6,000	—
To Executor of S A/c	—	2,200	—	(upto 31.12.2010)			
(assignment of policy)				By Sh. of Profit	24,000	16,000	—
To Executor of S A/c	68,000	—	—	(upto 31.12.2010)			
(final claim of S)				By Bank A/c — Capital	—	—	25,000
To Balance c/d	—	98,100	24,700	By Bank A/c — Policy of S	—	50,000	—
				By Share of Profit	—	23,500	—
				(upto 31.3.2011)			
				By Share of Profit	—	18,800	4,700
				(upto 30.6.2011)			
	95,000	1,47,200	29,700		95,000	1,47,200	29,700

Note : Here life insurance policy has been taken out on each partner's life for the benefit of other. It means on the death of S, U is to get the policy money. Conversely on U's death, S will get the policy money. Again insurance premium of S's policy to be borne by U and Premium on U's Policy to be borne by S. S died before the payment of premium of U's policy, so it is payable by U.

Dr. **Executor Account** *Cr.*

Particulars	Rs.	Particulars	Rs.
To Bank A/c	10,000	By S Capital A/c	68,000
To Balance c/d	60,000	By U Capital A/c	2,200
	70,200		70,200

Balance Sheet as at 30th June, 2011

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Account — U	98,100	Goodwill	25,00
Capital Account — V	24,700	Lease	40,000
Executors of S	60,200	Stock	65,000
Creditors	41,000	Debtors	33,000
		Balance at bank	61,000
	2,24,000		2,24,000

Working Notes :

Dr. **(1) Revaluation Account** Cr.

Particulars	Rs.	Particulars	Rs.
To S Capital A/c (3/5)	15,000	By Lease A/c (Rs. 40,000 – 15,000)	25,000
To U Capital A/c (2/5)	10,000		
	25,000		25,000

Dr. **Profit & Loss Appropriation Accounts** Cr.

Particulars	First 6 months	Next 3 months	Last 3 months	Particulars	First 6 months	Next 3 months	Last 3 months
To Salaries — S	6,000	—	—	By Net Profit * Rs. 1,00,000			
To Salaries — U	4,000	—	—	(apportioned on time			
To Annuity Accrued	—	1,500	1,500	basis)	50,000	25,000	25,000
To Share of Profit - S	24,000	—	—				
To Share of Profit - U	16,000	23,500	18,800				
To Share of Profit - V	—	—	4,700				
	50,000	25,000	25,000		50,000	25,000	25,000

* Net Profit – Gross profit Rs. 1,82,000 – Office salaries Rs. 82,000 = Rs. 1,00,000.

Q. 10. Gargi and Som commenced trading on 1st January, 2010 as traders of electronic weighing machines. The profits were shared by them in the ratio of 2 : 1 after charging agreed equal salaries.

As on 31st December, 2010 the following draft Profit and Loss Account has been prepared :

Particulars	Rs.	Particulars	Rs.
To Purchases	6,36,000	By Sales	7,92,000
To Salaries	1,03,500	By Hire Purchase Interest	33,600
To Salary to Partners	54,000	By Lease Rent	3,600
To General Expenses	42,690	By Stock (at cost)	1,08,000
To Net Profit for the Year	1,01,010		
	9,37,200		9,37,200

You are also informed that :

(a) the firm deals in only one type of machine, which costs Rs. 1,200 and is sold at a uniform gross profit of $33^1/_3$% on selling price.

(b) Due to decline in sale, in the later part of the year, the partners had sold some machines on hire purchase for initial payment of Rs. 360 and 24 monthly payments of Rs. 80 each.

Some other machines were also given on lease for Rs. 50 per month. The first monthly instalment and the first lease rent is due in the month of delivery. At the end of the four years period of lease, the machines are not likely to have any scrap value.

(c) The number of machines sent out other than on account of cash sales were ;

	Hire Purchase	Lease
October	20	10
November	24	12
December	26	18
	70	40

(d) Machines on lease have been included in stock in hand as on 31st December, 2010.

You are required to re-draft the Trading and Profit and Loss Account in accordance with correct accounting principles. Also prepare Profit and Loss Appropriation Account for the year ended 31st December, 2010.

Give you workings and reasons for the alternations suggested.

Answer 10.

In the books of Gargi and Som

Dr. **Profit and Loss Account for the year ended 31st December, 2010** *Cr.*

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Purchases	6,36,000		By Sales (Note 3)		6,66,000
Less : Cost of Machineries sold on :			By Closing Stock	1,08,000	
H. P. (Note 1)	(84,000)		*Less* : Cost of Machines on Lease (Note 5)	48,000	60,000
Less : Lease (Note 2)	(48,000)	5,04,000			
To Gross Profit c/d		2,22,000			
		7,26,000			7,26,000
To Salaries		1,03,500	By Gross Profit b/d		2,22,000
To General Expenses		42,690	By Lease Rent (Note 6)		3,600
To Depreciation on Leased Machine (Note 5)		1,800	By H.P. Trading (Note 7)		6,030
To Net Profit c/d		83,640			
		2,31,630			2,31,630

Dr. **Profit and Loss Appropriation Account for the year ended 31st December, 2010** *Cr.*

Particulars	Rs.	Rs.	Particulars	Rs.
To Partners' Salary—			By Net Profit b/d	83,640
Gargi	27,000			
Som	27,000	54,000		
To Share of Profit :				
Gargi (2/3)	19,760			
Som (1/3)	9,880	29,640		
		83,640		83,640

Working Notes :

		Rs.
(1)	Cost of Goods sold on H. P. = 70 × Rs. 1,200	84,000
(2)	Cost of Goods on lease = 40 × Rs. 1,200	48,000
(3)	Sale Price = Cost + $33^1/_3$% of Sales (or 50% or cost) = Rs. 1,200 + Rs. 600 = **Rs. 1,800**.	
	Total Sales as per draft account	7,92,000
	Less : Sales on Hire Purchase System (Note 14)	1,26,000
	Cash Sales	6,66,000

(4) Machine given on lease will be shown in the Balance Sheet as an asset — net of depreciation. It cannot form part of stock.

(5) **Depreciation on Leased Machines**

Cost = 40 × Rs. 1,200 = Rs. 48,000.

Life = 4 years

Monthly depreciation of each machine = Rs. 1,200 ÷ 48 = Rs. 25.

Depreciation charged = Total months × 25 = 72 × Rs. 25 = **Rs. 1,800**.

Particulars	No. of Machines	Months	Total Months
October	10	3	30
November	12	2	24
December	18	1	18
			24

(6) **Total Lease Rent** = 72 × Rs. 50 = Rs. 3,600.

(7)

Dr. **H. P. Trading Account** *Cr.*

Particulars	Rs.	Particulars	Rs.
To Goods Sold on H.P. (Note 9)	1,59,600	By Goods Sold on H. P. (Note 10)	75,600
To Stock Reserve (Note 13)	69,570	By Bank / Cash A/c (Note 11)	35,920
To Profit and Loss A/c	6,030	By Balance c/d :	
		H. P. Stock (Note 12)	1,23,680
	2,35,200		2,35,200

(8)	**Hire Purchase Price :**	**Rs.**
	Initial payment	360
	Instalments (24 × 80)	1,920
		2,280

(9) Goods sold on Hire Purchase = 70 × Rs. 2,280 = **Rs. 1,59,600**.

(10) Loading on Goods sold on Hire Purchase = 70 (2,280 – 1,200) = **Rs. 75,600**.

(11) Cash Received on Machine Sold on H. P. :

	No. of Instalments	Rs.
October	20 × 80	1,600
November (20 + 24)	44 × 80	3,520
December (44 + 26)	70 × 80	5,600
Cash Received from Instalments		10,720
Add : Initial payment Rs. 360 × 70		25,200
		35,920

(12) H. P. Stock = No. of Instalments not yet due × Amount of each Instalment = **1,546** × **Rs. 80** = **Rs. 1,23,680.**

Month	No. of Machines Sold	Total No of Instalments Collected During the Year	No. of Instalments Not Yet Due	Instalment
October	20	480	60	420
November	24	576	48	528
December	26	624	26	598
	70	1,680	134	1,546

(13) Stock Reserve $= \dfrac{\text{Leading per unit}}{\text{Number of Instalments per unit}} \times \text{Number of Instalment not yet due}$

$$= \frac{{}^{*}1{,}080}{24} \times 1{,}546 = \text{Rs. } 69{,}570$$

* Rs. 2,280 – Rs. 1,200 = **Rs. 1,080**.

(14) 70 machines have been sold on hire purchase system @ Rs. 2,280 (See Note 8).

Hire purchase sale is (Rs. 2,280 × 70) = Rs. 1,59,600.

However, out of Rs. 1,59,600, Rs. 33,600 [70 × (Rs. 2,280 – 1,800)] has been credited to Hire Purchase Interest Acount and (70 × Rs. 1,800) = Rs. 1,26,000 has been credited to Sales Account. Therefore, total of Rs. 7,92,000 includes Rs. 1,26,000.

Cash sales = Rs. 7,92,000 – 1,26,000 = **Rs. 6,66,000**.

Q. 11. Taani, Daani and Maani were in partnership as solicitors under the name of Motu& Co. sharing profits and lossses — Taani ½, Daani ¼ and Maani ¼. They agreed to amalgamate as on March 31, 2011 with Mou who was in practice on his own account. The balane sheets of the two firms as on that date were as follows :

		Motu & Co. Rs.	Mou Rs.		Motu & Co. Rs.	Mou Rs.
Capital Accounts :	**Rs.**			**Freehold Building**	**40,000**	**30,000**
Taani	**2,20,000**			**Furniture**	**20,000**	**5,000**
Daani	**1,00,000**			**Work-in-Progress**	**2,25,000**	**47,000**
Maani	**50,000**	**3,70,000**		**Debtors**	**70,000**	**30,000**
Mou			**1,10,000**	**Balance at Bank :**		
Creditors :				**Office**	**40,000**	**10,000**
Office		**20,000**	**10,000**	**Clients**	**30,000**	**15,000**
Clients		**30,000**	**15,000**			
Provision for Bad Debts		**5,000**	**2,000**			
		4,25,000	**1,37,000**		**4,25,000**	**1,37,000**

The practices were amalgamated on the following terms :

(1) Mou's share in the new firm to be 28 per cent, the shares of the Taani, Daani and Maani between themselves to be unaltered.

(2) Goodwill to be valued at 2½ times the average profits for the last three years. The aggregate profits shown in the accounts, before adjustments, for the last three years were : Motu & Co. Rs. 2,50,600 and Mou Rs. 92,000. No goodwill account to be opened and all goodwill adjustments between partners to be made through partners' capital accounts.

(3) The assets and liabilities were to be transferred to the new partnership on the basis of the above balance sheets subject to the following adjustments :

(i) Work in progress of Motu & Co. to be decreased by Rs. 15,500. Work in progress of Mou to be increased by Rs. 13,000.

(ii) Rs. 1,500 to be written off the debtors of Motu & Co. and the provision for doubtful debts to be decreased by Rs. 4,000. The provision for doubtful debts against Mou's debtors to be increased by Rs. 3,000.

***Note*—It was also agreed that for the purpose of the calculation of goodwill, the above adjustment should be regarded as affecting the aggregate profits of the last three years.**

(iii) The freehold building of Motu & Co. to be written up by Rs. 30,000.

(iv) Mou's building not to be transferred.

Compute the goodwill and its division. Prepare the partners' capital accounts recording the effect of the amalgamation and prepare the opening balance sheet of the new firm.

Answer 11.

Computation of Goodwill

	Rs.	Motu & Co. Rs.	Mou Rs.
Aggregate profits for the last three years		2,50,600	92,000
Add : Decrease in Provision for Bad Debts		4,000	—
Add : Increase in the value of Work-in-Progress		—	13,000
		2,54,600	1,05,000
Less : Decrease in value of Work-in-Progress	15,500		
Bad Debts written off	1,500	17,000	
Increase in the Provision for Bad Debts			3,000
Adjusted profits		2,37,600	1,02,000

Goodwill at 2½ times the average profits.

$$\left(\text{Rs.}\frac{2,37,600}{3}\times\frac{5}{2}\right) \text{ and } \left(\frac{\text{Rs. }1,02,000}{3}\times\frac{5}{2}\right)$$

Total Goodwill = Rs. 1,98,000 + Rs. 85,000 = Rs. 2,83,000

To be credited to :	Rs.	Goodwill to be written off :	Rs.	*Difference*
Taani, 1/2	99,000	Taani, 36%	1,01,880	— 2,280
Daani, 1/4	49,500	Daani, 18%	50,940	— 1,440
Maani, 1/2	49,500	Maani, 18%	50,940	— 1,440
Mou, full	85,000	Mou, 28%	79,240	+ 5,760
	2,83,000		2,83,000	

In the books of Motu & Co.

Capital Accounts

Particulars	Taani Rs.	Daani Rs.	Maani Rs.	Particulars	Taani Rs.	Daani Rs.	Maani Rs.
To Capital in the New Firm	2,28,500	1,04,250	54,250	By Balance b/d	2,20,000	1,00,000	50,000
				By Surplus on Re-valuation of Assets	8,500	4,250	4,250
	2,28,500	1,04,250	54,250		2,28,500	1,04,250	54,250

In the books of Mou :

Mou's Capital Accounts

Particulars	Rs.	Particulars	Rs.
To Feehold Buildings (not taken over by the new firm)	30,000	By Balance b/d	1,10,000
To Capital in the new firm	90,000	By Surplus on Revaluation of Assets	10,000
	1,20,000		1,20,000

In the books of the new firm :

Capital Accounts

Particulars	Taani Rs.	Daani Rs.	Maani Rs.	Mou Rs.	Particulars	Taani Rs.	Daani Rs.	Maani Rs.	Mou Rs.
To Mou's Capital A/c — Adjustment for goodwill	2,880	1,440	1,440	—	By Sundries— Net assets brought into the New Firm	2,28,500	1,04,250	54,250	90,000
To Balance c/d	2,25,620	1,02,810	52,810	95,760	By Sundry Capital Accounts— Adjustment for Goodwill				5,760
	2,28,500	1,04,250	54,250	95,760		2,28,500	1,04,250	54,250	95,760
					By Balance b/d	2,25,620	1,02,810	52,810	95,760

Balance Sheet of Taani, Daani, Maani and Mou as on April 1, 2011

Liabilities	*Rs.*	*Rs.*	*Assets*		*Rs.*
Creditors :			**Fixed Assets :**		
Office	30,000		Freehold Buildings		70,000
Clinents	45,000	75,000	Furniture		25,000
Capital Account :			**Current Assets :**		
Taani	2,25,620		Work in Progress		2,69,500
Daani	1,02,810		Sundry Debtors	98,500	
Maani	52,810		*Less* : Provision for		
Mou	95,760	4,77,000	Bad Debts	6,000	92,500
			Balance at Bank :		
			Office	50,000	
			Clients	45,000	95,000
		5,52,000			5,52,000

Q. 12. Jharna Ltd. has two departments Som and Sankha. From the following particulars, prepare departmental trading accounts and general profit and loss account for the year ending 31st March, 2011 :

	Department-Som **Rs.**	***Department-Sankha*** **Rs.**
Opening stock (at cost)	**40,000**	**24,000**
Purchases	**1,84,000**	**1,36,000**
Carriage inward	**4,000**	**4,000**
Wages	**24,000**	**16,000**
Sales	**2,80,000**	**2,24,000**
Purchased goods transferred :		
By Dept. Sankha to Dept. Som	**20,000**	**—**
By Dept. Som to Dept. Sankha	**—**	**16,000**
Finished goods transferred :		
By Dept. Sankha to Dept. Som	**70,000**	**—**
By Dept. Som to Dept. Sankha	**—**	**80,000**
Return of finished goods :		
By Dept. Sankha to Dept. Som	**20,000**	**—**
By Dept. Som to Dept. Sankha	**—**	**14,000**
Closing stock : Purchased goods	**9,000**	**12,000**
Finished goods	**48,000**	**28,000**

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the closing finished stock with each department represents finished goods received from the other department.

Answer 12.

In the books of Jharna Ltd.
Departmental Trading Account
Dr. **for the year ended 31st March, 2011** *Cr.*

Particulars	Som Rs.	Sankha Rs.	Particulars	Som Rs.	Sankha Rs.
To Opening Stock	40,000	24,000	By Sales	2,80,000	2,24,000
To Purchase	1,84,000	1,36,000	By Transfers :		
To Carriage	4,000	4,000	Purchased goods	16,000	20,000
To Wages	24,000	16,000	Finished goods	80,000	70,000
To Transfers :			By Returns :		
Purchased goods	20,000	16,000	Finished goods	14,000	20,000
Finished goods	70,000	80,000	By Closing Stock :		
To Returns :			Purchased goods	9,000	12,000
Finished goods	20,000	14,000	Finished goods	48,000	28,000
To Gross Profit c/d	85,000	84,000			
	4,47,000	3,74,000		4,47,000	3,74,000

Dr. **Profit and Loss Account for the year ended 31st March, 2011** *Cr.*

Particulars	Rs.	Particulars	Rs.
To Provision for unrealeased profit		By Gross Profit b/d	
included in closing stock :		Department Som	85,000
Department Som	2,880	Department Sankha	84,000
Department Sankha	1,400		
To Net Profit	1,64,720		
	1,69,000		1,69,000

Working Notes :

(i) *Calculation of rates of gross profit :*

	Department Som Rs.	Department Sankha Rs.
Sales	2,80,000	2,24,000
Add : Transfer of finished goods	80,000	70,000
	3,60,000	2,94,000
Less : Return of finished goods	20,000	14,000
	3,40,000	2,80,000
Gross profit	85,000	84,000

Rate of gross profit $\frac{85,000}{3,40,000} \times 100 = 25\%$ $\frac{84,000}{2,80,000} \times 100 = 30\%$

(ii) *Finished goods from other department included in closing stock :*

	Department Som Rs.	Department Sankha Rs.
Stock of finished goods	48,000	28,000
Stock related to other department		
(20% of finished goods stock)	9,600	5,600

(iii) *Amount of unrealised profit included in stock :*

Department Som = 30% of Rs. 9,600 = Rs. 2,880

Department Sankha = 25% of Rs. 5,600 = Rs. 1,400.

Q. 13. C & D Ltd., Delhi, have a branch in Canberra, Australia. At the end of 31st March, 2011, the following ledger balances have been extracted from the books of the Mumbai Office and the Sydney Office :

Particulars	Delhi (Rs. '000)		Canberra (Austr $ '000)	
	Dr.	*Cr.*	*Dr.*	*Cr.*
Share Capital	—	2,000	—	—
Reserve and Surplus	—	1,000	—	—
Land	500	—	—	—
Buildings (cost)	1,000	—	—	—
Building Depreciation Reserve	—	200	—	—
Plant and Machinery (cost)	2,500	—	200	—
Plant and Machinery Depreciation Reserve	—	600	—	130
Debtors / Creditors	280	200	60	30
Stock (1.4.2010)	100	—	20	—
Branch Stock Reserve	—	4	—	—
Cash and Bank Balances	10	—	10	—
Purchases / Sales	240	520	20	123
Goods Sent to Branch	—	100	5	—
Managing Director's Salary	30	—	—	—
Wages and Salaries	75	—	45	—
Rent	—	—	12	—
Office Expenses	25	—	18	—
Commission Receipts	—	256	—	100
Branch / H.O. Current A/c	120	—	—	7
	4,880	4,880	390	390

The following information is also available :

(1) **Stock as at 31.3.2011 — Mumbai Rs. 1,50,000; Sydney A $ 3,125.**

(2) **Head office always sent goods to the branch at cost plus 25%.**

(3) **Provision is to be made for doubtful debts at 5%.**

(4) **Depreciation is to be provided on buildings at 10% and on plant and machinery at 20% on written-down values.**

(5) **The Managing Director is entitled to 2% commission on net profits.**

(6) **Income tax is to be provided at 47.5%.**

You are required to :

(a) **Convert the Branch Trial Balance into Rupees; (use the following rates of exchange)**

Opening rate A$ = Rs. 20; Closing rate A$ = Rs. 24; Average rate A$ = Rs. 22; For Fixed Assets A$ = Rs. 18.

(b) **Prepare the Trading and Profit and Loss Account for the year ended 31st March, 2011 showing to the extent possible H.O. results and Branch results separately.**

Answer 13.

(a) **In the books of C & D Ltd.**

Canberra Branch Converted Trial Balance as at 31st March, 2011

Heads of Account	Australian Dollar Dr. ('000)	Australian Dollar Cr. ('000)	Rate of Exchange (Rs)	Rupees Dr. ('000)	Rupees Cr. ('000)
Plant and Machinery (cost)	2,00	—	18	36,00	—
Plant and Machinery Depreciation Reserve	—	1,30	18	—	23,40
Debtors	60	—	24	14,40	—
Creditors	—	30	24	—	7,20
Stock (1.4.2010)	20	—	20	4,00	—
Cash and Bank Balances	10	—	24	2,40	—
Purchases	20	—	22	4,40	—
Sales	—	1,23	22	—	27,06
Goods from H.O.	5	—	Actual	1,00	—
Wages and Salaries	45	—	22	9,90	—
Rent	12	—	22	2,64	—
Office Expenses	18	—	22	3,96	—
Commission Receipts	—	1,00	22	—	22,00
H.O. Current Account	—	7	Actual	—	1,20
Difference on Exchange	—	—	—	2,16	—
	3,90	3,90		80,86	80,86

(b) **C& D Ltd.**

Dr. **Trading and Profit and Loss Account for the year ended on 31st March, 2011** **(Rs. '000)** *Cr.*

Particulars	Head Office	Branch	Total	Particulars	Head Office	Branch	Total
To Opening Stock	1,00	4,00	5,00	By Sales	5,20	27,06	32,26
To Purchases	2,40	4,40	6,80	By Goods Sent to Branch	1,00	—	1,00
To Goods from H.O.	—	1,00	1,00	By Closing Stock	1,50	75	2,25
To Gross Profit c/d	4,30	18,41	22,71				
	7,70	27,81	35,51		7,70	27,81	35,51
To Wages and Salaries	75	9,90	10,65	By Gross Profit b/d	4,30	18,41	22,71
To Rent	—	2,64	2,64	By Commission Receipts	2,56	22,00	24,56
To OfficeExpenses	25	3,96	4,21				
To Prov. for Doubtful Debts @ 5%	14	72	86				
To Depreciation (Note 1)	4,60	2,52	7,12				
To Difference on Exchange	—	2,16	2,16				
To Branch Stock Reserve (Note 2)	11	—	11				
To Balance c/d	1,01	18,51	19,92				
	6,86	40,41	47,27		6,86	40,41	47,27

Particulars	Total	Particulars	Total
To Managing Directors Remuneration :		By Balance b/d	19,52
Salary	30		
Commision (Note 3)	41		
To Provision for Income Tax (Note 4)	8,93		
To Balance c/d	9,88		
	19,52		19,52

Working Notes :

(1) Calculation of Depreciation : **(Rs. '000)**

Particulars	H. O	Branch
Building (at cost)	10,00	—
Less : Depreciation Reserve	2,00	—
	8,00	—
(A) Depreciation @ 10%	80	—
Plant and Machinery (at cost)	25,00	36,00
Less : Depreciation Reserve	6,00	23,40
	19,00	12,60
(B) Depreciation @ 20%	3,38	2,52
Total Depreciation (A + B)	4,60	2,52

(2) Calculation of Stock Reserve : **(Rs. '000)**

Particulars	Rs.
Closing Stock	75
Stock Reserve regd. on Closing Stock (1/5 of 75)	15
Less : Stock Reserve on 1.4.2010	4
Additional Stock Reserve required	11

(3) Calculation of Managing Director's Commission : **(Rs. '000)**

Particulars	Rs.
Profit before Commission	19,52
Add : Provision for Doubtful Debts	86
Profi u/s 349*	20,38
Commission @ 2%	41 (approx.)

* For calculating profit u/s 349 of the Companies Act, 1956, depreciation should be deducted based on rates given in Schedule XIV to the Companies Act, 1956. In the Question, rate as per Schedule XIV are not given. Therefore, adjustment for depreciation is ignored.

(4) Calculation of Provision for Income Tax : **(Rs. '000)**

Particulars	Rs.
Profit before commission	19,52
Less : Managing Director's Remuneration	71
	18,81

Provision for income tax @ 47.5% on Rs. 18,81,000 = Rs. 8,93,000.

Q. 14. A head office in Pune has a branch at Goa where a complete set of books is maintained. All purchases are made at Pune and stock required by the branch is invoiced to it by the head office at selling price *less* 15 per cent. The branch manager is entitled to a commission equal to one-third of the net profit earned by the Branch on the basis of invoice price. The following are the respective trial balances of the head office and the branch as on 31st March, 2011 :

	Head Office		Branch	
	Dr. Rs.	Cr. Rs.	Dr. Rs.	Cr. Rs.
Capital		94,200		
Sundry Debtors	89,700		7,550	
Sundry Creditors		24,600		6,150
Stock at the beginning of the year, at cost :				
Head Office	1,24,150			
Branch	32,150			
Stock at branch at the beginning of year, as invoiced		36,270	36,270	
Purchases	3,07,250			
Goods invoiced during the year		1,02,500	1,02,500	
Salaries	35,280		14,680	
Sundry Expenses	16,170			
Branch Adjustment Account	23,230			
Head Office Adjustment Account			5,800	
Cash on hand and at bank	24,800		3,260	
Furniture	15,000		2,000	
Sales		4,10,160		1,68,200
	6,67,730	6,67,730	1,74,350	1,74,350

The cost price of goods invoiced to Goa was Rs. 81,900. The stock in hand at the end of the year at Pune was valued at Rs. 45,270 at cost and at Goa Rs. 14,160 at cost and Rs. 17,660 at invoice price. The difference between the adjustment accounts is due to a remittance in transit from the branch to the head office.

Prepare the Profit and Loss Account for the year eanding 31st March, 2011 (showing the trading results at each place separately) and the Balance Sheet as at that date.

Answer 14.

Explanatory Note. The student is perhaps mystified by the credit item of "Stock at Branch at the beginning of year as invoiced Rs. 36,270" in the head office trial balance. Rs. 32,150 also appears as debit balance in the head office trial balance in respect of stock at the beginning of year at branch at cost. The explanation is that in the beginning of the year Branch Stock Account was not transferred to Branch Adjustment Account. Instead, an entry was made at invoice value of the stock. The entry must have been :

Branch Adjustment Account	Dr.	36,270	
To Stock at Branch (invoice value)			36,270

At the end of the year, when incorporation entries are passed, the Stock at Branch (invoice value) will be closed by transfer to Branch Adjustment Account.

For the purpose of calculating commission due to the manager, Trading and Profit and Loss Account must be prepared on invoice value basis. This account will only be a memorandum account. Regular Trading and Profit and Loss Account will be prepared on the basis of cost.

Memorandum Goa Branch Trading and Profit and Loss Account

Dr. **(On the basis of invoice value)** *Cr.*

Particular	Rs.	Particular	Rs.
To Opening Stock	36,270	By Sales	1,68,200
To Goods Received from Head Office	1,02,500	By Closing Stock	17,660
To Gross Profit c/d	47,090		
	1,85,860		1,85,860
To Salaries	14,680	By Gross Profit b/d	47,090
To Sundry Expenses	2,290		
To Manager's Commission— 1/3 of Rs. 30,120, (Rs. 47,090–Rs. 14,680–Rs. 2,290)	10,040		
To Net Profit	20,080		
	47,090		47,090

Dr. **Trading and Profit and Loss Account of .... for the year ending 31st March, 2011** *Cr.*

Particular	Pune Rs.	Goa Rs.	Particular	Pune Rs.	Goa Rs.
To Opening Stock	1,24,150	32,150	By Sales	4,10,160	1,68,200
To Purchases	3,07,250	—	By Goods Sent to Branch	81,900	—
To Goods Received from Head Office	—	81,900	By Closing Stock	45,270	14,160
To Gross Profit c/d	1,05,930	68,310			
	5,37,330	1,82,360		5,37,330	1,82,360
To Salaries	35,280	14,680	By Gross Profit b/d	1,05,930	68,310
To Sundry Expenses	16,170	2,290			
To Branch Manager's Commission Outstanding	–	10,040			
To Net Profit	54,480	41,300			
	1,05,930	68,310		1,05,930	68,310

Balance Sheet of ..... as on March 31, 2011

Liabilities		***Rs.***	***Assets***		***Rs.***
Capital : Balance b/fd	94,200		Cash on Hand and at Bank :		
Add : Profit— H.O.	54,480		Head Office	24,800	
— Branch	41,300	1,89,980	Branch	3,260	28,060
Sundry Creditors :			Cash in Transit*		29,030
Head Office	24,600		Sundry Debtors:		
Branch	6,150	30,750	Head Office	89,700	
Branch Manager's			Branch	7,550	97,250
Commission Outstanding		10,040	Stock at cost:		
			Head Office	45,270	
			Branch	14,160	59,430
			Furniture:		
			Head Office	15,000	
			Branch	2,000	17,000
		2,30,770			2,30,770

* Both the Branch Adjustment Account and the Head Office Adjustment Account show debit balances. It means that so much cash was sent by Chennai as to convert the normal credit balance of Head Office Account into a debit balance. Cash in transit, therefore, will be ascertained by adding the two balances.

Q. 15. (a) A company took a construction contract for Rs. 350 lakhs in January, 2010. It was found that 80% of the contract was completed at a cost of Rs. 334 lakhs on the closing date i.e. on 31.3.2011. The company estimates further expenditure of Rs. 196 lakhs for completing the contract. The expected loss would be Rs. 180 lakhs. Can the company reorganise the loss in the financial statements prepared for the year ended 31.3.2011

(b) Compute the percentage of completion and the Contract Revenues and Costs to be recognized from the following data.

Contract Price — Rs. 150 Lakhs

Materials issued to the Contract — Rs. 36 Lakhs of which materials costing Rs. 6 Lakhs is still lying unused at the end of the period.

Labour paid for workers engaged at site — Rs. 24 Lakhs (Rs. 4 Lakhs is still payable)

Specifice Contract Costs – Rs. 12 Lakhs, Sub-Contract Costs for work executed — Rs. 10 Lakhs, Advances paid to sub-Contractors — Rs. 6 Lakhs

Cost estimated to be incurred to complete the Contract — Rs. 60 Lakhs.

(c) M Ltd. purchased machinery from N Ltd. on 30.9.2010. The price was 380.44 lakhs before charging 8% sales tax and giving a trade discount of 2% on the quoted price. Transport charges were 0.25% on the quoted price and installation charges come to 1% on the quoted price.

A loan of Rs. 310 lakhs was taken from the Axis bank on which interest at 15% per annum was to be paid. Expenditure incurred on the trial run was Material Rs. 35,000, wages Rs. 25,000 and Overheads Rs. 15,000.

Machinery was ready for use on 01.12.2010. However it was actually put to use only on 1.5.2011. Find out the cost of the machine and suggest the accounting treatment for the expenses incurred in the interval between the dates 1.12.2010 to 1.5.2011. The entire loan amount remained unpaid on 1.5.2011.

Answer 15. (a)

As per paragraphs 31 and 35 of AS 7 on Construction Contracts, an expected loss on the construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work has commenced on the contract; or (ii) the stage of completion of the contract; or (iii) the amount of profits expected to arise in other contracts.

Hence, the company must recognize the loss immediately.

Answer 15. (b)

Based on above information, the Proportionate Cost Method will provide a realistic estimate of stage of completion. This is calculated as under —

	Materials Cost incurred on the Contract (net of Closing Stock)	= Rs. 36 – Rs. 6	= Rs. 30 Lakhs
Add :	Labour Costs incurred on the Contract (paid + payable)	= Rs. 24 + Rs. 4	= Rs. 28 Lakhs
	Specific Contracts Costs	= Given	= Rs. 12 Lakhs
	Subcontract costs (advances should not be considered)	= Given	= Rs. 10 Lakhs
	Costs Incurred Till Date		= Rs. 80 Lakhs
Add :	Further Costs to be incurred	= Given	= Rs. 60 Lakh
	Total Contract Costs		= Rs. 140 Lakhs
	Hence, Percentage of Completion base on Costs	= 80 ÷ 140	= 57.14%
	= Costs Incurred Till Date ÷ Estimated Total Contract Costs		
	Contract Revenue to be recognised (as per Para 21)	= 57.14% × Rs. 150	= Rs. 85.71 Lakhs
Less :	Contract Costs to be recognised (as per Para 21)	= as computed	= Rs. 80.00 Lakhs
	Therefore, Contract Profit		= Rs. 5.71 Lakhs

Answer 15. (c)

Calculation of cost of Machine as per AS-10

	(*Rupees in Lakhs*)
Price of machine	380.44
Less : Trade discount 2%	7.61
	372.83
Add : Sales Tax 8%	29.83
	402.66
Transport Charges 0.25% on Rs. 380.44	0.95
Installation Charges 1% of Rs. 380.44	3.80
	407.41
Calculation of borrowing cost-	
30.09.2010 to 01.12.2010	
310 × 15/100 × 2/12	7.75
	415.16
Add : Expenses on trial run	0.75
Total Cost	**415.91**

As per para 19 of AS-16, capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Para 20 of AS-16 states that an asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. Therefore, the interest for the period 1.12.2010 to 1.5.2011 should be shown as an expense in the statement

Q. 16. (a) On 30.04.2010 TT Ltd. obtained a loan from the bank for Rs. 100 lakhs to be utilized as under :

Construction of a shed	**Rs. 40 lakhs**
Purchase of Machinery	**Rs. 30 lakhs**
Working Capital	**Rs. 20 lakhs**
Advance for Purchase of truck	**Rs. 10 lakhs**

In March 2011 construction of shed was completed and machinery install Delivery of truck was not received. Total interest charged by the bank forthey ending 31-03-2011 was Rs. 18 lakhs. Show the treatment of interest under AS-16.

(b) Advice XXX Co. Ltd. about the treatment of the following in the Final Statement of Accounts for the year ended 31st March, 2011.

A claim lodged with the Railway in March, 2008 for loss of goods of Rs. 23,00,000 had been passed for payment in March, 2011 for Rs. 22,50,000. No entry was passed in the books of the Company, when the claim was lodged.

(c) In preparing the final statements of MN Ltd. for the year ended 31st March, 2011. You came across the following information. State with reason, how you would deal with them in the financial statements.

"The company invested Rs. 321 lakhs in April, 2011 in the acquisition of another company doing similar business, the negotiations for which had started during the financial year".

Answer 16. (a)

As per AS-16 borroowing cost (interest) should be capitalised if borrowing cost is directly attributable to the acquisition, construction or production qualifying asset. In other words, asset acquired must be qualifying asset a borrowing cost should be directly attributable to the acquisition, construction production of qualifying asset.

In the question Rs. 100 lakhs borrowed from Bank was utilized for—

Construction of a shed	Rs. 40 lakhs
Purchase of Machinery	Rs. 30 lakhs
Working Capital	Rs. 20 lakhs
Advance for Purchased of truck	Rs. 10 lakhs

Out of these four payments only construction of a shed of Rs. 40 lakhs is qualifying asset as per AS-16, other three payments are not for the qualifying asset. Therefore, borrowing cost attributable to the construction of a shed should only be capitalised which will be equal to Rs. 18 lakhs × 40/100 = Rs. 7.2 lakhs.

The balance of Rs. 10.8 lakhs (Rs. 18lakhs – Rs. 7.2 lakhs) should be expensed and debited to Profit and Loss Account.

Answer 16. (b)

The financial statements of the XXX Co. Ltd. are prepared for the year ended 31.3.2011.

There was a loss of goods of Rs. 23,00,000 in 2007-08 and the claim was lodged in March, 2008 with Railway authorities. No entry was passed in the books of the company when the claim was lodged and the said treatment was correct in view of AS-9 which says that if uncertainty exists as to collectability, the revenue recognition should be postponed.

Since, the claim is passed for payment of Rs. 22,50,000 in March, 2011, it should be recognised as revenue in the financial statements prepared for the year ended 31.3.2011.

As per AS-5 Revised, the claim amount received will not be treated as Extraordinary item. AS-5 Revised further states that what when items of income and expense within profit or loss from ordinary activites are of such size,nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately. Accordingly, the nature and amount of this item should be disclosed separately.

Answer 16. (c)

As per AS-4 Revised, any material changes and commitments affecting the financial position of the enterprise takes place due to events occurring afer the balance sheet date would not require adjustment in Financial Statements but should be disclosed in the report of the approving authority i.e. Board of Directors Report.

In view of the above, an investment of Rs. 321 lakhs made in acquisition of another company in the month of April, 2011 is an event that took place after the balance sheet date and therefore it need not be adjusted in the Financial Statements presented as on and up to 31st March, 2011.

However, there is material change in the financial position of the company, which should be appropriately disclosed in the Board of Directors report attached to the annual accounts.

Q. 17. (a) What is will be the treatment of the following in the final statement of account for the year ended 31st March, 2011 of a limited company?

"In 2009-10 the company has spent and carried forward in the books, a total of Rs. 6,30,621 on developing a cure for cancer. During the current year i.e. 2010-11, it is was decided to terminate this product, as test results in the current year have proved adverse".

(b) Nandan Ltd. gives the following estimates of cash flows relating to fixed asset on 31.12.2005. The discount rate is 15%.

Year	***Cash flow (Rs. in lakhs)***
2006	**2,000**
2007	**3,000**
2008	**3,000**
2009	**4,000**
2010	**2,000**
Residual value at the end of 2010	**500**
Fixed Asset purchased on 1.1.2003 for	**20,000**
Useful life	**8 years**

Residual value estimated Rs. 500 lakhs at the end of 8 years. Net selling price Rs. 10,000 lakhs.

Calculate on 31.12.2005 :

(a) Carrying amount at the end of 2005.

(b) Value in use on 31.12.2005.

(c) Recoverable amount on 31.12.2005.

(d) Impairment loss to be recognized for the year ended 31.12.2005.

(e) Revised carrying amount.

(f) Depreciation charge for 2006.

Answer 17. (a)

The company has spent Rs. 6,30,621 in 2009-10 for developing a drug to cure cancer. The amount was not amortised in 2009-10 and carried forward to the year 2010-11. During the year it was decided to abandon the said research project due to adverse results.

As per AS-5 Revised, it is not an extraordinary item, since research and development is in furtherance of business activities and, therefore, it is an expenses arise from ordinary activity.

As per the accounting standard, it cannot be called as prior period item, since it does not arise from error or omission of prior periods.

Since, the research project is being abandoned, it is prudent to amortise, any amount spent on it, in the year 2010-11 and it should be charged as an expense in the current year itself.

Answer 17. (b)

Computation of value in use (*Rs. in lakhs*)

Year	Cash flow	Discount as per 15%	Discounted cash flow
2006	2000	.870	1740
2007	3000	.756	2268
2008	3000	.658	1974
2009	4000	.572	2288
2010	2000 + 500 (residual value)	.497	1243
			9513

Value in use is Rs. 9,513 lakhs

Carrying amount -

Original cost	20,000
Depreciation for 3 years [(20,000 – 500) × 3/8]	7,313
(for 2003, 2004 & 2005 on straight-line basis)	
Carrying amount on 31.12.2005	12,687
Net selling price (as given)	10,000
Recoverable amount (higher of 9,513 and 10,000)	10,000
Impairment loss	10,000
Carrying amount – Recoverable amount = 12,687 – 10,000) =	2,687

Revised carrying amount = 12,687 – 2,687 = 10,000

Depreciation charge for 2006 - (10,000 – 500)/5 = 1,900

Q. 18. From the following prepare a Cash Flow Statement for Somgar Ltd. for the year ended 31st March, 2011 :

Somgar Ltd.

Balance Sheet as at March 31, 2010

Liability & Equity	*Rs. 000*	*Assets*		*Rs. 000*
Paid up capital	50	Gross Fixed Assets	1,000	
Retained earnings	350	*Less :* Accum. Depreciation	100	900
Long term debt	500	Inventory		100
Notes payable	80	Accounts receivable		50
Accounts payable	80	Cash		10
	1,060			1,060

Balance Sheet as at March 31, 2011

Liability & Equity	*Rs. 000*	*Assets*		*Rs. 000*
Paid up capital	50	Gross Fixed Assets	1,125	
Retained earnings	415	*Less :* Accum. Depreciation	175	950
Long term debt	550	Inventory		110
Notes payable	100	Accounts receivable		60
Accounts payable	90	Cash		85
	1,205			1,205

Income Statement, March 31, 2011 ***(Rs. '000)***

Sales	1,200
(–) Cost of goods sold	800
Gross profit	400
(–) Selling, general, administration expenses	150
EBIT	250
(–) Interest expenses	50
EBT	200
(–) Taxes (50%)	100
Net Income	100

Additional Infomation : ***(Rs. '000)***

(i) Dividedn paid	35
(ii) Additions to retained earnings	65
(iii) Depreciation	75

Answer 18.

Working Notes :

1. Calculation of receipts from Customers (*Rs. ' 000*)

Sales		1,200
Add : Accounts receivables at the beginning		50
		1,250
Less : Accounts receivables at the end		60
Cash receipts from Customers		1,190

2. Calculation of cash paid to Suppliers and Employees (*Rs. ' 000*)

Cost of goods sold	(800 - Dep. 75)	725
Add : Selling, general, administration expenses		150
		875
Add : Notes payable at the beginning		80
Accounts payable at the beginning		80
		1,035
Less : Notes payable at the end		100
Accounts payable at the end		90
		845
Add : Inventory at the end		110
Less : Inventory at the beginning		100
Cash paid to suppliers and employees		855

Provision for Tax Account

Particulars	Rs. '000	Particulars	Rs. '000
To Bank A/c	100	By Balance b/d	—
To Balance c/d	—	By Profit and Loss A/c	100
	100		100

Fixed Assets Account

Particulars	Rs. '000	Particulars	Rs. '000
To Balance b/d	1,000	By Balance b/d	1,125
To Bank A/c	125		
	1,125		1,125

Accumulated Depreciation Account

Particulars	Rs. '000	Particulars	Rs. '000
To Balance c/d	175	By Balance b/d	100
		By Profit and Loss A/c	75
	175		175

Cash Flow Statement of Somgar Ltd. for the year ended 31st March, 2011 (*Direct Method*) (*Rs. '000*)

Cash Flow from Operating Activities		
Cash receipts from customers		1,190
Cash paid to suppliers and employees		(855)
Cash generated from operations		335
Income tax paid		(100)
Net cash from Operating Activities	(*a*)	235
Cash Flow from Investing Activities		
Purchase of fixed assets		(125)
Net cash used in Investing Activities	(*b*)	(125)
Cash Flow from Financing Activities		
Proceeds from long term debt		50
Interest paid		(50)
Dividend paid		(35)
Net cash used in Financing activities	(*c*)	(35)
Net increase in cash and cash equivalents	(*a* + *b* + *c*)	75
Cash and cash equivalents at the beginning of the period		10
Cash and cash equivalents at the end of the period		85

Cash Flow Statement of Somgar Ltd. for the year ended 31st March, 2011 (*Indirect Method*) (*Rs. '000*)

Cash Flow from Operating Activities		
Net profit before tax		200
Adjustments for :		
Depreciation		75
Interest expenses		50
Operating profit before working capital changes		325
Increase in Accounts Receivables		(10)
Increase in Inventory		(10)
Increase in Notes payable		20
Increase in Accounts payable		10
Cash generated from operations		335
Income tax paid		(100)
Net cash from Operating Activities	(*a*)	235
Cash Flow from Investing Activities		
Purchase of fixed assets		(125)
Net cash used in Investing Activities	(*b*)	(125)
Cash Flow from Financing Activities		
Proceeds from long term debt		50
Interest paid		(50)
Dividend paid		(35)

Net cash used in Financing Activities	(*c*)	(35)
Net increase in cash and cash equivalents	(*a* + *b* + *c*)	75
Cash and cash equivalents at the beginning of the period		10
Cash and cash equivalents at the end of the period		85

Q. 19. The Balance Sheet of SMS Limited as at 31.3.2011 is as follows :

Liabilities	***Rs.***	***Assets***	***Rs.***
Authorised Share Capital **:**		**Sundry Assets**	**17,00,000**
1,50,000 Equity Shares of Rs. 10 each	**15,00,000**		
Issued, Subscribed and Paid-up : 80,000 Equity shares of Rs. 7.50 each called up and paid up	**6,00,000**		
Reserves **:**			
Capital Redemption Reserve	**1,50,000**		
Plant Revaluation Reserve	**20,000**		
Securities Premium Account	**1,50,000**		
Development Rebate Reserve	**2,30,000**		
Investment Allowance Reserve	**2,50,000**		
General Reserve	**3,00,000**		
	17,00,000		**17,00,000**

The Company wanted to issue bonus shares to its shareholders @ one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with.

You are required to :

(a) Give effect to the proposal by passing Journal Entries in the books of SMS Ltd.;

(b) Show the amended Balance Sheet.

Answer 19.

In the books of SMS Ltd.

Journal ***Dr.*** ***Cr.***

Date	**Particulars**		**Rs.**	**Rs.**
	Equity Share Final Call A/c	Dr.	2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Being the final call money due on 80,000 shares @ Rs. 2.50 per share as per Board's Resolution No.... dated....)			

	Bank A/c	Dr.	2,00,000	
	To Equity Share Final Call A/c			2,00,000
	(Being the final call money received for 80,000 shares)			
	Capital Redemption Reserve A/c	Dr.	1,50,000	
	Securities Premium A/c	Dr.	1,50,000	
	General Reserve A/c	Dr.	1,00,000	
	To Bonus to Shareholders A/c			4,00,000
	(Being 1 bonus share payable for 2 shares held as per Shareholders' Resolution No. .... dated ....)			
	Bonus to Shareholders A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being issue of 40,000 shares of Rs. 10 each as bonus as per Board's Resolution No. ... dated ...)			

Balance Sheet of A Ltd. as on 31.3.2011

Liabilities	***Rs.***	***Assets***	***Rs.***
Authorised Capital :		Sundry Assets	8,20,000
1,50,000 Equity Shares of Rs. 10 each	15,00,000		
Issued, Subscribed and Paid-up :			
1,20,000 Equity Shares of Rs. 10 each (including 40,000 bonus shares)	12,00,000		
Reserve and Surplus :			
Plant Revaluation Reserve	20,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
General Reserve	2,00,000		
	19,00,000		19,00,000

Tutorial Note : Students should note that the partly paid-up shares are to be called up first. As per SEBI Guideline, the bonus issue is not made unless the partly paid shares, if any existing , are made fully paid-up.

Q. 20. The following is the Balance Sheet of EXCEL Limited as on 31.3.2011 :

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital :		*Fixed Assets :*	
8,00,000 equity shares of	80,00,000	Land and Buildings	40,00,000
Rs. 10 each		Plant and Machinery	36,00,000
Reserves and Surplus		Furniture and Fixtures	22,00,000
General Reserve	10,00,000	Investments	15,00,000
Profit and Loss Account	50,00,000	Current Assets, Loans and	
Securities Premium	20,00,000	Advances :	
Secured Loans		Stock	20,00,000
10% Debentures	20,00,000	Debtors	40,00,000
Unsecured Loans		Bills Receivable	10,00,000
Current Liabilities and Provisions		Bank	47,00,000
Creditors	20,00,000		
Bills Payable	10,00,000		
	2,30,00,000		2,30,00,000

The Company decides to buy back the maximum number of equity shares as may be permitted by a law at a price of Rs. 20 per share.

You are required to pass journal entries and prepare post buy back Balance Sheet.

Answer 20.

Working Notes :

(1) The buy back should not exceed 25% of the **total paid-up capital and free reserves.**

Total capital and free reserves are as under :	**Rs.**
Equity Share Capital	80,00,000
General Reserve	10,00,000
Profit and Loss Account	50,00,000
Securities Premium	20,00,000
	1,60,00,000

Maximum amount of buy back is, therefore, 25% of Rs. 1,60,00,000 = **Rs. 40,00,000**.

(2) The buy back of equity shares in any financial year shall not exceed 25% of its total paid-up equity capital in that financial year. Therefore, the face value of the equity shares that can be brought back is 25% of Rs. 80,00,000 = Rs. 20,00,000. As per law, Company can buy equity shares of Rs. 20,00,000 (being lower of Rs. 40,00,000 and Rs. 20,00,-000). If the shares of Rs. 20,00,000 are bought back the debt-equity ratio will be 0.29 : 1 which is more than the required debt-equity ratio of 2 : 1.

In the books of EXCEL Ltd.

Journal

Date	Particulars		*Dr.* Rs.	*Cr.* Rs.
	Equity Share Capital A/c	Dr.	20,00,000	
	Securities Premium A/c	Dr.	20,00,000	
	To Equity Shareholders A/c			40,00,000
	(Being the amount payable to equity shareholders on buy back of 2,00,000 equity shares as per Special Resolution No. ... dated ...)			
	Equity Shareholders A/c	Dr.	40,00,000	
	To Bank A/c			40,00,000
	(Being the equity shareholders paid-off against buy back shares)			
	Profit and Loss A/c	Dr.	20,00,000	
	To Capital Redemption Reserve A/c			20,00,000
	(Being the creation of capital redemption reserve as per requirement of the Act)			

Balance Sheet of EXCEL Limited (post buy back) as at ...

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		**Fixed Assets**	
6,00,000 equity shares of Rs. 10 each	60,00,000	Land and Buildings	40,00,000
Reserves and Surplus		Plant and Machinery	36,00,000
General Reserve	10,00,000	Furniture and Fixtures	22,00,000
Profit and Loss Account	30,00,000	**Investments**	15,00,000
Capital Redemption Reserve	20,00,000	**Current Assets, Loans and Advances**	
Secured Loans		Stock	20,00,000
10% Debentures	20,00,000	Debtors	40,00,000
Unsecured Loans	20,00,000	Bills Receivable	10,00,000
Current Liabilities and Provisions		Bank	7,00,000
Creditors	20,00,000		
Bills Payable	10,00,000		
	1,90,00,000		1,90,00,000

Q. 21. The Balance Sheet of Royal Challange company is as follows :

Liabilities		*Rs.*	*Assets*	*Rs.*
Equity Shares capital (Rs. 10)		**5,00,000**	**Fixed Assets**	**7,00,000**
2000 Preference shares of Rs. 100 each	**2,00,000**		**Investments**	**50,000**
			Stock	**40,000**
***Less :* Calls in arrears on 300 shares**	**6,000**	**1,94,000**	**Debtors**	**74,000**
			Cash	**36,000**
Profit and Loss A/c		**50,000**		
Liabilities		**1,56,000**		
		9,00,000		**9,00,000**

Preference shares are due for immediate redemption at a premium of Rs. 5 per share. For the purpose of redemption, a minimum number of equity shares of Rs. 10 each at 10% discount are issued by the company. The company needs a minimum cash balance of Rs. 30,002 for its operating activities. The necessary loan is raised to provide funds for the amount payable on redemption including the amount payable on partly paid shares. Assume that discount on issue of shares is not to be written off.

Prepare Balance Sheet after redemption of preference shares.

What will be the difference if instead of arranging a loan, an overdraft limit is arranged?

Answer 21.

Working Notes :

(1) Calculation of Minimum Number of Shares :

As minimum number of shares are to be issued, total preference share capital is taken into consideration.

Nominal value of Preference share capital (including partly paid shares)		Rs. 2,00,000	
Premium on Redemption of shares 2000 × 5		Rs. 10,000	
Profit available for redemption		Rs. 50,000	
Profit available for replacement of capital		= [50,000 – 10,000 (prem. on red.)]	= Rs. 40,000
Minimum proceeds of fresh issue		= 2,00,000 – 40,000	= Rs. 1,60,000
Proceed of one share		= Rs. 10 – 10% of Rs. 10	= Rs. 9.
Minimum number of share	= 1,60,000/9	= 17,778 shares (approximated to next higher figure)	
Proceeds of fresh issue	= 17,778 × 9	= Rs. 1,60,002	

(2) Calculation of amount of bank loan :

Cash balance (Given less minimum balance)	5,998	(36,000 – 30,002)
Add : Proceeds of fresh issue	1,60,002	
Cash available for redemption	1,66,000	
Less : Amount payable on redemption of fully paid shares	(1,78,500)	
Amount payable on partly paid shares [30,000 + 1,500 – 6,000]	(25,500)	
Shortage of Cash (Amount of loan)	(38,000)	

Hence, the amount of bank loan is Rs. 38,000.

In the books of Royal Challange
Balance Sheet (after redemption)

Liabilities		*Amount* Rs.	*Assets*	*Amount* Rs.
Equity Shares Capital :		6,77,780	Fixed Assets	7,00,000
67,778 Shares of Rs. 10 each			Investments	50,000
Preference Share Capital,			Stock	40,000
(Pending Redemption)				
300 shares of Rs. 10 each	30,000		Debtors	74,000
Less : Call in arrears	6,000	24,000	Cash (30,002 + 25,500)	55,502
Capital Redemption Reserve		9,998	Discount on issue of shares	17,778
Profit and Loss Account		30,002	(not written off)	
(Retained for redemption of partly paid shares out of profits)				
Loan		38,000		
Liabilities		1,56,000		
Provision for premium on Redemption of Preference shares (300 × 5)		1,500*		
		9,37,280		9,37,280

* Alternatively, provision for premium on redemption need not be made. In that case, the balance of profit and loss account will be Rs. 31,502.

In case an overdraft limit of Rs. 38,000 is arranged for shortage of cash, bank overdraft will be Rs. 12,500. The remaining limit will be used when partly paid up shares are redeemed. In that case, cash balance will appear at Rs. 30,002 (minimum balance required to operate business) and on liabilities side of the balance sheet bank overdraft will appear at Rs. 12,500 in place of loan amount of Rs. 38,000.

Q. 22. (a) Treatment of Discount on Issue of Debentures

Ankur Ltd. issued 5,000 5% Debentures of Rs. 100 each, at a discount of 8%. The debentures were redeemable at par, in five equal annual instalments, commencing from the date of issue. Show for each year, (a) the amount of interest paid to Debenture Holders and (b) the amount of discount on issue of debentures written off to P&L Account. Assume that the issue was made on 1st July of Year 1 and the Company closes its accounts on 31st December every year. Interest is payable half-yearly on 30th June and 31st December every year.

(b) Amrita Ltd. issued 40,000 Partly Convertible Zero Interest Debentures of Rs. 40 each for cash at par alongwith tradeable warrants aggregating Rs. 12 lakhs. Terms of payment were as follows :

	Amount payable for PCD	**Appropriated towards**	
		Part A	**Part B**
	Rs.	**Rs.**	**Rs.**
Application money	**10**	**2.50**	**7.50**
Allotment money	**30**	**7.50**	**22.50**
Total	**40**	**10.00**	**30.00**

Part A of each PCD of Rs. 40 will be compulsorily and automatically converted after receipt of allotment money, without any further act or application by the debentureholders, into one equity share of Rs. 10 of the Company. Part B of Rs. 30 to be redeemed at par at the end of 6 months from the date of allotment. This part will also carry a detachable and separately tradeable warrant, which will provide and option to the warrant-holder to get an equity share for every warrant held at a price of Rs. 10. This option can be exercised by the warrant-holders only during the 4th month from the allotment either by paying in cash or by surrender of Part B of the PCDs which will be deemed to have been redeemed. The issue was fully subscribed.

90% of the warrant-holders surrendered Part B of PCDs to get equity shares at Rs. 30 per share. They were alloted equity shares. 10% of the warrant-holders who were also debentureholders did not opt for equity shares and disposed of tradeable-warrant in the market @ Rs. 2 per debentures and purchaser of 75% warrant applied for allotment of shares @ Rs. 30 per share by making cash payment. The original debentureholders were paid as per the terms of issue.

Make journal entries for issue and redemption of debentures.

Answer 22. (a)

Total amount of Debentures = 5,000 × Rs. 100 = Rs. 5,00,000. Since Discount is 8%, Total Discount = Rs. 40,000. Also, amount redeemable on 30th June every year = Rs. 1,00,000 (5 instalments).

Year	Average amount of debenture outstanding	Debenture Discount w/off	Interest for the year
1	5,00,000 × 6/12 = 2,50,000	40,000 × 25/150 = 6,667	2,50,000 × 5% = 12,500
2	(5,00,000 × 6/12) + (4,00,000 × 6/12) = 4,50,000	40,000 × 45/150 = 12,000	4,50,000 × 5% = 22,500
3	(4,00,000 × 6/12) + (3,00,000 × 6/12) = 3,50,000	40,000 × 35/150 = 9,333	3,50,000 × 5% = 17,500
4	(3,00,000 × 6/12) + (2,00,000 × 6/12) = 2,50,000	40,000 × 25/150 = 6,667	2,50,000 × 5% = 12,500
5	(2,00,000 × 6/12) + (1,00,000 × 6/12) = 1,50,000	40,000 × 15/150 = 4,000	1,50,000 × 5% = 7,500
6	(1,00,000 × 6/12) = 50,000	40,000 × 5/150 = 1,333	50,000 × 5% = 2,500
Total	**15,00,000**	(See Note 1) **40,000**	(See Note 2) **75,000**

Note :

1. Total Debenture Discount is written off to P&L Account in the ratio of the Debentures outstanding during that year, i.e. as per Column 2 above.
2. Interest for the year = Average Amount of Debentures outstanding × Interest Rate i.e. 5%.

Answer 22. (b)

In the books of Amrita Ltd.

Journal ***Dr.*** ***Cr.***

Date	Particulars		Rs.	Rs.
	Back A/c	Dr.	4,00,000	
	To Debenture Application A/c			4,00,000
	(For application money received)			
	Debenture Application A/c	Dr.	4,00,000	
	To Debentures (Part A) A/c			1,00,000
	To Debentures (Part B) A/c			3,00,000
	(For transfer of application money to debentures account)			
	Debenture Allotment A/c	Dr.	12,00,000	
	To Debentures (Part A) A/c			3,00,000
	To Debentures (Part B) A/c			9,00,000
	(For allotment money payable on debentures allotted)			
	Bank A/c	Dr.	12,00,000	
	To Debenture Allotment A/c			12,00,000
	(For allotment money received)			
	Debentures (Part A) A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(For compulsory Conversion of Part A into equity share at par)			
	Debentures (Part B) A/c	Dr.	10,80,000	
	To Equity Share Capital A/c			3,60,000
	To Securities Premium A/c			7,20,000
	(For Conversion of Part B into equity shares of Rs. 10 each issued at a premium of Rs. 20 opted by 90% debentureholders)			
	Bank A/c	Dr.	90,000	
	To Equity Share Capital A/c			30,000
	To Securities Premium A/c			60,000
	(For issue of equity shares equivalent to 75% of the tradeable warrants purchased)			
	Debentures (Part B) A/c	Dr.	1,20,000	
	To Bank A/c			1,20,000
	(For payment to debentureholders holding 10% debentures who opted for cash payment)			

Q. 23. (a) What do you mean by Lien of Shares and gives its Accounting Treatment?

(b) Differentiate between Lien and forfeiture of shares.

Answer 23. (a)

Lien on Shares : A lien is a right to retain the possession of the property belonging to the debtor until he clears his dues. A member will not be permitted to transfer his shares unles he pays his debts to the company.

A company shall not only have a first and paramount lien on every partly paid-up shares for all moneys called in respect of that share, but the right of lien shall extend to all dividends payable thereon as well.

The company is empowered to exercise the lien by selling the shares, provided there is an express provisions for the same in the articles. The company may sell the shares in any manner as the Board thinks fit after giving a proper notice to the shareholder. The company may apply the proceeds of the sale towards the recovery of the debts, and the residue, if any, shall be returned to the shareholder.

Accounting treatment : Lien on shares is the right to retain shares in case of non-poayment by the shareholder. In case the amount realised by sale of shares is less than the amount due, the balance is demanded from the shareholder. In case of surplus, the excess is refunded to the shareholder. The journal entry is as under :

Bank A/c	Dr.	(Amount realised)
To Calls in Arrears A/c		(Amount due)
To Sundry Shareholder A/c		(Amount to be refunded)

Answer 23. (b)

Lien on shares can be differentiated from forfeiture of shares as under :

Distinction between Lien and Forfeiture

Lien	Forfeiture
As shares are always sold, it does not reduces share capital.	Forfeiture results in reduction of share capital.
The difference between his debt and the amount received from the sale is refunded.	The amount paid on shares is forfeited, i.e. not paid to shareholder.
Lien arises both in case of debts due on shares as well as on other transactions.	Forfeiture arises only in case of debts due on shares.
It is process of recovery of debt.	It is process of penal proceeding for non-payment.

Q. 24. The following balances have been extracted from the books of Zero Dial Ltd. as on 31st December, 2010 :

Debit Balances	*Amount Rs.*	*Credit Balances*	*Amount Rs.*
Land (at cost)	37,250	Share capital	2,00,000
Buildings (cost less depreciation)	1,50,000	General reserve	80,000
Plant (cost less depreciation)	80,000	Share premium	20,000
Furniture (cost less depreciation)	15,000	Gross profit	1,02,250
Selling expenses	12,000	Provision for taxation	15,000
Director's fees	2,400	(opening balance)	
Administrative expenses	38,000	Bad debts realized	1,500
Sinking fund investment	40,080	6% debentures (unsecured)	2,00,000
Calls-in-arrear	3,000	Profit and loss a/c	5,000
Bad debts	2,000	(opening balance)	
Sundry debtors	1,45,000	Sinking fund for debenture	40,800
Audit fees	1,000	redemption	
Advance payment of :		Sundry creditors	23,000
Income tax for 2009	12,000	Interest on sinking fund	2,500
Income tax for 2010	8,000	investments	
Closing stock	65,000	Miscellaneous receipts	3,000
Cash in hand	5,600	Liabilities for expenses	4,000
Cash in bank	68,000		
Debentures interest	12,000		
	6,97,050		6,97,050

The following further particulars are available :

(1) The basis of valuation of closing stock has been changed from this year resulting in an additional profit of Rs. 3,000 as compared to valuation on old basis.

(2) Administrative expenses include Rs. 6,000 paid to the managing director as an advance against his remuneration.

(3) Sinking fund is to be credited with Rs 20,000, which, together with the interest received, would be invested on 1 January 2011.

(4) Income tax assessment for 2009 has been completed on 20 December 2010 on a gross demand of Rs. 14,000, but no effect has been given in the books.

(5) At a meeting held on 25 November 2010, the Board of Directors decided to allot one fully paid bonus share against two shares held by members who are not in default in payment of calls. This was sanctioned by the members on 18 December 2010, but no effect has been given to it.

(6) The managing director is entitled to a remuneration calculated at 5% of the net profits.

(7) Provisions for taxation are to be made as follows :

(a) Income tax at 45%

(b) Special surcharge at 5% on income tax

(8) Out of sundry debtors, Rs. 40,000 is due for more than six months. There is no doubtful amount.

(9) Depreciation written off up to the last year at rates mentioned against each are as follows :

(a) Building, Rs. 5,000 at 2½%

(b) Plant, Rs. 45,000 at 15%

(c) Furniture, Rs. 5,000 at 10%

(10) Market value of sinking fund investments on 31 December 2010, Rs. 42,000.

(11) Calls-in-arrear are due on 1,000 shares of Rs. 10 each fully called up.

You are required to prepare the profit and loss account for the year ended 31st December 2010, and a balance sheet as on that date.

Answer 24.

Profit and Loss Account of Zero Dial Ltd.

For the year ending 31st December, 2010

Particulars	Rs.	Particulars	Rs.
To Administrative expenses (38,000–6,000)	32,000	By Gross profit b/d	1,02,250
To Provision for depreciation	17,250	By Bad debts recovered	1,500
To Selling expenses	12,000	By Miscellaneous receipts	3,000
To Director's fee	2,400	By Interest on sinking fund	2,500
To Audit fee	1,000	investments	
To Debenture interest	12,000		
To Bad debts	2,000		
To Manating Director's remuneration	1,530		
To Provision for taxation: 47.25%			
of Rs. 29,070	13,735		
To Balance c/d	15,335		
	1,09,250		1,09,250
To Sinking fund for redemption		By Balance b/d	5,000
of debentures	21,319	By Net profit for the year	15,335
To Balance c/d	16	By Excess provision for taxation, written back (15,000 – 14,000)	1,000
	21,335		21,335

Note : The basis of valuation of closing stock was changed this year, resulting in an additional profit of Rs. 3,000 as compared to valuation on the previous basis.

Managerial Remuneration :

	(Rs.)
Balance as per profit and loss account	15,335
Add : Income tax provision	13,735
Managing director's remuneration	1,530
Profit before tax and remuneration	30,600
Remuneration at 5%	1,530

Balance Sheet of Zero Dial Ltd.

As on 31st December 2010

Liabilities	**Rs.**	**Rs.**	***Assets***	**Rs.**	**Rs.**
Share capital			Fixed Assets		
Authorised ... shares ... Rs. ... each			Land at cost		37,250
Issued, subscribed 29,500 equity			Building at cost	1,55,000	
shares of Rs. 10 each fully			*Less* : Depreciation	8,750	1,46,250
called up		2,95,000	Plant at cost	1,25,000	
Less : Calls-in-arrear		3,000	*Less* : Depreciation	57,000	68,000
		2,92,000	Furniture at cost	20,000	
(Out of the above, 9,500 shares of			*Less* : Depreciation	6,500	13,500
Rs. 10 each have been issued as			Investments:		
fully paid up bonus shares out of			Against sinking fund for		
share premium and general			redemption of debentures		
reserve)			(market value Rs. 42,000)		40,800
Reserve and surplus:			Current assets, loans and		
Share premium	20,000		advances:		
Less : Utilised for issue of			A. Current assets:		
bonus shares	20,000	—	Stock in trade		65,000
Profit and loss a/c		16	(at or below cost)		
Sinking fund for redemption of			Debtros (unsecured		
Debentures :			considered good)		
Balance b/f	40,800		Due for more than 6 months	40,000	
Addition during the year	21,319	62,119	Other debts	1,05,000	1,45,000
General reserve	80,000		Cash in hand		5,600
Less : Utilised for issue of bonus			Cash in bank		68,000
shares and for bonus			B. Loans and advances		
suspense a/c	80,000	—	(Unsecured considered good)		
Secured loans :		Nil	due from managing director		
Unsecured loans :			(maximum amount due		
6% Debentures		2,00,000	Rs. 6,000)		4,470
Current liabilities and provision:					
A. Current liabilities:					
Sundry creditors		29,000			
B. Provision: Taxation	13,735				
Less : Advance payment	8,000	5,735			
Bonus suspense a/c		5,000			
		5,93,870			5,93,870

Working Notes :

1. Creditors:

Sundry creditors	23,000
For expenses	4,000
For tax (14,000 – 12,000)	2,000
Total	29,000

2. Depreciation:

On building, Rs. 1,50,000 at 2½%		3,750
On plant, Rs. 80,000 at 15%		12,000
On furniture, Rs. 15,000 at 10%		1,500
Total		17,250

3. Transfer to debenture redemption fund:

Annual instalment		20,000
Add : Interest received	2,500	
Less : Income tax @ 47.25%, i.e., 45% + 5% of 45%	1,181	1,319
		21,319

4. Advance against managing director's remuneration

Amount paid	6,000
Less : Amount payable	1,530
Balance due	4,470

5. Bonus shares :

Total number of shares	20,000
Less : 'Defaulting' members, not eligible at present	1,000
Total	19,000

Bonus shares at the rate of 1 for 2, of 9,500 of Rs. 10 each.
In issuing bonus shares, the share premium account of Rs. 20,000 has been fully utilised and the balance of Rs. 75,000 taken out of general reserve. The amount which would be utilised for issuing bonus shares, when the calls in arrear are paid, has been put in the suspense account by debit to the general reserve.

6. Figures for the previous year have not been given for want of information.
7. Debenture interest payment shown in the trial balane is 6% of debentures. This means no tax has been deducted at source.

Q. 25. Form the following information and ratios, prepare the Profit and Loss Account for the year ended 31st March, 2011, and the Balance Sheet as on that date of M/s Tah & Co., an export company :

Current Assets to Stock	**3 : 2**
Current Ratio	**3.00**
Acid Test Ratio	**1.00**
Financial Leverage	**2.20**
Earnings per Share (each of Rs. 10)	**10.00**
Book Value per Share (Rs.)	**40.00**
Average Collection Period (assume 360 days in a year)	**30 days**
Stock Turnover Ratio	**5.00**
Fixed Assets, Turnover Ratio	**1.20**
Total Liabilities to Net Worth	**2.75**
Net working Capital	**Rs. 10.00 lakh**
Net Profit to Sales	**10%**
Variable Cost	**60%**
Long-term Loan Interest	**12%**
Taxation	**Nil**

Answer 25.

M/s Tah & Co.

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

	Rs.
Sales	50,00,000
Less : Variable costs	30,00,000
	20,00,000
Less : Fixed costs (excluding interest)	9,00,000
Earnings before interest and tax	11,00,000
Less : Interest	6,00,000
Earnings before tax	5,00,000
Less : Tax	0
Profit after tax	5,00,000

Balance Sheet as at 31st March, 2011

	Rs.	**Rs.**
Sources		
Shareholders' Funds		20,00,000
Long-term Liabilities		50,00,000
		70,00,000
Applications		
Fixed Assets		41,66,667
Current Assets:		
Stock	10,00,000	
Debtors	4,16,667	
Other Current Assets	83,333	
	15,00,000	
Less : Current Liabilities	5,00,000	
Net Current Assets		10,00,000
Other Assets (balancing figure)		18,33,333
		70,00,000

Working Notes :

(i) Net working capital = Rs. 10,00,000 or current assets – current liabilities = Rs. 10,00,000

Current ratio = 3

If current liabilities are x, current assets = 3x.

The 3x – x = Rs. 10,00,000 or 2x = Rs. 10,00,000 or x = Rs. 5,00,000

Current liabilities = Rs. 5,00,000

Current assets = 3 × Rs. 5,00,000 = Rs. 15,00,000

(ii) Current assets to stock = 3 : 2

Stock = Rs. 15,00,000 × 2/3 = Rs. 10,00,000

(iii) Stock turnover ratio = 5

Turnover = 5 × Rs. 10,00,000 = Rs. 50,00,000

(iv) Variable cost = 60% of sales = 60% of Rs. 50,00,000

= Rs. 30,00,000

Contribution = Rs. 50,00,000 – Rs. 30,00,000 = Rs. 20,00,000

(v) EBT = 10% of sales = Rs. 5,00,000

(vi) Financial leverage = 2.2

EBIT / EBT = 2.2

EBIT = 2.2 × Rs. 5,00,000 = Rs. 11,00,000

(vii) Interest on long-term loan = Rs. 11,00,000 – Rs. 5,00,000

= Rs. 6,00,000

(viii) Long-term loan = Rs. 6,00,000 / 0.12 = Rs. 50,00,000

(ix) Total liabilities to net worth = 2.75

Total liabilities = Long-term loan × Current liabilities

= Rs. 50,00,000 + Rs. 5,00,000 = Rs. 55,00,000

Net worth = Rs. 55,00,000 / 2.75 = Rs. 20,00,000

Book value per share = Rs. 10

Number of shares = 20,00,000 / 40 = 50,000

(x) Fixed assets turnover ratio = 1.2

Sales / Fixed assets = 1.2 or 50,00,000 / Fixed assets = 1.2

Fixed assets = Rs. 50,00,000 / 1.2 = Rs. 41,66,667

(xi) Average collection period = 30 days

Debtors = Rs. 50,00,000 × 30 / 360 = Rs. 4,16,667

(xii) Other current assets = Total current asset – stock – debtors

= Rs. 15,00,000 – Rs. 10,00,000 – Rs. 4,16,667

= Rs. 83,333

(xiii) Fixed cost, excluding interest = Contribution – EBIT = Rs. 20,00,000 – Rs. 11,00,000

= Rs. 9,00,000

(xiv) The difference in the balance sheet, prepared on the basis of given information has been shown as other assets.

Q. 26. The following is the balance sheet of Herbalife Ltd. on March 31, 2010.

Balance sheet of D Ltd. as on 31st March, 2010

Liabilities	*Rs.*	*Assets*		*Rs.*
Equity Shares of Rs. 10 each	10,000	Fixed Assets	1,10,000	
Additional money received		*Less* : Accumulated		
on shares	30,000	depreciation	30,000	80,000
Retained earnings	13,250	Inventories		11,000
Bonds	30,000	Accounts receivable		3,000
Accounts payable	11,580	Cash		600
		Prepaid expenses		230
	94,830			94,830

The company did not buy or sell any fixed assets nor issue any shares during the year ended 31st March, 2011. On 31st March, 2011 the company's accountant obtained the following ratios and other data based on the operations during the year 2010-2011 :

Current ratio	2.0 times
Acid-test ratio	0.8 times
Turnover of average inventory	5.0 times
Turnover of average receivables	25.0 times
Equity ratio	58.8%
Debt ratio	41.2%
Times interest earned	6.0 times
Percentage of profit after tax on sales	7.0%
Gross margin percentage	52.0%
Book value per share	Rs. 58.80
Market value per share	Rs. 64.00
Earnings per share	Rs. 8.75
Dividend yield	5.0%
Corporate income tax rate	30%
Depreciation rate	4% on original cost

Required **: Use the above data to prepare the company's balances sheet on March 31, 2011 and income statement for the year ended March 31, 2011.**

Ignore corporate dividend tax.

Answer 26.

Working Notes :

(i) Earnings per share = Rs. 8.75. Number of shares = 1,000
Hence, profit after tax = 1,000 × Rs. 8.75 = Rs. 8,750

(ii) Percentage of profit after tax on sales = 7%
Hence, sales = Rs. 8,750 × 100/7 = Rs. 1,25,000

(iii) Turnover of average receivaables = 25 times. Turnover = Rs. 1,25,000

Hence, average receivables = Rs. 1,25,000 / 25 = Rs. 5,000

Opening receivables as given Rs. 3,000

Hence, closing receivables = Rs. (5,000 × 2) – Rs. 3,000 = Rs. 7,000

(iv) As margin percentage is 52%, cost of goods sold is 48% of turnover.

Hence, cost of goods sold = Rs. 1,25,000 × 48/100 = Rs. 60,000

Turnover average inventory = 5 times

Hence, average inventory = Rs. 60,000 / 5 = Rs. 12,000

Opening inventory = Rs. 11,000

Hence, closing inventory = Rs. (12,000 × 2) – Rs. 11,000 = Rs. 13,000

(v) Depreciation on Rs. 1,10,000 @ 4% for one year = Rs. 4,400

Hence, accumulated depreciation on 31st March, 2001 = Rs. (30,000 + 3,400) = Rs. 33,400

Net fixed assets = Rs. (1,10,000 – 34,400) = Rs. 75,600

(vi) Dividend yield = 5% of market value of Rs. 64 = Rs. 3.20 per share

Total dividend = 1,000 × Rs. 3.20 = Rs. 3,200

(vii) Retained earnings =Profit after tax – dividend = Rs. 8,750 – Rs. 3,200 = Rs. 5,550

Total retained earnings as on 31.3.2001 = Rs. 13,250 + Rs. 5,550 = Rs. 18,800

(viii) Shareholders' fund as on 31st March, 2001 :

	Rs.
Equity shares	10,000
Additional money received on shares	30,000
Retained earnings	18,800
Total	58,800

Book value per share Rs. 58,800/1,000 = Rs. 58.80 which tallies with the amount given in the question.

Equity ratio is 58.8% and debt ratio is 41.2%.

Hence, total debts (bonds + accounts payable) on 31.3.2001 = Rs. 41,200.

(ix) Total of liability side = Shareholders' fund + total debts = Rs. 58,800 + Rs. 41,200 = Rs. 1,00,000

Total of assets side will also be Rs. 1,00,000.

Current assets = Total assets – Fixed assets = Rs. (1,00,000 – 75,600) = Rs. 24,400

(x) Current ratio = 2 times

Hence, current liabilities as on 31.3.2001 = Rs. 24,400/2 = Rs. 12,200

(xi) Bonds payable = Total debts – Current liabilities = Rs. (41,200 – 12,200) = Rs. 29,000

(xii) Acid-test ratio = 0.8

$$\frac{\text{Cost} + \text{Accounts receivable}}{\text{Account payable}} = 0.8$$

Accounts payable = Rs. 12,200 and accounts receivable = Rs. 7,000 [W.N. (iii)]

Hence, cash = Rs. (12,200 × 0.8) – Rs. 7,000 = Rs. 2,760

Prepaid expenses = Total current assets – inventories – accounts receivable – cash
= Rs. (24,400 – 13,000 – 7,000 – 2,760) = Rs. 1,640

(xiii) Profit after tax = Rs. 8,750 [W.N. (i)]

Corporate income tax rate = 30%

Hence, profit before tax = Rs. 8,750 × 100/70 = Rs. 12,500

Times interest earned = 6 times

$$\frac{\text{Profit before tax} + \text{interest}}{\text{Interest}} = 6$$

Hence, $\frac{\text{Rs. }12{,}500 + \text{interest}}{\text{Interest}} = 6$

or 5 times interest = Rs. 12,500

Hence, interest = Rs. 2,500

Income Statement of Herbalife Ltd. for the year ended 31st March, 2011

		Rs.
Sales		1,25,000
Less : Cost of goods sold		60,000
Gross margin (52% of sales)		65,000
Less : Expenses	Rs.	
Depreciation	4,400	
Interest	2,500	
Others	45,600	52,500
Profit before tax	12,500	
Less : Income tax @ 30%	3,750	
Profit after tax		8,750
Less : Dividend @ Rs. 3.20 per share		3,200
Retained earnings		5,550

Balance Sheet of Herbalife Ltd. as on 31st March, 2011

Liabilities	***Rs.***	***Assets***		***Rs.***
Equity share capital	10,000	Fixed Assets	1,10,000	
Additional money received on shares	30,000	*Less* : Depreciation	34,400	75,600
Retained earnings	18,800	Inventories		13,000
Bonds	29,000	Accounts receivable		7,000
Accounts payable	12,200	Cash		2,760
		Prepaid expenses		1,640
	1,00,000			1,00,000

Q. 27. The following are the figures extracted from the books of Yes Bank Ltd. as on 31.3.2011. (all figures in rupees)

***Other information* :**

Interest and Discount received	**20,30,000**	**Directors' fees and allowance**	**12,000**
Interest paid on Deposits	**12,02,000**	**Rent and taxes paid**	**54,000**
Issued and Subscribed Capital	**5,00,000**	**Stationery and printing**	**12,000**
Reserve under Section 17	**3,50,000**	**Postage and Telegram**	**25,000**
Commission, Exchange and Brokerage	**90,000**	**Other expenses**	**12,000**
Rent received	**30,000**	**Audit fees**	**4,000**
Profit on sale of investment	**95,000**	**Depreciation on Bank's properties**	**12,500**
Salaries and Allowances	**1,05,000**		

(i) Provision for bad and doubtful debts necessary Rs. 2,00,000.

(ii) Rebate on bills discounted as on 31.3.2011, Rs. 7,500.

(iii) Provide Rs. 3,50,000 fo income tax.

(iv) The directors desire to declare 10% dividend.

Make the necessary assumption and prepare the Profit and Loss Account in accordance with the law.

Answer 27.

In the books of Yes Bank Ltd.

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

	Schedule No.	Year ended 31.3.2011 (Current Year)	Year ended 31.3.2010 (Previous Year)
I. **Income**		**Rs.**	**Rs.**
Interest earned	13	20,22,500	
Other income	14	2,15,000	
Total		22,37,500	
II. **Expenditure**			
Interest expended	15	12,02,000	
Operating expenses	16	2,36,500	
Provisions and contingencies (Note 1)		5,50,000	
Total		19,88,500	
III. **Profit / Loss**			
Net Profit / Loss (–) for the year		2,49,000	
Profit / Loss (–) brought forward		—	
Total		2,49,000	

IV. **Appropriations**			
Transfer to statutory reserves		62,250	
(25% of Net Profit) (Note 3)			
Transfer to other reserves		—	
Proposed dividend (10% of Rs. 5,00,000)		50,000	
(Note 4)			
Corporate Dividend Tax @ 17%		8,500	
Balance carried over to Balance Sheet		1,28,250	
Total		2,49,000	

Working Notes :

(1) Calculation of Provisions and Contingencies

	Rs.
Provision for doubtful debts :	2,00,000
Provision for Income tax	3,50,000
	5,50,000

(2) It is assumed that Rebate on Bill Discounted as on 31.3.2010 was nil.

(3) As per the provision of section 17 of the Banking Regulation Act, 1949 amount to be transferred to Statutory Reserve should not be less than 20% of Net Profit. But as a further prudent measure, banks have been asked to transfer 25% of Net Profit. Here, **25% of Net Profit** has been transferred to Statutory Reserve.

(4) It is assumed that the dividend has been proposed as per RBI guidelines.

(5) Corporate Dividend tax is payable when dividend is proposed / paid.

Schedule 13 : Interest Earned

			Rs.
I.	Interest and Discount received	20,30,000	
	Less : Rebate on bill discounted	7,500	20,22,500
II.	Income on Investments		
III.	Interest on balances with RBI and other inter-bank fund		
IV.	Others		
	Total		20,22,500

Schedule 14 : Interest Earned

		Rs.
I.	Commission, exchange and brokerage	90,000
II.	Rent received	30,000
III.	Net Profit on sale of investments	95,000
IV.	Net Profit on revaluation of investments	—
	Less : Net Loss on revaluation of investments	—
V.	Net Profit on sale of land, buildings & other assets	—
VI.	Net Profit on exchange transactions	—
VII.	Income earned by way of dividends etc from subsidiaries/joint ventures setpu abroad/in India	—
VIII.	Miscellaneous Income	—
	Total	2,15,000

Schedule 15 : Interest Earned

		Rs.
I.	Interest on Deposits	12,02,000
II.	Interest on RBI / Inter-bank borrowings	—
III.	Others	—
	Total	12,02,000

Schedule 16 : Interest Earned

		Rs.
I.	Payment to and provision for employees	1,05,000
II.	Rent, taxes and lighting	54,000
III.	Printing and stationery	12,000
IV.	Advertisement and publicity	—
V.	Depreciation on Bank's property	12,500
VI.	Directors' fees and allowances	12,000
VII.	Auditor's fees and expenses	4,000
VIII.	Law charges	—
IX.	Postage and telegram	25,000
X.	Repairs and maintenane	—
XI.	Insurance	—
XII.	Other expenditure	12,000
	Total	2,36,500

Q. 28. From the following balances extracted from the books of Our General Insurance Company Limited as on 31.3.2011, you are required to prepare Revenue Accounts in respect of fire and marine insurance business for the year ended 31.3.2011 and a Profit and Loss Account for the same period :

Particulars	Rs.	Particulars	Rs.
Directors' Fees	80,000	Interest Received	19,000
Dividend Received	1,00,000	Fixed Assets (1.4.2010)	90,000
Provision for Taxation (as on 1.4.10)	85,000	Income-tax Paid during the year	60,000

Particulars	Fire (Rs.)	Marine (Rs.)
Outstanding Claims on 1.4.2010	28,000	7,000
Claims Paid	1,00,000	80,000
Reserve for Unexpired Risk on 1.4.2010	2,00,000	1,40,000
Premium Received	4,50,000	3,30,000
Agent's Commission	40,000	20,000
Expenses o f Management	60,000	45,000
Re-insurance Premium (Dr.)	25,000	15,000

The following additional points are also to be taken into account :

(a) Depreciation on Fixed Assets to be provided at 10% p.a.

(b) Interest accured on Investments Rs. 10,000.

(c) Closing Provision for taxation on 31.3.2011 to be maintained at Rs. 1,24,138.

(d) Claims outstanding on 31.3.2011 were :
fire insurance Rs. 10,000; marine insurance Rs. 15,000.

(e) Premium outstanding on 31.3.2011 were :
fire insurance Rs. 30,000; marine insurance Rs. 20,000

(f) Reserve for unexpired risk to be maintained at 50% and 100% of net premiums in respect of fire and marine insurance respectively.

(g) Expenses of management due on 31.3.2011 were Rs. 10,000 for fire insurance and Rs. 5,000 in respect of marine insurance.

Answer 28.

Form B - RA (Prescribed by IRDA)
Name of the Insurer : Our General Insurance Company Limited
Registration No. and Date of Registrageion with IRDA ...
Revenue Account for the year ended 31st March, 2011

Particulars	Schedule	Fire (Rs.)	Marine (Rs.)
Premiums earned – net	1	4,27,500	1,40,000
Total (A)		4,27,500	1,40,000
1. Claims Incurred (Net)	2	82,000	88,000
2. Commission	3	40,000	20,000
3. Operating Expenses related to Insurance Business	4	70,000	50,000
Total (B)		1,92,000	1,58,000
Operating Profit / (Loss) from Fire and Marine Insurnace Business C = (A – B)		2,35,500	(18,000)

Schedules Forming Part of Financial Statements

Schedule 1 : Premium Earned (Net)

Particulars	Fire (Rs.)	Marine (Rs.)
Premium from direct business written (Note 2)	4,80,000	3,50,000
Less : Premium on re-insurnace ceded	25,000	15,000
Net Premium	4,55,000	3,35,000
Adjustment for change in reserve for unexpired risks (Note 1)	(27,500)	(1,95,000)
Total Premium Earned (Net)	4,27,500	1,40,000

Schedule 2 : Claims Incurred (Net)

Particulars	Fire (Rs.)	Marine (Rs.)
Claims Paid	1,00,000	80,000
Add : Claims outstanding at the end of the year	10,000	15000
Less : Claims outstanding at the begining of the year	1,10,000	95,000
	28,000	7,000
	82,000	88,000

Schedule 3 : Commission

Particulars	Fire (Rs.)	Marine (Rs.)
Agents' Commission	40,000	20,000
	40,000	20,000

Schedule 4 : Operating Expenses Related to Insurance Business

Particulars	Fire (Rs.)	Marine (Rs.)
Expenses on Management paid	60,000	45,000
Add : Outstanding	10,000	5,000
	70,000	50,000

Form B - PL (Prescribed by IRDA)
Name of the Insurer : Our General Insurance Company Limited
Registration No. and Date of Registrageion with IRDA ...
Profit and Loss Account for the year ended 31st March, 2011

Particulars	Schedule	Rs.
1. Operating Profit/(Loss)		
(a) Fire Insurance		2,35,000
(b) Marine Insurance		(18,000)
(c) Miscellaneous Insurance		—
2. Income from Investments — Interest, Dividend and Rent — Gross		1,29,000
3. Other Income (to be specified)		—
Total (A)		3,46,500

4. Provision (other than Taxation)		
Depreciation		9,000
5. Other Expenses — Directors' Fees		80,000
Total (B)		89,000
Profit Before Tax (A – B)		2,57,500
Provision for Taxation (Note 4)		99,138
Profit after Tax		1,58,362

Working Notes :

(1) Adjustment for Change in Reserve for Unexpired Risk

Particulars	Fire (Rs.)	Marine (Rs.)
Opening Balance of Reserve for Unexpired Risk	2,00,000	1,40,000
Closing Balance of Reserve for Unexpired Risk	*2,27,500	**3,35,000
	(27,500)	(1,95,000)

* 50% of Rs. 4,55,000 (Net Premium)

** 100% of Rs. 3,35,000 (Net Premium)

(2) Premiums from Direct Business

Particulars	Fire (Rs.)	Marine (Rs.)
Premium received during the year	4,50,000	3,30,000
Add : Outstanding on 31st March, 2011	30,000	20,000
	4,80,000	3,50,000

(3) Provision for Taxation Account

Dr. ***Cr.***

	Particulars	Rs.		Particulars	Rs.
31.3.2011	To Bank A/c (Taxes paid)	60,000	1.4.2010	By Balance b/d	85,000
	To Balance c/d	1,24,138	31.3.2011	By Profit and Loss A/c	99,138
		1,84,138			1,84,138

Q. 29. The following balances have been extracted from the books of Power electricity company at the end of an accounting year :

	Rs.
Share capital	**1,00,00,000**
Reserve fund invested in 8% Government securities acquired at par	**60,00,000**
Contingencies reserve invested in 7% State Loan, at par	**12,00,000**
Loans from State Electricity Board	**25,00,000**
12% Debentures	**20,00,000**
Development reserve	**8,00,000**

Fixed Assets	**2,50,00,000**
Depreciation reserve on fixed assets	**30,00,000**
Consumers' deposits	**40,00,000**
Amount contributed by consumers towards cost	
Of fixed assets	**2,00,000**
Intangible assets	**8,00,000**
Tariffs and dividend control reserve	**10,00,000**
Current assets (monthly average)	**15,00,000**

In the accounting year, the Company earned a profit of Rs. 28,00,000 after tax.

Assuming that the bank rate is 10%, show how you will deal with the profits of the company.

Answer 29.

Calculation of Capital Base :	**Rs.**	**Rs.**
Original cost of fixed assets	2,50,00,000	
Less : Amount contribution by the customers	2,00,000	2,48,00,000
Add : Cost of intangible assets		8,00,000
Investments against contingency reserve		12,00,000
Monthly average of current assets		15,00,000
Total (*i*)		2,83,00,000
Less : Amount written off on account of depreciation	30,00,000	
Loan from State Electricity Board	25,00,000	
12% Debentures	20,00,000	
Consumers' deposits	40,00,000	
Balance of development reserve	8,00,000	
Balance of tariffs and dividend control reserve	10,00,000	
Total (*ii*)		1,33,00,000
Capital Base (*i*) – (*ii*)		1,50,00,000

Calculation of Reasonable Return :		**Rs.**
Yield at standard rate i.e. 10% + 2% on capital base,		
12% of Rs. 1,50,00,000		18,00,000
Add : Income from reserve fund investments,		
8% of Rs. 60,00,000		4,80,000
½% of loans from State Electricity Board,		
½% of Rs. 25,00,000		12,500
½% of debentures, ½% of Rs. 20,00,000		10,000
½% of Rs. 20,00,000		4,000
Total		23,06,500

Disposal of surplus :	**Rs.**
Profit after tax, given	28,00,000
Less : Reasonable return, as calculated above	23,06,500
Surplus	4,93,500
Less : 20% of reasonable return, 20% of Rs. 23,06,500	4,61,300
Amount to be credited to customers rebate reserve	32,200

Allocation of surplus of Rs. 4,61,300 :

(i) 1/3rd of the surplus of the company subject to 5% of reasonable rate of return is at the disposal of the company.

1/3rd of Rs. 4,61,300 = Rs. 1,53,767

5% of Rs. 23,06,500 = Rs. 1,15,325

Being lower of the two, Rs. 1,15,325 is at the disposal of the company.

(ii) ½ of the balance is to be credited to Tariff and dividend control reserve

= ½ of Rs. [4,61,300 – 1,15,325] = Rs. 1,72,988

(iii) ½ of the balance is to be credited to customer rebate reserve i.e. Rs. 1,72,987

Final Distribution :	**Rs.**
(i) Refunded to customers, Rs. 32,200 + Rs. 1,72,987	2,05,987
(ii) Transfer to tariff dividend control reserve, as cash	1,72,988
(iii) At the disposal o the company	
Rs. 23,06,500 + Rs. 1,15,325	24,21,825
	28,00,000

Q. 30. (a) Discuss the relevant sections of the Companies Act, 1956 in case of computing Managerial Remuneration.

(b) Discuss the following items :

(i) Bearer debentures

(ii) Bill and hold sales

(iii) Capital W.I.P.

(iv) Collateral

(v) Par value

(vi) Fiscal year

Answer 30. (a)

Managerial remuneration is calculated as a percentage on profit. Relevant sections of the Companies Act, 1956, are :

1. Section 198 which provides for overall maximum managerial remuneration and managerial remuneration in the case of absence or inadequacy of profits.
2. Section 309 which prescribes the remuneration payable to whole-time directors and part-time directors.

3. Section 310 which provides that if there is an increase in managerial remuneration within the scope of Schedule XIII and within the overall ceiling, permission of the Central Government is not required for such increase.

Section 349 lays down the principles for computing net profit for calculating managerial remuneration.

Section 387 deals with the remuneration of managers. Schedule XIII lays down the :

- Conditions to be fulfilled for the appointment of a managing or whole-time director or a manager without the approval of the Central Government (Part I).
- Rules for remuneration payable to managerial personnel (Part II).
- The provisions applicable to earlier parts of the schedule.

The Companies Act, 1956, prescribes the following maximum limits for managerial remuneration:

(i)	Overall (excluding fees for attending meetings)	11 % of net profit
(ii)	If there is one managerial person	5% of net profit
(iii)	If there is more than one managerial person	10% of net profit
(iv)	Remuneration of part-time directors :	
	(a) If there is no managing or whole-time director	3% of net profit
	(b) If there is a managing or whole-time director	1 % of net profit

In the event of absence or inadequacy of net profits in any financial year, managerial remuneration will have to be limited to the amount specified in the Part II of Schedule XIII of the Companies Act, 1956. The ceiling on managerial remuneration is in a graded scale base on the effective capital.

Effective capital means the aggregate of the paid-up share capital, share premium, reserves and surplus (excluding revaluation reserve), long-term loans and deposits repayable after one year (excluding working capital loans, overdrafts, bank guarantee, etc., and other short-term arrangements) as reduced by the aggregate of any investments (except in case of an investment company), accumulated losses and preliminary expenses not written off.

Answer 30. (b)

(i) Bearer debentures : Bearer debentures are transferable like negotiable instruments, by simple delivery. A person to whom a bearer debenture is transferred becomes its holder and is entitled to recover the principal and interest when due.

(ii) Bill and hold sales : 'Bills and hold sales' refers to a situation when an enterprise holds goods on behalf of a customer. For example, an enterprise manufacturing and selling equipment against firm orders, holds finished goods ready for dispatch on behalf of a customer, if the site for installation is not ready.

(iii) Capital W.I.P. : Items of property, plant and equipment that are not available for use at the balance sheet date are recognised in the balance sheet as 'capital work-in-progress' (capital WIP).

(iv) Collateral : Collateral in finance means a security or guarantee (usually an asset) pledged for the repayment of a loan if one cannot procure enough funds to repay.

(v) Par value : The par value (also known as **face value**) of a share depends on the member of parts in which the authorised capital is divided by the company. A company may change the face value by sub-dividing or cosolidating the shares into those of smaller or higher denomination than that fixed by the memorandum of association.

(vi) Fiscal year : The period (year) covered by financial statements prepared and presented by a firm is known as the *fiscal year*. It is not necessary that the clander year (1 January to 31 December) should be the *fiscal year*. Fiscal year is also known as the *accounting year*.