Paper-5: FINANCIAL ACCOUNTING

Time Allowed: 3 Hours **Full Marks: 100**

Whenever necessary, suitable assumptions should be made and indicate in answer by the candidates.
Working Notes should be form part of your answer

Question 1 is compulsory and any 5 questions from the rest

1. (a) From the four alternative answers given against each indicate the correct answer :
[10×1]

(i) The cost of a Fixed Assets of a business has to be written off over its
(A) Natural Life
(B) Accounting Life
(C) Physical Life
(D) Estimated Economic Life

(ii) Shortworkings can be recouped out of
(A) Minimum rent
(B) Excess of actual Royalty over minimum rent
(C) Excess of minimum rent over actual Royalty
(D) Profit and Loss Account

(iii) In Hire Purchase system cash price plus interest is known as
(A) Capital value of asset
(B) Book value of asset
(C) Hire purchase price of asset
(D) Hire purchase charges

(iv) In partnership when a new Partner brings his share of Goodwill in cash, then the amount of such Goodwill will be credited to Partners' capitals as per the following ratio :
(A) Old Profit sharing ratio
(B) Sacrifice ratio
(C) Gain ratio
(D) None of the above

(v) The Receipts and Payments Account generally begins with
(A) Credit Balance
(B) Debit Balance
(C) Both Debit and Credit Balance
(D) None of the above

(vi) Which of the following is a category of Share Capital of a company?
(A) Authorized Capital
(B) Issued Capital
(C) Called up Capital
(D) All of the above

(vii) In case of a Banking Company, entries in the Personal Ledger are made from
(A) Day Book
(B) Vouchers

(C) Rough Register
(D) None of the above

(viii) When Sales = ₹ 1,80,000, Purchase = ₹ 1,60,000, Opening Stock = ₹ 34,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be
(A) ₹ 50,000
(B) ₹ 44,000
(C) ₹ 46,000
(D) None of the above

(ix) The General Manager is entitled to a commission of 10% on net profit after charging the commission of Works Manager. The Works Manager is entitled to a commission of 5% on the net profits after charging the commission of General Manager. The profit before charging any commission is ₹ 7,500. The commission of the Work Manager to the nearest rupee will be:
(A) ₹ 321
(B) ₹ 333
(C) ₹ 337
(D) ₹ 326

(x) Rohan & Sohan are partners in a firm sharing profits & losses in the ratio 3 : 1. A partner Mohan is admitted and he brought Rs. 40,000 as goodwill. New profit sharing ratio of all the partners is equal. The amount of goodwill to be shared by old partners is
(A) Equally ₹ 20,000 each
(B) Rohan ₹ 30,000 & Sohan ₹ 10,000
(C) Rohan ₹ 40,000
(D) Rohan received ₹ 50,000 & Sohan paid ₹ 10,000

(b) Match the following : [5×1]

(i) AS—6	(I) Borrowing costs
(ii) AS—13	(II) Consolidated Financial Statements
(iii) AS—16	(III) Depreciation Accounting
(iv) AS—19	(IV) Accounting for Investment
(v) AS—21	(V) Leases

(c) Fill in the blanks of the following: [5x1]
(i) A company cannot redeem preference shares unless they are ___________ paid up.
(ii) Unclaimed dividend is shown under ______________ head in the Balance Sheet of a banking company.
(iii) Tax deducted at source, from interest on investment is shown under_________ in Revised Schedule VI.
(iv) Selling Commission is apportioned among departments in the ratio of ___________ of each department.
(v) By products should be valued as lower of cost and _____________.

(d) State with reasons whether the following propositions are True or False: [5 x 1]
(i) Short workings arise when minimum rent is less than actual royalty.
(ii) Revenue recognition of Royalties receivable from foreign countries is made on receipt basis.
(iii) The accounting principle is general rule followed in preparation of financial Statement
(iv) The inventory under AS – 2 is valued on the basis of cost price or current replacement

cost whichever is lower.

(v) In admission of a partner new partner's capital amount is shared by old partner in gaining ratio.

Answer 1(a):

(i) - (D) Estimated Economic Life
(ii) - (B) Excess of actual Royalty over minimum rent
(iii) - (C) Hire purchase price of asset
(iv) - (B) Sacrifice ratio
(v) - (B) Debit Balance
(vi) - (D) All of the above
(vii) - (B) Voucher
(viii) - (B) ₹ 44,000
(ix) – (D)

Profit before charging commission amounted to ₹ 11,500. Since both the General Manager and Works Manager take commission @ 10% and 5% respectively. Since both the General Manager and Works Manager take commission @ 10% and 5%, respectively, after charging their respective commissions, total commission will be 15% (after charging such commission)- which means 15/115 of the said profit.

Thus, General Manager will get = ₹ 7,500 $\times \frac{10}{115}$ = 652

And, Works Manger will get = ₹ 7,500 $\times \frac{5}{115}$ = 326

(x) – (D)

Mohan's share of goodwill (1/3) = 40,000

Therefore, total goodwill = 40,000 x 3 = 1,20,000

Sacrificing Ratio: Rohan = 3/4 - 1/3 = $\frac{9-4}{12}$ = 5/12 (Sacrificing ratio)

Sohan = 1/4 – 1/3 = $\frac{3-4}{12}$ = - 1/12 (gaining ratio)

Rohan Received = 5/12 x 1,20,000 = ₹ 50,000

Sohan Paid = 1/12 x 1,20,000= ₹ 10,000

Answer 1(b):

(i) AS—6	(III) Depreciation Accounting
(ii) AS—13	(IV) Accounting for Investment
(iii) AS—16	(I) Borrowing costs
(iv) AS—19	(V) Leases
(v) AS—21	(II) Consolidated Financial Statements

Answer 1(c):

(i) Fully
(ii) Other Liabilities And Provision
(iii) Other Current Liabilities
(iv) Sales
(v) Realizable

Answer 1(d):

(i) False : Minimum rent is dead rent payable , even if there is no production or sales giving rise to payment of Royalty. Hence, when Royalty is lower than minimum rent, short workings arise, but not the other way about.

(ii) False: Revenue from foreign countries such as Royalties etc. arise on the basis of agreement and are recognized once they become receivable ; only when there are uncertainties of realization due to exchange control etc. such revenues are recognized on receipt basis.

(iii) True: Accounting principle indicates those rules of action which are generally adopted by an accountant while recording accounting Transaction.

(iv) False: As per AS – 2 inventory is valued at the lower of historical cost and net realizable value.

(v) False: New partner's capital amount shared by the old partner in sacrificing ratio.

2 (a) X's accounting year ends on 30.06.2013 but actual stock was not taken till 08.07.2013 on which date it is valued at ₹ 29,700. The following additional information is available:

(i) Sales are entered in the sales book on the date of dispatch and returns inward entered in the credit note register on the day goods are received back.

(ii) Purchases are entered in the purchase book on the day invoices are received.

(iii) Sales from 01.07.2013 to 08.07.2013 are ₹ 34,400

(iv) Purchases invoiced from 01.07.2013 to 08.07.2013 are ₹ 2,640 out of which goods ₹ 240 was not received upto 08.07.2013.

(v) Invoices for goods purchased upto 30.06.2013 were of ₹ 2,000 of which goods worth ₹1,400 were received between 01.07.2013 to 08.07.2013

(vi) Rate of G.P. 33.33% on cost.

Find out the value of stock on 30.06.2013.

(b) Healthy Sports Club presents the following information to you:

Receipts and Payments Account for the year ended 31st March, 2013

Receipts	₹	Payments	₹
To Opening Cash and Bank	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

Particulars	As on 31.3.2012 ₹	As on 31.3.2013 ₹
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 fixtures	**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, 2013 and the balance sheets as on 31st March, 2012 and 31st March, 2013. Treat donations as capital receipt. Assume that sports goods and library books have been purchased evenly throughout the year. [6+9]

Answer 2(a)

Statement of Valuation of Stock as on 30.06.2013

Particulars	**₹**	**₹**
Value of stock as on 08.07.2013		29,700
Add: Cost of goods sold from 1.7.2013 to 8.7.2013 (75% of ₹ 34,400)	25,800	
Purchases 'invoiced' up to 30.06.2013 though goods not received till 08.07.2013 (₹ 2,000 – ₹ 1,400)	600	26,400
		56,100
Less: Cost of goods purchased and received during the period from 01.07.2013 to 08.07.2013 (₹ 2,640 - ₹ 240)		2,400
Value of the stock		53,700

Note: Rate of G.P. is 33.33% on cost.
Therefore, Cost = 1/1.3333 or 75% of sales.

Answer 2(b):

Balance Sheet as on 31st March, 2012

Liabilities	₹	₹	Assets	₹
Outstanding Expenses :			**Fixed Assets :**	
Salaries	10,000		Furniture and Fixtures	1,00,000
Rent and Taxes	4,500		Library Books	1,00,000
Electricity	990		**Investments:**	
Newspapers and Periodicals	890	16,380	Government Securities	5,00,000
Capital Fund (balancing figure)		8,51,620	**Current Assets:**	
			Sports Goods	80,000
			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, 2013 Cr.

Expenditure	₹	₹	Income	₹
To Salaries		1,60,00	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.	17,000			
— Library Books, W.N.	15,000	42,000		
To Surplus i.e. Excess of Income over Expenditure		31,140		
		3,58,00		3,58,000

Balance Sheet as on 31st March, 2013

Liabilities	₹	₹	**Assets**	₹
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	8,51,62		Subscriptions Receivable	25,000
Add: Donation	1,00,00		Accrued Interest	6,000
Add: Surplus for the year	31,140	9,82,760	Cash and Bank balances	1,20,200
		10,09,20		10,09,200

Working Note:

(i) Depreciation on Sports Goods @ 20% p.a. :

	₹
On ₹ 80,000 for full year	8,000
On ₹ 20,000 for six months	1,000
Total	9,000

(ii) Depreciation on Library books @ 10% p.a. :

	₹
On ₹ 1,00,000 for full year	10,000
On ₹ 1,00,000 for six months	5,000
Total	15,000

(iii) Furniture and Fixture

	₹
Opening Balance	1,00,000
Less: Depreciation @10% p.a.	10,000
Amount shown in Balance sheet	90,000

(iv) 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

(v) 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

(vi)Calculation of expenses incurred for the year ended 31st March, 2013:

	Salaries ₹	**Rent and Taxes** ₹	**Electricity Charges** ₹	**Newspapers and Periodicals** ₹
Amount paid	1,50,000	54,000	6,000	10,800
Add: Outstanding on 31.3.2013	20,000	4,500	1,030	910
	1,70,000	58,500	7,030	11,710
Less: Outstanding on 31.3.2012	10,000	4,500	990	890
Expenses for the year	1,60,000	54,000	6,040	10,820

(vii) Calculation of income earned for the year ended 31st March, 2013 :

	Subscriptions ₹	**Interest** ₹
Amount received	3,48,000	12,000
Add: Receivable on 31.3.2013	25,000	6,000
	3,73,000	18,000
Less: Receivable on 31.3.2012	30,000	6,000
Income for the year	3,43,000	12,000

3 (a) Mandira Ltd. provides depreciation on its plant @ 10% on Reducing Balance Method. On 31st December, 2013, it decides to adopt the Straight Line Method of charging depreciation instead of Reducing Balance Method with retrospective effect from 1st January, 2010 although the rate of depreciation is same.

On 01.01.2013, the plant account stood in the books at ₹1,45,800. On 01.04.2013, Mandira Ltd. sold a plant for ₹28,000 whose written-down value was ₹37,800 on 01.01.2010. On 01.09.2013, a new plant was also purchased for ₹90,000.

Show the Plant Account in the books of Mandira Ltd. for the year 2013 only.

(b) Compass, Cone and Circle are in partnership sharing profits and losses in the ratio of 3:2:1. The Balance Sheet of the firm as on 31st Dec,2012 was:

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capital Accounts:					
Compass	40,000		Machinery (at cost)	50,000	
Cone	60,000		Less: provision for		
Circle	20,000	1,20,000	depreciation	8,000	42,000
Reserve		30,000	Furniture		1,000
Sundry Creditors		60,000	Sundry Debtors	80,000	
			Less: Provision for		
			Doubtful Debts	3,000	77,000
			Stocks		50,000
			Cash at Bank		40,000
		2,10,000			2,10,000

On 31st March, Cone retired and Compass and Circle continued in partnership, sharing profits and losses in the ratio of 3:2. It was agreed that adjustments were to be made in the Balance Sheet as on 31st March 2013, in respect of the following:

i. **The Machinery was to be revalued at ₹ 45,000;**
ii. **The stock was to be reduced by 2%;**
iii. **The Furniture was to be reduced to ₹ 600;**
iv. **The provision for doubtful debts would be ₹ 4,000;**
v. **A provision of ₹300 was to be made for outstanding expenses.**

The partnership agreement provided that, on the retirement of a partner, goodwill was to be valued at ₹ 24,000 and Cone's share of the same was to be adjusted into the account of Compass and Circle. The profit up to the date of retirement was estimated at ₹ 18,000.

Cone was to be paid off in full, Compass and Circle were to bring such an amount in cash so as to make their capital in proportion to the new profit – sharing ratio, subject to the condition that a cash balance of ₹ 20,000 was to be maintained as working capital.

Pass the necessary Journal entries to give effect to the above arrangements and prepare the Partners' Capital Accounts as on 31st March 2013. **[7+8]**

Answer 3(a) :

In the Books of Mandira Ltd.
Plant Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2013 Jan. 1	To Balance b/d	1,45,800	2013 Apr. 1	By Depreciation A/c (on plant for 3 months) (W.N. 2)	689
Apr. 1	,, Profit on sale of Plant A/c (W.N. 2)	1,133		,, Bank A/c - Sale proceeds	28,000
Sept. 1	,, Bank A/c - Purchase	90,000	Dec.31	,, Depreciation A/c (W.N. 3)	19,220
				,, Profit and Loss A/c (W.N. 4)	4,704
				,, Balance c/d	1,84,320
		2,36,933			2,36,933
2014 Jan. 1	To Balance b/d	1,84,320			

Workings:

(i) Book value as on 01.01.2010 of the original plant

Particulars	₹
$(₹1,45,800 \times \frac{100}{90} \times \frac{100}{90} \times \frac{100}{90})$	2,00,000
Less: Book value of plant on 01.01.2010 sold in 2013	37,800
Book value on 01.01.2010 for the Balance Plant	1,62,200

(ii) Profit on Sale of Machinery

Particulars	₹
Book value on 01.01.2010	37,800
Less: Depreciation for 2010 @10%	3,780
	34,020
Less: Depreciation for 2011 @10%	3,402
	30,618
Less: Depreciation for 2012 @10%	3,062
	27,556
Less: Depreciation for 2013 @10% for 3 months $\left(2,756 \times \frac{3}{12}\right)$	689
W. D. V. on 01.04.2013	26,867
Sold for	28,000
Profit on Sale	1,133

(iii) Depreciation for 2013

Particulars	₹
On Balance Plant on ₹1,62,200 @10%	16,220

On New plant Purchased (₹90,000 $\times \frac{10}{100} \times \frac{4}{12}$)	3,000
	19,220
On Plant sold (for three months already calculated)	689
Total Depreciation	19,909

(iv) Adjustment for additional depreciation due to change in method

Particulars	₹	₹	₹
Depreciation on ₹1,62,200 @ 10% for 3 years under Straight Line Method (i.e., 16,220 x 3)			48,660
Depreciation already written – off under Diminishing Balance Method:			
Book value on 01.01.2010 Less: Depreciation for 2011	1,62,200 16,220	16,220	
Book value on 01.01.2011 Less: Depreciation for 2011	1,45,980 14,598	14,598	
Book value on 01.01.2012 Less: Depreciation for 2012	1,31,382 13,138	13,138	
			43,956
			4,704

Answer 3(b):

In the Books of …………
Journal

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
2013 Mar.31	Reserve A/c Dr. To Compass's Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Reserve transferred to the Capital Accounts of the partners in 3 : 2 : 1)		30,000	 15,000 10,000 5,000
	Machinery A/c Dr. To Revaluation A/c (Value of the machinery increased on Cone's retirement)		3,000	 3,000
	Revaluation A/c Dr. To Stock A/c To Furniture A/c To Provision for Bad Debts A/c To Outstanding Expenses A/c (Value of the assets reduced on Cone's retirement)		2,700	 1,000 400 1,000 300
	Revaluation A/c Dr. To Compass's Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Profit on revaluation transferred to the Capital		300	 150 100 50

	Accounts of the partners)			
	Compass's Capital A/c Dr. Circle's Capital A/c Dr. To Cone's Capital A/c (Cone's share of goodwill to be adjusted against remaining partners' Capital Accounts in the gaining ratio of 3 : 7 as W.N. 1)		2,400 5,600	 8,000
	Profit and Loss (Suspense) A/c Dr. To Compass's Capital A/c To Cone's Capital A/c To Circle's Capital A/c (Estimated profit transferred to the Capital Account of the partners)		18,000	 9,000 6,000 3,000
	Cone's Capital A/c Dr. To Bank A/c (Payment is made to Cone on his retirement)		84,100	 84,100
	Bank A/c Dr. To Compass's Capital A/c To Circle's Capital A/c (Cash to be brought in by Compass and Circle as per agreement)		46,100	 16,430 29,670

Capital Account

Dr. **Cr.**

Particulars	Compass ₹	Cone ₹	Circle ₹	Particulars	Compass ₹	Cone ₹	Circle ₹
To Cone's Capital	2,400	-	5,600	By Balance b/d	40,000	60,000	20,000
,, Bank (bal. fig.)	-	84,100	-	,, Reserve	15,000	10,000	5,000
,, Balance c/d	78,180	-	52,120	,, Revaluation Profit	150	100	50
				,, Share of profit	9,000	6,000	3,000
				,, Compass's Capital	-	2,400	-
				,, Circle's Capital	-	5,600	-
				,, Bank (bal. fig.)	16,430	-	29,670
	80,580	84,100	57,720		80,580	84,100	57,720
				By Balance b/d	78,180	-	52,120

Working Notes:

(a) Total Value of Goodwill ₹24,000.

$\therefore$ Cone's share of Goodwill = 24,000 x $\frac{2}{6}$ = 8,000 to be adjusted against Compass's and Circle's capital in 3 : 7.

Computation of ratio:

Compass = $\frac{3}{5} - \frac{3}{6} = \frac{3}{30}$ (gain) Circle = $\frac{2}{5} - \frac{1}{6} = \frac{7}{30}$ (gain)

(b)

Bank Account

Dr. **Cr.**

	₹		₹
To Balance b/d	40,000	By Cone's Capital	84,100
,, Profit – increase in cash	18,000	,, Balance c/d	20,000
,, Compass and Circle's Capital (bal.fig.)	46,100	(to be maintained)	
	1,04,100		1,04,100

(c) Total Adjusted Capital of Compass and Cone

Particulars	₹
Compass's Capital:	
(40,000 + 15,000 + 150 + 9,000 – 2,400)	61,750
Circle's Capital	
(20,000 + 5,000 + 50 + 3,000 – 5,600)	22,450
Plus: Total cash to be brought in	46,100
	1,30,300
Combined Adjusted Capital	
Compass's Capital $(1{,}30{,}300 \times \frac{3}{5})$	78,180
Circle's Capital $(1{,}30{,}300 \times \frac{2}{5})$	52,120

4 (a) CAS Ltd. furnishes you with the following Balance Sheet as at 31.03.2013

Particulars	**(₹ In crores)**	
Sources of Funds:		
Share Capital:		
Authorized		**100**
Issued:		
12% Redeemable Preference Shares of ₹ 100 each fully paid	**75**	
Equity shares of ₹ 10 each fully paid	**25**	**100**
Reserves and surplus:		
Capital reserve	**15**	
Securities premium	**25**	
Revenue reserves	**260**	**300**
		400
Funds Employed in:		
Fixed assets: cost	**100**	
Less: Provision of depreciation	**100**	**Nil**
Investment at cost (market value ₹ 400 Cr.)		**100**
Current assets	**340**	
Less: Current liabilities	**40**	**300**
		400

The company redeemed preference shares on 1st April, 2013. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as part of current assets.

You are asked to:

(i) Pass journal entries to record the above

(ii) Prepare balance Sheet

(iii) Value equity share on net asset basis.

(b) From the following information prepare a statement of Proprietor's Fund :
(i) Current ratio 2.5; (ii) Liquid ratio 1.5; (iii) Proprietory ratio (Fixed Assets/Prorietory Fund) 0.75; (iv) Working capital ₹ 90,000; (v) Reserves and Surplus ₹ 60,000 (vi) Bank Overdraft ₹ 20,000; (vii) There is no long term loan or fictitious assets. [8+7]

Answer 4 (a) :

(i) Journal of CAS Ltd. (₹ in Crores)

Particulars	Dr. (₹)	Cr. (₹)
Redeemable Preference Share Capital A/c Dr. To Redeemable Preference Shareholders A/c (Being redemption of 12% preference shares pursuant to capital re-organization)	75	 75
Redeemable Preference Shareholders A/c Dr. To Bank A/c (Being the payment made to Redeemable Preference Shareholders)	75	 75
Revenue Reserves A/c Dr. To Capital Redemption Reserve A/c (Being amount equal to par value of preference shares redeemed out of profits, transferred to capital redemption reserve)	75	 75
Equity Shares Capital A/c Dr. To Bank A/c (Being buyback of 50 lakh equity shares of ₹ 10 each from the members at a price of ₹ 50 per share, premium paid out of revenue reserves)	25	 25
Equity Shares Capital A/c Dr. Revenue Reserves A/c Dr. To Equity Share Buy Back A/c (Being the cancellation of Equity Share Buy Back A/c)	5 20	 25
Revenue Reserves A/c Dr. To Capital Redemption Reserve A/c (Being transfer to capital redemption reserve, as required by Section 77AA, on buyback out of reserves)	5	 5

(ii) Balance Sheet of CAS Ltd. as at 01.04.2013

Particulars	Note No.	₹ (lacs)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital (₹ 10 each) [25 – 5]		20
(b) Reserves and Surplus	1	280
(2) Non-Current Liabilities [Debentures]		
(3) Current Liabilities		40
Total		340
II. Assets		
(1) Non-Current Assets		0
(a) Fixed Assets [100 – 100]		
(b) Non-Current Investments [Market Value ₹ 400 crores]		100
(2) Current Assets [340 – 75 – 25]		240
Total		340

Notes to Accounts:

(1) Reserve and surplus

Particulars	₹ (lacs)
Reserves and Surplus	
Revenue Reserve [260-80-20]	160
Capital Reserve	15
Capital Redemption Reserve	80
Securities Premium	25
Total	280

(iii) Net Asset Value of an Equity Share

Particulars	(₹ In crores)
Investments (at market value)	400
Net current assets	200
Net assets available to equity shareholders	600

No. of equity shares = 2 crores

Value of an equity share = 600 crores/2 crores = ₹ 300 crores

Answer 4 (b) :

Current Ratio (CR) = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{CA}{CL} = 2.5$

CA = 2.5 CL

Working Capital = CA – CL = ₹ 90,000

or, 2.5 CL – CL = ₹90,000

or, 1.5 CL = ₹ 90,000

or, CL = ₹ 60,000

or, CA = 2.5 × 60,000 = ₹ 1,50,000

Quick Ratio (QR) = $\frac{\text{Quick Assets(QA)}}{CL} = 1.5$

QA = 1.5 CL

QA = 1.5 × 60,000 = ₹ 90,000

Stock = CA – QA = 1,50,000 – 90,000 = ₹60,000

Proprietors Fund (PF)

PF + CL = Fixed Asset (FA) + CA

PF – FA = CA – CL

$\frac{FA}{PF} = 0.75$

Or, FA = 0.75 PF

PF – 0.75 PF = ₹ 90,000

Or, 0.25 PF = 90,000

PF = 3,60,000

Share Capital :

Proprietor's fund – Reserves and surplus

₹ 3,60,000 – ₹ 60,000 = ₹ 3,00,000.

Statement of Proprietor's Fund

Share Capital –	₹ 3,00,000
Reserve and Surplus-	₹ 60,000
	₹ 3,60,000

5(a) It was provided under the partnership agreement between Naresh, Mahesh and Paresh that in the event of death of a partner, the survivors would have to purchase his share in the firm on the following terms:

(i) Deceased's share of Goodwill to be taken at three years' purchase of his share of profits on the average of previous 4 years; and

(ii) Total amount due to his representative to be paid by survivors in 4'equal half yearly installments commencing 6 months after the date of death with 5% interest on outstanding dues.

They shared profits and losses in the ratio of 9: 4: 3 and accounts were drawn up to each year's 30th June.

Naresh died on 31st December, 2013 and their capital accounts on that date were Naresh ₹10,800, Mahesh ₹6,400 and Paresh ₹3,600. Naresh's current account on 31st December, 2013 after crediting his share of profit to that date, however, showed a debit balance of ₹ 960.

Firm's Profits were for the year ended 30th June, 2010 ₹35,200; 30th June, 2011 ₹28,160; 30th June, 2012 ₹ 24,080; 30th June, 2013 ₹8,704.

Show the relevant ledger accounts in the books of the firm recording half-yearly payments to Naresh's estate by the surviving partners.

(b) The following balances are appearing in the books of X Ltd on 01. 04.2013:

Redeemable Preference Share Capital (Shares of ₹10 each) ₹2,00,000; Calls in Arrear ₹ 2,000; General Reserve ₹1,00,000; Securities Premium ₹5,000

The Preference Shares are fully called up and are due for redemption at a premium of 10%. Calls-in-arrear are in respect of final call at the rate of ₹ 4 per share and these shares are held by Mr. M. Sen whose whereabouts are not known.

The Board of Directors decided that 50% of the General Reserve to be utilized for the purpose of redemption of Redeemable Preference Share Capital and for the balance necessary Amount of equity shares of ₹ 10 each were issued at a premium of 10%.

The redemption of Preference Shares are duly carried out and subsequently the company utilizes the balance of Capital Redemption Reserve A/c to issue Equity Shares at ₹ 10 each as bonus to shareholders.

You are required to pass the necessary Journal Entries in the books of X Ltd (workings must be shown). [8+7]

Answer 5(a)

Working Notes:

Average Profits of the last 4 years = $\frac{₹35,200 + ₹28,160 + ₹24,080 + ₹8,704}{4} = \frac{₹96,144}{4}$ = ₹24,036

Share Naresh = $\frac{9}{16} \times 24,036$ = ₹13,520.25 or ₹13,520

$\therefore$ Naresh's share of Goodwill = 3 x 13,520 or ₹40,560

Books of the firm
Naresh's Capital Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.12. 13 ,,	To Current A/c " Executors A/c (Balance transferred)	960 50,400	31.12.13	By Balance b/f Goodwill A/c	10.800 40,560
		51,360			51,360

Executor's Account [of Naresh]

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
30.06.14 ,,	To Bank A/c [1/4 of 50,400 +1260] To Balance c/d	13,860 37,800	31.12.13 30.06.14	By Naresh's Capital A/c ,, Inter. A/c [5% of 50,400 for 6 months]	50,400 1,260
		51,660			51,660
31.12.14 ,,	To Bank A/c [1/4 of 50,400 + 945] ,, Balance c/d	13,545 25,200	01.07.14 31.12.14	By Balance b/d ,, Inter. A/c [5% of 37,800 of 6 months]	37,800 945
		38,745			38,745
30.06.15 ,,	To Bank A/c [1/4 of 50,400 + 630] ,, Balance c/d	13,230 12,600	01.01.15 30.06.15	By Balance b/d ,, Inter. A/c [5% of 25,200 of 6 months]	25,200 630
		25,830			25,830
31.12.15	To Bank A/c [1/4 of 50,400 + 315]	12,915	01.07.15 31.12.15	By Balance b/d ,, Inter. A/c [5% of 12,600 of 6 months]	12,600 315
		12,915			12,915

Interest Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
30.06.14	To Executors [of Naresh] A/c	1,260	30.06.14	By Profit & Loss A/c	1,260
31.12.14	To Executors (of Naresh) A/c	945	31.12.14	By Profit & Loss A/c	945
30.06.15	To Executors [of Naresh] A/c	630	30.06.15	By Profit & Loss A/c	630
31.12.15	To Executors [of Naresh] A/c	315	31.12.15	By Profit & Loss A/c	315

Answer 5(b):
Working Notes:

(i) No. of Preference Shares = $\frac{₹2,00,000}{₹10}$ = ₹20,000

(ii) Partly paid shares (These cannot be redeemed) = $\frac{\text{Call}-\text{in}-\text{Arrear}}{\text{ArrearPer Share}} = \frac{₹2,000}{₹4}$ = 500 shares

(iii) $\therefore$ Fully paid shares to be redeemed = 20,000 – 500 = 19,500 Shares

(iv) **How the Required Amount is to be provided**

Amount Payable on Redemption		**Fresh Issue of Shares**		**Reserves & Surplus**	
	₹		₹		₹
Red. Pref. Sh. Capital [19,500 x ₹100]	1,95,000	Balance Required $\therefore$ No. of shares issued	1,45,000	50% of general reserve	50,000
Premium on @ 10% Red.	19,500	14,500 sh. Of ₹10 Each Securities Premium (New) @ 10%	14,500	Existing Premium	5,000

Books of X Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	Bank A/c……………………………………………….Dr. To Equity Share Capital A/c ,, Securities Premium A/c [14,500 Equity Shares of ₹10 each issued at 10% premium as per Board's resolution No…….dated…..]		1,59,500	 1,45,000 14,500
	Preference Share capital A/c……………………………Dr. Premium on Redemption of preference shares A/c….Dr. To Preference Shareholders A/c [Redeemable Preference Share Capital and Premium payable thereon transferred to the preference Shareholders A/c]		1,95,000 19,500	 2,14,500
	Preference shareholders A/c…………………………… Dr. To Bank A/c [Amount due to Preference shareholders paid off]		2,14,500	 2,14,500
	Securities Premium A/c…………………………………..Dr. To Premium on Redemption A/c [The Premium on Redemption provided out of Securities Premium A/c]		19,500	 19,500
	General Reserve A/c…………………………………….Dr. To capital redemption Reserve A/c [Necessary transfer made from general reserve for Capital Redemption]		50,000	 50,000
	Capital redemption reserve A/c……………………… Dr. To Bonus to Equity Shareholders A/c [Bonus declared to Equity Shareholders as per		50,000	 50,000

	Shareholders resolution No……dated……]			
	Bonus to Equity Shareholders A/c…………………………Dr. To Equity Share capital A/c [The Bonus utilized to issue, 5,000 Equity Share of ₹10 each]		50,000	50,000

6 (a) Samar Ltd. took on lease a land from Bhumi for running a Super bazer on 01.01.2009 on the following conditions:

(i) A fixed rent of ₹8,000 to be paid per month.

(ii) A variable rent at the undernoted percentages on sales would be paid subject to a minimum annual payment of ₹50,000:

Sales Volume	Variable rent
(a) ₹ 1 to ₹50,00,000	**(a) 1% of Sales of this category**
(b) Over ₹50,00,000 and up to ₹1,00,00,000	**(b) 0.75% on sales of sales of this category**
(c) Above ₹1,00,00,00	**(c) 0.5% on sales of sales of this category**

(iii) In case the variable rent falls short of ₹50,000 in any year, the shortfall could be recovered out of excess variable rent of the following two years.

(iv) If normal activities are hampered due to any external reason, the fixed rent will remain suspended for that period.

The annual sales for the first 5 years have been:

Year	Sales by Samar ₹	
2009	**30,00,000**	
2010	**45,00,000**	
2011	**65,00,000**	
2012	**80,00,000**	**[Water logging due to heavy shower for one month]**
2013	**1,20,00,000**	

Show the important ledger accounts in the books of Samar Ltd.

(b) Discuss the necessary disclosure under AS -7. [10+5]

Answer 6(a) :

Working Notes:

(i) Fixed Rent in every year is ₹8,000 x 12 or ₹96,000.
In 2012 it should be 8,000 x 11 or ₹88,000.

(ii) Variable Rents to be calculated as:

			₹
2009	1% of 30,00,000	=	30,000
2010	1% of ₹45,00,000	=	45,000

2011	1% of 50,000 + .75 of 15,00,000	= 50,000 = 11,250 =	61,250	
2012	1% of 50,00,000 + .75% of 30,00,000	= 50,000 = 22,500 =	72,500	[Variable rent not affected due to water logging]
2013	1% of 50,00,000 + .75% of 50,00,000 + .5% of 20,00,000	= 50,000 = 37,500 = 10,000	97,500	

(iii) Analysis of payments of variable rent

Year	Minimum Rent	Actual Rent	Short workings				Actual Payment
			Occurred	Recouped	Lapsed	Carried forward	
	₹	₹	₹	₹	₹	₹	₹
2009	50,000	30,000	20,000	-	-	20,000	50,000
2010	50,000	45,000	5,000	-	-	25,000	50,000
2011	50,000	61,250	-	11,250	20,000 – 11,250 =8,750	5,000	50,000
2012	50,000	72,500	-	5,000	-	-	67,500
2013	50,000	97,500	-	-	-	-	97,500

Books of Samar Ltd.
Royalty Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.12.09	To Bhumi A/c [96,000 + 30,000]	1,26,000	31.12.09	By Profit & Loss A/c	1,26,000
31.12.10	To Bhumi A/c [96,000 + 45,000]	1,41,000	31.12.10	By Profit & Loss A/c	1,41,000
31.12.11	To Bhumi A/c [96,000 + 61,250]	1,57,250	31.12.11	By Profit & Loss A/c	1,57,250
31.12.12	To Bhumi A/c A/c [88,000 + 72,500]	1,60,500	31.12.12	By Profit & Loss A/c	1,60,500
31.12.13	To Bhumi A/c A/c [96,000 + 97,500]	1,93,500	31.12.13	By Profit & Loss A/c	1,93,500

Short workings Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.12.09	To Bhumi A/c A/c	20,000	31.12.10	By Balance c/d	20,000
01.01.11 31.12.11	To Balance b/d ,, Bhumi A/c A/c	20,000 5,000	31.12.11	By Balance c/d	25,000
		25,000			25,000
01.01.12	To Balance b/d	25,000	31.12.12	By Bhumi A/c ,, Profit & Loss A/c ,, Balance c/d	11,250 8,750 5,000
		25,000			25,000
01.01.13	To Balance b/d	5,000	31.12.13	By Bhumi A/c	5,000

Bhumi Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.12.09	To Bank A/c	1,46,000	31.12.09	By Rent A/c ,, Short working A/c	1,26,000 20,000
		1,46,000			1,46,000
31.12.10	To Bank A/c	1,46,000	31.12.10	By Rent A/c ,, Short working A/c	1,41,000 5,000
		1,46,000			1,46,000
31.12.11	To Short working A/c ,, Bank A/c	11,250 1,46,000	31.12.11	By Rent A/c	1,57,250
		1,57,250			1,57,250
31.12.12	To Short working A/c ,, Bank A/c	5,000 1,55,000	31.12.12	By Rent A/c	1,60,000
		1,60,000			1,60,000
31.12.13	To, Bank A/c	1,93,500	31.12.13	By, Rent A/c	1,93,500

Answer 6 (b) :

A. Under AS-7 relating to Accounting for Construction Contracts enterprise should disclose :

(a) The amount of contract revenue recognized as revenue in the period.
(b) Methods used to determine the contract revenue recognized in the period.
(c) Method used to determine the state of completion of contract in progress.

B. An enterprise should disclose the following for contracts in progress at the reporting date.

(1) The aggregate amount of costs incurred and recognized profit less recognized losses up to reporting date.
(2) The amount of advance received and amount retained.

C. An enterprise should present:

(a) Gross amount due from customer is an asset.
(b) Gross amount due to customer is a liability.
(c) Contingencies as per AS-4 (warranty cost, penalties, guarantee issued by Banks against counter indemnity of contractor).

7 (a) Mr. X, a cloth trader of Kolkata opened a Branch at Kanpur on 1-4-2012. The goods were sent by Head Office to the Branch and invoiced at selling price to the Branch, which is 25% of the cost price of Head Office.

The following are the particulars relating to the transactions of the Kanpur Branch:

		₹	₹
Goods sent to Branch (at cost to H.O.)			4,50,000
Sales — Cash			2,10,000
— Credit			3,20,000
Cash collected from Debtors			2,85,000
Return from Debtors		10,000	
Discount Allowed		8,500	
Cash sent to Branch			
	for Freight	30,000	
	for Salaries	8,000	
	for other expenses	12,000	50,000
Spoiled clothes written off at invoice price			10,000
Normal loss estimated at			15,000

Prepare Branch Stock Account, Branch Debtors Account and Branch Adjustment Account showing the net profit of the Branch.

(b) On 31 March, 2012 Chinta Money Bank Ltd. had a balance of ₹ 27 crores in "rebate on bill discounted" account. During the year ended 31st March, 2013, Chinta Money Ltd. discounted bills of exchange of ₹ 12,000 crores charging interest at 18% p.a., the average period of discount being for 73 days. Of these, bills of exchange of ₹ 1,800 crores were due for realization from the acceptor/customers after 31st March, 2013, the average period outstanding after 31st March, 2013 being 36.5 days.

Chinta Money Ltd. asks you to show the ledger accounts pertaining to:

I. Discounting of Bills of Exchange; and

II. Rebate on bill Discounted.

Answer 7(a) :

Branch Stock Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To, Goods Sent to Branch A/c (₹4,50,000+25% of ₹4,50,000)	5,62,500		By, Cash Sales A/c	2,10,000
	To, Branch Debtors A/c	10,000		By, Branch Debtors (Cr. Sales)	3,20,000
				By, Branch adjustment A/c (Normal Loss)	15,000
				By, Branch adjustment A/c (Spoiled)	2,000

				By, Profit & Loss A/c (Spoiled)	8,000
				By, Stock Shortage	17,500
		5,72,500			**5,72,500**

Branch Debtors Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To, Goods sent to Branch	3,20,000		By, Cash A/c	2,85,000
				By, Discount A/c	8,500
				By, Branch stock (return)	10,000
				By, Balance c/d	16,500
		3,20,000			**3,20,000**

Branch Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To, Branch A/c (Spoilage)	2,000		By, 25% Mark up on goods sent	1,12,500
	To, Stock Shortage (of ₹17,500)	3,500			
	To, Normal Loss	15,000			
	To, Gross Profit c/d	92,000			
		1,12,500			**1,12,500**

Branch Profit and Loss Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To, Freight	30,000		By, Gross Profit b/d	92,000
	To, Salaries	8,000			
	To, Other expenses	12,000			
	To, Spoilage	8,000			
	To, Stock shortage	14,000			
	To, Net Profit c/d	20,000			
		92,000			**92,000**

Answer 7 (b):

Ledger of Chinta Money Bank Ltd.

Rebate on Bills Discounted Account

(₹ in Crore)

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.12	To, Discount on Bills A/c	27.00	01.04.12	By, Balance b/d	27.00
31.03.13	To, Balance c/d	32.40	31.03.13	By, Discount on bills A/c (Rebate required)	32.60

		59.40			**59.40**

Discount on Bills Account

(₹ in Crore)

Dr. **Cr.**

Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
31.03.13	To, Rebate on Bills Discount A/c	32.40	01.04.12	By, Rebate on Bills A/c	27.00
31.03.13	To, Profit and Loss A/c (Transfer)	426.60	31.03.13	By, Bills Purchased and Discounted A/c	432.00
		459			**459**

8 Write Short Notes on any 3 : **[3 x 5]**

(a) Features of Income and Expenditure.
(b) Profit prior to Incorporation
(c) Cum-interest and ex-interest price.
(d) Surrender value of Policy

Answer:

(a) Features of Income and Expenditure Account

(i) It follows Nominal Account.
(ii) All expenses of revenue nature for the particular period are debited to this Account on accrual basis.
(iii) Similarly all revenue incomes related to the particular period are credited to this account on accrual basis.
(iv) All Capital incomes and Expenditures are excluded.
(v) Only current year's incomes and expenses are recorded. Amounts related to other periods are deducted. Amounts outstanding for the current year are added.
(vi) Profit on Sale of Asset is credited. Loss on Sale of Asset is debited. Annual Depreciation on Assets is also debited.
(vii) If income is more than expenditure, it is called a Surplus, and is added with Capital or General Fund etc. in the Balance Sheet.
(viii) If expenditure is more than income, it is a deficit, and is deducted from Capital or General Fund etc. in the Balance Sheet.

(b) Profit prior to incorporation.

Sometimes a new Company is formed to take over an existing business as a going concern from a date prior to its date of incorporation. The profit so earned by the newly formed Company will be Profit prior to incorporation. The date of incorporation is taken as the basis for calculation of pre-acquisition profit.

Profit earned prior to incorporation is a Capital Profit. Any profit prior to incorporation may be
(a) Credited to capital reserve account
(b) Credited to goodwill account to reduce the amount of goodwill arising from acquisition of business
(c) Utilized to write down the value of fixed assets acquired.

(c) Cum-Interest and Ex-Interest Price

When debentures are purchased in the open market, a distinction has to be made between the capital portion and the revenue portion of the total amount paid for acquiring the debentures. The phrase 'cum interest price' is used to denote the total amount paid to the seller to acquire the debentures. If the interest accrued on purchased debentures from the previous date of payment of debenture-interest to the date of the transaction is deducted from the cum-interst price, we will get ex-interest price which is the capital portion of the total amount paid, the accrued interest being the revenue portion. Cum interest price is the total amount realized. Interest accrued is credited to interest on Own Debenture Account and the balance which is the ex-interest price is credited to Own Debentures Account. Ex-interest sale price is compared with the ex-interest purchase price to ascertain the profit or loss on resale of own debentures. On cancellation of own debentures ex-interest purchase price is compared with the face value of own debentures cancelled to ascertain the profit or loss on cancellation.

(d) Surrender value of policy

In the case of life policy, the policy normally has value only when it matures. But to facilitate the promotion of business insurance companies assign value to the policy on the basis of the premium paid. Insurance companies will be prepared to pay such value on the surrender of the policy by a needy policy holder desiring to realize the policy. Therefore the value is referred to as 'surrender value'. Surrender value is usually nil until at least two premiums are paid. Amount paid as surrender value is expenditure and is similar to claims paid. Thus surrender value is the amount the policy holder will get from the life insurance company if he decides to exit the policy before maturity.