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 answers any 5 questions from the rest

1. (a) Answer the following : [1×5=5]

(i) A profit on sale of furniture of a club will be taken to
(A) Cash account
(B) Receipt & Payment Account
(C) Income & Expenditure Account
(D) Profit & Loss Account

(ii) When interest on own debentures becomes due it will be credited to
(A) Profit & Loss Account
(B) Own Debentures Account
(C) Debentures Interest Account
(D) Interest on own Debentures Account

(iii) Profit prior to incorporation is transferred to
(A) General Reserve
(B) Capital Reserve
(C) Profit & Loss Account
(D) Development Reserve

(iv) Under installment system of purchase, interest suspense account is debited with
(A) The difference between installment price and cash price
(B) Amount of interest included in each installment
(C) Installment price and discounted cash price
(D) Difference between Cash Price and Depreciated Value

(v) Free Reserves include
(A) Securities Premium
(B) Revaluation Reserve
(C) Capital Reserve
(D) All of the above

(b) Match the following: [1×5=5]

(i) AS20	(A)Revenue Recognition
(ii) AS 13	(B) Construction Contract
(iii) AS 7	(c) Net Profit or Loss for the period, prior period items change in accounting policies
(iv) AS 5	(D) Earnings Per Share (EPS)
(v) AS 9	(E) Accounting for Investment

(c) Fill in the blanks in the following sentences using the appropriate word from the alternatives Indicated: [1×5=5]

(i) Depreciation is an item of ______________ . (gross profit/expenditure)
(ii) Compensation paid to employees who are retrenched is _____________ expenditure (Capital/Revenue)

(iii) Receipts and Payment Account is a ____________ Account is nature. (Real/Nominal)
(iv) Unclaimed Dividend appears under the head of ____________ in the Balance Sheet of a Company (Deferred Expenditure/Liabilities).
(v) The terms equity and ____________ are used interchangeably.

(d) For the year ending 31st December, 2011, the Sales, Purchases, Opening Stock and Closing Stock of a Trader was ₹ 5,00,000, ₹ 3,80,000, ₹ 65,000 and ₹ 52,000 respectively. Some goods were destroyed by fire (without realization of any value) during the year. If the Trader earned Gross Profit @ 25% on Sales for the year, calculate the value of goods destroyed by fire. [3]

(e) A and B are currently partners in a firm sharing Profit/Loss in the ratio of 4 : 3. A new partner C is admitted and after his admission new profit sharing ratio between A, B and C becomes 5 : 3 :2. What will be the sacrifice ratio of A and B after admission of C? [2]

(f) State whether following statements are True/False. [1x 5]
(i) Issue of bonus shares does not change the amount of equity in the balance sheet.
(ii) Depreciation is charged on "Wasting Assets".
(iii) For buy back of shares, a company has to open a Current bank account.
(iv) Stock and debtors system is generally used when the goods are sent to the branch at cost price.
(v) If the unrecorded liabilities are taken over by the new firm, it is transferred to partners' capital account.

Answer 1(a):
(i) — (C) Income & Expenditure Account
(ii) — (D) Interest on Own Debentures Account
(iii) — (B) Capital Reserve
(iv) — (A) The difference between installment price and cash price
(v) — (A) Securities Premium Account

Answer 1(b) :

(i) AS20	(D) Earnings Per Share (EPS)
(ii) AS 13	(E) Accounting for Investment
(iii) AS 7	(B) Construction Contract
(iv) AS 5	(c) Net Profit or Loss for the period, prior period items change in accounting policies
(v) AS 9	(A)Revenue Recognition

Answer 1(c) :
(i) — Expenditure
(ii) — Revenue
(iii) — Real
(iv) — Liabilities
(v) — Net Worth

Answer 1(d) :

Calculation of value of goods destroyed by fire :

Dr. Memorandum Trading Account Cr.

Particulars	₹	Particulars	₹
To Opening stock	65,000	By Sales	5,00,000
To Purchases	3,80,000	By Goods destroyed by fire (bal. fig.)	18,000

To Gross Profit (25% of Sales)	1,25,000	By Closing stock	52,000
	5,70,000		5,70,000

Goods destroyed by Fire = ₹ 18,000

Answer 1(e) :
Sacrifice of A = 4/7 – 5/10 = 40 – (35/70) = 5/70
Sacrifice of B = 3/7 – 3/10 = 30 – (21/70) = 9/70
Hence the sacrifice ratio = 5/70 : 9/70 or 5 : 9

Answer 1(f) :
(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 **False**. Accounting Standard 6 is not applicable on "wasting Asset".
(iii)The Statement is **False**. A company has to open an escrow account.
(iv) The Statement is **False**. This system is generally used when the goods are sent to the branch at an invoice price.
(v)The Statement is **False**. It is transferred to realization account along with other liabilities.

2. (a) Mayank furnishes you with the following information and asks you to :
(i) Recorded the transactions in the cash book with bank column for November,2013, and
(ii) Prepare reconciliation statements with State Bank of India as on 31st October, and 30th November 2013.

- **On October 31, 2013 there was bank overdraft of ₹14,000 as per Cash Book and cash in hand of ₹ 7,500.**
  Bank Statement as on that date showed cheques deposited but not yet realized of ₹40,000 while cheques issued but not presented for payment amounted to ₹60,000.
- **During the month, customers paid ₹4,50,000 which were deposited into bank. Of these, cheques of ₹50,000 were deposited on 30th November 2013, and realized subsequently. The bank realized all the other cheques and charged ₹300 as collection expenses. These charges are to be entered in the Cash Book and not kept as reconciliation item.**
- **Cheques issued during the month totaled to ₹4,20,000. Bank statement showed that cheques presented for payment totaled to ₹4,50,000 only of which one cheque of ₹7,000 issued in October,2013 was returned on 5.11.2013 for want of Mayank's signature on the cheque. Mayank paid cash to the payee of the cheque and cancelled the cheque. The bank charged ₹25 for cheque return.**
- **Cheque presented for payment during the month included cash withdrawal from bank ₹15,000. 40% of this cash is handed over on various dates to the petty cashier while 50% is taken by Mayank for his personal use.**
- **Bank Charged ₹200 for cheque book issued.**

(b) Prasad Ltd. had the following borrowing during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
Plant A	**100 Lakhs**	**No specific Borrowings**
Plant B	**125 Lakhs**	**Bank loan of ₹ 65 Lakhs at 10%**
Plant C	**175 Lakhs**	**9% Debenture of ₹ 125 Lakhs were issued**

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (i) ₹ 100 lakhs at 10% from Corporation Bank and (ii) ₹ 110 lakhs at 11.5% from State Bank of India, to meet its capital expansion requirements. Determine the borrowing costs to be capitalized in each of the above plants, as per AS-16. [8+7]

Answer 2(a):

Cash Book

Dr. **Cr.**

Date	Particulars	Cash ₹	Bank ₹	Date	Particulars	Cash ₹	Bank ₹
2013 Oct 31	To, Balance b/d	7,500	-	2013 Oct 31	By, Balance b/d	-	14,000
Nov 30	To, Customers A/c	-	4,50,000	Nov 30	By, Bank Charges	-	300
	To, Suppliers A/c	-	7,000		By, Cash A/c	-	15,000
	To, Bank A/c	15,000	-		By, Suppliers A/c	7,000	4,05,000
					By, Petty cash A/c	6,000	-
					By, Drawings A/c	7,500	-
					By, Bank Charges A/c - Cheque return -Cheque book	- -	25 200
					By, Balance c/d	2,000	22,475
		22,500	**4,57,000**			**22,500**	**4,57,000**

Reconciliation Statement with State Bank of India
As on 31st October 2013

Particulars	Amount (₹)
Overdraft as per Cash Book	14,000
Add: Cheques deposited but not yet realized	40,000
	54,000
Less: Cheques issued but not yet presented for payment	60,000
Balance as per bank statement (Favourable)	6,000

Reconciliation Statement with State Bank of India
As on 30th November 2013

Particulars	Amount (₹)
Balance as per Cash Book	22,475
Add: Cheques issued but not yet presented for payment (₹60,000 + ₹4,20,000 -₹4,50,000)	30,000
	52,475
Less: Cheques deposited but not yet realized (₹4,50,000- ₹4,00,000)	50,000
Balance as per bank statement	2,475

Working Note:

I. Total withdrawals amounted to ₹4,20,000 which include ₹15,000; So, ₹4,20,000- ₹15,000 = ₹4,05,000 was paid to creditors.

II. Of the amount of ₹15,000,40% of ₹15,000 i.e. ₹6,000 was given to petty Cashier,50%, i.e,₹7,500 taken for personal use, balance 10% or 1,500 remained in Cash in hand.

Answer 2(b):

(i) Computation of Actual Borrowing Costs incurred during the year:

Source	Loan Amount ₹ in Lakhs	Interest Rate	Interest Amount ₹ in Lakhs
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowing included in above	190.00		17.75

(ii) Weighted Average Capitalization Rate for General Borrowings:

$$= \frac{\text{Total Interest - Interest on Specific Borrowing}}{\text{Total Borrowing - Specific Borrowing}} = \frac{(40.40 - 17.75)}{(400 - 190)} = 22.65 - 210 = 10.79\%$$

(iii) Capitalization of Borrowing Costs under AS-16 will be as under:

Plant	Borrowing	Loan Amount ₹ in lakhs	Interest rate	Interest amount ₹ in lakhs	Cost of Asset	
					₹ in Lakhs	₹ in Lakhs
A	General	100	10.79%	10.79		110.79
B	Specific	65	10.10%	6.50	71.50	
	General	60	10.79%	6.47	66.47	137.97
C	Specific	125	9.00%	11.25	136.25	
	General	50	10.79%	5.39	55.39	191.64
	Total	400		40.40		440.40

Note: The amount of borrowing costs capitalized should not exceed the actual interest cost.

3.(a) A limited Company was registered with a capital of ₹ 5,00,000 in share of ₹ 100 each and issued 2,000 such shares at a premium of ₹ 20 per share, payable as ₹ 20 per share on application, ₹ 50 per share on allotment (including premium) and ₹ 20 per share on first call made three months later. All the money payable on application, and allotment were duly received but when the first call was made, one shareholder paid the entire balance on his holding of 30 shares, and another shareholder holding 100 shares failed to pay the first call money.
Required:
Give Journal entries to record the above transactions.

(b) Alpha Co. Ltd. has a paid up equity share capital of ₹ 20,00,000 in 2,00,000 shares of ₹ 10 each. It resolved to buy-back 50,000 equity shares at ₹ 15 per share. For this purpose it issued 20,000 12% preference shares of ₹ 10 each, at par, payable along with application. The company has to its credit ₹ 2,50,000 in securities premium account and ₹ 10,00,000 in the general reserve account. The company utilized the whole of the securities premium and for the balance, general reserve. Pass the necessary journal entries.

(c) State the features of Receipts and Payments **[6 + 5 + 4]**

Answer 3(a):

Journal

Particulars		**L.F.**	**Dr. Amount ₹**	**Cr. Amount ₹**
Bank A/c To Share Application A/c [Being the issue of 2,000 shares and application money received @ ₹ 20 per share]	Dr		40,000	 40,000
Share Application A/c To Share Capital A/c [Being the transfer of application money on 2,000 shares @ ₹ 20 per share to Share Capital A/c as per board's resolution no……. dated………]	Dr		40,000	 40,000
Share Allotment A/c To Share Capital A/c To Securities Premium A/c [Being the allotment money on 2,000 shares @ ₹ 50 including premium made due as per board's resolution no. dated……..]	Dr		1,00,000	 60,000 40,000
Bank A/c To Share Allotment A/c (Being the allotment money on 2,000 shares @ ₹ 50 per share received)	Dr		1,00,000	 1,00,000
Share First Call A/c To Share Capital A/c (Being the first call money on 2,000 shares @ ₹ 20 per share made due as per board's resolution no….. dated ……)	Dr		40,000	 40,000
Bank A/c Call –in- arrear A/c To Share First Call A/c To Call-in-advance A/c (Being the first call money on 1,900 shares @ ₹ 20 per share and share Second call money on 30 shares @ ₹ 30 per share received)	Dr Dr		38,900 2,000	 40,000 900

Answer 3(b):

In the Books of Alpha Co. Ltd

Journal Entries

Date	**Particulars**		**Debit ₹**	**Credit ₹**
	Bank A/c To Preference Share Application A/c (Application money on 20,000 preference shares at ₹ 10 each)	Dr.	2,00,000	 2,00,000

	Preference Share Application A/c To Preference Share Capital A/c (Transfer of application money to preference share capital account on shares being allotted)	Dr	2,00,000	 2,00,000
	Equity Share Capital A/c Securities Premium A/c To Equity Shareholders A/c (Amount due to equity shareholders consequent upon buy-back of 50,000 Shares at ₹ 15)	Dr. Dr.	5,00,000 2,50,000	 7,50,000
	Equity Shareholders A/c To Bank A/c (Payment to equity shareholders for amount due to them)	Dr	7,50,000	 7,50,000
	General Reserve A/c To Capital Redemption Reserve A/c (Transfer of the nominal value of shares bought back.)	Dr.	3,00,000	 3,00,000

Answer 3(c):
Features of Receipts and Payments Account

(i) It is an Account which contains all Cash and Bank transactions made by a nonprofit organization during a particular financial period.
(ii) It starts with the opening balances of Cash and Bank. All Cash Receipts both capital & revenue during the period are debited to it.
(iii) All Cash Payments both capital & revenue during the period are credited to this Account. It ends with the closing Cash and Bank Balances.
(iv) While recording the Cash and Bank transactions all entries are made on Cash Basis.

4.(a) The Dreamers' Club makes up its accounts to 31st December in each year. On 31st December, 2013 the cashier of the club absconded leaving behind no information or cash. An examination of the records showed that the books had not been written up for a considerable time and it was decided to reconstruct the figures from 1.1.2013.
A summary of the Bank Account for the year showed that:

Receipts	Amount ₹	Payments	Amount ₹
Balance on 01.01.2013	**420**	**Rent & Rates**	**460**
Bank Deposits	**42,610**	**Insurance**	**40**
		Light & Heat	**156**
		Bar Purchases	**35,067**
		Telephone	**59**
		Cash Withdrawn	**5,848**
		Balance as on 31.12.13	**1,400**
	43,030		**43,030**

The following information is also obtained:

(i) The Barman places takings in the bank night safe on his way home for crediting to the club account. The bar takings totaled ₹ 44,610 for the year. The treasurer had no access to bar takings.

(ii) The receipt counterfoils for members' subscriptions totaled ₹ 3,050 for the year.

(iii) A summary of expenditure for petty cash and wages revealed Glasses, crockery

maintenance— ₹ 1,310; Wages—₹ 2,650; Sundry Expenses—₹ 475

(iv) Outstanding or Prepaid Amounts Were:

	31.12.2012 ₹	31.12.2013 ₹
Prepaid rates	26	28
Outstanding Expenses	64	100

The Bar Stock on 01.01.2013 was ₹ 3,607 and 31.12.13 ₹ 2,916. Opening Cash with the Cashier at the beginning of the year 2008 was ₹ 35 only.
Prepare an Income & Expenditure Account of the club for the year ended 31.12.2013.

(b) Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry System. No ready figures are available for total sales but they maintain a steady gross profit rate of 25% on sales.
An abstract of their cash transactions for the year ended 30th June, 2013 is:

Receipts	₹	Payments	₹
Cash in hand	21,600	Salaries	44,000
Receipts from Customers	5,40,000	Rent	8,800
Cash Sales	64,000	Advertising	3,600
		Printing	3,200
		General expenses	38,200
		Payment to Trade Creditors	4,48,000
		Doll's Drawings	8,000
		Cash in hand	71,800
	6,25,600		6,25,600

The following balances are available from their books as on 30th June 2012 and 30th June 2013:

	As on 30.06.2012	As on 30.06.2013
	₹	₹
Stock-in-trade	88,000	1,00,000
Sundry Debtors	?	1,40,000
Sundry Creditors	93,600	74,000
Furniture	12,000	?

Other information:

(i) Discount allowed ₹5,600;
(ii) Discount earned ₹4,800;
(iii) Outstanding Printing ₹1,000;
(iv) Capital of Doll as on 30th June 2011 was ₹8,000 more than Capital of Dolly;
(v) Provide depreciation on Furniture @ 10% p.a.

From the above, you are required to prepare:

- **The Trading and Profit and Loss Account for the year ended 30th June 2013, and,**
- **The Balance Sheet as on that date, in the books of Doll and Dolly.** **[7+8]**

Answer 4(a) :

Working Notes:

1. **Cash Defalcation by Cashier:**

Cash Account

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/f	35	By Bank (44,610 - 42,610)	2,000
To Subscriptions	3,050	By Glasses, crockery etc.	1,310
To Bank	5,848	By Wages	2,650
		By Sundry Expenses	475
		By Defalcation of cash	2,498
	8,933		8,933

2. **Rent & Rates**

Paid for Bank	460
+ Prepaid rates as on 31.12.2013 (relating to current year)	26
	486
- Prepaid rates as on 31.12.13 (relating to next year)	28
	458

3. **Bar Trading Account for the year ended 31.12.2013**

Particulars	Amount ₹	Particulars	Amount ₹
To Opening Stock	3,607	By Bar takings	44,610
To Purchases	35,067	By Closing Stock	2,916
To Income & Expenditure A/c	8,852		
	47,526		47,526

Dreamers' Club

Dr. Income and Expenditure Account for the year ended 31.12.2013 Cr.

Particulars		Amount ₹	Particulars	Amount ₹
To Rent & Rates		458	By Subscriptions	3,050
To Insurance		40	By Bar Trading A/c	8,852
To Light & Heat		156	(Profit from Bar)	
To Telephone Charges		59		
To Glass & Crockery Maintenance		1,310		
To Wages		2,650		
To Expenses	475			
Add : Outstanding for 13	100			
Less : Outstanding for 12	64	511		
To Defalcation of Cash		2,498		
To Surplus (Excess of Income over expenditure)		4,220		
		11,920		**11,920**

Answer 4(b) :

Sundry Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Cash	4,48,000	By Balance b/d	93,600
To Discount Received	4,800	By Purchases (bal.fig.)	4,33,200
To Balance c/d	74,000		
	5,26,800		5,26,800

Sundry Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d (bal .fig.)	1,88,000	By Cash	5,40,000
To Sale (W.N. 1)	4,97,600	By Discount Allowed	5,600
		By Balance c/d	1,40,000
	6,85,600		6,85,600

Balance sheet as at 30th June 2012

Liabilities	₹	₹	Assets	₹	₹
Sundry Creditors		93,600	Furniture		12,000
Capital (bal.fig.)			Stock		88,000
Doll (W.N. 2)	1,12,000		Debtors		1,88,000
Dolly(W.N. 2)	1,04,000	2,16,000	Cash		21,600
		3,09,600			3,09,600

Trading and Profit and Loss Account for the year ended 30th June 2013

Particulars	Amount	Amount	Particulars	Amount	Amount
	₹	₹		₹	₹
To Opening Stock		88,000	By Sales:		
To Purchases (Credit)		4,33,200	Cash	64,000	
To Profit and Loss A/c			Credit	4,97,600	
Gross profit transferred		1,40,400			5,61,600
			By Closing Stock		1,00,000
		6,61,600			6,61,600
To Salaries		44,000	By Trading A/c		
To Rent		8,800	Gross profit transferred		1,40,400
To Advertising		3,600	By Discount Received		4,800
To Discount Allowed		5,600			
To General Expenses		38,200			
To Printing	3,200				
Add: Outstanding	1,000	4,200			
To Dep. On Furniture @10% on ₹12,000		1,200			
To Capital A/c - Net Profit					
Doll	19,800				
Dolly	19,800	39,600			
		1,45,200			1,45,200

Balance Sheet as at 30th June 2013

Liabilities	₹	₹	Assets	₹	₹
Capital:			Furniture	12,000	
Doll	1,12,000		Less: Depreciation	1,200	
Add: Net Profit	19,800				10,800
	1,31,800				
Less: Drawings	8,000	1,23,800	Closing Stock		1,00,000
Dolly	1,04,000		Sundry Debtors		1,40,000
Add: Net Profit	19,800	1,23,800	Cash in hand		71,800
Sundry Creditors		74,000			
Outstanding Printing		1,000			
		3,22,600			3,22,600

Workings:

(i) Calculation of Cash and Credit Sales

Particulars	₹
Opening Stock	88,000
Add: Purchases	4,33,200
	5,12,200
Less: Closing Stock	1,00,000
Cost of Goods Sold	4,21,200
Add: Gross Profit (@ $\frac{1}{3}$rd of cost)	1,40,400
Total Sales	5,61,600

Since Cash Sales in ₹64,000, Credit Sales will be ₹4,97,600, i.e. (₹5,61,600 – ₹64,000).

(ii) Capital of Doll and Dolly

Particulars	₹
Total Capital	2,16,000
Less: Differences	8,000
	2,08,000

$\therefore$ Doll - 2,08,000 x $\frac{1}{2}$ = 1,04,000 + 8,000 = ₹1,12,000

Dolly – 2,08,000 x $\frac{1}{2}$ = ₹1,04,000

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

Liabilities	R (₹)	W (₹)	Assets	R (₹)	W (₹)
Capital B	19,000	-	Goodwill	-	5,000
Capital C	-	10,000	Machinery	10,000	-
Capital D	-	2,000	Stock-in-trade	20,000	5,000
Bank Loan	15,000	-	Sundry Debtors	10,000	10,000
Creditors	10,000	9,500	Cash in hand	-	1,500
			Capital - A	4,000	-
	44,000	21,500		44,000	21,500

Profit sharing ratios are: A & B = 1:2; C & D = 1:1. Agreed terms are:
(i) All fixed assets are to be devalued by 20%.
(ii) All stock in trade is to be appreciated by 50%.
(iii) R & Co. owes ₹ 5,000 to W & Co. as on 31st March 2013. This is settled at ₹ 2,000. Goodwill is to be ignored for the purpose of amalgamation.
(iv) The fixed capital accounts in the new firm (RW & Co.) are to be : Mr. A ₹ 2,000; Mr. B ₹ 3,000; Mr. C ₹ 1,000 and Mr. D ₹ 4,000.
(v) Mr. B takes over bank overdraft of R & Co. and contributed to Mr. A the amount of money to be brought in by Mr. A to make up his capital contribution.
(vi) Mr. C is paid off in cash from W & Co. and Mr. D bring in sufficient cash to make up his required capital contribution.
Pass necessary Journal entries to close the books of R & Co. as on 31st March 2013.

(b) State the various limitations of Ratio Analysis (mention at least 5 points). [10+5]

Answer 5 (a) :

Calculation of Purchase Consideration

Assets taken over :		**R & Co.**	**W & Co.**
Plant & Machinery		9,600	-
Stock-in-trade		30,000	7,500
Sundry Debtors [(* After adjustment of ₹ 3,000		10,000	*7,000
(₹ 5,000 – 2,000)]	(A)	49,600	14,500
Liability taken over:			
Sundry Creditors [(* ₹ (12,000 – 3000)]	(B)	*9,000	9,500
Purchase consideration	(A-B)	40,600	5,000

In the books of R & Co.
Journals

Date	**Particulars**		**L.F**	**Dr. Amount ₹**	**Cr. Amount ₹**
31.3.13	Realization A/c	Dr.		42,000	
	To Plant and Machinery A/c				12,000
	To Stock-in-trade A/c				20,000
	To Sundry Debtors A/c				10,000
	(Different assets transferred)				
	Sundry Creditors A/c	Dr.		12,000	
	To Realization A/c				12,000
	(Sundry creditors transferred to Realization Account)				
	Bank Loan A/c	Dr.		15,000	
	To B Capital A/c				15,000
	(Bank overdraft taken over by B)				
	RW & Co. A/c	Dr.		40,600	
	To Realization A/c				40,600
	(Purchase consideration due)				

	Realization A/c Dr. To A Capital A/c To B Capital A/c (Profit on realization transferred to partners capital in the ratio of 1:2)		10,600	 3,534 7,066
	B Capital A/c Dr. To A Capital A/c (Deficit in A's capital made good by B)		2,466	 2,466
	A Capital A/c Dr. B Capital A/c (3,000 + 35,600) Dr. To RW & Co. A/c (Capital accounts of the partners closed by transfer to RW & Co.) **Alternatively Shows:** A Capital A/c Dr. B Capital A/c Dr. Loan from B A/c Dr. To RW & Co. A/c		2,000 38,600 2,000 3,000 35,600	 40,600 40,600

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

Answer 5 (b) :

Some of the limitations of Ratio Analysis are discussed below:

(i) Completely based on comparison: It is not possible to analyze any particular matter with the help of a single ratio. Such analysis is possible by making comparison of at least two or more ratios. Whether a particular trend indicated by any ratio is good or bad, favourable or unfavorable that can only be judged through comparative analysis. Comparison is only one of the techniques of making analysis, but in case of ratio analysis it is the sole technique. For this reason it is said that ratio analysis is only a partial analytical process, not a complete one.

(ii) Difficult to fix up definite standards : The real significance of a particular ratio can be understood by comparing it with any ideal or standard norm of that ratio. But the standard already fixed on for a ratio may change over time. Moreover, standard ratios of the industry to which the firm belongs may be fixed up on different basis and may vary widely with the computed ratios of the firm. Standards may also differ according to the nature of the situations. So fixing up acceptable standards for all the ratios is no doubt an uphill task.

(iii) Dependence on financial statements: Ratios are always based on information disclosed in basic financial statements like the Profit and Loss Account and the Balance Sheet. Financial statements have their own limitations. So ratios computed on the basis of information disclosed in those financial statements cannot also be free from such limitations. For getting rid of these limitations before computing ratios some adjustments are required to be made in the information disclosed in financial statements. In reality it is not done and so ratios always suffer from the limitations of the financial statements.

(iv) Problem of inter-firm comparison: In case there is significant variations in accounting policies adopted by different firms belonging to the same industry the inter-firm comparison through ratio analysis does not become effective. For example it can be said that if the policies relating to inventory valuation, depreciation, treatment of contingent liabilities, etc. of two firms under the same industry are different the trend indicated by an inter-firm comparison through ratios does not carry any effective meaning.

(v) Personal influence: The utility of ratio analysis depends a lot on the skill and judgment of the interpreter. If the personal sense of judgment and analytical power of different interpreters vary a particular ratio may indicate different trends. So presence of personal aptitude reduces the effectiveness of ratio analysis. Moreover, the interpreters may exert undue influence on their analysis with unfair motives.

6.(a) K and L are two partners sharing profits and losses in the ratio of 5:3. Their Balance Sheet as at 30th June, 2013 is a follows:

Liabilities	₹	₹	Assets	₹	₹
Creditors		30,000	Furniture		40,000
Reserve		14,000	Patent		10,000
Capital Account :			Debtors	44,000	
K	40,000		*Less* : Reserve for Bad Debts	5,000	39,000
L	50,000		Stock		20,000
		90,000	Cash in hand		25,000
		1,34,000			1,34,000

On 1st July, 2013, they take M into partnership. M brings ₹ 25,000 as his capital and brings ₹ 3,600 as his share of goodwill. The new profit sharing ratio of K, L and M is 2:4:1. Patent is written off from the books and a reserve for Bad Debt is created at 5%. Reserve appears in the books of new firm at its original figure.

Show the necessary Journal entries to carry out the above transactions and prepare a Balance Sheet of the new firm as at 1st July, 2013.

(b) Mr. Gulab sells goods on hire purchase basis. He fixes hire purchase price at 331/3%profit on invoice price of the goods. The following are the figures relating to his hire purchase business for the year ending on 31st March 2013 :

	01.04.2012 ₹	31.03.2013 ₹
Hire purchase Stock	60,000	?
Hire Purchase Debtors	1,5000	?
Shop Stock	50,000	75,000

Goods purchased during the year ₹ 3,27,000, Cash received from customers during the year ₹4,62,000. Total amount of installments that fell due during the year ₹4,63,500. One customer to whom goods had been sold for ₹6,000 paid only 5 installments of ₹500 each. On his failure to pay the monthly installment of ₹ 500 each on 4th March 2008, the goods were repossessed on 27th March 2008 after due legal notice.

Required: Prepare the Hire Purchase Trading Account. [7 + 8]

Answer 6(a):

In the books of K, L, M.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2013 July 1	Bank A/c Dr. To M's Capital A/c To Goodwill A/c (Cash to be brought in by M As capital)		28,600	 25,000 3,600
	Goodwill A/c Dr. To K's Capital A/c (Value of goodwill credited to K's Capital only)		3,600*	 3,600
	Reserve A/c Dr. To K's Capital A/c To L's Capital A/c (Reserve credited to old partners capital accounts in 5:3)		14,000	 8,750 5,250
	K : Capital A/c Dr. L : Capital A/c Dr. M : Capital A/c Dr. To Reserve A/c (Reserve shown at its original value)		4,000 8,000 2,000	 14,000
	Revaluation A/c Dr. To Patents A/c (Patent eliminated from the book)		10,000	 10,000
	Reserve for Bad Debts A/c Dr. To Revaluation A/c (Excess provision written back)		2,800	 2,800
	K's Capital A/c Dr. L's Capital A/c Dr. To Revaluation A/c (Loss on revaluation transferred)		4,500 2,700	 7,200

Capital Account

Dr. Cr.

Particulars	K ₹	L ₹	M ₹	Particulars	K ₹	L ₹	M ₹
To Reserve A/c	4,000	8,000	2,000	By Balance b/d	40,000	50,000	—
" Revaluation A/c — Loss	4,500	2,700	—	" Goodwill A/c	3,600	—	—
				" Reserve A/c	8,750	5,250	—
" K's Capital A/c	—	4,950	—	" L's Capital A/c	4,950**	—	—
" Balance c/d	48,800	39,600	23,000	" Bank	—	—	25,000
	56,850	55,250	25,000		57,300	55,250	25,000

Balance Sheet as on July 1, 2013

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Capitals:			Furniture		40,000
K	48,800		Debtors	44,000	
L	39,600		Less : R/B/Debts	2,200	41,800
M	23,000	1,11,400	Stock		20,000
Reserve		14,000	Cash & Bank		
Creditors		30,000	(25,000 + 28,600)		53,600
		1,55,400			1,55,400

**Goodwill should be credited to the sacrificing ratio which is computed as under:

K = 5/8 - 2/7 = (35 - 16)/56 = 19/56 (Sacrifice)
L = 3/8 - 4/7 = (21 - 32)/56 = 11/56 (Gains)
M =1/7 (Gains) = 8/56
Entire goodwill should be credited to K's Capital only.
Since L is gaining 11/56 from K, he must have to pay in proportionate amount to K as under, i.e., if M brings for 8/56 ₹ 3,600, L should pay for 11/56 ₹ 4,950 (i.e. ₹ 3,600 x 11/56 x 56/8)

Answer 6(b):

Dr. Hire Purchase Trading Account Cr.

Particulars	₹	Particulars	₹
To Opening Balances:		By Hire Purchase Stock Reserve	
Hire Purchase Stock	60,000	[60,000 x 50/150]	20,000
Hire Purchase Debtors	1,500	By Bank A/c	4,62,000
To Goods Sold on Hire Purchase	4,53,000	By Goods Sold on Hire	
To Hire Purchase Stock Reserve A/c		Purchase A/c	
[46,500 x 50/150]	15,500	[4,53,000x50/150]	1,51,000
To Profit t/f to General		By Goods Repossessed A/c	2,333
P & L A/c	1,54,333	[At Revalued Figure]	
		By Closing Balances :	
		Hire Purchase Stock	46,500
		Hire Purchase Debtors	2,500
	6,84,333		6,84,333

Workings:

Dr. (i) Shop Stock Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	50,000	By Goods Sold on Hire Purchase A/c	3,02,000
To Purchases	3,27,000	By balance c/d	75,000
		[Excluding Goods repossessed]	
	3,77,000		3,77,000

Dr. (ii) Goods Sold on Hire Purchase Account Cr.

Particulars	₹	Particulars	₹
To Stop Stock A/c	3,02,000	By Hire Purchase Trading A/c	4,53,000
To Hire Purchase Trading A/c	1,51,000		
	4,53,000		4,53,000

Dr. (iii) Memorandum Hire Purchase Stock Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Hire Purchase Debtors A/c	4,63,500
To Goods Sold on Hire Purchase	4,53,000	By Goods Repossessed A/c	3,000
		By Balance c/d	46,500
	4,65,000		4,65,000

Dr. (iv) Memorandum Hire Purchase Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	1,500	By Bank A/c	4,62,000
To Hire Purchase Stock A/c	4,63,500	By Goods Repossessed A/c	500
		By Balance c/d	2,500
	4,65,000		4,65,000

Working Notes:

Calculation of the value of Goods repossessed.

= (Cost Price/ Hire Purchase Price) x Unpaid amount (whether due or not)

$= ₹ \left(\frac{4,000}{6,000}\right) \times 3,500 = ₹2,333$

7. (a) Blue and Yellow are two department of Red Company of Calcutta. Blue department sells goods to Yellow Department at normal market price. From the following particulars, prepare a Trading and Profit and Loss Account of the two departments for the year ended 31st March, 2013.

	Dept. Blue ₹	Dept. Yellow ₹	General ₹
Stock on April 1, 2012	12,000	Nil	
Purchases	2,76,000	24,000	
Goods from Ocean Department	---	84,000	
Wages	12,000	19,200	
Salaries	8,000	5,000	
Stock on 31st March, 2013, at Cost	60,000	21,600	
Sales	2,76,000	1,74,000	
Stationary & Printing	2,560	1,960	
Plant & Machinery	---	14,400	
Salaries (General)			18,000
Miscellaneous Expenses			3,600
Advertisement			9,600
Bank Charges			2,400

Depreciate Plant and Machinery by 10%. The general unallocated expenses are apportioned in the ratio Ocean: 3, Kite: 2

(b) C Electric Company Ltd. decides to replace its old plant with a modern one with a large capacity. The plant was installed in 1940 at a cost of ₹80 lakhs. The components of materials labour and overhead are in the ratio 5:3:2. It is ascertained that the costs of material and labour have gone up by 50% and 100%, respectively. The proportion of overheads to total costs is expected to remain the same as before.

The cost of the new plant as per improved design is ₹ 180 lakhs and, in addition, materials recovered from the old plant having value of ₹4,00,000 was used in the construction of the new plant. The old plant was scrapped and sold for ₹15,00,000. The accounts of the company are maintained under Double Account System.

Show the entries in the books of C Electric Company.

(c) When can revenue be recognized in the case of transaction of sale of goods? [7+6+2]

Answer 7(a):

Red Company

Departmental Trading and Profit & Loss Account for the year ended 31.03.13

Dr. **Cr.**

Particulars	Dept. Blue ₹	Dept Yellow ₹	Particulars	Dept. Blue ₹	Dept Yellow ₹
To Opening Stock	12,000	---	By Sales	2,76,000	1,74,000
`` Purchase	2,76,000	24,000	``Goods Sent to yellow Deptt.	84,000	---
``Goods from Blue Deptt.	---	84,000			
`` Wages	12,000	19,200			
`` Gross Profit c/d	1,20,000	68,400	`` Closing Stock	60,000	21,600
	4,20,000	1,95,600		4,20,000	1,95,600
To Salaries (Deptt)	8,000	5,000	By Gross Profit b/d	1,20,000	68,400
`` Salaries (General as 3 : 2)	10,800	7,200			
``Stationery & Printing [3:2]	2,560	1,960			
`` Misc Exp [3:2]	2,160	1,440			
`` Advertisement	5,760	3,840			
`` Bank Charges	1,440	960			
`` Depreciation @ 10%	---	1,440			
`` General Profit & Loss A/c (Departmental Net Profit Trans.)	89,280	46,560			
	1,20,000	68,400		1,20,000	68,400

General Profit & Loss Account for the year ended 31.03.2013

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for unrealized Profit on stock [Working Note]	5,600	By Departmental Profit & Loss A/c:	
`` Net Profit	1,30,240	Blue 89,280	
		Yellow 46,560	1,35,840
	1,35,840		1,35,840

Working Note:

Closing Stock of Department Yellow includes part of goods received from Department Blue at a loaded price.

∴ Provision is to be made for unrealized profit.

Rate of Gross Profit of Department Blue $= \dfrac{\text{Gross Profit}}{\text{Sales} + \text{Transfer}} \times 100 = \dfrac{1,20,000}{2,76,000 + 84,000} \times 100 = 33\dfrac{1}{3}\%$

∴ Provision required = Closing Stock x $\dfrac{\text{Transfer}}{\text{Transfer} + \text{Purchase}}$ x G.P. Ratio

$$= 21,600 \times \frac{84,000}{84,000+24,000} \times 33\frac{1}{3}\% = ₹\ 5,600$$

Answer 7(b):

In the Books of C Electric Company Ltd.
Journal

Date	Particulars	L. F.	Debit ₹	Credit ₹
	Plant A/c……………………………………….Dr. Replacement A/c…………………………….Dr. To, Bank A/c (Cost spent on the plant including purchase of new plant)		45,00,000 1,35,00,000	 1,80,00,000
	Plant A/c……………………………………….Dr. Replacement A/c (Old plant used)		4,00,000	 4,00,000
	Bank A/c………………………………………..Dr. To, Replacement A/c (Cash received on sale of old plant)		15,00,000	 15,00,000
	Revenue A/c……………………………….…Dr. To, Replacement A/c (Net current cost of replacement transferred i.e. balance of Replacement A/c)		1,16,00,000	 1,16,00,000

Working Notes:

(i) **Calculation showing the elements of cost of old plant**

Total Cost = ₹80,00,000
Material = ₹80,00,000 × 5/10 = ₹40,00,000
Labour = ₹80,00,000 × 3/10 = ₹24,00,000
Overhead = ₹80,00,000 × 2/10 = ₹16,00,000

(ii) **Calculation showing the current cost of replacement of old plant**

Material = ₹40,00,000 + 50% of ₹40,00,000 = ₹60,00,000
Labour = ₹24,00,000 + 100% of ₹24,00,000 = ₹48,00,000
Overhead = $2/10^{th}$ or $1/5^{th}$ of total cost = $1/4^{th}$ of the Total Materials and Labour cost = ¼ × (₹60,00,000 + ₹48,00,000) = ₹27,00,000.
∴ Total Current Cost = ₹60,00,000 + ₹48,00,000 + ₹27,00,000 =₹1,35,00,000

(iii) **Allocation of Current Cost of New plant**

Cost of new plant	₹1,80,00,000
Less: Current cost of old plant replaced	₹1,35,00,000
	₹45,00,000

Answer 7(c):

According to AS-9, **Revenue Recognition,** revenue from the sales transaction should be recognized only when the following provisions are made/satisfied:

The seller has transferred the property in the goods to the buyer for consideration. The transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. If such risks are not involved/ associated with sale, revenue in such a situation is recognized at the time of transfer of risks and rewards of ownership to the buyer.
Moreover, no uncertainty should exist regarding the amount of consideration which will be derived from such sale of goods.

8. Write Short Notes on: **[5×3]**

(a) Capital Adequacy Ratio;
(b) Capital Redemption Reserve;
(c) Cum-interest and ex-interest price.

Answer 8(a):

Capital Adequacy Norm :
In July, 1988 the Committee on banking Regulations and Supervisory Practices (known as Basle Committee) adotpted minimum capital adequacy standards based on risk assets ratio system for both balance sheet as well as off-balance sheet business. The objectives of the Committee were :

i. To stop reckless lending by banks thereby strengthening the soundness and stability of the banking system and
ii. To put banks from different countries on a more even competitive footing. The Narasimham Committee on Financial System also recommended adopting the system in a phased manner. Accordingly, the Reserve bank of India introduced a risk asset ratio system. The BIS standard, as this system is called, seeks to measure capital adequacy as the ratio of capital funds to risk weighted assets.

The Basic Committee talks of Tier-I capital and Tier-II capital.
Tier-I capital, also known as core capital, provides the permanent and readily available cover to the bank against unexpected losses. Tier-II capital contains elements that are less permanent in nature and less readily available. The Reserve Bank or India has established norms to identify Tier-I capital and Tier-II capital for Indian banks and foreign banks.
Calculation of Risk Adjusted assets — Risk adjusted assets mean weighted aggregate of funded and non funded items as detailed below. Weights have been assigned to assets shown in the balance sheet and credit conversion factors have been assigned to off-balance sheet items.
(Off-balance Sheet items mean items which are not shown in the balance sheet).

$$\text{Risk Weighted Assets Ratio} = \frac{\text{Capital Funds}}{\text{Risk Adjusted Assets}} \times 100$$

Prescribed Minimum Ratio = 90%
Capital Funds include Tier-I and Tier-II Capital

Answer 8(b) :
Capital Redemption Reserve;
When a company seeks to redeem preference shares it can redeem them either out of profit or by issue of new shares, or partly by one way and partly by another way. To redeem the fully paid preference shares the company has to transfer equivalent amount from general reserve or profit and loss account to an account called Capital Redemption Reserve.
The following journal entry is passed to this effect:

P & L A/c or General Reserve A/c Dr.
  To Capital Redemption Reserve A/c

Having been passed the above journal entry the company can redeem the preference shares as follows:

Preference Share Capital A/c Dr.
To Preference Share Holders A/c

Preference Share Holders A/c Dr.
To Bank A/c

The Balance of capital redemption reserve after redemption of shares becomes a free reserve and can be utilized to issue bonus shares etc.

Answer 8(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-interest price, we will get ex-interest price which is the capital portion of the total amount paid, the accrued interest being the revenue portion.

Suppose on 1st April, 2012 a joint stock company allots 10,000 12% Debentures of ₹ 100 each at par. Interest on debentures is payable half yearly on 30th September and 31st March. On 31st May, 2013 the company buys in the open market 100 of its 12% Debentures paying a total sum of ₹ 9,900 to the seller. Here, the total price paid per debenture is ₹ 99; it is the cum-interest quotation of the debentures purchased. The previous date of payment of debenture interest was 31st March 2013. Interest accrued on one debenture of ₹ 100 from 31st March, 2013 to 31st May, 2013 the date of the transaction @ 12% per annum is ₹ 2. Hence the ex-interest quotation of the debentures purchased is ₹ 99 – ₹ 2 = ₹ 97. For 100 debentures, the ex-interest price is ₹ 9,700.

Whatever may be the purpose of purchase of debentures in the open market, the accrued interest should be debited to Debentures interest Account. If debentures have been purchased for immediate cancellation the ex-interest price should be compared with the face value of debentures purchased to ascertain the profit or loss on cancellation. If debentures have been purchased to be held as investments, the ex-interest price is debited to investments in Own Debentures Account or simply Own Debentures account. On resale of own debentures also, a distinction between ex-interest price and cum-interest price has to be made. 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.