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

Section A is compulsory and answer any 5 questions from Section B

Section A

1. Answer the following questions (give workings): **[2×10]**

(a) The following information has been extracted from the books of a lessee for the year 2012-2013:

Particulars	Amount(₹)
Short workings lapsed	8,000
Short workings recovered	10,000
Actual royalty based on output	30,000

Compute the minimum rent.

(b) Oscar Ltd. furnished the following particulars:
Debtors ledger include ₹ 10,000 due from Das & Co. whereas Creditors Ledger include ₹6,000 due to Das & Co. Show the journal entry.

(c) Mega Ltd. deals in three products A, B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2013-14 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	Historical Cost (₹ in Lakhs)	Net realizable value (₹ in Lakhs)
A	21	18
B	18	16
C	10	14

What will be the value of closing stock?

(d) The following data apply to a company's defined benefit pension plan for the year:

Particulars	Amount (₹)
Fair Market Value of Plan Assets (beginning of year)	8,00,000
Fair Market Value of Plan Assets (end of year)	1,14,00,000
Employer Contribution	2,80,000
Benefit Paid	2,00,000

Calculate the Actual Return on Plan Assets.

(e) Calculate the amount of subscription to be shown in the Income and Expenditure Account for the year ending 31st March, 2013 from the following information :

- **Subscription received during 2012-13 — ₹ 63,000.**
- **Subscription received in advance on 31.03.2012 — ₹ 4,200.**
- **Arrears of subscription on 31.03.2013 — ₹ 9,400.**
- **Subscription received in advance on 31.03.2013 — ₹ 4,300.**

(f) Explain 'Prior Period Items' as per AS 5.

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

(h) A Ltd. purchased fixed assets costing ₹ 5,100 lakhs on 01.01.2013 and the same was fully financed by foreign currency loan (U.S $) payable in three annual installments. Exchange rates were U.S $ I = ₹42.50 and ₹45.00 as on 01.01.2013 and 31.12.2013 respectively. First installment was paid on 31.12.2013. The entire difference in foreign exchange has been capitalized.
You are required to state , how these transactions would be accounted for.

(i) Sales was ₹30,00,000 in the previous year.
Gross Profit is 25% on Sales.
The Company expects 20% Sales increment in sales volume during this year.
Compute the Cost of goods Sold.

(j) X and Y are partners having Capitals of ₹ 2,40,000 and ₹ 60,000 respectively and a profit sharing ratio of 4 : 1. Z is admitted for 1/5th share in the profits of the firm and he pays ₹ 90,000 as Capital. Find out the value of the Goodwill.

Answer 1:

(a) Minimum rent = Actual royalty – Short workings recovered
= ₹30,000 - ₹10,000 = ₹10,000.

(b) **In the books of Oscar Ltd.**
Journal Entry

Particulars	**Debit (₹)**	**Credit(₹)**
Creditors Ledger Adjustment A/c Dr. To, Debtors Ledger Adjustment A/c (Debtors ledger includes ₹10,000 due form Das & Co. whereas Creditors Ledger include ₹6,000 due to Das & Co. ,adjusted)	6,000	6,000

(c) Computation of value of closing stock

Lower of Historical Cost and Net Realisable Value will be considered	₹
A	18
B	16
C	10
Value of Closing Stock	44

(d) The actual return is computed as follows:

Particulars	**Amount (₹)**	**Amount(₹)**
Fair market value of plan assets (end of year)		1,14,00,000
Fair market value of plan assets (beginning of the year)		8,00,000
Change in plan assets		3,40,000
Adjustment for employee contribution		
Employer contribution	2,80,000	

Less: Benefit Paid	2,00,000	80,000
Actual return on plan assets		2,60,000

(e)

Particulars	**Amount (₹)**
Subscription received in 2012-13	63,000
Add: Subscription received in advance on 31.03.2012	4,200
Add : Arrears of subscription on 31.03.2013	9,400
	76,600
Less : Subscription received in advance on 31.03.2013	8,600
The amount of subscription to be shown in the Income and Expenditure Account for 2012-13	68,000

(f) Prior period items (income/expense) arise in the current period as a result of errors/omissions in the preparation of the financial statements, in one or more prior period, are generally infrequent in nature and distinct from changes in accounting estimates.
Prior period items are normally included in the determination of net profit/loss for the current period shown after determination of current period profit/loss. The objective is to indicate the effect of such items in the profit/loss. The separate disclosure is intended to show the impact on the current profit/loss.

(g) As per As 10, the cost of fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Cost includes the purchase price, freight and handling charges, insurance cost on the machine while in transit, cost of special foundations, and costs of assembling, installation and testing.
Therefore the cost to be recorded is ₹(1,25,000+30,000+12,000) i.e. ₹1,67,000.

(h) Foreign Currency Loan= ₹ 5,100 lakhs/ ₹ 42.50= 120 lakhs US Dollars
Exchange difference = 120 lakhs US Dollars × (₹45.00 – ₹42.50) = ₹ 300 lakhs
(including exchange loss on payment of first instalment)
Therefore, entire loss due to exchange differences amounting ₹ 300 lakhs should be charged to Profit and Loss Account for the year and the stand of the company is wrong.

(i) Sales in previous year was ₹30,00,000
∴Sales of this year is ₹36,00,000
∴ Cost of goods sold = Sales – Gross Profit = ₹36,00,000 - ₹9,00,000 = ₹27,00,000

(j) Total Capital of the firm 90,000 × 5/1 = ₹4,50,000 [Taking Z's Capital as base]
Less: Combined Adjusted Capital = ₹3,90,000
[₹2,40,000 + ₹60,000 + ₹90,000]
Hidden Goodwill = ₹60,000

Section- B

2. (a) Discuss the different types of vouchers.

(b) 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

(c) 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. [4+6+6]

Answer 2(a):

Voucher is a written instrument that serves to confirm or witness (vouch) for some fact such as a transaction. Commonly, a voucher is a document that shows goods have bought or services have been rendered, authorizes payment, and indicates the ledger account(s) in which these transactions have to be recorded.

Types of Voucher - Normally the following types of vouchers are used. i.e.:

(i) Receipt Voucher

(ii) Payment Voucher

(iii) Non-Cash or Transfer Voucher

(iv) Supporting Voucher

(i) Receipt Voucher

Receipt voucher is used to record cash or bank receipt. Receipt vouchers are of two types. i.e.

(a) Cash receipt voucher – it denotes receipt of cash

(b) Bank receipt voucher – it indicates receipt of cheque or demand draft

(ii) Payment Voucher

Payment voucher is used to record a payment of cash or cheque. Payment vouchers are of two types. i.e.

(a) Cash Payment voucher – it denotes payment of cash

(b) Bank Payment voucher – it indicates payment by cheque or demand draft.

(iii) Non Cash Or Transfer Voucher

These vouchers are used for non-cash transactions as documentary evidence. e.g., Goods sent on credit.

(iv) Supporting Vouchers

These vouchers are the documentary evidence of transactions that have happened.

Answer 2(b):

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

Answer 2(c):

(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) On 31.12.2012, Sundry Debtors and Provision for Bad Debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2013, ₹ 3,000 are bad and written off on 30.9.2013, an amount of ₹ 400 was received on account of a debt which was written off as bad last year on 31.12.2013, the debtors left was verified and it was found that sundry debtors stood in the books were ₹ 40,000 out of which a customer Mr. X who owed ₹ 800 was to be written off as bad.
Prepare Bad Debt Account, Provision for bad Account. Assuming that some percentage should be maintained for provision for bad debt as it was on 31.12.2012.

Show also Profit & Loss Account and Balance Sheet.

(b) Satendra Ltd. had the following condensed trial balance as on 31st March 2013:

Dr. **Cr.**

Particulars	(₹)	Particulars	(₹)
Cash	8,500	Current Liabilities	17,000
Accounts Receivable	32,000	Long-term Notes Payable	25,500
Investments	20,000	Bonds Payable	25,000
Plant Assets	67,500	Share Capital	75,000
Land	40,000	Retained Earnings	25,500
	1,68,00		1,68,000

Additional Information:
During 2012-13, the following transactions took place:
(i) A tract of land was purchased for a cash of ₹ 7,750.
(ii) Bonds payable in the amount of ₹ 6,000 were retired for cash at face value.
(iii) An additional ₹ 20,000 equity shares were issued at par for cash.
(iv) Dividends totaling ₹ 9,375 were paid.
(v) Net income for 2012-13 was ₹ 30,000 after allowing for a depreciation of ₹ 9,500.
(vi) Land was purchased through the issuance of ₹ 22,500 in bonds.
(vii) Santendra Ltd sold a part of its investments portfolio for ₹ 12,875 cash. The transaction resulted in a gain of ₹ 1,375 for the firm.
(viii) Current Liabilities increased to ₹ 18,000.
(ix) Accounts receivable on 31st March totaled to ₹ 38,000.
Prepare a Statement of Cash Flows from Operating Activities and Financing Activities for 2012-13, using indirect method, as per AS-3 (Revised).

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

Answer 3(a):

In the books of
Dr. Bad Debt Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013 Sept. 30	To, Sundry Debtors A/c	3,000	2013 Dec. 31	By, Provision for Bad Debt A/c	3,800
Dec. 31	To, X A/c.	800			
		3,800			3,800

Dr. Provision for Bad Debt Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013 Dec. 31	To, Bad Debt A/c	3,800	2013 Dec. 31	By, Balance b/d	5,000
	,, Balance c/d [10% on₹39,200 (₹ 40,000 – ₹800)]	3,920		" Profit & Loss A/c -for the provision required	2,720
		7,720			7,720

Workings : Calculation of '%' of Provision for bad debts —
(5,000/50,000 x 100) = 10%

Dr. Profit & Loss Account (Extract) For the year ended 31.12.2012 Cr.

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To, Bad Debts		3,400	By Bad Debts Recovery A/c "		400
			,, Provision for Bad Debts: Existing	5,000	
			Less: Provision Required	3,920	1,080

Balance Sheet (Extract)
As at 31.12.2013

Liabilities	Amount (₹)	Assets	Amount (₹)	Amount (₹)
		Sundry Debtors	40,000	
		Less: Bad Debts	800	
			39,200	
		Less: Provision for Bad Debts	3,920	35,280

Answer 3(b):

Cash Flow Statement from Operating and Financing Activities (Under Indirect Method) of Satendra Ltd. for the year ended on 31st March, 2013.

	₹	₹	₹
A. Cash Flows from Operating Activities:			
Net Profit for the year after charging depreciation		30,000	
Add: Adjustment for Non-operating & Non-current items debited to Profit & Loss A/c:			
Depreciation		9,500	
		39,500	
Less: Adjustment for Non-operating & Non-current Items credited to Profit & Loss A/c:			
Gain on Sale of Investment Portfolio		1,375	
Operating Profit before Working Capital changes		38,125	
Add: Increase in Operating Current Liabilities:			
Current Liabilities		1,000	
		39,125	
Less: Increase in Operating Current Assets:			

Accounts Receivable		6,000	33,125
Net Cash Flow from Operating Activities			
B. Cash Flows from Financing Activities			
Proceeds Received from issue of Equity Shares		20,000	
Less: Payment of dividend	9,375		
Redemption of Bond Payable	6,000	15,375	4,625
Net Cash Flow from Financing Activities			

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.** **[8+8]**

Answer 4(a) :

Working Notes:

(i) **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

(ii) **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

(iii) **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		4,220		
(Excess of Income over expenditure)				
		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			
To Rent		8,800	By Trading A/c		
To Advertising		3,600	Gross profit		
To Discount Allowed		5,600	transferred		1,40,400
To General Expenses		38,200	By Discount Received		4,800
To Printing	3,200	4,200			
Add: Outstanding	1,000				
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 Less: Differences	2,16,000 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) From the following particulars, prepare accounts in Goods on Approval Ledger

Particulars	Amount(₹)
Goods Sent out on approval	2,00,000
Goods Returned	50,000
Goods Accepted	1,40,000
Opening balance on approval	20,000
Cash received from customers	90,000
Opening dues from approved parties for goods already accepted	10,000

[10+6]

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

Goods on Approval Ledger

Goods out on Approval Account
Or, Sale or Return Suspense Account

Dr. **Cr.**

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
?	To, Approval Debtors Control A/c -Returns	50,000	?	By, Balance b/d	20,000
	To, Approval Debtors Control A/c -Sales	1,40,000		By, Approval Debtors Control A/c	2,00,000
	To, Balance c/d	30,000			
		2,20,000			**2,20,000**

Approval Debtors Control Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
?	To, Balance b/d	20,000	?	By, Goods out on Approval A/c -Returns	50,000
	To, Goods on Approval A/c	2,00,000		By, Goods out on Approval A/c -Sales	1,40,000
				By, Balance c/d	30,000
		2,20,000			**2,20,000**

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. [8 + 8]

Answer 6(a):

In the books of K, L, M.

Journal

Date	Particulars		L.F.	Debit ₹	Credit ₹
2013 July 1	Bank A/c To M's Capital A/c To Goodwill A/c (Cash to be brought in by M As capital)	Dr.		28,600	 25,000 3,600
	Goodwill A/c To K's Capital A/c (Value of goodwill credited to K's Capital only)	Dr.		3,600*	 3,600
	Reserve A/c To K's Capital A/c To L's Capital A/c (Reserve credited to old partners capital accounts in 5:3)	Dr.		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 Purchase A/c	
To Hire Purchase Stock Reserve A/c [46,500 x 50/150]	15,500	[4,53,000x50/150]	1,51,000
To Profit t/f to General P & L A/c	1,54,333	By Goods Repossessed A/c [At Revalued Figure]	2,333
		By Closing Balances :	
		Hire Purchase Stock	46,500
		Hire Purchase Debtors	2,500
	6,84,333		6,84,333

Working Notes:

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 [Excluding Goods repossessed]	75,000
	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? [8+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 $= \frac{\text{Gross Profit}}{\text{Sales} + \text{Transfer}} \times 100 = \frac{1,20,000}{2,76,000 + 84,000} \times 100 = 33\frac{1}{3}\%$

∴ Provision required = Closing Stock x $\frac{\text{Transfer}}{\text{Transfer} + \text{Purchase}}$ 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.		45,00,000	
	Replacement A/c…………………………….Dr.		1,35,00,000	
	To, Bank A/c			1,80,00,000
	(Cost spent on the plant including purchase of new plant)			
	Plant A/c……………………………………….Dr.		4,00,000	
	Replacement A/c			4,00,000
	(Old plant used)			

	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. (a) A and B enter into a joint venture for guaranteeing the subscription at par of 1,00,000 shares of ₹ 10 each of a Joint Stock Company. They agree to share profit and losses in the ration of 2 : 3. The terms with the company are 4½% commission in cash and 6,000 shares of the company as fully paid-up.

The public took up 88,000 of the shares and the balance share of the guaranteed issue are taken up by A and B who provide cash equally. The commission in cash is taken by partners in the ratio of 4 : 5.

The entire shareholding of the joint venture is then sold through brokers – 25% price of ₹ 9. 50% at a price of ₹ 8.75; 15% at a price of ₹ 8.50 and the remaining 10% are taken over by A and B equally at ₹ 8 per share. The sale proceeds of the shares are taken by the partners equally.

Prepare a Joint Venture Memorandum Account and the separate accounts of A and B in the books of B and A, respectively, showing the adjustment of the final balance between A and B.

Ignore interest and income-tax.

(b) What is meant by Reversionary Bonus in relation to Insurance policies?

(c) **Prepare an Account Current from the following particulars to be rendered by A to M on 30th June 2013 considering rate of interest @ 5% p.a. from the given particulars:**

2013		₹
Jan. 1	M owes to A	4,000
Feb. 1	M remits Cash	2,000
Mar. 15	A sold goods to M (due on May 1)	8,000
Mar. 31	M sends a bill (due on Oct. 1)	2,000
May 30	M purchased goods (due on Aug.31)	40,000

[9+2+5]

Answer 8 (a) :

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To A (Cost of Shares)	60,000	?	By A (Commission)	20,000
	,, B (Cost of Shares)	60,000		B (Commission)	25,000
	,,Profit to Joint Venture			,, A (Sale Proceeds)	71,100
	A 32,640			B (Sale Proceeds)	71,100
	B 48,960	81,600		,, A (Shares taken)	7,200
				B (Shares taken)	7,200
		2,01,600			2,01,600

In the books of A
Joint Venture with B

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Bank – Cost of Shares	60,000	?	By Bank – Commission	20,000
	,, Share of Profit	32,640		,, Bank – Sale Proceeds	71,100
	,, Bank – final settlement	5,660		,, Shares taken	7,200
		98,300			98,300

In the books of B
Joint Venture with A

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011	To Bank – Cost of Shares	60,000	2011	By Bank – Commission	25,000
	,, Share of Profit	48,960		,, Bank – Sale Proceeds	71,100
				,, Shares taken	7,200
				,, Bank – Final settlement	5,600
		1,08,960			1,08,960

Workings:

(i) Purchase of Shares

(1,00,000 – 88,000) = 12,000 @ ₹ 10 = ₹ 1,20,000 provided by A and B equally i.e., ₹ 60,000 each.

(ii) Calculation of Sales

	6,000	Shares taken as Commission
	12,000	shares purchase
Entire share-holding	**18,000**	

Particulars	₹
20% of 10,000 = 4,500 shares @ 9.00 =	40,500
50% of 18,000 = 9,000 shares @ 8.75 =	78,750
15% of 18,000 = 2,700 shares @ 8.50 =	22,950

1,42,200 x ½ = ₹ 71,100 made by A and B each.

(iii) Commission in Cash

1,00,000 Shares @ ₹ 10 = ₹ 10,00,000 x 4½% = ₹ 45,000 to be taken by A and B in the ratio 4 : 5.

(iv) Unsold Shares taken equally by A and B

10% of 1,800 shares @ ₹ 8.00 = ₹ 14,400 x ½ = ₹ 7,200 each.

Answer 8 (b):

Reversionary Bonus in relation to Insurance policies:

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

Answer 8 (c):

M in Account Current with A

Dr. **Cr.**

Date	Particulars	Amount ₹	Months to June 30	Product ₹	Date	Particulars	Amount ₹	Months to June 30	Product ₹
2013									
Jan.1	To, Balance b/d	4,000.00	6	24,000.00	Feb.1	By, Cash A/c	2,000.00	5	10,000.00
May 1	To, Sales A/c	8,000.00	2	16,000	Oct 1	By, B/R A/c	2,000.00	(-) 3	(-)6,000.00
Aug 31	To, Sales A/c	40,000.00	(-)2	(-)80,000.00	June 30	By, Interest A/c	183.33	-	-
					June 30	By, Balance c/d	47,816.67		
		52,000.00		(-)40,000.00			52,000.00		4,000.00
July 1	To, Balance b/d	47,816.67							

*** Interest is to be calculated on ₹44,000 (i.e., -₹40,000-(+)₹4,000)**

@5% p.a. for one month, i.e. ₹(₹44,000× $\frac{5}{100} \times \frac{1}{12} = 183.33$)

Note: M sends bill (due on Oct 1st) and M purchased goods (due on Aug 31st) which is the end of the Account Current Period. So, months are calculated beyond 30th June.

Date	Due On	Months Calculation
Mar 31	Oct 1	- 3
Mar 31	Aug 1	- 2