Paper 5- Financial Accounting

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

Question 1 is compulsory and any 5 questions from the rest

1 (a) From the four alternatives given against each statement, choose the correct Alternative: [1×6=6]

(i) In a written agreement amongst the partners, interest @ 5% p.a. is to be provided on loan. The interest given by a partner to the firm will be at an interest at the rate of
(A) 5% (B) 6% (c) 8% (D) 10%

(ii) Depreciation accounting is a process of
(A)Apportionment
(B) Valuation
(C)Allocation
(D)Appropriation

(iii) X Ltd . has

Equity share @	₹ 100 each
Equity share @	₹ 50 each
Equity share @	₹ 10 each

They are :-
(A) Same Class
(B) Different Class
(C) None of the above
(D) Both (A) and (B)All of the above

(iv) AS-6 is related to:
(A)Valuation of inventories
(B) Accounting for Construction Contracts
(C)Cash Flow Statements
(D)Depreciation accounting

(v) Current Ratio is a:
(A) Current Assets/ Current liability
(B) Current Asset/ Current Liability – Bank Overdraft
(C) Current Assets – Stock/ Current Liability
(D) None of the Above

(vi) In Accounting Equation:
(A) Equity and assets are dependent variables.
(B) Assets and liabilities are dependent variables.
(C) Equity and liabilities are dependent variables.
(D) Assets and Liabilities are Independent variables.

(b) State whether following statements are True/False [1x5 = 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) Stock and debtors system is generally used when the goods are sent to the branch at cost price.

(iv) Wages incurred by departmental workers of a factory in installing new machinery is revenue expenditure.

(v) One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.

(c) Fill in the blanks [1 x 5 = 5]

(i) Dividends are usually paid as a percentage of __________ .

(ii) Debenture holders are ______________ of a company.

(iii) Minimum partners required for a non-banking partnership firm are ________________.

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

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

(d) Match the following: [1×5=5]

A	B
(i) AS-3	(A) Accounting for Government grants
(ii) AS-20	(B) Segmental Reporting
(iii) Garner Vs Murray Rule	(C) Cash Flow Statement
(iv) AS-17	(D) Dissolution of Partnership
(v) AS-12	(E) Earnings per Share
	(F)No matching statements found

(e) (i) During the year ₹ 96,000 was Debited as salary in the Income Expenditure Account. There was outstanding on Salary Account at the beginning and at the end of the year were₹ 12,000 and ₹ 15,000 respectively. What would be the amount of salary paid shown in Receipt and Payments Account?

(ii) The capital of a Company comprises of equity shares of ₹ 10 each amounting to ₹ 10 lakhs and 10% Preference Shares of ₹ 2 lakhs. Profit after tax for the year is ₹ 4 lakhs. Dividend declared is @ 25% and current market price of Equity Share is ₹ 80 each. What is the Price- Earning Ratio?

Solution:

(a) (i) (B) 5%

(ii) (C) Allocation

(iii) (C) None of the above

(iv) (D) Depreciation Accounting

(v) (A) Current Assets/ Current liability

(vi) (D) Assets and Liabilities are Independent variables

(b)(i) **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) **False**: Accounting Standard 6 is not applicable on "wasting Asset".

(iii) **False**. This system is generally used when the goods are sent to the branch at an Invoice price.

(iv) **False.** The wages are part of installation cost and should be capitalized with value of machinery.

(v) **True.** The amount of depreciation is accumulated in a separate fund called sinking fund.

(c) (i) Paid up capital.

(ii) Creditors.

(iii) Two

(iv) Premium

(v) Old Profit sharing ratio.

(d)

(i) AS-3	(C) Cash Flow statement
(ii) AS-20	(E) Earnings per share
(iii) Garner Vs Murray Rule	(D) Dissolution of Partnership
(iv) AS-17	(B) Segmental Reporting
(v) AS-12	(A) Accounting for Government grants

(e) (i) **Dr.** **Salary Account** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Receipts and Payments A/c (B.f.)	93,000	By, Balance b/d	12,000
To, Balance c/d	15,000	By, Income and Expenditure A/c	96,000
	1,08,000		1,08,000

(ii) EPS = $\dfrac{\text{Net Profit attributable to equity shareholders}}{\text{Weighted Average Number of equity shares outsatnding}}$

$$\frac{4,00,000 - (10\% \text{ of } 2,00,000)}{1,00,000} = \frac{3,80,000}{1,00,000} = 3.8$$

Price Earnings Ratio is:

$$\frac{MPS}{EPS} = \frac{80}{3.8} = 21.05 \text{ times}$$

2. (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) NDA Limited purchased a machine of ₹ 20 lakhs including excise duty of ₹ 4 lakhs. The excise duty is Cenvatable under the excise laws. The enterprise intends to avail CENVAT credit and it is reasonably certain to utilize the same within reasonable time. How should the excise duty of ₹ 4 lakhs be treated? [12+3]

Solution:

(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	25	25

price of ₹ 50 per share, premium paid out of revenue reserves)		
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

(b) (₹ In lakh)

Particulars		Dr. (₹)	Cr. (₹)
Year of acquisition Machine A/c CENVAT Credit Receivable A/c CENVAT Credit Deferred A/c To Supplier's A/c	 Dr. Dr. Dr.	 16 2 2	 20
Next Year CENVAT Credit Receivable A/c To CENVAT Credit Deferred A/c	 Dr.	 2	 2

3. (a) Prepare the working capital requirement from the following information:

Average collection period 60 days
Average payment period 75 days
Inventory holding period 90 days
(Calculate with reference to cost of goods sold)
Cash and Bank balance 2.5% of sales.
Sales ₹ 2,00,000, gross profit 25%
Credit purchase = 1/3 of cost of goods sold.
The company expects 50% sales increment during the next year. (Assume 1 year = 360 days)

(b) X, Y and Z were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. No interest was to be allowed on current or capital accounts of the partner but their loan accounts were to carry an interest of 10% p.a.

Due to persistent losses and the continued illness of Y, the firm decided to get dissolved on 31st March 2013. Its accounts were closed for the last time on 31st Dec. 2012 on which date its Balance Sheet was:

Particulars		Amount (₹)	Particulars	Amount (₹)
	₹		Plant and Machinery	60,000
Capital Account			Furniture & Fittings	10,000
X	48,000		Motor Cars	40,000
Y	33,000	81,000	Stock	55,000
Loan A/C—X		22,000	Sundry Debtors	40,000
Trade Creditors		80,000	Capital A/c	
Bank Overdraft		30,000	Z	8,000
		2,13,000		2,13,000

Between 31st Dec. 2012 and 31st March 2013, goods to the value of ₹ 30,000 were purchased and sales amounted to ₹ 45,000. In addition to payment to trade creditors, payments made were for Salaries, Wages ₹ 12,000 and for general and office expenses ₹ 6,000. Drawings of each partner were ₹ 800 p.m. On 31st March 2012, debtors, creditors and stock-in-trade were ₹ 60,000; ₹ 70,000 and ₹ 45,000, respectively. In dissolution proceedings the partners agreed to transfer the entire business (with all assets and liabilities including partners' loan) as a going concern to D for a consideration of ₹ 90,000. Cost of dissolution amounted to ₹ 2,800 which were met by X.

Show the necessary entries for the dissolution of the firm and also the capital account of the partners, assuming that all of them are solvent. [5+10]

Solution:

(a) Before ascertaining the working capital requirement, the following figures should be calculated:

Sales ₹ 2,00,000 + 50% increase = ₹ 30,00,000.

(i) Debtors' Turnover Ratio $= \dfrac{\text{Debtors}}{\text{Credit Sales}} \times 360$

Or 60 $= \dfrac{\text{Debtors}}{₹\ 30,00,000} \times 360$

Debtors = ₹ 5,00,000.

(ii) Cost of goods sold :

Particulars	Amount (₹)
Sales	30,00,000
Less: Gross Profit @ 25%	7,50,000
Cost of Goods sold	22,50,000

Therefore, Amount of purchase will be : ₹ 22,50,000 x 1/3 = 7,50,000

(iii) Creditors' Turnover Ratio $= \dfrac{\text{Creditors}}{\text{Credit Purchase}} \times 360$

75 $= \dfrac{\text{Creditors}}{7,50,000} \times 360$

Creditors = ₹ 1,56,250

(iv) Stock Turnover Ratio $= \dfrac{\text{Cost of Goods Sold}}{\text{Closing Stock}} \times 360$

90 $= \dfrac{22,50,000}{\text{Closing Stock}} \times 360$

Closing Stock = ₹ 5,62,500.

(v) Cash and Bank is 2.5% of sales (i.e., ₹ 30,00,000 x $\dfrac{2.5}{100}$) = ₹ 75,000.

Working Capital Requirement

Particulars	₹	₹
Current Assets		
Stock/Inventory	5,62,500	
Debtors	5,00,000	
Cash and Bank	75,000	
		11,37,500
Less: Current Liabilities		
Creditor		1,56,250
Net Working Capital		9,81,250

(b) Note:

Before preparing the Journal entries for preparing Realization Account and Capital Account, the following Trading Profit and Loss Account and the Balance Sheet for the year ended 31st March 2013 should be prepared:

Trading and Profit and Loss Account/or the year ended 31st March 2013

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Opening Stock	55,000	Sales		45,000
`` Purchases	30,000	Closing Stock		45,000
`` Gross Profit c/d	5,000			
	90,000			90,000
To Salaries & Wages	12,000			
`` General Office Expenses	6,000	Gross Profit b/d		5,000
`` Interest on Loan	550	Net Loss		
		X	6,775	
		Y	4,517	
		Z	2,258	13,550
	18,550			18,550

Balance Sheet as at 31st March 2013

Liabilities	₹	₹	Assets	₹
Capital A/c			Plant & Machinery	60,000
X—Balance	48,000		Furniture & Fitting	10,000
Less: Net Loss	6,775		Motor Car	40,000
	41,225		Stock	45,000
Less: Drawings	2,400	38,825	Debtors	60,000
Y—Balance	33,000		Capital A/c	12,658
Less: Net Loss	4,517		Z (8,000 + 2,258 + 2,400)	
	28,483			
Less: Drawings	2,400	26,083		
X's Loan (22,000 + 550)		22,550		
Sundry Creditors		70,000		
Bank Overdraft		70,200		
		2,27,658		2,27,658

Total Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	40,000	By Bank (bal.fig.)	25,000
" Credit Sales	45,000	`` Balance c/d	60,000
	85,000		85,000

Total Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank (bal.fig.)	40,000	By Balance b/d	80,000
" Balance c/d	70,000	`` Credit Purchase	30,000
	1,10,000		1,10,000

Bank Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Sundry Debtors " Balance c/d	25,000 70,200	By Balance b/d `` Salaries & Wages A/c `` General & Office Expenses `` Sundry Creditor A/c `` Drawings	30,000 12,000 6,000 40,000 7,200
	95,200		95,200

Journal

Dr. **Cr.**

Date	Particulars	L.F.	Amount ₹	Amount ₹
	Realization A/c Dr. To Plant and Machinery " Furniture & Fittings A/c " Motor Car A/c " Stock A/c " Debtors A/c (Various assets transferred to Realization A/c.)		2,15,000	 60,000 10,000 40,000 60,000 45,000
	Sundry Creditors A/c Dr. Bank Overdraft A/c Dr. X's Loan A/c Dr. To Realization A/c (Various liabilities transferred to Realization A/c.)		70,000 70,200 22,550	 1,62,750
	Bank A/c Dr. To Realization A/c (Purchase consideration realized.)		90,000	 90,000
	Realization A/c Dr. To X's Capital A/c (Expenses of realization paid by X.)		2,800	 2,800
	Realization A/c Dr. To X's Capital A/c `` Y's Capital A/c `` Z's Capital A/c (Profit on realization transferred.)		34,950	 17,475 11,650 5,825
	X's Capital A/c Dr. Y's Capital A/c Dr. To Bank A/c (Final payment made to the partners)		59,100 37,733	 96,833
	Bank A/c Dr. To Z's Capital A/c (Amount brought in by Z.)		6,833	 6,833

Partners' Capital Account

Dr. **Cr.**

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Balance b/d	---	---	8,000	By Balance b/d	48,000	33,000	—
`` Drawings A/c	2,400	2,400	2,400	`` Realization A/c			
`` Net Loss	6,775	4,517	2,258	—Profit	17,475	11,650	5,825
`` Bank A/c				``Realization A/c			
- Final settlement	59,100	37,733	---	—Expenses	2,800	---	---
				`` Bank A/c	---	---	6,833
	68,275	44,650	12,658		68,275	44,650	12,658

4 (a) S had patented a new type of pocket transistor. On 1.1.2010 he granted P a licence to manufacture and sell the transistors on the following terms:

(i) P to pay a royalty of ₹ 5 for each transistor manufactured and a further royalty of ₹ 3 for each transistor sold with a minimum rent of ₹ 8,000 per annum.

(ii) If in any year the royalties calculated on the transistors manufactured and sold be less than the minimum rent, P to have the right to recoup short working out of the royalties in excess of the minimum rent during the two years immediately following, subject to a maximum amount of ₹ 2,000 per annum.

The number of transistors manufactured and sold for the first 4 years were as follows:

Year	Manufactured	Sold
2010	800	500
2011	1,000	700
2012	2,500	1,500
2013	500	2,000

All the payments were made by P on due dates. Prepare (1) P's Account; (2) Royalty Receivable Account and (3) Short working Account in the books of S.

(b) Define Computer Software and explain what should be the period of amortization of the computer software. [10+5]

Solution:

(a) Working Note:

Analysis of Royalty Receivable

Year	Dead Rent	Royalty Receivable	Short workings				Actual Receipts
			S/W Suspense	Allowed to be recovered	Amount irrecoverable	Carried forward	
	₹	₹	₹	₹	₹	₹	₹
2010	8,000	800x5 + 500x3 = 5,500	2,500	—	—	2,500	8,000
2011	8,000	1,000x5 + 700x3 = 7,100	900	—	—	3,400	8,000

2012	8,000	2,500x5 + 1,500x3 =17,000	—	2,000 (maximum allowable)	2,500 - 2,000 = 500	900	15,000
2013	8,000	500x5 + 2,000x3 = 8,500		500	900 - 500 = 400	—	8,000

Books of S

Royalty Receivable Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.10	To Profit & Loss A/c	5,500	31.12.10	By P's A/c	5,500
31.12.11	To Profit & Loss A/c	7,100	31.12.11	By P's A/c	7,100
31.12.12	To Profit & Loss A/c	17,000	31.12.12	By P's A/c	17,000
31.12.13	To Profit & Loss A/c	8,500	31.12.13	By P's A/c	8,500

Short workings Suspense Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.10	To Balance c/d	2,500	31.12.10	By P's A/c	2,500
31.12.11	To Balance c/d	3,400	01.01.11	By Balance b/d `` P's A/c	3,400
		3,400			3,400
31.12.12	To P's A/c `` Profit & Loss A/c `` Balance c/d	2,000 500 900	01.01.12	By Balance b/d	3,400
		3,400			3,400
31.12.13	To P's A/c `` Profit & Loss A/c	500 400	01.01.13	By Balance b/d	900
		900			900

P's Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.10	To Royalty Receivable A/c " Short working Suspense A/c	5,500 2,500	31.12.10	By Bank A/c	8,000
		8,000			8,000
31.12.11	To Royalty Receivable A/c " Short workings Suspense A/c	7,100 900	31.12.11	By Bank	8,000
		8,000			8,000

31.12.12	To Royalty Receivable A/c.	17,000	31.12.12	By Short working Suspense A/c `` Bank A/c	2,000 15,000
		17,000			17,000
31.12.13	To Royalty Receivable A/c	8,500	31.12.13	By Short working Suspense A/c `` Bank A/c	500 8,000
		8,500			8,500

(b) Software is the general term describing programmes of instructions, languages and routines or procedures that make it possible for an individual to use the computer. It is any prepared set of instructions that controls the operations of the computer for computation and processing. Computer Software that are used internally may be (i) acquired, or (ii) internally generated.

The depreciable amount of software should be allocated on a systematic basis over the best estimate of its useful life. The amortization should commence when the software is available for use. As per AS-26, there is a presumption that the useful life of an intangible asset should not exceed ten years from the date when the asset is available for use. However, due to phenomenal changes in the technology, computer software is susceptible to technological obsolescence. Therefore, it is prudent to consider the useful life of the software much shorter than ten years, may be between 3 to 5 years.

5 (a) The Income and Expenditure Account of the Bombay Club for the year 2013 is as follows:

Expenditure	₹	Income	₹
To Salaries	**1,20,000**	**By Subscriptions**	**1,70,000**
To Printing & Stationery	**6,000**	**By Entrance Fee**	**4,000**
To Postage	**500**	**By Contribution for Dinner**	**36,000**
To Telephone	**1,500**		
To General Expenses	**12,000**		
To Interest and Bank Charges	**5,500**		
To Audit Fees	**2,500**		
To Annual Dinner Expenses	**25,000**		
To Depreciation	**7,000**		
To Surplus	**30,000**		
	2,10,000		**2,10,000**

The account has been prepared after the following adjustments:

Subscriptions outstanding on	**16,000**	**The club owned a building since**	**1,90,000**
31.12.2012		**2012**	**52,000**
Subscriptions outstanding on	**18,000**	**The club had sports equipments on**	
31.12.2013		**31.12.2012 valued at**	
Subscriptions received in advance	**13,000**	**At the end of the year after**	
on 31.12.2012		**depreciation of ₹ 7,000 equipments**	**63,000**
Subscriptions received in advance	**8,400**	**amounted to**	
on 31.12.2013		**In 2012, the club had raised a bank**	**30,000**
Salary outstanding on 31.12.2012	**6,000**	**loan which is still unpaid**	**28,500**
Salary outstanding on 31.12.2013	**8,000**	**Cash in hand on 31.12.2013**	**2,500**
Audit fees for 2006 paid during 2013	**2,000**	**Audit fees for 2013 not paid**	

Prepare the Receipts and Payments Account of the Club for 2013 and the Balance Sheet as on 31st December, 2013. All workings should form part of your answer.
(b) Distinguish between Hire Purchase System and Installment Payment System. [10+5]

Solution:

Bombay Club
Receipts and Payments Account for the year ended 31st December, 2013

Receipts	₹	Payments	₹
To Balance c/d (balancing figure)	13,600	By Salaries (Note 3)	1,18,000
To subscriptions (Note 2)	1,63,400	By Printing and Stationery	6,000
To Entrance Fees	4,000	By Postage	500
To Contribution for Dinner	36,000	By Telephone	1,500
		By General Expenses	12,000
		By Audit Fees	2,000
		By Annual Dinner Expenses	25,000
		BY Interest and Bank Charges	5,500
		By Sports Equipment (Note 4)	18,000
		By Balance c/d	28,500
	2,17,000		2,17,000

Balance Sheet of Bombay Club as at 31st December, 2013

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			**Fixed Assets**		
Opening Balance	2,20,600		Building		1,90,000
Add: Surplus	30,000	2,50,600	Sports Equipment		
Bank Loan		30,000	Opening Balance	52,000	
Current Liabilities			Addition	18,000	
Creditors for expenses				70,000	
Salaries	8,000		Less: Depreciation	7,000	63,000
Audit Fees	2,500	10,500	**Current Assets**		
Subscription received in advance		8,400	Cash in Hand		28,500
			Subscriptions Due		18,000
		2,99,500			2,99,500

Working Notes:

(i) Balance Sheet as at 31st December, 2012

Liabilities	₹	Assets	₹
Capital Fund (balancing Figure)	2,20,600	Building	1,90,000
Bank Loan	30,000	Sports Equipment	52,000
Creditors for expenses:		Cash in Hand	13,600
Salaries	6,000	Subscriptions Due	16,000
Audit Fees	2,000		
Subscription received in advance	13,000		
	2,71,600		2,71,600

(ii) **Subscriptions Account**

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To, Balance b/d(31.12.12) - Opening Outstanding	16,000	To, Balance b/d (31.12.12) - Opening Received in Advance	13,000
To, Income and Expenditure	1,70,000	. Receipts and Payments (b.f)	1,63,400
To, Balance c/d (31.12.13) - Received for 2014	8,400	By , Balance c/d - Closing Outstanding	18,000
	1,94,400		1,94,400

(iii) Salaries

As per Income and Expenditure A/c	1,20,000
Add: outstanding of 2012	6,000
	1,26,000
Less: outstanding of 2013	8,000
	1,18,000

(iv) Sports Equipment

Closing Balance	63,000
Add: Depreciation	7,000
	70,000
Less: Opening balance	52,000
Purchases	18,000

(b) Difference between Hire Purchase System and Installment Purchase System

Hire Purchase System	Installment Purchase System
(i) It is an agreement of hiring of goods.	(i) It is an agreement of sale of goods.
(ii) The title of the goods is transferred to the buyer after payment of last installment	(ii) The title of goods is passed on to the buyer at the signing of agreement.
(iii) If the buyer fails to pay any of the installment the goods can be repossessed by the seller	(iii)The seller cannot repossess the goods.
(iv) The buyer can not hire out, sell, transfer, destroy, and pledge the goods.	(iv)The buyer can hire out, sell, transfer, destroy and pledge the goods
(v) The buyer may return the goods without further payment, except for the installment overdue.	(v)Except seller's default, goods cannot be returned

(vi) In case of default, the total amount of installment paid is forfeited and treated as hire charge.	(vi)In case of default, the total amount of installments paid by the buyer cannot be forfeited

6(a) Bombay Ltd. sends goods to its Madras branch at cost plus 25 per cent. The following particulars are available in respect of the Brach for the year ended 31st March, 2013.

	₹
Opening Stock at Brach at cost to Brach	**80,000**
Goods sent to Brach at Invoice Price	**12,00,000**
Loss-in-transit at invoice price	**15,000**
Pilferage at invoice price	**6,000**
Sales	**12,19,000**
Expenses	**60,000**
Closing Stock at Branch at cost to Brach	**40,000**
Recovered from Insurance Company against loss-in-transit	**10,000**

Show the ledger accounts in the head office books for : (a) Brach Stock Account; (b) Brach Adjustment Account (c) Branch Profit & Loss Account .

(b) State the various accounting concepts.

(c) What do you understand by gradual realization of assets and piecemeal distribution? State the priority that should be followed in piece meal distribution. [9+3+3]

Solution:
(a)

Books of Bombay Ltd. (Head Office)
Branch Stock Account

Dr. **Cr.**

Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
01.04.12	To Balance b/f	80,000	31.03.13	By Cash/Branch Debtors (Sales)	12,19,000
31.03.13	To Goods Sent to Branch A/c	12,00,000		`` Loss-in-Transit A/c	15,000
				``Pilferage	6,000
				By Balance c/f (Closing Stock)	40,000
		12,80,000			12,80,000

Branch Adjustment Account

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.13	To Loss-in-transit A/c [1/5 of 15,000]	3,000	01.04.12	By (Opening) Stock Reserve A/c [1/5 of 80,000]	16,000
	`` Pilferage A/c [1/5 of 6,000]	1,200	31.03.13	`` Goods Sent to Branch A/c [1/5 of 12,00,000]	2,40,000
	``Stock Reserve A/c[1/5 of 40,000]	8,000			
	`` Branch P&L A/c [Gross Profit]	2,43,800			
		2,56,000			2,56,000

Branch P&L Account

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Expenses	60,000	By Branch Adjustment A/c	2,43,800
`` Loss-in-transit A/c [Note 2]	2,000		
`` Pilferage A/c [Note 3]	4,800		
``General P&L A/c [Branch Net Profit]	1,77,000		
	2,43,800		2,43,800

Working Note:

(i). Opening Stock Reserve A/c may be written as by Balanced b/d and Closing Stock Reserve as To Balance c/d in the Branch Adjustment A/c.

(ii).

	₹
Loss-in-transit at Invoice Price	15,000
Less: Loading Adjusted	3,000
Loss-in-transit at cost	12,000
Less: Claim Received	10,000
Net Loss	2,000

(iii).

	₹
Pilferage at Invoice Price	6,0000
Less: Loading Adjusted	1,200
Loss due to Pilferage at cost charged to Profit & Loss A/c	4,800

(b) Various accounting concepts are as follows:

(i) Money measurement concept
(ii) Dual aspect concept.
(iii) Going concern concept.
(iv) Periodicity concept.
(v) Accrual concept.
(vi) Matching concept.
(vii) Realization concept.
(viii) Materiality concept.
(ix) Consistency concept.
(x) Business entity concept.
(xi) Historical lost concept

(c) When a partnership is in process of being dissolved, assets are sold gradually one after another to fetch maximum price. Assets are realized individually and it may need a time period to realize from all the assets.

The partners in such a case may not wish to wait till all the assets are realized. It is universally accepted practice that an interim distribution is made to the partners for their claim (after paying off all creditors) as and when cash is available.

Priority of distribution will be as under:

(i) To meet the realization expenses
(ii) To pay off preferential creditors
(iii) To pay off other creditors
(iv) To pay off partner's loans
(v) To pay off partner's capital

7 (a) 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).

(b) On 31st March, 2012 Risk Bank Ltd. has a balance of ₹ 9 crore in "Rebate on Bills Discounted" account. During the year ended 31.3.2013, Risk Bank Ltd. Discounted bill of exchange of ₹ 4,000 crore charging interest at 18% per annum, the average period of discount being for 73 days. Of these, bills of exchange of ₹600 crore were due for realization from the acceptors/customers after 31st March 2013, the average period outstanding after 31st March, 2013 being 36.5 days.

Uncertain Bank Ltd. Asks you to pass Journal Entries and the Ledger Accounts pertaining to :

(i) Discount of Bills of Exchange; and

(ii) Rebate on Bills Discounted. [8+7]

Solution:

(a) Working Notes:

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

(ii) Partly paid shares (These cannot be redeemed) = $\frac{\text{Call-in-Arrear}}{\text{Arrear Per Share}} = \frac{₹2,000}{₹4}$ = 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 Shareholders resolution No……dated……]		50,000	50,000
	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

(b) Working Notes :

1. Discount on Bills Discounted ₹ 4,000 × $\frac{18}{100} \times \frac{73}{365}$ = 144 crore
2. Rebate on Bills Discounted 600 crore × $\frac{18}{100} \times \frac{36.5}{365}$ = 10.8 crore

In theBooks of Risk Bank

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

Date	**Particulars**	**L.F.**	**Amount** (₹ crore)	**Amount** (₹ crore)
1.4.12	Rebate on Bills Discounted A/c Dr. To Discount on Bills A/c [Amount spent on plant of which ₹ 74,40,000 representing the current cost of replacement in the original form charged to Replacement A/c]		9.00	9.00
1.4.12 To 31.3.13	Bills Purchased and Discounted A/c Dr. To Discount on Bills A/c To Customers A/c [Discounting of Bills made during 2012-13]		4,000.00	144.00 3,856.00
31.3.13	Discount on Bills A/c Dr. To Rebate on Bills Discounted [Unexpired discount in respect of bills carried forward]		10.80	10.80
31.3.13	Discount on Bills A/c Dr. To Profit and Loss A/c [Income from discounting of bills transferred to P/L A/c]		142.20	142.20

Dr. **Discount on Bills Account** **Cr.**

Date	Particulars	Amount ₹ crore	Date	Particulars	Amount ₹ crore
31.3.13	To Rebate on Bills Discounted A/c	10.80	1.4.13	By Rebate on Bills Discounted A/c	9.00
31.3.13	To Profit & Loss A/c (bal. fig.)	142.20	31.3.13	By Bills Purchased and Discounted A/c	144.00
		153.00			153.00

Dr. **Rebate on Bills Discounted Account** **Cr.**

Date	Particulars	Amount ₹ crore	Date	Particulars	Amount ₹ crore
1.4.13	To Discount on Bills A/c	9.00	1.4.13	By Balance b/f	9.00
31.3.13	To Balance c/f	10.80	31.3.13	By Discount on Bills A/c	10.80
		19.80			19.80

8 Write short notes on any 3 **[3 x 5 =15]**

(a) Features of Income and Expenditure.

(b) Profit prior to Incorporation.

(c) Cum-interest and ex-interest price.

(d) Surrender value of Policy.

Solution:

(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.