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 (A) Answer the following questions (give workings):
Choose the right answer of the following alternatives: [10 x 1]

(a) The solvent partners must share the deficiency of an insolvent partner:
- (i) In the profit sharing ratio
- (ii) In the capital ratio
- (iii) In the gaining ratio
- (iv) None of the above

(b) If the unrecorded liabilities are taken over by the new firm, it is transferred to :
- (i) Realization accounts.
- (ii) Partners' capital accounts.
- (iii) Partners' drawings accounts.
- (iv) None of the above.

(c) For Buy back of shares, a company has to open
- (i) A separate bank account
- (ii) An escrow account
- (iii) A share capital account
- (iv) None of the above

(d) Convertible debentures can be
- (i) Partly convertible only
- (ii) Fully convertible only
- (iii) Partly or fully convertible
- (iv) None of the above

(e) Under "Double Account System" profit is disclosed in the
- (i) Revenue Account
- (ii) Net Revenue Account
- (iii) Capital Account (Receipts and Expenditure on Capital Account)
- (iv) None of the above.

(f) Basic earnings per share amounts uses the net profit attributable to
- (i) both equity and preference shareholders
- (ii) Equity shareholders only
- (iii) Preference shareholders only
- (iv) All the above.

(g) When Sales = ₹ 1,80,000, Purchase = ₹ 1,60,000, Opening Stock = ₹ 34,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be
- (i) ₹ 50,000
- (ii) ₹ 44,000
- (iii) ₹ 46,000
- (iv) None of the above

(h) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹ 18,000, then the amount

of stock reserve on closing stock will be
- (i) ₹ 6,000
- (ii) ₹ 4,500
- (iii) ₹ 9,000
- (iv) None of the above

(i)Profit earned before incorporation is a /an
- (i) Revenue profit
- (ii) Extra ordinary profit
- (iii) Capital Profit
- (iv) None of the above

(j) A profit on the sale of furniture of a club will be taken to:
- (i) Cash account
- (ii) Receipts and payments account
- (iii) Income and expenditure account
- (iv) None of the above

(B) Fill up the Blanks: [5 x 1]

(i) As per AS – 6 when there is a change in the method of providing depreciation, the differential account of depreciation would have ____________________ effect.

(ii) A company cannot redeem preference shares unless they are ________________ paid up.

(iii) Profit on revaluation of assets on the admission of a new partner is to be credited to the old partners in their _______________________ profit sharing ratio.

(iv) Amalgamation Adjustments Account is opened in the books of the transferee company to incorporate ________________________.

(v) When a new partner enters in the partnership firm and the partners decide to maintain the General Reserve in the books of the firm at its original value, the amount of general reserve is Credited to the old partners and ____________________ to all partners

(C) Match the following: [5 x 1]

(i) AS 20	(A) Construction Contract
(ii) AS 13	(B) Net Profit or Loss for the period, prior period items & change in accounting policies.
(iii) AS 7	(C) Earnings Per Share (EPS)
(iv) AS 5	(D) Accounting for Intangible Assets
(v) AS 26	(E) Accounting for Investment

(D) State with reasons whether the following propositions are True or False: [5 x 1]
- (i) Short workings arise when minimum rent is less than actual royalty.
- (ii) Revenue recognition of Royalties receivable from foreign countries is made on receipt basis.
- (iii) The accounting principle is general rule followed in preparation of financial Statement
- (iv) The inventory under AS – 2 is valued on the basis of cost price or current replacement cost whichever is lower.
- (v) In admission of a partner new partner's capital amount is shared by old partner in gaining ratio.

Solution:

(A) (a) – (ii) ; (b) – (i) ; (c) – (ii) ;(d) – (iii) ; (e) (i) ; (f) – (ii) [1,80,000 – (34,000 + 1,60,000 + 1,80,000 x 20/120)] ; (g) – (ii) [33.33% on cost = 25% on sales (18,000 x 25% = ₹4,500)]; (i) – (iii) ; (j)- (iii)

(B) (i) Retrospective; (ii) Fully Paid up ; (iii) Old ; (iv) Statutory Reserve Account ; (v) Debited

(C)

(i) AS 20	(c) Earnings per Share

(ii) AS 13	(E) Accounting for Investment
(iii) AS 7	(A) Construction Contract
(iv) AS 5	(B) Net Profit or Loss for the period, prior period items & change in accounting policies.
(v) AS 26	(D) Accounting for Intangible Assets

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

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

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

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

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

2. (a) From the following information, make out a statement of Proprietors' Fund with as many details as possible:

(i) Current Ratio	**2.5**
(ii) Liquid Ratio	**1.5**
(iii) Proprietary Ratio (Fixed Assets: Proprietors' Fund)	**0.75 or** $\frac{3}{4}$
(iv) Working Capital	**₹ 6,000**
(v) Reserves & Surplus	**₹ 4,000**
(vi) Bank Overdraft.	**₹ 1,000**

There are no long-term loans nor any investments in fictitious assets.

(b)Two partnership firms, carrying on business under the name of B&Co and W&Co respectively, decided to amalgamate into G & Co. with effect from 1st January 2014. The respective Balance Sheets are:

Balance Sheet of B & Co. as on 31st December, 2013

Liabilities	₹	Assets	₹
Mr. B's Capital Accounts	**38,000**	**Plant and Machinery**	**20,000**
Sundry Creditors	**20,000**	**Stock-in-trade**	**40,000**
Bank Overdraft	**30,000**	**Sundry Debtors**	**20,000**
		Mr. A's Capital Account	**8,000**
	88,000		**88,000**

A and B share profits and losses in the proportion of 1: 2.

Balance Sheet of W & Co. as on 31st December, 2013

Liabilities	₹	Assets	₹
Mr. X's Capital Account	**20,000**	**Investment**	**10,000**
Mr. Y's Capital Account	**4,000**	**Stock-in-trade**	**10,000**
Sundry Creditors	**19,000**	**Sundry Debtors**	**20,000**
		Cash in hand	**3,000**

	43,000		**43,000**

X and Y share profit and losses equally. The following further information is given:

(i) All fixed assets are to be devalued by 20%.
(ii) All stock in trade is to be appreciated by 50%.
(iii) B & Co. owes ₹ 10,000 to W & Co. as on 31st December 2013. This debit is settled at ₹ 4,000
(iv) Investment is to be ignored for the purpose of amalgamation, being valueless.
(v) The fixed capital accounts in the new firm are to be : Mr. A ₹ 4,000; Mr. B₹ 6,000 Mr. X ₹ 2,000 Mr. Y ₹ 8,000
(vi) Mr. B takes over bank overdraft of B & Co. and gifts to Mr. A the amount of money to be brought in by Mr. A to make up his capital contribution.
(vii) Mr. X is paid off in cash from W & Co. and Mr. Y brings in sufficient cash to make up his required capital contribution.

Pass necessary Journal Entries to close the books of both the firms as on 31st December 2013. [5+10]

Solution:
(a)
Workings:
(i) Current Assets and Current Liabilities:

Current Ratio = 2.5
or, Current Assets/ Current Liabilities = 2.5
or, Current Assets = 2.5 x Current liabilities

Now,
Working Capital= Current Assets – Current Liabilities
₹ 6,000 = 2.5 Current Liabilities – Current Liabilities
∴ ₹ 6,000 = 1.5 Current Liabilities

$$\therefore \text{Current Liabilities} = \frac{6{,}000}{1.5} = ₹\ 4{,}000$$

∴ Current Liabilities = ₹ 4,000
and Current Assets : Working Capital + Current Liabilities
= ₹ 6,000 + ₹ 4,000
= ₹ 10,000
Creditors = Current Liabilities – Bank Overdraft
= 4,000 – 1,000
= 3,000

(ii) Stock:

$$\text{Liquid Ratio: } \frac{\text{Liquid Assets}}{\text{Liquid Liabilities}}$$

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities - Bank overdraft}}$$

$$\text{or, } 1.5 = = \frac{\text{Liquid Assets}}{3{,}000\ (4{,}000 - 1{,}000)}$$

or, Liquid Assets = ₹ 3,000 x 1.5 = ₹ 4,500.
Stock = Current Assets – Liquid Assets
= ₹ 10,000 – ₹ 4,500
= ₹ 5,500.

(iii) Proprietors' Fund:

Proprietary Ratio i.e., Fixed Assets to Proprietors' Fund is 0.75 : 1.

So, if Proprietors' Fund is 1. Fixed Assets are 0.75.
Again, Proprietors' Fund – Fixed Assets = Current Assets - Current Liabilities

or, $1 - \frac{3}{4}$ = ₹ 10,000 – ₹ 4,000

or, $\frac{1}{4}$ = ₹ 6,000.

$\therefore$ = ₹ 6,000 x $\frac{4}{1}$ = ₹ 24,000.

Therefore, Proprietors' Fund = ₹ 24,000.

Here, Proprietor's Fund = Share Capital and Reserves & Surplus

$\therefore$ Share Capital = Proprietors' Fund – Reserves & Surplus
= ₹ 24,000 – ₹ 4,000
= ₹ 20,000.

(iv) Fixed Assets:
Fixed Assets 0.75 of Proprietors' Fund i.e., ₹ 18,000 (₹ 24,000 x 0.75)

Statement of Proprietor's Fund

Proprietors' Fund	₹	Investment in	₹	₹	₹
Equity Share Capital	20,000	Fixed Assets			18,000
Reserve and Surplus	4,000	**Working Capital**			
		Current Assets:			
		Stock	5,500		
		Liquid Assets	4,500		
				10,000	
		Less: Current Liabilities:			
		Bank Overdraft	1,000		
		Creditors	3,000		
				4,000	6,000
	24,000				24,000

(b) **In the books of B & Co**

Journal

Date	Particulars	Dr. ₹	Cr. ₹
2013 Dec. 31	Realization A/c Dr.	80,000	
	To Plant and Machinery A/c		20,000
	To Stock-in-trade A/c		40,000
	To Sundry Debtors A/c		20,000
	(Being the different assets transferred to Realization Account)		
	Sundry Creditors A/c Dr.	20,000	
	To Realization A/c		20,000
	(Being sundry creditors transferred to Realization Account)		
	Bank Overdraft A/c Dr.	30,000	
	To B Capital A/c		30,000
	(Being overdraft taken over by B)		
	G & Co. A/c (Note 1) Dr.	82,000	
	To Realization A/c		82,000
	(Being purchase consideration due from G & Co.)		

	Realization A/c (Note 2) Dr. To A Capital A/c To B Capital A/c (Being profit on realization transferred to partners capital in the ratio of 1 : 2)	22,000	 7,334 14,666
	B Capital A/c (Note 5) Dr. To A Capital A/c (Being deficit in A's capital made good by B)	4,666	 4,666
	A Capital A/c Dr. B Capital A/c (See Tutorial Note) Dr. To G & Co. A/c (Being the capital accounts of the partners closed by transfer to G & Co.)	4,000 78,000	 82,000

Note : It should be noted that the credit balance in B's capital account is ₹ 82,000. His agreed capital in G & Co is ₹ 6,000 only. Since there is no liquid assets in B & Co. from which B can be repaid, the excess amount of ₹ 72,000 should be taken over by G & Co. as loan from B.

In the books of W & Co
Journal

Date	Particulars	Dr. ₹	Cr. ₹
2013 Dec. 31	Realization A/c Dr. To Investment A/c To Stock-in-trade A/c To Sundry Debtors A/c (Being the different assets transferred to Realization Account)	40,000	 10,000 10,000 20,000
	Sundry Creditors A/c Dr. To Realization A/c (Being sundry creditors transferred to Realization Account)	19,000	 19,000
	G & Co. A/c (Note 1) Dr. To Realization A/c (Being purchase consideration due from G & Co.)	10,000	 10,000
	X Capital A/c Dr. Y Capital A/c Dr. To Realization A/c (Note 2) (Being loss on realization transferred to Partners' Capital Accounts equally)	5,500 5,500	 11,000
	Cash A/c Dr. To Y Capital A/c (Being the necessary amount brought in by Y to make up his required capital contribution)	9,500	 9,500
	X Capital A/c Dr. To Cash A/c (Being the excess capital paid by cash)	12,500	 12,500
	X Capital A/c Dr. Y Capital A/c Dr. To G & Co. A/c (Being the capital accounts of the partners closed by transfer to G & Co.)	2,000 8,000	 10,000

Working Notes:

(i) Calculations of Purchase Consideration

Assets taken over:	B & Co.	W & Co.
Plant & Machinery Stock-in-trade Sundry Debtors [(*After adjustment of ₹ 6,000 (₹10,000–₹4,000)]	16,000 60,000 20,000	15,000 *14,000
(A)	96,000	29,000
Liability taken over: Sundry Creditors : *₹ (10,000-3,000) (B)	* 14,000	19,000
Purchase Consideration (A-B)	82,000	10,000

(ii) Realization Account

Dr. **Cr.**

Date	Particulars	B &Co.	W &Co.	Date	Particulars	B &Co.	W &Co.
2013 Dec. 31	To Investment A/c To Plant & Machinery A/c To Stock-in-trade A/c To Sundry Debtors A/c To A Capital A/c (profit) To B Capital A/c (profit)	--- 20,000 40,000 20,000 7,334 14,666	10,000 10,000 20,000 --- --- ---	2013 Dec. 31	By Sundry Creditors A/c By Grey & Co. A/c By X Capital A/c (loss) By Y Capital A/c (loss)	20,000 82,000 --- ---	19,000 10,000 5,500 5,500
		1,02,000	40,000			1,02,000	40,000

(iii) Partners' Capital Accounts

Dr. **Cr.**

Date	Particulars	A	B	Date	Particulars	A	B
2013 Dec. 31	To Balance b/d To A Capital A/c To G & Co. A/c	8,000 --- 4,000	--- 4,666 78,000	2013 Dec. 31	By Balance b/d By Realization A/c (profit) By B Capital A/c By Bank Overdraft A/c	--- 7,334 4,666 ---	38,000 14,666 --- 30,000
		12,000	82,666			12,000	82,666

(iv) Partners' Capital Accounts

Dr. **Cr.**

Date	Particulars	X	Y	Date	Particulars	X	Y
2013 Dec. 31	To Realization A/c To G & Co. A/c To Cash A/c	5,500 2,000 12,500	5,500 8,000 ---	2013 Dec. 31	By Balance b/d By Cash A/c	20,000 ---	4,000 9,500
		20,000	13,500			20,000	13,500

(v) In the new firm, A's capital should be ₹ 4,000 but his Capital Account is showing a debit balance of ₹ 666. Therefore, to make good the deficit, B will gift ₹ 4,666 to A.

3.(a) Ram, Laxman and Bharat were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2013, Balance Sheet of the firm stood as follows:

Liabilities	Amount	Assets	Amount

	(₹)		(₹)
Capital A/c's		Buildings	1,37,500
Ram	1,25,000	Furniture	62,500
Laxman	1,00,000	Stock	1,05,000
Bharat	70,000	Debtors	50,000
Creditors	83,750	Cash at Bank	28,000
Outstanding Expenses	4,250		
	3,83,000		3,83,000

On 31st March, 2013 Ram decided to retire and Laxman and Bharat decided to continue as equal partners. Other terms of retirement were as follows:

(i) Building be appreciated by 20%
(ii) Furniture be depreciated by 10%
(iii) A provision of 5% be created for bad debts on debtors.
(iv) Goodwill be valued at two years purchase of profit for the latest accounting year. The firm's profit for the year ended 31st March 2013 was ₹ 62,500. No goodwill account is to be raised in the books of accounts.
(v) Fresh capital be introduced by Laxman and Bharat to the extent of ₹ 25,000 ₹ 87,500 respectively
(vi) Out of sum payable to retiring partner Ram, a sum of ₹ 1,12,500 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% p.a. The loan is to be paid off by 31st March 2015.

One month after Ram's retirement Laxman and Bharat agreed to admit Ram's son Lav as a partner with 1/4th share in profit / losses. Ram agreed that the balance in his loan account be converted into Lav's capital. Ram also agreed to forgo one month's interest on his loan.

It was also agreed that Lav will bring in, his share of goodwill through book adjustment, valued at the price on the date of Ram's retirement. No goodwill account is to be raised in the books.

You are required to pass necessary Journal Entries to give effect to the above transactions and prepare Partner's Capital.

(b) The financial year of Mr. C ends on 31st March, 2013 but the stock in hand was physically verified only on 8th April, 2013. You are required to determine the value of Closing Stock (at cost) as at 31st March, 2013 from the following information.

(i) The stock (valued at cost) as verified on 8th April, 2013 was ₹ 37,500.
(ii) Sales have been entered in the Sales Day Book only after the despatch of goods and sales returns only on receipt of goods.
(iii) Purchases have been entered in the Purchase Day Book on receipt of the purchase invoice irrespective of the date of receipt of the goods.
(iv) Sales as per the sales day book for the period 1st April, 2013 to 8th April, 2013 (before the actual verification) amounted to ₹ 15,000 of which goods of a sale value of ₹ 2,500 had not been delivered at the time of verification.
(v) Purchases as per the purchase day book for the period 1st April, 2013 to 8th April, 2013 (before the actual verification) amounted to ₹ 15,000 of which goods for purchases of ₹ 3,750 had not been received at the date of verification and goods for purchases of ₹ 5,000 had been received prior to 31st March, 2013.
(vi) In respect of goods costing ₹ 12,500 received prior to 31st March, 2013, invoices had not been received up to the date of verification of stocks.
(vii)The gross profit is 20% on sales.

(c) Amit Industries Ltd. is in the business of manufacturing and export. In 2011, the Government put a restriction on export of goods exported by Amit Industries Ltd leading to impairment of its assets. Amit Industries acquired at the end of 2007, identifiable assets worth ₹800 Lakhs for

₹1,200 lakhs, the balance being treated as Goodwill. The useful life of the identifiable assets is 15 years and depreciated on straight – line basis. When Government put the restriction at the end of 2011, the Company recognized the impairment loss by determining the recoverable amount of assets at ₹544 Lakhs. In 2013, the "restriction" was withdrawn by the Government and due to this favourable change, Amit Industries Ltd estimates its recoverable amount at ₹684 Lakhs.

(i) Calculate and allocate Impairment Loss in 2011.

(ii) Compute reversal of Impairment Loss and its allocation in 2013. [8+3+4]

Solution:

(a)

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
1.	Building A/c To Revaluation A/c (Being building appreciated)	Dr.	27,500	 27,500
2.	Revaluation A/c To Furniture A/c To Provision for Doubtful Debts A/c (Being furniture depreciated by 10% and Provision for doubtful debts created @ 5% on Debtors)	Dr.	8,750	 6,250 2,500
3.	Revaluation A/c To Ram's Capital A/c To Laxman's Capital A/c To Bharat's Capital A/c (Being profit on revaluation transferred to capital accounts of partners)	Dr.	18,750	 9,375 5,625 3,750
4.	Laxman's Capital A/c Bharat's Capital A/c To Ram's Capital A/c (Being adjustment for Ram's share of goodwill)	Dr. Dr.	25,000 37,500	 62,500
5.	Bank A/c To Laxman's Capital A/c To Bharat's Capital A/c (Being fresh capital introduced by Laxman and Bharat)	Dr.	1,12,500	 25,000 87,500
6.	Ram's Capital A/c To Bank A/c To Ram's Loan A/c (Being settlement of Ram's capital on his retirement)	Dr.	1,96,875	 1,12,500 84,375
7.	Ram's Loan A/c To Lav's Capital A/c (Transfer of Ram's Loan Account to Lav's Capital Account)	Dr.	84,375	 84,375
8.	Lav's Capital A/c To Laxman's Capital A/c To Bharat's Capital A/c (Being adjustment entry passed for Lav's share of goodwill)	Dr.	31,250	 15,625 15,625

Partner's Capital Accounts

Dr. Cr.

Particulars	Ram	Laxman	Bharat	Lav	Particulars	Ram	Laxman	Bharat	Lav

	₹	₹	₹	₹		₹	₹	₹	₹
To Ram (Goodwill)	---	25,000	37,500	---	By Balan b/d	1,25,000	1,00,000	70,000	---
To Bank	1,12,500	---	---	---	,, Rev A/c	9,375	5,625	3,750	---
To Ram's Loan A/c (b.f)	84,375	---	---	---	,, Laxman (Goodwill)	25,000	---	---	---
To Balan c/d	---	1,05,625	1,23,750	---	,, Bharat (Goodwill)	37,500	---	---	---
					,,By Bank (fresh capital)	---	25,000	87,500	
	1,96,875	**1,30,625**	**1,61,250**	**---**		**1,96,875**	**1,30,625**	**1,61,250**	**---**
To Laxman (Goodwill)	---	---	---	15,625	By Balan b/d	---	1,05,625	1,23,750	---
To Bharat (Goodwill)	---	---	---	15,625	By Ram's Loan A/c	---	---	---	84,375
To Balan c/d	---	48,500	55,750	21,250	By Lav (goodwill)	---	15,625	15,625	---
	---	**1,21,250**	**1,39,375**	**84,375**		**---**	**1,21,250**	**1,39,375**	**84,375**

Working Notes:

(i) Calculation of Gaining Ratio

Partners	New ratio	Old ratio	Gain	Sacrifice
Ram		5 /10		5/10
Laxman	1/2	3 /10	1/2 - 3 /10 = 2/10	
Bharat	1/2	2/10	1/2 - 2 /10 = 3/10	

Hence, ratio of gain between Laxman and Bharat = 2:3

(ii) Value of Total Goodwill of the firm = ₹ 62,500 x 2 = ₹ 1,25,000
Ram's Share = ₹ 1,25,000 x 5/10 = ₹ 62,500
Laxman will bear = ₹ 62,500 x 2/5 = ₹ 25,000
Bharat will bear = ₹ 62,500 x 3/5 = ₹ 37,500

(iii) Lav's share of goodwill = ₹ 1,25,000 x 1/4 = ₹ 31,250
Laxman and Bharat share equal profits. Therefore, their sacrificing ratio will also be equal. Hence, each of them will be credited with ₹ 15,625.

(b)

Mr. C
Statement showing Value of Stock on 31.3.2013

	Particulars	Amount (₹)	Amount (₹)

	Stock as on 8.4.13		37,500
Add: (a)	**Cost of Goods Sold and sent Out between 1.4.13 and 8.4.13**		
	Sales in this period	15,000	
	Less: Goods sold but not delivered (at Selling Price)	2,500	
		12,500	
	Less : Gross Profit included [20% of 12,500]	2,500	10,000
			47,500
Less:	**Goods purchased and received between 1.4.13 and 8.4.13**		
(a)	Purchases in this period	15,000	
	Less : Goods not received till 8.4.13	3,750	11,250
(b)	Goods received before 31.3.13 for which the invoice is yet to be received		12,500
	Stock on 31.3.2013		**23,750**

(c) (i)Computation and allocation of Impairment Loss for the year ended 31.03.2011 (₹ Lakhs)

End of 2011	Goodwill	Identifiable Assets	Total
(a) Historical cost	400	800	1,200
(b) Accumulated/Amortization for the period 01.04.2007 to 31.03.2011	(320) (400 x 4/5)	(214) (800 x 4/15)	(534)
(c) Carrying Amount (a) – (b)	80	586	666
(d) Recoverable Amount as on 31.03.2013			544
(e) Impairment Loss			122
(f) Impairment Loss allocated first to Goodwill and balance to other assets	(80)	(42)	(122)
(g) Carrying Amount after Impairment Loss (c) – (f)	Nil	544	544

(ii) Reversal of Impairment of Loss as on 31.03.2013 (₹ Lakhs)

Particulars	Goodwill	Identifiable Assets	Total
1. Carrying Amount at the end of 2011 after recognition of Impairment Loss (as above)	Nil	544	544
2. Less: Depreciation/ Amortization for 2 years	NIL	(98) (544 x 2/11)	(98)
3. Carrying Amount at the end of 2013 (1) – (2)	NIL	446	446
4. Carrying Amount at the end of 2013 had there been no impairment (Cost – Accumulated Depreciation)	NIL	480	480
5. Recoverable Amount at the end of 2013 (Given)			684
6. Total Impairment Loss to be reversed (5) – (3)			238
7. Impairment Loss That can be reversed (4) – (3) or (6) whichever is lower			34
8. Revised Carrying Amount at the end of 2013 (3) + (7) [This amount should not exceed (4)]			480

4. (a)On 1st January, 2013, Shivaji acquired furniture on the hire-purchase system from Barcelona Aids, agreeing to pay four semi-annual installments of ₹ 800 each, commencing on 30th, June, 2013. The Cash price of the furniture was ₹ 3,010 and interest of 5% per annum at half yearly rest was chargeable. On 30th September,2013, Shivaji expresses his inability to continue and Barcelona Aids seized the property. It was agreed

that Shivaji would pay the due proportion of the installment upto the date of seizure and also a further sum of ₹ 250 towards depreciation. At the time of re-possession, Barcelona Aids valued the furniture at ₹1,500. The company after incurring ₹ 500 towards repairs of the furniture sold the items for ₹ 1,800 on 15th October, 2013.
Required: Prepare the Ledger Accounts in the books of the Vendor and the Purchaser presuming that the purchaser charges depreciation @ 10% p.a.

(b) A Ltd. was incorporated on 01.01.2013 with an authorized capital of 25 crore. The subscribers to the memorandum and articles of association subscribed for 1,000 shares of ₹ 10 each. The promoters and well wishers subscribed and paid for 49,900 equity shares of ₹ 10 each. The company took over the running business of Magadha Bros, and allotted 1,50,000 equity shares of ₹ 10 each at par. The company made a public issue of 8,00,000 equity shares of ₹ 10 each at par, ₹ 5 being payable on application, ₹ 3 on allotment and ₹2 on call. Application monies were receivable by 28.02.2013, allotment was made on 31.03.2013, allotment monies were due by 30.4.2013, first call was made on 31.5.2013; first call was due by 30.6.2013.
Public applied for in full. Allotment monies were received from all members except holders of 500 shares. Call monies were received from all members except holders of 800 shares (including those who had not paid allotment money).
After due notice, the 800 shares were forfeited on 30.9.2013. They were re-issued on 31.10.2013 at ₹ 11 per share.
You are asked to:
Record the above transactions through the Journal of A Ltd [10+5]

Solution:
(a)

Books of Shivaji
Furniture Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
01.01.13	To Barcelona Aids	3,010	30.09.13	By Depreciation A/c (10% on ₹ 3,010 for 9 months)	226
				By Barcelona Aids	1,414
				By Profit & Loss A/c (Loss)	1,370
		3,010			3,010

Barcelona Aid's Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
30.06.13	To Cash A/c	800	01.01.13	By Furniture A/c	3,010
	To Cash A/c		30.06.13	By Interest A/c	75
30.09.13	(₹ 400 + ₹ 500)	900	30.09.13	By Interest	29
30.09.13	To Furniture	1,414		(on ₹ 2,285.25 @ 5% p.a.)	
		3,114			3,114

Interest Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
30.06.13	To Barcelona Aids	75		By Profit & Loss A/c	104
30.09.13	To Barcelona Aids	29			

		104			104

An Extract of Profit and Loss Account of Shivaji

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Interest To Loss on Seizure of goods To Depreciation on Furniture	104 1,370 226			
		1,700			

Books of Barcelona Aid

Shivaji's Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
01.01.13 30.06.13 30.09.13	To Hire Purchase Sales A/c To Interest A/c (on ₹ 3,010) To Interest A/c (on ₹ 2,285.25)	3,010 75 29	30.06.13 30.06.13 30.09.13 30.09.13	By Bank A/c By Bank A/c By Profit & Loss A/c Loss on valuation of goods (repossessed) BY H.P. Goods Repossessed A/c	800 600 214 1,500
		3,114			3,114

Hire Purchase Goods Repossessed Account

Dr. Cr.

Date	Particulars	₹	Date	Particulars	₹
30.09.13 30.09.13 15.10.13	To Shivaji To Cash (Expenses) To Profit and Loss A/c (Profit on sale of repossessed goods)	1,500 250 50	15.10.13	By Cash A/c (Sales)	1,800
		1,800			1,800

An Extract of Profit and Loss Account of Barcelona Aid

Dr. Cr.

Particulars	₹	Particulars	₹
To Loss on Valuation of goods repossessed	214	By Interest on H.P. Sales By Hire Purchase Goods Repossessed A/c (Profit)	104 50

(b) **Books of A Ltd.**

Cash Book (Bank Column)

Dr. Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)

01.01. 13	To Equity Share Capital A/c [Amount received on issue of 1,000 Equity Shares of ₹ 10 each]	10,000	31.10.13	By Balance c/d	85,14,700
01.01. 13	To Equity Share capital A/c [Amount received on issue of 49,900 Equity Shares of ₹ 10 each]	4,99,000			
28.2.13	To Equity Share Application A/c [Application money received @ ₹ 5 each on 8,00,000 Equity shares]	40,00,000			
30.4.13	To Equity Share Allotment A/c [Allotment money received @ ₹ 3 per share except on 500 shares]	23, 98,500			
30.6.13	To Equity Share First Call A/c [First Call received except on 800 shares]	15,98,400			
31.10.13	To Re-Issue A/c [Amount received on re-issue of 800 shares @ ₹ 11 each]	8,800			
		85,14,700			85,14,700

Journal Entries

Date	Particulars	L. F.	Dr. Amount ₹	Cr. Amount ₹
01.01.13	Business Purchase A/c…………………………..Dr. To Equity Share Capital A/c [1,50,000 Equity Shares of ₹ 10 each issued at par to Magadha Bros, as purchase consideration for their business taken over]		15,00,000	 15,00,000
28.02.13	Equity Share Application A/c……………..........Dr. To Equity Share Capital A/c [Application money transferred on 8,00,000 shares @ ₹ 5 each as per Board's Resolution No.... dated....]		40,00,000	 40,00,000
31.03.13	Equity Share Allotment A/c……………………Dr. To Equity Share Capital A/c [Allotment money on 8,00,000 shares @ ₹ 3 per share transferred as per Board's Resolution No…..dated…..]		24,00,000	 24,00,000
31.05.13	Equity Share First Call A/c……………………...Dr. To Equity Share Capital A/c [First Call made on 8,00,000 shares @ ₹ 2 per share and the amount transferred as per Board's Resolution No...dated....]		16,00,000	 16,00,000
30.09.13	Equity share capital A/c…………………….….Dr. To Equity Share Allotment A/c [500 x ₹ 3] To Equity Share First Call A/c [800 x ₹ 2] To Forfeited Share A/c [800 shares of ₹ 10 each, fully called forfeited for non payments of allotment on 500 shares and first call on 800 shares as per....]		8,000	 1,500 1,600 4,900
31.10.13	Re- Issue A/c [800 x ₹11]……………………...Dr. To Equity share capital A/c [800 x ₹10] To Securities Premium [800 x Re 1]		8,800	 8,000 800

	[800 forfeited shares re-issued at a premium as per Board's resolution No……dated……]			
31.10.13	Forfeited shares A/c……………………………Dr. To capital reserve A/c [Profit on re- issue of forfeited shares transferred to Capital reserve]		4,900	4,900

Working Notes:

1. Amount Forfeited

	₹
Share applications Received [800 x ₹5] Share Allotment received [300 x ₹3]	4,000 900
	4,900

5. (a) The Promoters of proposed Air Ltd. purchased a running business on 01.01.2013 from Pollution Ltd. Air Ltd. was incorporated on 1st May 2013. The combined Profit and Loss Account of the company prior to and after the date of incorporation is as under:

Profit and Loss account for the year ended 31st December, 2013

Particulars	Amount ₹	Particulars	Amount ₹
To Rent, Rates & Salaries etc.	**9,000**	**By Gross Profit**	**1,50,000**
To Directors' sitting Fees	**4,900**	**By Discount received from Creditors**	**6,000**
To Preliminary Expenses	**3,600**		
To Carriage Outwards	**6,500**		
To Interest Paid to Vendors	**12,000**		
To Net Profit	**1,20,000**		
	1,56,000		**1,56,000**

Following further information is available:

(i) Sales up to 31.04.2013 were ₹3,00,000 out of total sales of rs.15,00,000 for the year.

(ii) Purchase up to 31.04.2013 were ₹3,00,000 out of total purchase of ₹9,00,000 for the year.

(iii) Interest paid to vendors on 1st November, 2013 @ 12% p.a. ₹1,00,000 being purchase consideration.

Prepare a profit & Loss Account for the year ended 31st December, 2013 showing the profits earned prior to and after incorporation showing the transfer of the same to appropriate accounts.

(b) A Head Office of Bombay has a Branch at Madras in charge of a manager. The ratio of gross profit on turnover at the Breach was 25 per cent throughout the year. The Branch Manager is entitled to a commission of 10% of the profit earned by the Branch calculated before charging his commission, but subject to a deduction from such commission a sum equal to 50% of any ascertained deficiency on Branch Stock. All goods were supplied by the Head Office to the Branch.

From the following figures extracted from the Branch Books, calculate the commission due to the manager for the year ended 31st December, 2013.

	₹
Stock on 1.1.13 at Selling Price	**20,806**
Goods received from Head Office at Cost	**54,360**
Sales	**73,200**
Establishment Expenses	**11,250**

Drawings by Manager against commission	500
Stock on 31.12.13 at selling price	19,900

(c) Best Ltd. gives you the following information to find out Total Sales and Total Purchases:

Particulars	₹	Particulars	₹
Debtors as on 01.01.2012	65,000	Discount allowed by suppliers	8,000
Creditors as on 01.04.2012	80,000	Discount allowed to customers	10,000
Bills receivable received during the year	45,000	Endorsed bills receivable dishonoured	5,000
Bills receivable issued during the year	52,000	Sales return	9,000
Cash received from customer	1,55,000	Bills receivable discounted	8,000
Cash paid to suppliers	1,70,000	Discounted bills receivable dishonoured	3,000
Bad debts recovered	16,000	Cash sales	1,68,000
Bills receivables endorsed to creditors	28,000	Cash purchase	1,95,000
Bills receivables dishonoured by customers	6,000	Debtors as on 31.03.2013	83,000
		Creditors as on 31.03.2013	95,000

[5+5+5]

Solution:

(a) Working Notes:

(i) Sales Ratio between Pre- Incorporation and Post – Incorporation periods = 3,00,000 : 12,00,000 = 1 : 4.

(ii) Purchase Ratio = 3,00,000: 6,00,000 = 1: 2.

(iii) Time Ratio = 4 months: 8 months = 1: 2.

(iv) Time ratio regarding interest on purchase consideration = 4 months: 6 months (1.5.2013 to 31.10.2013) = 2 : 3.

Air Ltd.
Profit & Loss Account for the year ended 31.12.2013

Dr. **Cr.**

Particulars	Pre-Incorporation 01.01.13 to 31.04.13 ₹	Post-Incorporation 01.05.13 to 31.12.13 ₹	Particulars	Pre-Incorporation 01.01.13 to 31.04.13 ₹	Post-Incorporation on 01.05.13 to 31.12.13 ₹
To Rent, Rate & Salaries [9,000 in time Ratio 1 : 2]	3,000	6,000	By gross Profit [1,50,000 as 1 : 4]	30,000	1,20,000
To Directors' Sitting Fees	-	4,900	By Discount Received from Creditors [6,000 as 1 : 2] (Purchase Ratio)	2,000	4,000
To Preliminary Expenses	*3,600	-			
To Carriage Outward [6,500 in sales Ratio 1 : 4]	1,300	5,200			
To Interest on Purchase consideration [2 : 3]	4,800	7,200			
To Capital Reserve	19,300				

To Balance c/f		1,07,900			
	32,000	1,24,000		32,000	1,24,000

* In this problem Pre- Incorporation Profits have been used to write off preliminary expenses before any balance is transferred to capital reserve. Students can charge such expenses against Post- Acquisition Profits also. In that case transfer to capital reserve should be ₹22,900.

(b) Note:

The Branch Manager's commission depends on two aspects:

(1) The Net Profit of the Branch and (2) any ascertained deficiency on Branch Stock.

No specific method for showing these two aspects have been prescribed.

Let us prepare the Branch Stock Account (Columnar) and the Profit & Loss Account.

Books of ……………………… Head Office at Bombay

Memorandum Branch Stock Account

Dr. **Cr.**

Particulars	I.P. ₹	C.P. ₹	Particulars	I.P. ₹	C.P. ₹
To Balance b/f [C.P. = 20,806 x ¾]	20,806	15,605	By Sales A/c	73,200	73,200
`` Goods sent to Branch A/c [S.P. = 54,360 x 4/3]	72,480	54,360	`` Stock Deficiency A/c [S.P./I.P. = Bal. Fig. = 186 C.P. = 186 x ¾]	186	140
`` Branch Profit & Loss A/c (Gross Profit)		18,300	`` Balance c/f: [C.P. = 19,900 x ¾]	19,900	14,925
	93,286	88,265		93,286	88,265

Branch Profit & Loss Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Stock Deficiency A/c `` Establishment Expenses ``Balance c/d (Net Profit before Commission)	140 11,250 6,910	By Branch Stock A/c (Gross Profit)	18,300
	18,300		18,300
To Manager's Commission [Note 2] `` General P/L A/c [Br. Net Profit]	621 6,289	By Balance b/d	6,910
	6,910		6,910

Workings:

(i) Here Ratio of Gross Profit included in Selling Price = 25%

∴ Cost Price = 75% or ¾ of Selling Price (or Invoice Price) and Selling Price = 4/3 of Cost Price.

(ii) Branch Manager's Commission

Particulars	₹	₹

10% of Net Profit before charging Commission [10% of 6,910]	691	
Less: Deduction @ 50% of Stock Deficiency [50% of 140]	70	
Net Commission Payable		621
Less: Commission already Drawn		500
Outstanding Commission		121

(c)

Dr. **Total Debtors Account** **Cr.**

Particulars	₹	Particulars	₹
To balance b/d (given)	65,000	By Cash/ Bank A/c (Cash received)	1,55,000
To Bills Receivable A/c (Dishonoured)	6,000	By Discount Allowed A/c	10,000
To Creditors A/c (Dishonour of endorsed B/R)	5,000	By Bills Receivable A/c (B/R Received)	45,000
To Bank A/c (Discounted B/R dishonoured)	3,000	By Sales Returns A/c	9,000
To Sales A/c. (Bal Fig = Credit Sales)	2,23,000	By balance c/d (given)	83,000
	3,02,000		**3,02,000**

Dr. **Total Creditors Account** **Cr.**

Particulars	₹	Particulars	₹
To Cash/ Bank A/c (Payment)	1,70,000	By balance b/d (given)	80,000
To Discount received A/c	8,000	By Debtors A/c (dishonour of endorsed B/R)	5,000
To Bills payable A/c (issued)	52,000	By Purchase A/c (Bal Fig = Credit Purchase)	2,68,000
To Bills receivable (endorsement)	28,000		
To balance c/d (given)	95,000		
	3,53,000		**3,53,000**

Total Sales = Credit Sales + Cash Sales = ₹ (2,23,000 + 1,68,000) = ₹ 3,91,000
Total Purchase = Credit Purchase + Cash Purchase = ₹ (2,68,000 + 1,95,000) = ₹ 4,63,000

6. (a) The following is the Receipts and Payments Account of the East Bengal Club for the year ended December, 31, 2013:

Receipts	₹	Payment	₹
Cash in hand	**2,000**	**Remuneration to Club Coach**	**4,000**
Balance at Bank as per Pass Book:		**Groundman's Pay**	**3,000**
		Purchase of Equipments	**15,500**
Savings A/c	**19,300**	**Bar Room Expenses**	**2,000**
Current A/c	**6,000**	**Ground Rent**	**2,800**
		Club Night Expenses	**4,000**
Bank Interest	**500**	**Printing & Stationery**	**3,000**
Entrance Fees	**1,800**	**Repairs to Equipments**	**5,000**
Donations & Subscriptions	**25,000**	**Honoraria to Secretary for the year 2013**	**4,000**
Bar Room Receipts	**4,000**		
Contribution to Club Night	**1,000**	**Balance at Bank as per Pass Book:**	
Sale of Equipment	**800**	**Savings A/c**	**20,400**
Net Proceeds of Club Night	**7,800**	**Current A/c**	**2,000**
		Cash in hand	**2,500**
	68,200		**68,200**

You are given the following additional information:

	1.1.13	31.12.13
(i) Subscription due from members	**1,500**	**1,000**
(ii) Sums due for Printing & Stationery	**1,000**	**800**
(iii) Unpresented cheques on Current A/c, being payments for repairs	**3,000**	**2,500**
(iv) Interest on Savings Account not entered in Pass Book	**---**	**200**
(v) Estimated value of Equipments	**8,000**	**17,500**
(vi) For the year ended 31st December, 2013, the honoraria to secretary are to be increased by a total of ₹ 2,000 and the grounds' man is to receive a bonus of ₹ 2,000.		

You are required to prepare: (a) an Income & Expenditure Account for the year ended 31st December, 2013 and (b) a Balance Sheet on that date.

(b) Ghuri Ltd undertook a Contract to construct a building for ₹ 85 Lakhs. At the end of the financial year, the Company found that it had already spent ₹ 65,99,000 on Construction. Prudent estimate of the additional cost for completion was ₹ 33,01,000. What is the additional provision for foreseeable loss which must be made in the final accounts for the year ended 31st March? If the progress billings received were ₹ 50 Lakhs on 31st March, what is the amount due from / to customers? [8+7]

Solution:

(a)

Working Notes:

(i) Calculation of Bank Balance as per Cash Book:

	Savings Account		Current Account	
	1.1.13	31.12.13	1.1.13	31.12.13
	₹	₹	₹	₹
Balance as per Pass Book	19,300	20,400	6,000	2,000
Add: Interest on Savings Account not entered in Pass Book		+ 200		
Less: Unpresented Cheques on Current Account			-3,000	-2,500
Balances as per Cash Book	19,300	20,600	3,000	500(O/D)

(ii) Annual Depreciation on Equipment

	₹	₹
Value on 1.1.2013	8,000	
Add: Purchase during '13	15,500	23,500
Less: Sale of Equipment		800
Closing Value on 31.12.2013	17,500	18,300
		5,200

(iii) Calculation of Opening Capital Fund (on 1.1.2013)

Balance Sheet as on 1.1.2013

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Outstanding Liabilities for: Printing & Stationery	 1,000	Cash in hand Cash at Bank:	2,000

Honoraria to Secretary	4,000	Savings Account	19,300
Capital Fund	28,800	Current Account	3,000
[Excess of Assets over Liabilities]		Subscriptions Due	1,500
		Equipment	8,000
	33,800		33,800

East Bengal Club
Income and Expenditure Account for the year ended 31.12.13

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Remuneration to Coach		4,000	By Bank Interest	500	
`` Groundman's Pay		3,000	Add: Not recorded	200	700
`` Outstanding Bonus to Ground man		2,000	`` Entrance Fees (not capitalized)		1,800
`` Ground Rent		2,800	`` Donation & Subscriptions:	25,000	
`` Club Night Expenses		4,000	Add: Due for '13	1,000	
`` Printing & Stationery	3,000			26,000	
Add: Due for '13	800		Less: Due for '12	1,500	24,500
	3,800		`` Income From Bar Room:		
Less: Due for '12	1,000	2,800	Receipts	4,000	
`` Repairs to Equipment	5,000		Expenses	2,000	2,000
Add: Unpresented Cheque for '13	2,500		`` Contribution to Club Night		1,000
	7,500		`` Net Proceeds of Club Night		7,800
Less: Unpresented cheque for '12	3,000	4,500			
`` Honoraria to Secretary	4,000				
Less: Paid for 2012	4,000				
	Nil				
Add: Outstanding for 2013 [4,000 + 2,000]	6,000				
`` Depreciation on Equipment		6,000			
`` Surplus (Excess of Income over		5,200			
expenditure)		3,500			
		37,800			37,800

Balance Sheet as on 31.12.2013

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Outstanding Liabilities for:			Cash in hand		2,500
Printing & Stationery	800				
Honoraria to Secretary	6,000		Cash at Bank:		
Groundman's Bonus	2,000	8,800	Savings Account		20,600
Bank Overdraft as per Current A/c		500	Subscriptions due		1,000
Capital Fund : Opening Balance	28,800		Equipments		17,500
Add: Surplus	3,500	32,300			
		41,600			41,600

(b) Estimated Total Contract Costs = Cost till date + Further Costs= ₹ 65,99,000+₹ 33,01,000= ₹ **98,00,000**

Percentage of Completion = Cost incurred till date + Estimated Total Costs = 65.99 ÷ 98.00 = **67%**

Total Expected Loss to be provided for = Contract Price - Total Costs = ₹ 85 – ₹ 98 = **₹13,00,000.**

Contract Revenue	[67% of ₹ 85 Lakhs]	= ₹ 56,95,000
Less: Contract Costs		= ₹ 65,99,000
Loss on Contract		= ₹ 9,04,000

Less: Further provision required in respect of expected loss = ₹ **3,96,000** **(Bal. Figure)**
Expected Loss recognized = ₹ 13,00,000

Amount due from / to customers = Contract Costs + Recognized Profits - Recognized Losses - Progress Billings = 65,99,000 + Nil – ₹ 13,00,000 – ₹ 50,00,000 = ₹ 2,99,000 Amount Due From Customers.

This amount of ₹ 2,99,000 will be shown in the Balance Sheet as a Asset.

The relevant disclosures under AS - 7 are as follows -

Particulars	**Computation**	**Amount (₹)**
(a) Contract Revenue		56,95,000
(b) Contract Expenses		65,99,000
(c) Loss on Contract		(9,04,000)
(d) Expected Losses	(as provided for above)	3,96,000
(e) Recognized Profits less Recognized Losses		13,00,000
(f) Progress Billings	(presumed fully billed & received)	50,00,000
(g) Retentions	(billed but not received from Contractee)	Nil
(h) Gross Amount due to Customers	(as calculated above)	2,99,000

7. (a) ICICI Lombard, a Insurance Company commenced its business on 1.4.2012. It submits you the following information for the year ended 31.3.2013:

	₹
Premium received	**15,00,000**
Re-insurance premium paid	**1,00,000**
Claim paid	**7,00,000**
Expenses of Management	**2,50,000**
Commission paid	**1,00,000**
Claims outstanding on 31.3.2013	**1,00,000**

Create reasons for unexpired risk @ 40%.
Prepare Revenue Account for the year ended 31st March, 2013.

(b) The Trial Balance of S. Auddy as on 31.12.2013 did not agree and the difference was transferred to a Suspense Account.
Subsequently the following errors were detected:
(i) The total of one page of the Sales Day Book was carried forward to the next page as ₹4,513 instead of ₹ 4,531.
(ii) The total of the Purchase Day Book was undercast by ₹400.
(iii) A Cash discount of ₹ 150 received from a creditor was debited to Discount account.
(iv) ₹1,450 spent on repairs of Delivery Van was debited to Motor Vehicles Account.
(v) ₹300 received from M. Ghosh was debited to the Account of N. Ghosh in the Sales Ledger.
(vi) Goods worth ₹700 returned by Islam were not entered in the books at all.

(c) Mention three names of Intangible Assets other than goodwill, patents and copy right.
[6+6+3]

Solution: (a)

Form B - RA (Prescribed by IRDA)

Name of the Insurer: ICICI Lombard Ltd.
Registration No. and Date of Registration with IRDA...
Revenue Account for the year ended 31st March, 2013

Particulars	Schedule	₹
Premiums earned – net	1	8,40,000
Total (A)		8,40,000
1. Claims Incurred (Net) 2. Commission 3. Operating Expenses	2 3 4	8,00,000 1,00,000 2,50,000
Total (B)		11,50,000
Operating Profit / (Loss) from Insurance Business C = (A - B)		(3,10,000)

Schedule 1 — Premium Earned (Net)

Particulars	₹
Premiums Received Less: Re – Insurance premium paid	15,00,000 1,00,000
Net Premium Adjustment for changes in Reserved for unexpired risk (Nil - *₹ 5,60,000)	14,00,000 (5,60,000)
	(3,10,000)

Schedule 2 — Claims Incurred (Net)

Particulars	₹
Claims Paid Add: Claim outstanding at the end of the year	7,00,000 1,00,000
Total	8,00,000

Schedule 3 — Commission

Particulars	₹
Commission Paid	1,00,000

Schedule 4 — Operating Expenses

Particulars	₹
Expenses of Management	2,50,000

*40% of ₹ 14,00,000 = ₹ 5,60,000.

(b) **Books of S. Auddy**
Journal

Date	Particulars	L. F.	Dr. Amount ₹	Cr. Amount ₹
31.12.13	(i) SuspenseA/c……………………………………..Dr. To Sales A/c [Sales Account under credited, now rectified]		18	 18
	(ii) PurchaseA/c……………………………………Dr. To Suspense A/c [Total of Purchase day Book undercast by ₹400, now rectified]		400	 400
	(iii) Suspense A/c…………………………………..Dr. To discount (Allowed) A/c To discount received A/c [Cash discount of ₹150 received from a creditor wrongly debited to discount Account, now		300	 150 150

	rectified]			
	(iv) RepairsA/c……………………………………Dr. To Motor vehicles A/c [Amount spent on repair of Delivery Van wrongly debited to Motor Vehicles Account, now rectified]		1,450	 1,450
	(v) Suspense A/c………………………………. Dr. To M. Ghosh A/c (Debtors) To N. Ghosh A/c (Debtors) [₹300 received from M. Ghosh debited to N. Ghosh Account, now rectified]		600	 300 300
	(vi) Return Inward A/c…………………………… Dr. To Islam A/c [Return Inward from Islam omitted to be recorded, now entered]		700	 700

(c) Name the three Intangible Assets other than goodwill patents and copyright:-

(i) Costs of research and development.
(ii) Payments on Accounts
(iii) Concessions, Licenses, Trade Marks and similar rights and assets.

8. Write on short notes (any 3) [3 x 5 = 15]

(a) Conditions of Buy Back
(b) Maintenance of the Cash Reserve under section 18 of the Banking Companies
(c) Valuation of Inventory (As – 2)
(d) Capital Redemption Reserve

Solution:

(a) Conditions of Buy Back:

Conditions to be fulfilled:

(i) The buy-back must be authorized by the Articles
(ii) The special resolution must be passed in the General Meeting of shareholders.

OR

The Board must pass a resolution at its meeting where the buy-back does not exceed 10% of the total equity paid up capital and free reserves of the company. **Note:** Minimum Time Interval between Two buy-back made in pursuance of Board's Resolution—No offer of such buy back must be made within a period of 365 days from the date of preceding offer of buy-back.

(iii) All the shares for buy-back must be fully paid-up.
(iv) The Company must file solvency declaration with the Registrar and SEBI in the form of an affidavit signed by at least two directors of the company. The affidavit must state that the Board has made full inquiry into the affairs of the company as a result of which they have formed an option that the company is capable of meeting its liabilities and will not render insolvent within a period of one year from the date of declaration adopted by the Board [77A(6)].
(v) Buy-back must be as per SEBI Guidelines
(vi) The buy-back must be completed within 12 months from the date of passing the Special Resolution/Board's Resolution.
(vii) Transfer of Certain Sums to Capital Redemption Reserve Account—Where a company purchases its own shares out of free reserves, than a sum equal to the nominal value of the shares so purchased shall be transferred to the Capital Redemption Reserve Account referred to in Clause (d) of the proviso to Sub-section (1) of Section 80 and details of such transfer shall be disclosed in the Balance Sheet.

(viii) The shares acquired through 'Buy Back' process should be expunged and destroyed within 7 days.

(ix) Further issue of same class of shares , as bought back , is not permitted within 24 months from the date of completion of buy back . The company may, however , issue bonus shares or sweat equity shares or convert warrants or debentures into shares.

Three Tests Conditions

(x) Maximum Debt-Equity Ratio—The debt-equity ratio must not be more than 2:1 after such buy-back.
Here, Debt = Secured + Unsecured Debt, Equity = Capital + Free Reserves, Free Reserves = Free Reserves as per Sec 372A which includes Securities Premium as per Sec 78 also.

(xi) Maximum Limit of Amount of Equity Shares to be bought back—The buy-back of the shares must not exceed 25% of total paid-up capital and free reserves.

(xii) Maximum Limit of Number of Equity Shares to be bought back in any Financial Year—The buy-back of equity shares in any financial year must not exceed 25% of its total paid up equity capital.

(b) Maintenance of Cash Reserve [Section 18]

Every non-scheduled bank has to maintain a cash reserve atleast to the extent of at % prescribed (by RBI) of its demand and time liabilities in India on the last Friday of the second preceding fortnight.

Cash reserve can be maintained by way of balance in a current account with the Reserve Bank of India or by way of net balance in current accounts.

Every non-scheduled bank has to submit a return showing the amount so held for cash reserve along with the particulars of its demand and time liabilities in India on such Friday before 20th day of every month.

If any such Friday is a holiday under the Negotiable Instruments Act 1881, such return is to be sent at the close of business on the preceding working day.

Every Scheduled Commercial Bank has to maintain cash reserve as per direction of the RBI issued under Section 42 (IA) of the Reserve Bank of India Act, 1934.

(c) Valuation of Inventory (AS – 2)

Inventories are lower of cost or net realizable value. Disclosure under AS – 2 are given below:

(i) Accounting policy adopted in measuring inventories.

(ii) The cost formula used.

(iii) Inventory Commonly classified as Raw Materials and components, WIP, Finished goods and Stores, Spares and Lose tools.

(iv) Scheduled VI and AS- 2 disclosure are at par. As- 2 does not permit LIFO method (tends to undervalues thus reducing profit and tax liability) in contrast with IAS and US GAAP which allows LIFO along with FIFO/ Weighted Average.

(d) Capital Redemption Reserve Account

When a company seeks to redeem preference shares it can be 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 reserve of shares becomes a free reserve and can be utilized to issue bonus shares etc.