# Paper 5- Financial Accounting

**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 x 10]**

**(i) In a production process, normal waste 5% of input , 5,000 Mt of input were put in process resulting in a wastage of 300 MT. Costs per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end. State with reference to Accounting Standard, how will you value the inventories in this case?**

**(ii)**

| | |
|---|---|
| Cost of Machine | ₹ 1,30,000 |
| Residual value | Nil |
| Useful Life | 10 years |
| Method of Depreciation in use | Straight Line method |
| After 8 years, the machine was revalued to | ₹ 80,000 |

**Computation of Depreciation as per AS – 6.**

**(iii) A computerized machinery was purchased by two companies jointly. The price shared equally. It was also agreed that they would use the machinery equally and show in their Balance Sheets, 50% of the value of machinery and charge 50% of the depreciation in their respective books of account. Whether the accounting treatment followed by the companies is correct or not.**

**(iv) On 1st April 2012, a head office purchased a plant costing ₹ 66,000 for the branch. On 1st January 2013, the branch purchased furniture for ₹10,000. The rate of depreciation on plant is 33-1/3% p.a. and on furniture 10% p.a. The accounting year of the head office and branch is the financial year.**
**Required: Give the necessary journal entries in the books of H.O.,if fixed assets accounts are maintained at Head Office**

**(v) Sterling Ltd. purchased a plant for US $20,000 on 31st December, 2012 payable after 4 months. The company entered into a forward contract for 4 months @₹ 48.85 per dollar. On 31st December, 2012, the exchange rate was ₹47.50 per dollar.**
**How will you recognize the profit or loss on forward contract in the books of Sterling Limited for the year ended 31st March, 2013.**

**(vi) An industry borrowed ₹40,00,000 for purchase of machinery on 1.6.2012. Interest on loan is 9% per annum. The machinery was put to use from 1.1.2013. What is the amount to be charged for the year ended 31.3.2013 to record the borrowing cost of loan as per AS 16.**

**(vii)Indian Insurance Co. Ltd. Furnishes you with the following information:**
**During 2013, the following business was conducted:**

**[₹ in crores]**

| Particulars | Marine | Fire | Misc |
|---|---|---|---|
| Premia Collected From:<br>(a) Insureds in respect of policies issued | 18.0 | 43.0 | 12.0 |

| | | | |
|---|---|---|---|
| (b) Other insurance companies in respect of risks undertaken | 7.0 | 5.0 | 4.0 |
| Premia paid/ payable to other insurance companies on business ceded | 6.7 | 4.3 | 7.0 |

**Calculate the Net premium Income**

**(viii) Earth Traders sells goods on hire purchase basis @ cost plus 33 1/3% and provides you the following particulars for the year:**

| | Opening ₹ | Closing ₹ |
|---|---|---|
| Stock out on Hire | 40,000 | 46,000 |
| Stock at shop | 5,000 | 7,000 |
| Installments Due (Customer still paying) | 3,000 | 5,000 |

**Cash received from hire purchaser during the year amounted to ₹ 80,000. Prepare Goods Sold on Hire Purchase Account.**

**(ix) From the following information, calculate the profit or loss on sale of debentures, if method of valuation is Weighted Average:**
**1.4.2013 Balance: 100, 12% Debentures of ₹ 100 each @ ₹ 95**
**5.4.2013 Purchased: 150, 12% Debentures of ₹ 100 each @ ₹ 90 Ex.**
**6.4.2013 Sold: 200, 12% Debentures of ₹ 100 each @ ₹ 93 Ex.**

**(x) On 12th June, 2013, a fire occurred in the premises of Amit, a paper merchant. Most of the stocks were destroyed, cost of stock salvaged being ₹ 20,000. Estimated value of the stock at the date of fire is ₹ 1,60,000. Amit has insured his stock for ₹ 1,20,000. Compute the amount of the claim .**

**Solution:**

**(i)** As per AS – 2 , abnormal amounts of waste materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.

**Calculation of Value of inventories**

| Particulars | Qty (MT) | Amount (₹) |
|---|---|---|
| Total Cost<br>Less: Normal Waste @ 5% | 5,000<br>(250) | 50,00,000<br>- |
| Total Cost of expected Input | 4,750 | 50,00,000 |
| Less: Cost of Abnormal waste to be charged to profit & Loss A/c [(50,00,000 /4,750) x 50] | (50) | (52,632) |
| Cost of Inventory left | 4,700 | 49,47,368 |

**(ii)** **Computation of Depreciation**

| | Particulars | Amount (₹) |
|---|---|---|
| A | Original Cost | 1,30,000 |
| B | Less: Aggregate Depreciation upto 8 years[ (₹ 1,30,000 – Nil) x 8/10 | 1,04,000 |
| C | Existing un amortized Depreciable Amount (A – B) | 26,000 |
| D | Add: Profit on Revaluation (80,000 -26,000) | 54,000 |
| E | Revised unamortized depreciable amount (C+D) | 80,000 |
| F | Depreciation for 9th year (₹ 80,000 / 2) | 40,000 |

**Note:** Remaining useful life is 2 years

**(iii)** As per AS 10 in case of fixed assets owned jointly by enterprises, The extent of the entity's share in such assets, and the original cost, accumulated depreciation and written down value should be stated in the Balance Sheet in the proportion in which the entity has right to utilize the asset.

Alternatively, AS – 10 also recommends, Pro rata cost of such jointly owned assets may be grouped together with similar fully owned assets and appropriate disclosure of the same should be made.

Accordingly, the treatment followed by the companies reflecting 50% of the value of the machinery and charging 50% in their respective books of accounts is proper. However, such jointly owned assets should be indicated, separately in the Fixed Asset Register maintained by the company.

**(iv) If Fixed assets Accounts are maintained at H. O.**

**a. Journal of Head Office**

| Date | Particulars | L.F. | Dr.(₹) | Cr.(₹) |
|---|---|---|---|---|
| 01.04.2012 | Branch plant A/c<br>To Cash A/c<br>(Being the Plant purchased for Branch) | | 66,000 | <br>66,000 |
| 01.01.2013 | Branch Furniture A/c<br>To Branch A/c<br>(Being the Furniture purchased by Branch) | | 10,000 | <br>10,000 |
| 31.03.2013 | Branch A/c<br>To Branch Plant A/c<br>To Branch Furniture A/c<br>(Being the depreciation provided) | | 22,250 | <br>22,000<br>250 |

**(v) Calculation of Profit or Loss to be recognized in the books of Sterling Limited**

| Particulars | ₹ |
|---|---|
| Forward contract rate | 48.85 |
| Less: Spot rate | 47.50 |
| Loss | 1.35 |
| Forward Contract Amount | $20,000 |
| Total loss on entering into forward contract = ($20,000 x ₹1.35) | ₹27,000 |
| Contract period | 4 months |
| Loss for the period 1st January, 2013 to 31st March, 2013 i.e.<br>3 months falling in the year 2012-2013 will be ( ₹ 27,000 x 3/4) | 20,250 |

Balance loss of ₹6,750 (i.e. ₹ 27,000 - ₹ 20,250) for the month of April, 2013 will be recognized in the financial year 2013-2014.

**(vi)**

| Particulars | ₹ |
|---|---|
| (a) Interest upto 31.3.2013 (40,00,000 x 9% x 10/12 months) | 3,00,000 |
| (b) Less: interest relating to pre-operative period to be capitalized<br>[3,00,000 x 7/10] | 2,10,000 |
| Amount to be charged to P & L A/c [3,00,000 x 3/10] | 90,000 |

**(vii) Calculation of Net Premium Income** **[₹ in crores]**

| Particulars | Marine | Fire | Misc |
|---|---|---|---|
| Premia collected from Policy holders | 18.00 | 43.00 | 12.00 |
| Premia collected from other insurance companies | 7.00 | 5.00 | 4.00 |
| | 25.00 | 48.00 | 16.00 |
| Less: Premia Paid/ Payable to other Insurance companies | 6.70 | 4.30 | 7.00 |
| | 18.30 | 43.70 | 9.00 |

**(viii)**

**Goods Sold on Hire Purchase Account**

**Dr.** **Cr.**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Shop Stock A/c (b.f.) | 66,000 | By Hire Purchase Trading A/c | 88,000 |
| To Hire Purchase Trading A/c $[88{,}000 \times \frac{33\frac{1}{3}}{133\frac{1}{3}}]$ | 22,000 | | |
| | 88,000 | | 88,000 |

**Working Notes:**

**Memorandum Hire Purchase Stock Account**

**Dr.** **Cr.**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Balance b/d | 40,000 | By Hire Purchase Debtors A/c | 82,000 |
| To Goods Sold on Hire Purchase (b.f.) | 88,000 | By Balance c/d | 46,000 |
| | 1,28,000 | | 1,28,000 |

**Memorandum Hire Purchase Debtors Account**

**Dr.** **Cr.**

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| To Balance b/d | 3,000 | By Bank A/c | 80,000 |
| To Hire Purchase Stock A/c (b.f.) | 82,000 | By Balance c/d | 5,000 |
| | 85,000 | | 85,000 |

**(ix)**

| Particulars | Weighted Average ₹ |
|---|---|
| A. Sale Proceeds of 200 Debentures | 18,600 |
| B. Less: Cost of 200 Debentures<br>Weighted Average: $\left[\frac{(100 \times ₹\,95)+(150 \times ₹\,90)}{250} \times 200\right]$ | 18,400 |
| C. Profit [A – B]<br>D. Value of Closing Balance | 200 |

| | |
|---|---|
| Weighted Average: $\left[\frac{(100 \times ₹\,95)+(150 \times ₹\,90)}{250} \times 50\right]$ | 4,600 |

**(x)** **Statement of claim**

| **Particulars** | ₹ |
|---|---|
| A. Estimated Value of Stock as at date of fire | 1,60,000 |
| B. Value of Salvaged Stock & damaged Stock | 20,000 |
| C. Estimated Value of Stock lost by fire (A – B) | 1,40,000 |
| D. Average clause is not applying here. Because Estimated value of stock is higher than Insured stock amount. | |

**Working Note:** Calculation of the value of Closing Stock as on the date of fire

## Section – B
## [Answer any 5 questions]

**2 (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 & Telephone** | **2,000** | **By Contribution for Dinner** | **36,000** |
| **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 31.12.2012** | **16,000** | **The club owned a building since 2012** | **1,90,000** |
| **Subscriptions outstanding on 31.12.2013** | **18,000** | **The club had sports equipments on 31.12.2012 valued at** | **52,000** |
| **Subscriptions received in advance on 31.12.2012** | **13,000** | **At the end of the year after depreciation of ₹ 7,000 equipments amounted to** | **63,000** |
| **Subscriptions received in advance on 31.12.2013** | **8,400** | **In 2012, the club had raised a bank loan which is still unpaid** | **30,000** |
| **Salary outstanding on 31.12.2012** | **6,000** | **Cash in hand on 31.12.2013** | **28,500** |
| **Salary outstanding on 31.12.2013** | **8,000** | **Audit fees for 2013 not paid** | **2,500** |
| **Audit fees for 2006 paid during 2013** | **2,000** | | |

**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) 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?**

**(c) Describe the objectivity and applicability of AS -7.** **[10+3+3]**

**Solution:**

**(a)** **Bombay Club**

**Receipts and Payments Account for the year ended 31.12 2013**

| Receipts | ₹ | Payments | ₹ |
|---|---|---|---|
| To Balance c/d (balancing figure) | 13,600 | By Salaries (Note 3) | 1,18,000 |
| To subscriptions (Note 2) | | By Printing and Stationery | 6,000 |
| To Entrance Fees | 1,63,400 | By Postage & Telephone | 2,000 |
| To Contribution for Dinner | 4,000 | By General Expenses | 12,000 |
| | 36,000 | 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 31.12 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 31.12 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 Accounts**

**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 | To, 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<br>Add: outstanding of 2012 | 1,20,000<br>6,000 |
| Less: outstanding of 2013 | 1,26,000<br>8,000 |
| | 1,18,000 |

(iv) **Sports Equipment**

| | |
|---|---|
| Closing Balance<br>Add: Depreciation | 63,000<br>7,000 |
| Less: Opening balance | 70,000<br>52,000 |
| Purchases | 18,000 |

**(b) Journal Entries (₹ In lakh)**

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

**(c) Objective:** Accounting for long-term construction contracts involves question as to when revenue should be recognized and how to measure the revenue in the books of contractor. There may be following two ways to determine profit or loss:

- On year to year basis based on percentage of completion or
- On completion of the contract.

However, the revised standard has eliminated the existing option, by adopting only percentage of completion method for recognizing the revenue. And this method justifies the accrual system of accounting which is fundamental accounting assumption. The primary objective of this AS is the allocation of 'contract revenue' and contract cost to the accounting period in which construction work is performed.

**Applicability:** This Standard is applicable in accounting for construction contracts in contractor's financial statements. In other words the AS does not apply to customer (Contractee). This would not be applicable for the construction projects undertaken by the enterprise on its own account as a commercial venture in the nature of production activities.

**3 (a) From the following two statements, prepare Consignment A/c and Consignee's A/c in the books of Consignor, presuming that the goods were invoiced at 20% above cost.**

| | |
|---|---|
| **M/s Vijay & Company** | **To: M/s Jyoti Electric House** |
| **Mumbai** | **Pune** |
| **No 2355** | **Date: 21st April 2013** |

**Proforma Invoice**

| Particulars of goods sent on consignment: | Amount (₹) | Amount (₹) |
|---|---|---|
| 800 Fans @ ₹ 1680 per fan | | 13,44,000 |
| Add: Expenses Paid: | | 12,000 |
| Freight | 4000 | |
| Insurance | 6000 | |
| Sundries | 2000 | |
| Total | | 13,56,000 |
| E & O E sd/- | | |
| Mumbai For Vijay & Company | | |

| M/s Jyoti Electric House To: M/s Vijay & Company<br>Pune Mumbai<br>(Account sales of 800 fans received from Vijay & Company, Mumbai)<br>Date: 21st September 2013 | | |
|---|---|---|
| | Amount (₹) | Amount (₹) |
| Sale proceeds of 600 Fans @ ₹ 2000 per fan | | 12,00,000 |
| Less: Expenses Paid : | 4,500 | |
| Advertising | 1,500 | |
| Insurance | 12,000 | |
| Octroi | 1,20,000 | (1,38,000) |
| Commission @10% | | |
| Total | | 10,62,000 |
| Less: Bill Accepted | | 7,50,000 |
| Bank draft enclosed | | 3,12,000 |
| E & O E sd/- | | |
| Mumbai Jyoti Electric House | | |

**(b) Distinguish between Bills of exchange and Promissory Note.**

**(c) NDA Ltd. entered into an agreement with UPA Ltd. for sale of goods costing ₹ 5,00,000 at a profit of 20% on sale. The sale transaction took place on 1st February, 2013. On the same day NDA Ltd. entered into another agreement with UPA Ltd. for repurchasing the same goods at ₹ 7,00,000 on 1st August, 2013. State the treatment of above transaction in the financial statements of NDA Ltd. for the year 2012-13. The predetermined repurchasing price covers, inter alia, the holding cost of UPA Ltd. [8+4+4]**

**Solution:**

**(a)** **In the books of M/s. Bijoy & Co.**

**Dr.** **Consignment to Pune Account** **Cr.**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To, Goods Sent on Consignment A/c | 13,44,000 | By, M/s Jyoti Electric House's A/c | 12,00,000 |
| To, Bank A/c (freight, Insurance & Sundries) | 12,000 | By, Goods Sent on Consignment A/c (loading) | 2,24,000 |
| To, M/s Jyoti Electric House's A/c | | By, Consignment Stock A/c (@ invoice value) | 3,42,000 |
| Expenses | 18,000 | | |
| Commission | 120,000 | | |
| To, Stock Reserve A/c (loading on stock) | 56,000 | | |
| To, P & L A/c | 216,000 | | |
| | 17,66,000 | | 17,66,000 |

**Dr.** **Jyoti Electric House's Account** **Cr.**

| Particulars | Amount (₹) | Particulars | Amount (₹) |
|---|---|---|---|
| To, Consignment A/c | 12,00,000 | By, Consignment A/c (expenses) | 18,000 |
| | | By, Consignment A/c (commission) | 1,20,000 |
| | | By, Bank A/c | 3,12,000 |
| | | By, Bills Receivable A/c | 7,50,000 |
| | 12,00,000 | | 12,00,000 |

| **Loading on consignment** | ₹ |
|---|---|
| **Invoice price of fans consigned** | 1,680 |
| Loading is 20% on cost | |
| Thus loading to be removed 20/120 × 1680 | 280 |
| Total loading removed (800 × 280) | 2,24,000 |
| **Value of closing Stock** | |
| Original invoice value | 13,44,000 |
| Consignor's expenses | 12,000 |
| Consignee's non-recurring expenses (Octroi only) | 12,000 |
| **Loading on consignment** | 13,68,000 |
| Total fans sent | 800 |
| Fans sold | 600 |
| In Stock | 200 |
| Hence, stock value (13,68,000/800 × 200) | 3,42,000 |
| Loading to be removed (200 × 280) | 56,000 |

**(b) The differences between these two items are as under:**

| Bills of Exchange | Promissory Note |
|---|---|
| 1. It is drawn by the seller. | 1. It is drawn by the purchaser. |
| 2. It involves an order to make payment. | 2. It involves a promise to make payment |
| 3. It consist of three parties, viz. the drawer, the acceptor and the payee. | 3. It consist of two parties, namely, the promisor (or maker) and promisor (or payee) |
| 4. To be effective, it must be accepted. | 4. It does not need acceptance. |
| 5. Drawer and the payee can be the same person. | 5. Maker and payee cannot be the same person. |
| 6. Acceptor is required to make payment on due date. In case of any default, drawer is liable to pay the amount to payee. | 6. Drawer or maker is required to make payment on due date. |

**(c)** In this case NDA Ltd. concurrently agrees to repurchase the same goods from UPA Ltd. at a later date. Also, the repurchase price is predetermined and covers UPA Ltd. purchasing and holding costs. Hence, the transaction between NDA Ltd. and UPA Ltd. on 1st February, 2013 should be accounted for as a financing transaction rather as a sale. The resulting cash inflow of ₹ 6,25,000 [i.e., ₹ 5,00,000 / (1.00 – 0.20)] is not revenue as per AS – 9.

Therefore the pattern of journal entries, required to be made in the books of NDA Ltd. during the year 2012-2013, are as follows:

**Journal**

| Date | Particulars | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| 1.2.13 | Bank A/c Dr.<br>To Advance from UPA Ltd. A/c<br>(Being amount received from UPA Ltd. as per sale and repurchase agreement) | 6,25,000 | <br>6,25,000 |
| 31.3.13 | Financing Charges A/c Dr.<br>To Advance from UPA Ltd. A/c<br>(Being financing charges on ₹ 6,25,000 for 2 months [i.e. (₹ 7,00,000 – ₹ 6,25,000) x (2 months / 6 months)] | 25,000 | <br>25,000 |
| 31.3.13 | Profit & Loss A/c Dr.<br>To Financing Charges<br>(Being financing changes transferred) | 25,000 | <br>25,000 |

**Disclosures:**

**(i) At Extract of Balance Sheet of NDA Ltd. As at 31.03 2013**

| Particulars | (₹) | (₹) |
|---|---|---|
| Current Liabilities:<br>Advance money from UPA Ltd.<br>Add: Accrued finance charges | <br>6,25,000<br>25,000 | <br><br>6,00,000 |
| Current Assets:<br>Goods lying with UPA Ltd. | | <br>5,00,000 |

**(ii) By way of notes:**
(a) Goods lying with UPA Ltd. costing ₹ 2,00,000 to be purchase after 6 months at ₹ 2,80,000.
(b) Goods sold to UPA Ltd. for ₹ 2,50,000 (cost ₹ 2,00,000) on repurchase agreement. The difference between sales price and repurchase price is treated as financing charge and located proportionately in the current accounting period.

**4 (a) 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.**

**(b) Prepare a Bank Reconciliation Statement from the following data as on 30.11.2013:**
**(i) Balance as per Pass Book on 30.11.2013, overdrawn ₹ 9,204.**
**(ii) Cheques drawn on 30.11.2013 but not cleared till December 2013, ₹3,225; ₹ 745 and ₹926.**
**(iii) Bank Overdraft interest charged on 28.11.2013, not entered in Cash Book ₹ 1,610.**
**(iv) Cheques received on 29.11.2013 entered in Cash Book but not deposited to Bank till 3rd December 2013, ₹11,322 and ₹1,730.**
**(v) Cheque received amounting to ₹35 entered in the Cash Book twice.**
**(vi) Bills Receivable due on 29.11.13 was sent to Bank for collection on 28.11.13, and was entered in Cash Book forthwith but the proceeds were not credited in Bank Pass Book till 3rd Dec. 2013, ₹ 2,980.**
**(vii) A periodic payment by Bank for ₹ 80 understanding instruction not entered in Cash Book.**
**(viii) Cheque deposited on 30th Nov.2013 dishonoured but the entry, therefore, was not made in the Cash Book ₹ 1,890.**

**(c) A second-hand machine was purchased on 1.1.2010 for ₹4,00,000. Overhauling and installation expenses for the same machine amounted to ₹1,00,000. Another machine was purchased for ₹2,00,000 on 1.7.2010.**
**On 1.7.1972, the machine installed on 1.1.2010 was sold for ₹ 2,50,000. Dismantling charge for the machine sold on 1.7.2012 were ₹10,000. On the same date another machine was purchased for ₹8,00,000 and was commissioned on 30.9.2012. The company has adopted calendar year as its**

**financial year. Under the existing practice, the company provides depreciation @ 10% p.a. on original cost. In 2013, it has been decided that depreciation will be charged on the diminishing balance @ 15% p.a. The change is not to be made with retrospective effect.**
**Show the statement of depreciation from 2010 to 2013. Also show Asset Disposal Account**
**[8+4+4]**

**Solution:**

**(a) 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 31.03.2013**

**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 31.03.2013**

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

**Journal**

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

**Partner's 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 |

**(b)**

**In the books of ……….**
**Bank reconciliation Statement**
**as at 30.11. 2013.**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| Overdraft balance as per Pass Book | | 9,204 |
| **Add:** Cheques drawn but not cleared (₹3,225 + ₹745 + ₹926) | | 4,896 |
| | | 14,100 |
| **Less:** | | |
| Interest on Bank overdraft not entered in Cash Book | 1,610 | |
| Cheques received and entered in the Cash Book as deposited into Bank but actually not deposited till 3rd Dec. 2013. (₹ 11,322 + ₹ 1,730) | 13,052 | |
| Cheque received and entered in the Cash Book twice | 35 | |
| Bills sent to Bank for collection but not credited till 3rd Dec. 2013 | 2,980 | |
| A periodic payment made by bank not entered in Cash Book | 80 | 19,647 |
| Cheques deposited and dishonoured but not entered in Cash book | 1,890 | |
| **Bank balance as per Cash Book (Dr.)** | | 5,547 |

**(c)**

**Statement of Depreciation**

| | Particulars | Machine I | Machine II | Machine III | Total Depreciation |
|---|---|---|---|---|---|
| | | ₹ | ₹ | ₹ | ₹ |
| 1.1.2010 | Book Value (including overhauling) | 5,00,000 | | | |
| 1.7.2010 | Book Value | | 2,00,000 | | |
| 31.12.2010 | Dep. @ 10% | 50,000 | 10,000 | | 60,000 |
| 1.1.2011 | W.D.V. | 4,50,000 | 1,90,000 | | |

| | | | | | |
|---|---|---|---|---|---|
| 31.12.2011 | Dep. @. 10% | 50,000 | 20,000 | | 70,000 |
| 1.1.2012 | W.D.V. | 4,00,000 | 1,70,000 | | |
| 1.7.2012 | Book Value<br>Dep. @ 10% | <br>25,000 | | 8,00,000 | |
| | W.D.V. | 3,75,000 | | | |
| | Add: Dismantling Ch. | 10,000 | | | |
| | <br>Sold for | 3,85,000<br>2,50,000 | | | |
| | Loss on Sale | 1,35,000 | | | |
| 31.12.2012 | Dep. @ 10% | | 20,000 | 40,000 | 85,000 |
| 1.1.2013 | W.D.V. | | 1,50,000 | 7,60,000 | |
| 31.12.2013 | Dep @ 15% | | 22,500 | 1,14,000 | 1,36,500 |
| 1.1.2014 | W.D.V. | | 1,27,500 | 6,46,000 | |

**Asset Disposal Account**

**Dr.** **Cr**

| Date | Particulars | Amount ₹ | Date | Particulars | Amount ₹ |
|---|---|---|---|---|---|
| 2012<br>Jan1 | <br>To Machinery a/c<br>To Bank A/c<br>(Dismantling Ch.) | <br>4,00,000<br>10,000 | 2012<br>July 1 | <br>By Depreciation A/c<br>,, Bank (sale) A/c<br>,, Profit and Loss A/c<br>- Loss on sale | <br>25,000<br>2,50,000<br><br>1,35,000 |
| | | 4,10,000 | | | 4,10,000 |

**5 (a) Transport Company Ltd. purchased 2 Vans costing ₹ 40,000 each from Auto Distributors on 1st January, 2011 on Hire Purchase System on the following terms:**
**Payment of ₹ 10,000 is to be made for each van on delivery. Remainder is to be paid in three equal installments together with interest at 10% per annum at the end of each year. The buyer writes off 25% depreciation each year on diminishing balance method. It makes payment for the two installments but cannot pay the final installment. Thereupon the vendor repossess one van adjusting its value against the amount due. The repossession done on the basis of 30% depreciation on diminishing balance method. Write up the ledger accounts in the books of Transport Company Ltd.**

**(b) X & Co. has produced a Trial Balance as on March 31, 2013 which does not balance, the difference of ₹1,760 being transferred to the Suspense account. An examination of the Company's books disclose the following errors:**

**(i) The Sales Day Book has been under cast by ₹800 and posted to the Debtors Control Account accordingly.**
**(ii) Goods received from XYZ Limited on March 31, 2013 costing ₹9,690 have been included in stock but the invoice has not been received.**
**(iii) Sales Account in the General Ledger has been credited with a credit note for ₹950 being trade-in allowance given on a company van. This amount had already been taken into account when dealing with the replacement in the Motor Van Account.**
**(iv) An invoice from Joseph & Co. amounting ₹4,450 for goods purchased has been omitted from the Purchase Day Book and posted direct to Purchase Account in the General Ledger and Joseph & Co. Account in the Suppliers' Ledger but had not been included in the Suppliers' Ledger Control Account in the Trial Balance.**
**(v) Discount allowed for the month of March amounting to ₹1,740 has not been posted to Discount Allowed Account in the General Ledger.**
**(vi) A cheque for ₹1,920 received from Jolly Limited, a debtor, has been posted directly to the Sales Account in the General Ledger.**

**You are required : (i) to give the journal entries, where necessary, to correct these errors, or if no Journal entry is required, state how they will be corrected; (ii) to prepare a statement showing the effect the corrections would have on the company's profit for the year; and (iii) to prepare Suspense Account.**

**(c) Difference between Capital and Revenue Expenditure. [8+4+4]**

**Solution:**

Working Notes:

(i) Particulars of Payments

| | For each Van (₹) | For 2 Vans (₹) |
|---|---|---|
| (a) Cash Price | 40,000 | 80,000 |
| (b) Down Payment | 10,000 | 20,000 |
| (c) Installments | 3 installments of ₹ 10,000 each together with interest | 3 installments of ₹ 20,000 each together with interest |

(ii) Calculation of Loss on Surrender

| Date | Particulars | Depreciation @ 25 % (₹) | Depreciation @ 30 % (₹) |
|---|---|---|---|
| 1.1.2011 | Cash Price of 1 Van | 40,000 | 40,000 |
| 31.12.2011 | Less: Depreciation | 10,000 | 12,000 |
| | | 30,000 | 28,000 |
| 31.12.2012 | Less: Depreciation | 7,500 | 8,400 |
| | | 22,500 | 19,600 |
| 31.12.2013 | Less: Depreciation | 5,625 | 5,880 |
| | | 16,875 | 13,720 |

Loss on Surrender: (16,875 – 13,720) = 3,155

**Books of Transport Company Ltd.**
**Motor Van Account**

Dr. Cr.

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 1.1.11 | To Auto Distributors A/c | 80,000 | 31.12.11 | By Depreciation A/c [25% of 80,000] | 20,000 |
| | | | | " Balance c/d | 60,000 |
| | | 80,000 | | | 80,000 |
| 1.1.12 | To Balance b/d | 60,000 | 31.12.12 | By Depreciation A/c [25% of 60,000] | 15,000 |
| | | | | `` Balance c/d | 45,000 |
| | | 60,000 | | | 60,000 |
| 1.1.13 | To Balance b/d | 45,000 | 31.12.13 | By Depreciation A/c [25% of 45,000] | 11,250 |
| | | | | `` Auto Distributors A/c (Adjustment for one van) | 13,720 |
| | | | | `` Profit & Loss A/c – Loss on surrender | 3,155 |
| | | | | `` Balance c/f [½ of (45,000-11250)] | 16,875 |
| | | 45,000 | | | 45,000 |

**Auto Distributors Account**

Dr. Cr.

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 01.01.11 | To Bank A/c | 20,000 | 01.01.11 | By Motor Van A/c | 80,000 |
| 31.12.11 | " Bank A/c [20,000+6,000] | 26,000 | 31.12.11 | " Interest A/c [10% of (80,000 - 20,000] | 6,000 |
| | " Balance c/d | 40,000 | | | |
| | | 86,000 | | | 86,000 |
| 31.12.12 | To Bank A/c [20,000+4,000] | 24,000 | 01.01.12 | By Balance c/d | 40,000 |
| | `` Balance c/d | 20,000 | 31.12.12 | `` Interest A/c [10% of 40,000] | 4,000 |
| | | 44,000 | | | 44,000 |
| 31.12.13 | To Motor Van A/c | 13,720 | 01.01.13 | By Balance b/d | 20,000 |
| | `` Balance c/f | 8,280 | 31.12.13 | " Interest A/c [10% of 20,000] | 2,000 |
| | | 22,000 | | | 22,000 |

**Interest Account**

Dr. Cr.

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 31.12.11 | To Auto Distributors A/c | 6,000 | 31.12.11 | By Profit & Loss A/c | 6,000 |
| 31.12.12 | To Auto Distributors A/c | 4,000 | 31.12.12 | By Profit & Loss A/c | 4,000 |
| 31.12.13 | To Auto Distributors A/c | 2,000 | 31.12.13 | By Profit & Loss A/c | 2,000 |

**Depreciation Account**

Dr. Cr.

| Date | Particulars | Amount | Date | Particulars | Amount |
|---|---|---|---|---|---|
| 31.12.11 | To Motor Van A/c | 20,000 | 31.12.11 | By Profit & Loss A/c | 20,000 |
| 31.12.12 | To Motor Van A/c | 15,000 | 31.12.12 | By Profit & Loss A/c | 15,000 |
| 31.12.13 | To Motor Van A/c | 11,250 | 31.12.13 | By Profit & Loss A/c | 11,250 |

**(b)** Under Self-Balance System, Debtors' Control Account is opened in the General Ledger in place of Sundry Debtors Account i.e. Debtors Control Account should be debited and Sales Account should be credited. Same principle is also applied in case of creditors Ledger Control Account.

| Date<br>2013 March 31. | Particulars | L. F. | Debit ₹ | Credit ₹ |
|---|---|---|---|---|
| (i) | Debtors Control A/c Dr.<br>To, Sales A/c<br>(Sales day Book was undercast, now rectified.) | | 800 | 800 |
| (ii) | No. entry is required, simply ₹9,600 to be deducted from Stock. | | | |
| (iii) | Sales A/c Dr.<br>To Suspense A/c<br>(Trade- in – allowance credit to Sales A/c, now rectified.) | | 950 | 950 |
| (iv) | Suspense A/c Dr.<br>To Creditors Ledger Control A/c<br>(Credit purchased was not posted in the general ledger.) | | 4,450 | 4,450 |
| (v) | Discount Allowed A/c Dr.<br>To Suspense A/c | | 1,740 | 1,740 |

| | | | | |
|---|---|---|---|---|
| | (Discount allowed to customers not credited to Discount Account, now rectified.) | | | |
| (vi) | Sales A/c Dr.<br>To Debtor's Control A/c<br>(Cheque received wrongly credit to sales Account, now rectified.) | | 1,920 | <br>1,920 |

**Effect on Profit**

| | Increase | Decrease |
|---|---|---|
| | ₹ | ₹ |
| (a) | 800 | - |
| (b) No effect | - | - |
| (c) | - | 950 |
| (d) No effect | - | - |
| (e) | - | 1,740 |
| (f) | - | 1,920 |
| | 800 | 4,610 |
| ∴ Decrease in Profit | 3,810 | - |
| | 4,610 | 4,610 |

**Suspense A/c**

**Dr.** **Cr.**

| | ₹ | | ₹ |
|---|---|---|---|
| To Creditors Ledger control A/c | 4,450 | By difference in T. B.<br>,, sales A/c<br>,, Discount allowed a/c | 1,760<br>950<br>1,740 |
| | 4,450 | | 4,450 |

**(c)** The following are the points of distinction between capital expenditure and revenue expenditure:

| | Capital Expenditure | | Revenue Expenditure |
|---|---|---|---|
| 1. | The economic benefits of Capital expenditures are enjoyed for more than one accounting period. | 1. | The economic benefits of Revenue expenditures are enjoyed within a particular accounting period. |
| 2. | Capital expenditures are of non-recurring in nature. | 2. | Revenue expenditures are of recurring in nature. |
| 3. | All capital expenditures eventually become revenue expenditures like depreciation | 3. | Revenue expenditures are not generally capital expenditures. |
| 4. | Capital expenditures are not matched with capital receipts. | 4. | All revenue expenditures are matched with revenue receipts. |

**6 (a) Sourav and Sachin entered into a joint venture for buying and selling plastic goods and agreed to share profits and losses in the ratio of 3 : 2.**

**On October 1, 2012, Sourav purchased goods at a cost of ₹ 60,000 and half of the goods were handed over to Sachin. On October 15, he again purchased goods worth ₹ 20,000. He incurred expenses ₹ 2,000.**

On October 15, Sachin also made a purchase of ₹ 37,500 and, on the same day, he sent to Sourav goods worth ₹ 15,000. He incurred expenses of ₹ 900. On October 20, Sourav in, order to help Sachin, sent ₹ 16,000 to him. Both the parties sold goods at a profit of 25% on Sale.

On March 31, 2012; Sourav had unsold stock of goods of ₹ 12,500, of these, goods costing ₹ 5,000 were taken away by him and the remainder sold for ₹ 8,000. Sachin was able to sell away complete goods excepting goods costing ₹ 2,500 which were badly damaged and were treated as un saleable. ₹ 3,000 owing to Sourav were unrecoverable and treated as joint loss.

On March 31, 2013 both the parties decided to close the books. You are required to prepare:

(i) The Joint Venture Account as it would appear in the books of Sourav recording his own transactions, and

(ii) A Memorandum Joint Venture Account, showing the profits of the business.

(b) Saturday and Sunday are two partners of a firm. They have drawn the following amounts from the firm in the year ending 31st March 2013:

| Saturday | | |
|---|---|---|
| Year | Date | ₹ |
| 2012 | 1st July | 300 |
| | 30th Sept. | 500 |
| | 1st Nov. | 800 |
| 2013 | 28th February | 200 |

| Sunday | | |
|---|---|---|
| Year | Date | ₹ |
| 2012 | 1st June | 500 |
| | 1st August | 400 |
| 2013 | 1st February | 400 |
| | 1st march | 900 |

Interest at 6% is charged on all drawings. Calculate interest chargeable under Average Due date System. (Calculation to be made in months.)

(c) Sandip Ltd. had the following condensed trial balance as on 31st March 2012:

Dr. Cr.

| Particulars | (₹) | Particulars | (₹) |
|---|---|---|---|
| Cash | 7,500 | Current Liabilities | 15,000 |
| Accounts Receivable | 30,000 | 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 | 24,500 |
| | 1,65,000 | | 1,65,000 |

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 ₹ 28,450 after allowing for a depreciation of ₹ 9,500.

(vi) Land was purchased through the issuance of ₹ 22,500 in bonds.

(vii) Sandip 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 on 31st March 2003.

(ix) Accounts receivable on 31st March 2003 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). [6+4+6]**

**Solution:**

**In the books of Sourav**
**Joint Venture with Sachin Account**

**Dr.** **Cr.**

| Date | Particulars | Amount (₹) | Date | Particulars | Amount ₹ |
|---|---|---|---|---|---|
| 2012 | | | 2013 | | |
| Oct. 1 | To Purchases | 60,000 | Mar. 31 | By Sales 70,000 | |
| 15 | To Bank—Expenses | 20,000 | `` | Less : Bad Debts 3,000 | 67,000 |
| 15 | To Bank—Advance | 2,000 | `` | By Purchases —Stock taken over | 5,000 |
| 20 | To Cash A/c | 16,000 | `` | By Sales A/c — Stock Sold | 8,000 |
| 2013 Mar. 31 | Share of Profit | 15,760 | | By Bank-remittances received | 33,760 |
| | | 1,13,760 | | | 1,13,760 |

**In the books of Sourav & Sachin**
**Memorandum Joint Venture Account**

**Dr.** **Cr.**

| Date | Particulars | Amount (₹) | Date | Particulars | Amount (₹) |
|---|---|---|---|---|---|
| 2013 | | | 2013 | | |
| Oct. 1 | **To Purchase** | | Mar. | | |
| | Sourav | 60,000 | 31 | **By Sales:** | |
| | Sourav | 20,000 | | Sourav | 70,000 |
| | Sachin | 37,500 | | Sachin | 66,667 |
| | | | | Sourav | 8,000 |
| 15 | **To Expenses:** | 2,000 | | **By Stock** | |
| | Sourav | 900 | | - Taken over by Sourav | 5,000 |
| | Sachin | 3,000 | | | |
| | Bad Debts incurred by Sourav | | | | |
| 2013 Mar. 31 | **To Profit on Venture** | 26,267 | | | |
| | Sourav ₹ 15,760 | | | | |
| | Sachin ₹ 10,507 | | | | |
| | | 1,49,667 | | | 1,49,667 |

**Workings:**
**Computation of Sales**

| Particulars | Sourav (₹) | Sachin (₹) |
|---|---|---|
| Purchases (60,000 + 20,000) | 80,000 | 37,500 |
| Add: Received from other party | 15,000 | 30,000 |
| | 95,000 | 67,500 |
| Less: Sent to other party | 30,000 | 15,000 |
| | 65,000 | 52,500 |
| Less: Stock | 12,500 | 2,500 |
| Cost of Goods Sold | 52,500 | 50,000 |
| Add: Profit at 25% on Sales i.e., 33 1/3% on cost | 17,500 | 16,667 |
| Sales | 70,000 | 66,667 |

**(b)**

**Calculation of Average Due Date**

(i) Calculation of Interest in case of Saturday 1st July 2012 is taken as '0' date or starting date.

| Date | No of days from '0' date | Amount (₹) | Product (₹) |
|---|---|---|---|
| 1.7.2012 | 0 | 300 | 0 |
| 30.9.2012 | 91 | 500 | 45,500 |
| 1.11.2012 | 123 | 800 | 98,400 |
| 28.2.2013 | 242 | 200 | 48,400 |
| | | 1,800 | 1,92,300 |

$\therefore$ Average number of days = $\frac{₹1,92,300}{₹1,800}$ = 107 days (approx.)

Average due date = July 1 + 107 days = 16th Oct. 2012.

Therefore, interest is chargeable from 16.10.2012 to 31.03.2013, i.e., $5\frac{1}{2}$ months.

$= ₹1,800 \times \frac{6}{100} \times \frac{5\frac{1}{2}}{12} = ₹49.50.$

(ii) Calculation of interest in case of Sunday. 1st June 2012 is taken a '0' date or starting date.

| Date | No of days from '0' date | Amount | Product |
|---|---|---|---|
| | | ₹ | ₹ |
| 01.06.2012 | 0 | 500 | 0 |
| 01.08.2012 | 61 | 400 | 24,400 |
| 01.02.2013 | 245 | 400 | 98,000 |
| 01.03.2013 | 273 | 900 | 2,45,700 |
| | | 2,200 | 3,68,100 |

$\therefore$ Average number of days = $\frac{₹3,68,100}{₹2,200}$ = 167 days (approx.)

Average Due date will be June 1 + 167 days = Nov. 16, 2012.

$\therefore$ Interest is chargeable from 16.11.2012 to 31.03.2013 = $4\frac{1}{2}$ months

Amount of interest will be $= ₹2,200 \times \frac{6}{100} \times \frac{4\frac{1}{2}}{12} = ₹49.50$

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

| | ₹ | ₹ | ₹ |
|---|---|---|---|
| **A. Cash Flows from Operating Activities:** | | | |
| Net Profit for the year after charging depreciation | | 28,450 | |
| Add: Adjustment for Non-operating & Non-current items debited to Profit & Loss A/c: | | | |
| Depreciation | | 9,500 | |
| | | 37,950 | |
| 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 | | 36,575 | |
| Add: Increase in Operating Current Liabilities: | | | |

| | | | |
|---|---|---|---|
| Current Liabilities | | 3,000 | |
| | | 39,575 | |
| Less: Increase in Operating Current Assets: | | | |
| Accounts Receivable | | 8,000 | |
| **Net Cash Flow from Operating Activities** | | | 31,575 |
| **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 | |
| Net Cash Flow from Financing Activities | | | 4,625 |

**7 (a) Calcutta Electric Co. decides to replace its old plants with a modern one with a larger capacity. The plant was installed in 1940 at a cost of 40 lakhs. The components of materials, labour overhead were in the ratio of 5 : 3 : 2. It is ascertained that the cost of materials 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 the improved design is ₹ 90 lakhs in addition, materials recovered from the old plant having value of ₹ 2,00,000 was used in the construction of new plant. The old plant was scrapped and sold for ₹ 7,50,000.**

**The accounts of the company are maintained under Double Account System.**

**Show the Journal Entries in the books of Calcutta Electric Co.**

**(b) Ocean and Kite are two department of Red Company of Calcutta. Ocean department sells goods to Kite 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. Ocean ₹ | Dept. Kite ₹ | 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 to be apportioned in the ratio Ocean: 3, Kite: 2. [8+8]**

**Solution:**

**(a) Working Notes :**

(i) **Calculation of Current Cost of Replacement**

| | ₹ |
|---|---|
| Previous Total Cost | 40,00,000 |
| Elements of Costs : | |
| Materials $\left[\frac{5}{10} \text{ of } 40,00,000\right]$ | 20,00,000 |
| Labour $\left[\frac{3}{10} \text{ of } 40,00,000\right]$ | 12,00,000 |
| Overhead $\left[\frac{2}{10} \text{ of } 40,00,000\right]$ | 8,00,000 |
| | 40,00,000 |

| | ₹ |
|---|---|
| **Current Costs :** | |
| Materials [20,00,000 + 50% of 20,00,000] | 30,00,000 |
| Labour [12,00,000 + 100% of 12,00,000] | 24,00,000 |
| | 54,00,000 |
| Overhead $\frac{2}{10}$ of Total Cost or $\frac{2}{8}$ of Cost of Materials & Labour $\left[\frac{1}{4} \times 54,00,000\right]$ | 13,50,000 |
| | 67,50,000 |

(ii) **Allocation of Total Current Cost**

| | ₹ |
|---|---|
| Current Cash Expenses for new plant | 90,00,000 |
| Revised Cost of Replacement | 67,50,000 |
| Additional Cash Cost | 22,50,000 |

(iii) **Amount Chargeable against Revenue**

| | ₹ | ₹ |
|---|---|---|
| Estimated Cost of Replacement | | 67,50,000 |
| Less : Value of Materials reused | 2,00,000 | |
| Sale Proceeds of old materials | 7,50,000 | 9,50,000 |
| | | 58,00,000 |

**In the Books of Calcutta Electric Co.**
**Journal Entries**

| Date | Particulars | L.F. | Dr. Amount ₹ | Cr. Amount ₹ |
|---|---|---|---|---|
| | Plant A/c Dr.<br>Replacement A/c Dr.<br>To Bank A/c<br>[Cash spent on plant of which ₹ 67,50,000 representing the current cost of replacement in the original form charged to Replacement A/c] | | 22,50,000<br>67,50,000 | <br>90,00,000 |
| | Bank A/c Dr.<br>To Replacement A/c<br>[Proceeds realized from the scrapping of old plant] | | 7,50,000 | <br>7,50,000 |
| | Plant A/c Dr.<br>To Replacement A/c<br>[Old Materials reused in the erection of the new plant] | | 2,00,000 | <br>2,00,000 |
| | Revenue A/c Dr.<br>To Replacement A/c<br>[No current cost of replacement transferred] | | 58,00,000 | <br>58,00,000 |

**(b)**

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

**Dr.** **Cr.**

| Particulars | Dept. Ocean ₹ | Dept Kite ₹ | Particulars | Dept Ocean ₹ | Dept Kite ₹ |
|---|---|---|---|---|---|
| To Opening Stock | 12,000 | --- | By Sales | 2,76,000 | 1,74,000 |
| `` Purchase | 2,76,000 | 24,000 | `` Goods Sent to Kite | 84,000 | --- |
| `` Goods from Ocean | --- | 84,000 | Deptt. | 60,000 | 21,600 |
| Deptt. | 12,000 | 19,200 | `` Closing Stock | | |
| `` Wages | 1,20,000 | 68,400 | | | |
| `` Gross Profit c/d | 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] | | | | | |
| `` Advertisement | 2,160 | 1,440 | | | |
| `` Bank Charges | 5,760 | 3,840 | | | |
| `` Depreciation @ 10% | 1,440 | 960 | | | |
| `` General Profit & Loss A/c | --- | 1,440 | | | |
| (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]<br>`` Net Profit | 5,600<br><br>1,30,240 | By Departmental Profit & Loss A/c:<br>Ocean 89,280<br>Kite 46,560 | <br><br>1,35,840 |
| | 1,35,840 | | 1,35,840 |

**Working Note:**

Closing Stock of Department Kite includes part of goods received from Department Ocean at a loaded price.

∴ Provision is to be made for unrealized profit.

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

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

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

**8 (a) Mr. Ashok keeps his books in single entry system. From the following information, prepare Trading and Profit and Loss Account for the year ended 31 March, 2013 and the Balance Sheet as on that date :**

| Assets and Liabilities | 31.3.2012 (₹) | 31.3.2013 (₹) |
|---|---|---|
| **Sundry Creditors** | **30,000** | **25,000** |
| **Outstanding Expenses** | **1,000** | **500** |
| **Fixed Assets** | **23,000** | **22,000** |
| **Stock** | **16,000** | **22,500** |
| **Cash in Hand and at Bank** | **14,000** | **16,000** |
| **Sundry Debtors** | **?** | **36,000** |

**Following further details are available for the current year :**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| **Total receipts from Debtors** | **1,30,000** | **Cash Purchases** | **2,000** |
| **Returns Inward** | **3,000** | **Fixed Assets Purchased and Paid by Cheque** | **1,000** |
| **Bad Debts** | **1,000** | | |
| **Total Sales** | **1,50,000** | **Drawings by Cheques** | **6,500** |
| **Discount Received** | **1,500** | **Deposited into Bank** | **10,000** |
| **Return Outwards** | **1,000** | **Withdrawn from Bank** | **18,500** |
| **Capital Introduced (Paid into Bank)** | **15,000** | **Cash in Hand at the End** | **2,500** |
| **Cheques received from Debtors** | **1,25,000** | **Paid to Creditors by Cheques** | **1,20,000** |
| | | **Expenses Paid** | **20,000** |

**(b) It was decided to make specific provisions in the accounts for the year ended 31.03.13 for the following doubtful debts after examining the sales ledger of the firm:**
**A ₹ 1,900; B ₹ 300 ; C ₹ 2,680 and D ₹ 1,380.**
**It was decided to make also a general provision of 5% on the other debtors who were on 31st March 2012 amounted to ₹ 2,16,000.**
**No other transaction relating to the debtors were made but successors of A and D sent final dividend of ₹ 600 and ₹ 840 respectively and C paid his debt in full.**
**On 31.03.2013, it was decided to maintain the provision against B's debt and make further provision for the following debts considered doubtful:**
**E ₹ 1,300; F ₹ 680 and G ₹ 1,020.**
**The other debtors amounted to ₹ 2,60,000 and it was required to make the general provisions for doubtful debts equal to 5% of these debts. Show Bad Debts Account and Provision for Bad Debts Account. [10+6]**

**Solution:**

**In the books of Ashoke**

**Dr. Trading and Profit and Loss Account for the year ended 31st March, 2013 Cr.**

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To Opening Stock | | 16,000 | By Sales: | | |
| To Purcahses: | | | Cash (Note 1) | 6,500 | |
| Cash | 2,000 | | Credit | 1,43,50 | |
| Credit (Note 4) | 1,17.500 | | | 1,50,00 | |
| | 1.19.500 | | Less: Return Inwards | 3.000 | 1.47.000 |
| Less: Return Outwards | 1.000 | 1,18,500 | By Closing Stock | | 22,500 |
| To Gross Profit c/d | | 35,000 | | | |
| | | 1,69,500 | | | 1,69,500 |
| To, Expenses | | 19,500 | By Gross Profit b/d | | 35,000 |
| To Bad Debts | | 1,000 | By Discount Received | | 1,500 |
| To Depreciation (Note | | 2,000 | | | |
| To Net Profit | | 14,000 | | | |
| (Transferred to Capital A/c) | | 36,500 | | | |
| | | 36,500 | | | 36,500 |

**Balance Sheet of Ashoke as at 31st March, 2013**

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|---|---|---|---|---|
| Capital Account: | | 71,000 | Fixed Assets | | 22,000 |
| Opening Balance (Note 7) | 48,500 | 25,000 | Stock | | 22,500 |
| Add: Capital Introduced | 15,000 | 500 | Sundry Debtors | | 36,000 |
| Add: Net Profit | 14,000 | | Bank | | 13,500 |
| | | | Cash | | 2,500 |
| | 77,500 | | | | |
| Less: Drawings | 6,500 | 71,000 | | | |
| Sundry Creditors | | 25,000 | | | |
| Outstanding Expenses | | 500 | | | |
| | | 96,500 | | | 96,500 |

**Working Notes**:

**Dr.** **(1) Cash Account** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d (₹ 14,000 - 9,500) | 4,500 | By Purchases A/c | 2,000 |
| To Sundry Debtors A/c | 5,000 | By Bank "Contra" | 10,000 |
| To Bank "Contra" | 18,500 | By Expenses A/c | 20,000 |
| To Sales (Balancing figure) | 6,500 | By Balance c/d | 2,500 |
| | 34,500 | | 34,500 |

**Dr.** **(2) Bank Account** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d (Balancing figure) | 9,500 | By Fixed Assets A/c | 1,000 |
| To Sundry Debtors A/c | 1,25,000 | By Drawings | 6,500 |
| To Capital A/c | 15,000 | By Cash "Contra" | 18,500 |
| To Cash "Contra" | 10,000 | By Sundry Creditors A/c | 1,20,000 |
| | | By Balance c/d (Rs 16,000 -2,500) | 13,500 |
| | 1,59,500 | | 1,59,500 |

**Dr.** **(3) Sundry Debtors Account** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d (Balancing figure) | 26,500 | By Bank A/c | 1,25,000 |
| To Sundry Debtors A/c [1,50,000 – 6,500] | 1,43,500 | By Cash A/c [ 1,30,000 – 1,25,000] | 5,000 |
| | | By Return Inwards A/c | 3,000 |
| | | By Bad Debts A/c | 1,000 |
| | | By Balance c/d (Rs 16,000 - 2,500) | 36,000 |
| | 1,70,000 | | 1,70,000 |

**(4) Sundry Creditors Account**

**Dr.** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank A/c | 1,20,000 | By Balance b/d | 30,000 |
| To Return Outwards A/c | 1,000 | By Purchases A/c | 1,17,500 |
| To Discount Received A/c | 1,500 | (Balancing figure) | |
| To Balance c/d | 25,000 | | |
| | 1,47,500 | | 1,47,500 |

**(5) Fixed Assets Account**

**Dr.** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance b/d | 23,000 | By Depreciation A/c | 2,000 |
| To Bank A/c | 1,000 | (Balancing figure) | |
| | | By Balance c/d | 22,000 |
| | 24,000 | | 24,000 |

**(6) Expenses Account**

**Dr.** **Cr.**

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Cash A/c<br>To Outstanding Expenses A/c | 20,000<br>500 | By Outstanding Expenses A/c<br>By Profit and Loss A/c | 1,000<br>19,500 |
| | 20,500 | | 20,500 |

**(7) Balance Sheet of Ashok as at 31st March, 2012**

**Dr.** **Cr.**

| **Liabilities** | ₹ | **Assets** | ₹ |
|---|---|---|---|
| Capital (Balancing figure) | 48,500 | Fixed Assets | 23,000 |
| Sundry Creditors | 30,000 | Stock | 16,000 |
| Outstanding Expenses | 1,000 | Sundry Debtors (Note 3) | 26,500 |
| | | Cash in Hand and at Bank | 14,000 |
| | 79,500 | | 79,500 |

**(b)** **In the Books of ………..**

**Dr.** **Bad Debts Account** **Cr.**

| **Date** | **Particulars** | **Amount (₹)** | **Date** | **Particulars** | **Amount (₹)** |
|---|---|---|---|---|---|
| 2013<br>Mar 31 | To, Sundry Debtors A/c | 1,840[1] | 2013<br>Mar 31 | By, Provision for Bad debts A/c | 1,840 |
| | | 1,840 | | | 1,840 |

**Dr.** **Provision for Bad Debts Account** **Cr.**

| **Date** | **Particulars** | **Amount (₹)** | **Date** | **Particulars** | **Amount (₹)** |
|---|---|---|---|---|---|
| 2013<br>Mar 31<br>Mar,31 | <br>To, Bad Debts A/c<br>To, Balance c/d | <br>1,840<br>16,300[3] | 2012<br>April 1<br>2013<br>Mar,31 | By, Balance b/d<br>,,Profit and Loss A/c (further provision required) | 17,060[2]<br>1,080 |
| | | 18,140 | | | 18,140 |

**Workings:**

1. **Bad Debts** ₹

| | |
|---|---|
| A: ₹(1,900 – 600) | 1,300 |
| D: ₹ (1,380- 840) | 540 |
| | 1,840 |

**2. Opening Balance of provision for Bad debts**

| | ₹ |
|---|---|
| A: | 1,900 |
| B: | 300 |
| C: | 2,680 |
| D: | 1,380 |
| General provision | |
| (5% of ₹ 2,16,000) | 10,800 |
| | 17,060 |

**3. Closing Balance of provision for Bad debts**

| | ₹ |
|---|---|
| B: | 300 |
| E: | 1,300 |
| F: | 680 |
| G: | 1,020 |
| General provision | |
| (5% of ₹ 2,60,000) | 13,000 |
| | 16,300 |