Paper-5: FINANCIAL ACCOUNTING

Time Allowed : 3 Hours **Full Marks :** 100

Whenever necessary, suitable assumptions should be made and indicate in answer by the candidates.
Working Notes should be form part of your answer
Section A is compulsory and answer any 5 questions from Section B

Section A

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

(i) X, Y and Z are sharing Profits and losses in the ratio of 5: 3 : 2. Calculate the new profit sharing ratio and the sacrificing ratio if Z acquires 1/10 th share equity from X and Y.

Solution:
X's New Share = 5/10 – 1/20 = 9/20, Y's New Share = 3/10 – 1/20 = 5/20,
Z's New Share = 2/10 + 1/10 = 3/10
New Profit Sharing ratio of X, Y and Z = 9/20 : 5/20 : 3/10 = 9 : 5 : 6
Share Gained by Z = 1/10
Sacrificing Ratio of X & Y = 1 : 1

(ii) A trader purchased goods for ₹ 3,25,000. The opening stock of inventory prior to the said purchase was ₹ 50,000. His sale was ₹ 4,00,000. Find out the closing stock of inventory if the gross profit margin is 25% on cost.

Solution :
Computation of closing stock
Gross profit = 25% on cost = 20% on sales = 20% × ₹ 4,00,000 = ₹ 80,000
Cost of goods sold = Sales – Gross Profit = 4,00,000 – 80,000 = ₹ 3,20,000
Closing stock = Opening stock + Purchases – Cost of goods sold = 50,000 + 3,25,000 – 3,20,000 = ₹ 55,000.

(iii) Comptronics sells computers on Hire Purchase basis at cost plus 20%. Terms of sale are ₹ 12,000 down payment and eight monthly instalments of ₹ 6,000 for each computer. Three computers were repossessed for non-payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers.

Solution :
Total HP price per computer = Down payment + Instalments = 12,000 + (8 × 6,000) = ₹ 60,000

HP Price = 120% of cost. So, cost per computer = $\frac{60,000}{120\%}$ = ₹ 50,000

Value of repossessed computers = 50% of cost = 50% of 50,000 = ₹ 25,000 each

(iv) Given below are details of interest on advances of CAS Ltd. a Commercial bank as on 31.03.2013

Assets	Interest Earned (₹ in lakhs)	Interest Received (₹ in lakhs)
Performing Assets:		
Term Loan	**240**	**160**
Cash credit and overdraft	**1,500**	**1,240**
Bills purchased and discounted	**300**	**300**
Non- performing Assets:		

Term Loan	**150**	**10**
Cash credit and overdraft	**300**	**24**
Bills purchased and discounted	**200**	**40**

Required: Find out the Income to be recognized for the year ended 31.03.2013.
Solution:
Interest on performing assets should be recognized on accrual basis but interest on non performing assets should be recognized as per directions given in various circulars issued by R. B. I.

	₹ in lakhs
Interest on term loan (240 + 10)	250
Interest on cash credit and overdraft (1,500 + 24)	1,524
Income from bills purchased and discounted (300 + 40)	340
Income to be recognized	2,114

(v) S Ltd. acquired a patent at a cost of ₹8,00,000 for a period of 5 years and the product life-cycle is also 5 years. The company capitalized the cost and started amortizing the asset at ₹1,00,000 per annum. After two years it was found that the product life-cycle may continue for another 5 years from then. The net cash flows from the product during these 5 years were expected to be ₹3,60,000,₹4,60,000, ₹4,40,000, ₹4,00,000 and ₹3,40,000. Find out the amortization cost of the patent for each of the years.

Solution :

S Limited amortized ₹1,00,000 per annum for the first two years i.e. ₹2,00,000. The remaining carrying cost can be amortized during next 5 years on the basis of net cash flows arising from the sale of the product. The amortization may be found as follows:

Year	Net Cash Flows ₹	Amortization Ratio	Amortization Amount ₹
I	—	0.125	1,00,000
II	—	0.125	1,00,000
III	3,60,000	0.180	1,08,000
IV	4,60,000	0.230	1,38,000
V	4,40,000	0.220	1,32,000
VI	4,00,000	0.200	1,20,000
VII	3,40,000	0.170	1,20,000
Total	**20,00, 000**	**1.000**	**8,00,000**

It may be seen from above that from third year onwards, the balance of carrying amount i.e., ₹6,00,000 has been amortized in the ratio of net cash flows arising from the product of S Ltd.

Note:
The answer has been given on the basis that the patent is renewable and S Ltd. got it renewed after expiry of five years. It has been assumed that the company had amortized the patent at ₹ 1,00,000 per annum in the first two years on the basis of economic benefits derived from the product manufactured under the patent.

(vi) How will you deal with the following items while preparing the Income and Expenditure Account for the year ending on March 31, 2013?

	As at 1.4.2012 ₹	**As at 31.3.2013 ₹**
Creditors for Sports Materials	**4,600**	**11,800**
Stock of Sports Materials	**15,000**	**30,400**

During 2012 – 2013, the payments made to these Creditors amounted to ₹ 56,800 and Cash Purchases amounted to ₹ 16,000.

Solution:

An extract of Income and Expenditure Account
For the year ending on 31st March, 2013

Dr. Cr.

Expenditure	₹	Income	₹
To Sports Materials consumed	64,600		

Working Note:

(i) Creditors for Sports Materials Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Bank A/c To Balance c/d	56,800 11,800	By Balance b/d By Stock of Sports Materials (Credit purchases) (Balancing figure)	4,600 64,000
	68,600		68,600

(ii) Stock of Sports Materials Account

Dr. Cr.

Particulars	₹	Particulars	₹
To Balance b/d To Creditors for Sports Materials A/c (Credit purchases transferred) To Bank A/c (Cash purchases)	15,000 64,000 16,000	By Income and Expenditure A/c (Sports Materials consumed) (Balancing figure) By Balance c/d	64,600 30,400
	95,000		95,000

(vii) A Company reports the following information regarding pension plan assets. Calculate the fair value of plan assets.

	Amt. (₹)
Fair market value of plan assets (beginning of year)	**70,000**
Employer Contribution	**10,000**
Actual return on plan assets	**5,000**
Benefit payments to retirees	**4,000**

Solution: The actual return on pension plan assets follows:

	Amt. (₹)
Fair market value of plan assets (beginning of year)	70,000
Employer Contribution	10,000
Actual return	5,000
Benefit payments	(4,000)
Fair market value of plan assets (end of year)	81,000

(viii) From the following particulars prepare a Consignment Account:

Particulars	Amount (₹)
Opening stock	**-**
Add: Goods sent on consignment	**1,00,000**
	1,00,000
Add: Consignor's Expenses	**10,000**
	1,10,000
	1,10,000
Less: Abnormal Loss	**20,000**
	90,000
Add: Non –recurring expenses	**10,000**
	1,00,00
Less: Unsold Stock	**30,000**
Cost of Goods sold	**70,000**
Add: profit at 25% of cost	**17,500**
Sales	**87,500**

Solution:

Dr. Consignment Account Cr

Particulars	₹	Particulars	₹
To, Goods sent on consignment A/c	1,00,000	By Consignee A/c - Sales	87,500
,, Bank A/c - Consignor's expenses	10,000	,, Abnormal Loss A/c	20,000
,, Consignee Expenses A/c - Non – recurring expenses	10,000	,, Unsold Stock A/c	30,000
,, Profit and Loss A/c - Profit on consignment	17,500		
	1,37,500		1,37,500

(ix) Mr. Amit sales during the 2013 were ₹ 10,000 more than purchases during the year. His closing stock was valued at ₹ 10,000 . Rate of gross profit on sales was @ 40%. Draw up his Trading Account for the year ended 31st December,2013.

Solution:

In the books Amit

Dr. Trading Account for the year ended 31.12.13 Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To, Purchases ,, Profit and Loss A/c	40,000 20,000	By, sales ,, Closing Stock	50,000 10,000
	60,000		60,000

Workings:

Gross profit is the difference between the credit side and debit side of Trading Account. Here, credit side is greater than the debit side by ₹ 20,000 (i.e. closing stock ₹ 10,000 + sales figure is more than the purchase figure by ₹ 10,000), which is represented as gross profit. Now, the gross profit is 40% of sales.

$\therefore$ Amount of sales will be $\left(20,000 \times \frac{100}{40}\right)$ = ₹ 50,000

Therefore purchase is = ₹ (50,000 – 10,000) = ₹ 40,000

(x) The Trial Balance of S. Kumar as on 31.12.2013 showed a difference 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.

Solution:

Books of S. Kumar
Journal

Date	Particulars	L. F.	Dr. Amount ₹	Cr. Amount ₹
31.12.13	(i) Suspense A/c……………………………………Dr. To Sales A/c [Sales Account under credited, now rectified]		18	 18
	(ii) Purchase A/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 rectified]		300	 150 150
	(iv) Repairs A/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

Section B

Answer any 5 questions from the following

2. (a) The following is the Trial Balance of M/s. Roy Traders as at 31st Dec., 2013. You are asked to prepare the Trading and Profit & Loss Account for the year ended 31st Dec., 2013 and Balance Sheet as on that date :

	Dr.	Cr.
	₹	₹
Roy's Capital	-	2,16,000
Stock as on 1st January, '13	93,600	-
Sales and Sales Returns	17,200	5,79,200
Purchases and Purchases Returns	4,86,200	11,600
Freight and Carriage	37,200	-
Rent and Tax	11,400	-
Salaries and Wages	18,600	-
Sundry Debtors	48,000	-
Sundry Creditors	-	29,600
Bank Loan (at 12% p.a.)	-	40,000
Bank Interest on above	3,800	-
Printing & Advertisement	20,200	-
Income from Investments	-	500
Cash at Bank (Cr.)	-	23,000
Discount Received	-	8,560
Investments	10,000	-
Furniture & Fittings	13,600	-
Discount allowed	5,080	-
General Expenses	7,820	-
Audit Fees	2,600	-
Travelling Expenses	4,660	-

Postage & Telegram	**1,740**	**-**
Cash in Hand	**20,760**	**-**
Fixed Deposit with State Bank of India	**86,000**	**-**
Drawings	**20,000**	**-**
	9,08,460	**9,08,460**

Additional Information:

(i) Closing Stock as on 31.12.13 ₹1,57,200.

(ii) The effect of advertisement being not yet expired, a quarter of the amount of "Printing and Advertisement" is to be carried forward to the next year.

(iii) Provide 2% for Discount on Debtors and create a provision for Bad and Doubtful Debts at 5% on Debtors.

(iv) Depreciation of 10% is to be written off on Furniture and Fittings.

(v)Furniture which stood at ₹ 1,200 in the books on 1st January, 2013 was disposed of at ₹ 580 on 30th June, 2013 in part exchange for a new furniture costing ₹ 1,040. The net amount payable ₹ 460 was passed through the Purchase Book by mistake.

(vi) Two dishonoured cheques for ₹ 400 and ₹ 600 respectively had not been entered in the cash book. The first for ₹ 400 is known to be bad. In the case of the second cheque for ₹ 600, it is expected that the Debtors would be in a position to pay a dividend of 60 paise in the rupee.

(vii)Interest receivable from Fixed Deposit with State Bank of India @ 12% p.a. and provide for interest on Bank Loan for the whole year (working notes must be shown).

[16]

Solution:

In The Books of M/S. Roy Traders
Trading and Profit Loss Account for the year ended 31st Dec, 2013

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To, Opening Stock		93,600	By, Sales	5,79,200	
'' Purchase	4,86,200		Less: Return	17,200	5,62,000
Less: Return	11,600				
	4,74,600				
Less: P& L Adjustment	460	4,74,140	'' Closing Stock		1,57,200
'' Freight and carriage		37,200			
,, Gross Profit c/d		1,14,260			
		7,19,200			**7,19,200**
To, Rent and Taxes		11,400	By, Gross Profit b/d		1,14,260
'' Salaries and wages		18,600			
'' Bank Interest	3,800		Discount Received		8,560
Add: Outstanding	1,000	4,800			
			, Income from Investment		500

Printing & Advertisement ,, Discount Paid ,, General Expenses ,, Audit Fees ,, Travelling Expenses ,, Postage and Telegram ,,Bad Debts (Dishonour of cheque) Prov. for Bad and Doubtful Debts ,, Prov. For Disc on Debtors Depreciation for Furniture and Fittings ,,Loss on sale of Furniture ,, Capital A/c (Net Profit Transferred)		20,200 5,080 7,820 2,600 4,660 1,740 400 2,640 912 1,352 560 38,377	Accrued Interest Received for F.D. With S.B.I.		10,320
		1,33,640			**1,33,640**

Balance Sheet as at 31.12.13

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Add: Net profit Less: Drawings	2,16,000 50,876 2,66,876 20,000	2,46,876	Furniture Less: Exchange Add: Additions Less: Depreciation	13,600 1,140 12,460 1,040 13,500 1,352	12,148
Sundry Creditors Less: Wrong Credit for furniture	29,600 460	29,140	Investment		10,000
Creditors for Furniture		460	F. D. With SBI Add: Accrued Interest	86,000 10,320	96,320
12% Bank Loan Add: Outstanding Interest	40,000 1,000	41,000	Closing Stock		1,57,200
			Sundry Debtors		45,048
Bank Overdraft Add: Dishonour cheque	23,000 1,000	24,000	Cash In Hand		20,760
		3,41,476			**3,41,476**

Workings:

(i) As per As 26 the expenditure incurred on intangible assets would have to be expensed off when they are incurred. So, the Printing and Advertisement expenses is not carried forward to the next year and the full amount is shown in the profit and Loss Account.

(ii) Loss on Exchange of Furniture and Fittings

	₹
Book value of sold Furniture Less: Depreciation for 6 months (1200 x 10/100 x 6/12)	1,200 60
W. D. V.	1,140
Less: Sold for	580
Loss on Exchange	560

(iii) Total Depreciation on Furniture and Fittings

	₹
On ₹1,040 x 10/100 x 6/12 Sale Furniture On ₹12,400 (13,600 – 1,200) x 10/100	52 60 1,240
	1,352

(iv) Calculation of Sundry Debtors

	₹
Sundry Debtors	48,000
	48,000
Add: Cheque dishonor (400 + 600)	1000
	49,000
Less: Bad Debts	400
	48,600
Less: Prov. For bad debts	2,640*
	45,960
Less: Prov. For disc on debtors	912
	45,048

*60% of ₹ 600 is expected to be realized i.e. 40% is doubtful nature and so full provision should be made. Balance of Sundry Debtors after writing off bad debts is ₹48,600. Thus, total provision will be both on specific Debtors + General Debtors i.e. 40% of ₹600 + 5% of 48,000 = 240 + 2,400 = 2,640.

(v) Accrued Interest on Fixed Deposit
86,000 x 12/100 = 10,320

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+4+4]

Solution:

(a) **In the books of …………**

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	37,500	---	---	---

					(Goodwill)				
					,,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: (a)	**Goods purchased and received between 1.4.13 and 8.4.13**		
	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) Samar Ltd. took on lease a land from Bhumi for running a Super bazer on 01.01.2009 on the following conditions:

(i) A fixed rent of ₹8,000 to be paid per month.

(ii) A variable rent at the undernoted percentages on sales would be paid subject to a minimum annual payment of ₹50,000:

Sales Volume

(a) ₹ 1 to ₹50,00,000

(b) Over ₹50,00,000 and up to ₹1,00,00,000

(c) Above ₹1,00,00,000

Variable rent

(a) 1% of Sales of this category

(b) 0.75% on sales of sales of this category

(c) 0.5% on sales of sales of this category

(iii) In case the variable rent falls short of ₹50,000 in any year, the shortfall could be recovered out of excess variable rent of the following two years.

(iv) If normal activities are hampered due to any external reason, the fixed rent will remain suspended for that period.

The annual sales for the first 5 years have been:

Year	Sales by Samar ₹	
2009	30,00,000	
2010	45,00,000	
2011	65,00,000	
2012	80,00,000	[Water logging due to heavy shower for one month]
2013	1,20,00,000	

Show the important ledger accounts in the books of Samar Ltd.

(b)Prepare a Sales Ledger Adjustment Account and a Purchase Ledger adjustment accounting in the General Ledger, for the year ended 31st March, 2013 from the following information:

Particulars	₹	Particulars	₹
Customers' Account debit balance as on 01.04.2012	2,300	Goods returns by debtors	2,000
Customers' Account credit balance as on 01.04.2012	200	Cash discount allowed to debtors	600
Suppliers' Account credit balance as on 01.04.2012	4,000	Cash discount received from creditors	130
Suppliers' Account debit balance as on 01.04.2012	540	Trade discount received from the suppliers	8,000
Credit sales during the year	29,400	Bad debts written- off during the year	400
Credit purchases during the year	27,800	Bad debts recovered during the year	80
Cash sales during the year	22,600	Transfer from creditors ledger to debtors ledger	240
Cash Purchases during the year	5,800	Bills receivable dishonoured	320
Cheques received from credit customers	18,000	Bills payable dishonoured	180
Cash received from credit customers	2,000	Cheqes recd from debtors returned dishnoured	750
Cheques issued to the creditors during the year	21,000	Cheqes issued to creditors returned dishnoured	290
Gods returned to the creditors	1,400	Customers' Account credit balance as on 31.03.2013	310
Bills payable accepted during the year	1,800	Supplier's Account debt balance as on 31.03.2013	420
Bills received during the year	1,500		

(c) State the features of a Trial Balance **[8+5+3]**

Solution:(a)
Working Notes:

(i) Fixed Rent in every year is ₹8,000 x 12 or ₹96,000.
In 2012 it should be 8,000 x 11 or ₹88,000.

(ii) Variable Rents to be calculated as:

			₹
2009	1% of 30,00,000	=	30,000
2010	1% of ₹45,00,000	=	45,000
2011	1% of 50,000	= 50,000	

	+ .75 of 15,00,000	= 11,250 =	61,250
2012	1% of 50,00,000 + .75% of 30,00,000	= 50,000 = 22,500 =	72,500
2013	1% of 50,00,000 + .75% of 50,00,000 + .5% of 20,00,000	= 50,000 = 37,500 = 10,000	97,500

[Variable rent not affected due to water logging]

(iii) Analysis of payments of variable rent

Year	Minimum Rent	Actual Rent	Short workings: Occurred	Short workings: Recouped	Short workings: Lapsed	Short workings: Carried forward	Actual Payment
	₹	₹	₹	₹	₹	₹	₹
2009	50,000	30,000	20,000	-	-	20,000	50,000
2010	50,000	45,000	5,000	-	-	25,000	50,000
2011	50,000	61,250	-	11,250	20,000 – 11,250 =8,750	5,000	50,000
2012	50,000	72,500	-	5,000	-	-	67,500
2013	50,000	97,500	-	-	-	-	97,500

Books of Samar Ltd.
Royalty Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.12.09	To Bhumi A/c [96,000 + 30,000]	1,26,000	31.12.09	By Profit & Loss A/c	1,26,000
31.12.10	To Bhumi A/c [96,000 + 45,000]	1,41,000	31.12.10	By Profit & Loss A/c	1,41,000
31.12.11	To Bhumi A/c [96,000 + 61,250]	1,57,250	31.12.11	By Profit & Loss A/c	1,57,250
31.12.12	To Bhumi A/c A/c [88,000 + 72,500]	1,60,500	31.12.12	By Profit & Loss A/c	1,60,500
31.12.13	To Bhumi A/c A/c [96,000 + 97,500]	1,93,500	31.12.13	By Profit & Loss A/c	1,93,500

Short workings Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.12.09	To Bhumi A/c A/c	20,000	31.12.10	By Balance c/d	20,000
01.01.11 31.12.11	To Balance b/d ,, Bhumi A/c A/c	20,000 5,000	31.12.11	By Balance c/d	25,000
		25,000			25,000
01.01.12	To Balance b/d	25,000	31.12.12	By Bhumi A/c ,, Profit & Loss A/c ,, Balance c/d	11,250 8,750 5,000
		25,000			25,000
01.01.13	To Balance b/d	5,000	31.12.13	By Bhumi A/c	5,000

Bhumi Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.12.09	To Bank A/c	1,46,000	31.12.09	By Rent A/c ,, Short working A/c	1,26,000 20,000

		1,46,000			1,46,000
31.12.10	To bank A/c	1,46,000	31.12.10	By Rent A/c ,, Short working A/c	1,41,000 5,000
		1,46,000			1,46,000
31.12.11	To Short working A/c ,, Bank A/c	11,250 1,46,000	31.12.11	By Rent A/c	1,57,250
		1,57,250			1,57,250

(b)

In the General Ledger of ……….

Sales Ledger adjustment Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
1.04.12	To Balance b/d	2,300	01.04.12	By Balance b/d	200
31.03.13	To General Ledger Adjustment A/c:		31.03.13	By General Ledger Adjustment A/c:	
	Credit sales	29,400		Cheque received	18,000
	Bills receivable (dishonoured)	320		Cash received	2,000
	Cheque dishonoured	750		Bill receivable	1,500
				Sales return	2,000
				Discount allowed	600
31.03.13	To Balance c/d	310		Bad debts	400
				Transfer	240
			31.03.13	By Balance c/d	8,140
		33,080			33,080

Purchases Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.04.12	To Balance b/d	540	01.04.12	By Balance b/d	4,000
31.03.13	To General Ledger Adjustment A/c:		31.03.13	By General Ledger Adjustment A/c:	
	Cheque issued	21,000		Credit purchases	27,800
	Bills payable accepted	1,800		Bills payable dishonored	180
	Discount received	130			
	Goods returned	1,400	31.03.13	Cheque issued dishonoured	290
	Transfer	240			
31.03.13	To Balance c/d	7,580			
				By Balance c/d	420
		32,690			32,690

Note:
Trade discount received from suppliers is not recorded in the books of accounts. Therefore, it will not affect the Adjustment Accounts.

(c) Feature's of a Trial Balance

(i) It is a list of debit and credit balances which are extracted from various ledger accounts.
(ii) It is a statement of debit and credit balances.
(iii) The purpose is to establish arithmetical accuracy of the transactions recorded in the Books of Accounts.
(iv) It does not prove arithmetical accuracy which can be determined by audit.
(v) It is not an account. It is only a statement of account.
(vi) It is not a part of the final statements.

5.(a) 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

(b) A firm sells goods on sale or return basis, customers, having the choice of returning the goods within a month. During April 2013, the following are the details of the goods sent:

2013 April	Customer	Value ₹	Proforma Invoice No.
2	A	10,000	004
4	B	18,000	007
16	C	25,000	023
20	D	8,000	032
24	E	21,000	041
28	F	30,000	049

Within the stipulated time A and C returned the goods while B, D and E signified that they have accepted the goods. Show the following accounts in the books of the firm: sale on Approval Account and customers for sale on Approval Account as on 15th May 2013.

(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

[6+5+5]

Solution:
Noted:

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 A/c

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 A/c

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

(b) **In the books of ………**
Sale on Approval Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2013			**2013**		
May	To customers for sale on Approval A/c	10,000	April	By Customers for sale on Approval A/c	
2	-Returned by A	18,000	2	- A	10,000
4	- Sold to B	25,000	4	- B	18,000
15	- Returns by C	8,000	16	- C	25,000
	- Sold to D	21,000	20	- D	8,000
	-Sold to E	30,000	24	- E	21,000

31	To Balance c/d		28	- F	30,000
		1,12,000			1,12,000

Customers for sale on Approval Account

Dr. **Cr.**

Date	**Particulars**	₹	**Date**	**Particulars**	₹
2013			**2013**		
April	To sale on Approval A/c		May	By Sale on Approval A/c	
2	- A	10,000		- Returned by A	
4	- B	18,000	2	- Sold to B	10,000
16	- C	25,000		- Returned by C	18,000
20	- D	8,000	4	- Sold to D	25,000
24	- E	21,000	15	- Sold to E	8,000
28	- F	30,000		By Balance c/d	21,000
			31		30,000
		1,12,000			1,12,000

(c)

Dr. **Total Debtors Accounts** **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 Accounts** **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) Das & Co. suffered a loss of stock due to fire on 16.8.2013. From the following information prepare a statement showing claim for the loss to be submitted:

Stock at Cost 1.1.12	**1,83,750**
Stock at Cost 31.12.12	**1,99,000**
Purchases less returns for the year ended 31.12.12	**9,95,000**
Sales less returns for the year ended 31.12.12	**12,17,500**
Purchases less returns from 1.1.13 to 16.8.13	**1,62,000**
Sales less returns from 1.1.13 to 16.8.13	**2,31,200**

In Valuing Stock of Balance Sheet on 31st December, 2012, ₹ 5,750, had been written off certain stock which was a poor selling line, having cost ₹ 17,250. A portion of these goods was sold in March, 2013 at a loss of ₹ 750 on the original cost of ₹ 8,750. The remainder of this stock was now estimated to be worth the original cost, subject to the above exception, gross profit had remained at a uniform rate throughout. The company had a fire policy of ₹ 1,08,750 covering its stock of goods in the godown. The Policy is subject to Average Clause .The stock salvaged from fire was valued at ₹15,000.

(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?

(c) State the basic features of a Joint Venture [6+7+3]

Solution:

(a) Trading Account for the year ended 31st December, 2012

Dr. **Cr.**

Particulars	Normal Items (₹)	Abnormal Items (₹)	Total (₹)	Particulars	Normal Items (₹)	Abnormal Items (₹)	Total (₹)
ToOpening Stock	1,72,250	17,250	1,89,500	By Sales	12,17,500	-	12,17,500
`` Purchases	9,95,000		9,95,000	`` Closing Stock	1,87,500	17,250	2,04,750
`` Gross Profit	2,37,750		2,37,750				
	14,05,000	17,250	14,22,250		14,05,000	17,250	14,22,250

Rate of Gross Profit on Sales of Normal Items = $\frac{2,37,750}{12,17,500}$ x 100 = 20%.

Workings:

1. Calculation of Opening Stock:	₹
Stock at cost on 01.01.2012	1,83,750
add: written back of stock	5,750
	1,89,500
Less: cost price of abnormal item	17,250
	1,72,250

2. Calculation of Closing Stock	₹
Stock at cost on 31.12.2011	1,99,000
add: Written Back	5,750
	2,04,750
Less: cost price of abnormal item	17,250
	1,87,500

Memorandum Trading Account for the period 1.1.13 to 16.8.13

Dr. **Cr.**

Particulars	Normal Items (₹)	Abnormal Items	Total (₹)	Particulars	Normal Items (₹)	Abnormal Items	Total (₹)

To Opening Stock `` Purchases (Less Returns) `` Gross Profit [20% of 5,70,000]	1,87,500 4,05,000 1,14,000	17,250 -	2,04,750 4,05,000 1,14,000	By Sales (Less Returns) `` Gross Loss `` Closing Stock [Balancing Figure]	5,70,000 --- 1,36,500	8,000 750 8,500	5,78,000 750 1,45,000
	7,06,500	17,250	7,23,750		7,06,500	17,250	7,23,750

Statement Showing Insurance Claim for Loss of Stock

	₹
Estimated Value of Stock on date of fire :	
Normal Items	1,36,500
Abnormal Items (Valued at Cost)	8,500
	1,45,000
Less : Value of Salvaged Stock	15,000
Stock Lost by Fire	1,30,000

The policy value is ₹ 43,500. There is an Average clause in the policy

$$\therefore \text{ Claim subject to average clause} = \frac{\text{Policy Value}}{\text{Value of Stock}} \text{ x Actual Loss of Stock}$$

$$= 1,30,000 \text{ x } \frac{1,08,750}{1,45,000} = ₹\ 97,500.$$

(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

(c) The basic features of a Joint Venture business are :

(i) It is done for a specific purpose and hence has a limited duration.
(ii) The partners are called co-venturers.
(iii) The profit or loss on joint venture is shared between the co-venturers in the agreed ratio.
(iv) The co-venturers may or may not contribute initial capital.
(v) The JV is dissolved once the purpose of the business is over.
(vi) The accounts of the co-venturers are settled immediately on dissolution.

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) 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. [6+10]

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

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.	40,000	
	To Investment A/c		10,000
	To Stock-in-trade A/c		10,000
	To Sundry Debtors A/c		20,000
	(Being the different assets transferred to Realization Account)		
	Sundry Creditors A/c Dr.	19,000	
	To Realization A/c		19,000
	(Being sundry creditors transferred to Realization Account)		
	G & Co. A/c (Note 1) Dr.	10,000	
	To Realization A/c		10,000
	(Being purchase consideration due from G & Co.)		
	X Capital A/c Dr.	5,500	
	Y Capital A/c Dr.	5,500	
	To Realization A/c (Note 2)		11,000
	(Being loss on realization transferred to Partners' Capital Accounts		

	equally)		
	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:

(1) 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

(2) 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

(3) 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

(4) Partners' Capital Accounts

Dr. **Cr.**

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

(5) 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.

8.(a) Khan draws a bill for ₹ 1,20,000 and Sumit accepts the same for mutual accommodation of both of them to the extent of Khan 2/3rd and Sumit 1/3rd. Khan discounts it with bank for ₹ 1,12,800 and remits 1/3rd share to Sumit. Before the due date, Sumit draws another bill for ₹ 1,68,000 on Khan in order to provide funds to meet the first bill on same sharing basis. The second bill is discounted at ₹ 1,63,200. With these proceeds, the first bill is settled and ₹28,800 were remitted to Khan. Before the due date of the second bill, Khan becomes insolvent and Sumit receives a dividend of only 50 paise in a rupee in full settlement.
Pass journal entries in the books of Khan.

(b) On 1st April ,2012 X has 50,000 equity shares of A Ltd at a book value of ₹15 per share (face value ₹10 per share). Company provides you the further information:
- **(i) On 20th June ,2012 he purchased another 10,000 shares of A Ltd at ₹ 16 per share.**
- **(ii) On 1st August 2012, A Ltd. issued one equity bonus share for every six shares held by the shareholders.**
- **(iii) On 31st October, 2012, the directors of A Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at ₹ 15 per shar. Shareholders can transfer their rights in full or in part.**

X sold 1/3rd of entitlement to U for a consideration of ₹ 2 per share and subscribe the rest on 5th November, 2012.
You are required to prepare investment Account in the books of X for the year 31st March, 2013.

(c) X –Ray Ltd gives you the following information for the year ended 31st March, 2013 :
- **(i) Sales for the year ₹ 48,50,000. The company sold goods for cash only.**
- **(ii) Cost of goods sold was 75% of sales.**
- **(iii) Closing inventory was higher than opening inventory by ₹ 50,000.**
- **(iv) Trade creditors on 31.3.2013 exceed the outstanding on 31.3.2012 by ₹ 1,00,000.**
- **(v) Tax paid during the year amounts to ₹ 2,00,000.**
- **(vi) Amounts paid to trade creditors during the year ₹ 35,60,000.**
- **(vii)Administrative and selling expenses paid ₹ 3,50,000.**
- **(viii) One new machinery was acquired in December, 2012 for ₹ 6,50,000.**
- **(ix) Dividend paid during the year ₹ 70,000.**
- **(x) Cash in hand and at Bank on 31.3.2013 ₹ 90,000.**
- **(xi) Cash in hand and at Bank on 1.4.2012 ₹ 70,000.**

Prepare Cash Flow Statement for the period ended 31.3.2013 as per the prescribed Accounting Standard. [6+5+5]

Solution:

(a) In case of accommodation bills, the proceeds of discounting are shared by parties as agreed. The discounting charges are also shared in agreed proportion. Here, the ratio between Khan and Sumit is given as two-thirds and one-third. The first bill of ₹ 1,20,000 is discounted at ₹ 1,12,800 which means the discounting charges are ₹ 7,200. The share of each one is:

	1st Bill		2nd Bill	
	Proceeds (₹)	**Discount (₹)**	**Proceeds (₹)**	**Discount (₹)**
Khan (2/3rd)	75,200	4,800	1,08,800	3,200
Sumit (1/3rd)	37,600	2,400	54,400	1,600
Total	1,12,800	7,200	1,63,200	4,800

Further, as Khan has become insolvent, the amount due to Sumit is settled at 50% of total. To calculate this amount, it's necessary to post all transactions to Sumit's account and arrive at the balance.

In the Books of Khan
Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bills Receivable A/c	Dr.		1,20,000	
	To, Sumit's A/c				1,20,000
	(Being bill drawn on Sumit)				
	Bank A/c	Dr.		1,12,800	
	Discount A/c	Dr.		7,200	
	To, Bills Receivables A/c				1,20,000
	(Being discounting of bil)				
	Sumit's A/c	Dr.		40,000	
	To, Bank A/c				37,600
	To, Discount A/c				2,400
	(Being 1/3rd proceeds paid to Sumit)				
	Sumit's A/c	Dr.		1,68,000	
	To, Bills payable A/c				1,68,000
	(being acceptance of bill)				
	Bank A/c	Dr.		28,800	

	Discount A/c Dr. To, Sumit's A/c (Being proceeds of discounting 2nd bill)			3,200	 32,000
	Bills Payable A/c Dr. To, Sumit's A/c (Being dishonour of bill)			1,68,000	 1,68,000
	Sumit's A/c Dr. To, Bank A/c To, Deficiency A/c (Being payment of 50% & balance proved to be bad)			1,12,000	 56,000 56,000

Sumit's Account

Dr. **Cr.**

Particulars	**Amount ₹**	**Particulars**	**Amount ₹**
To, Bank A/c	37,600	By B/R A/c	1,20,000
To, Discount A/c	2,400	By Bank A/c	28,800
To, B/P A/c	1,68,000	By Discount A/c	3,200
		By B/P A/c	1,68,000
To, Bank A/c	56,000		
To, Deficiency A/c	56,000		
	3,20,000		3,20,000

(b) Dr.

Investment Account in the books of X

Cr

(Equity Shares in A Ltd.)

Date	**Particulars**	**No. of shares**	**₹**	**Date**	**Particulars**	**No. of shares**	**₹**
01.04.12	To, Balan b/d	50,000	7,50,000	5.11.12	By, Bank A/c (Sale of Rights)	-	20,000
20.06.12	To, Bank A/c	10,000	1,60,000				
01.08.12	To, Bonus issue	10,000	-				
05.11.12	To, Bank A/c (Right Shares)	20,000	3,00,000	31.03.13	By Balan c/d	90,000	11,90,00
		90,000	12,10,000			90,000	12,10,000

Working Notes:

Sl	**Particulars**	**Calculation**	

No.			
(i)	Bonus Share	(50,000 + 10,000) / 6 =	10,000 shares
(ii)	Right Share	[(50,000 + 10,000 + 10,000)] / 7] x 3 =	30,000 shares
(iii)	Sale of Right	(30,000 shares x 1/3) x ₹ 2 =	₹ 20,000
(iv)	Rights subscribed	(30 ,000 shares x 2/3) x ₹ 15 =	₹ 3,00,000

(c)

X -Ray Ltd.
Cash Flow Statement (Under Direct Method) for the year ended 31st March, 2013

Particulars	₹	₹
Cash Flows from Operating Activities		
Cash Sales	48,50,000	
Less: Cash paid to Suppliers	(35,60,000)	
Less: Expenses paid	(3,50,000)	
Cash Generated from Operations	9,40,000	
Income-tax paid	2,00,000	
Net Cash from Operating Activities		7,40,000
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(6,50,000)	
Net Cash from Investing Activities		(6,50,000
Cash Flows from Financing Activities		
Dividend Paid	(70,000)	
Net Cash from Financing Activities		(70,000)
Net Increase in Cash and Cash Equivalents		20,000
Cash and Cash Equivalents at the Beginning of the Period		70,000
Cash and Cash Equivalents at the End of the Period		90,000

Note: Under direct method, change in the items of working capital is not taken into consideration, only cash paid are taken into consideration.