Paper 5 - Financial Accounting

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

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

SECTION A

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

(i) Beta Ltd. entered into an agreement to sell its immovable property included in the Balance Sheet at ₹ 50 lakhs to another company for ₹ 65 lakhs. The agreement to sell was concluded on 28th Feb, 2014 and the sale deed was registered on 30th April, 2014.
How should this event be recorded?

(ii) ABC Ltd. paid an interim dividend of ₹ 1 lakh during financial year 2012-2013 and also paid ₹ 10,200 as Corporate Dividend Tax.ABC Ltd. classified dividend as financing activities and Corporate Dividend Tax as Operating Activities while preparing cash flow statement for 2012-2013. Answer in framework with AS-3.

(iii) Discuss the importance of National Advisory Committee on Accounting Standard.

(iv) A&Co. closed their books on 31st March, 2013. On that date they detected that
(a) Material from store ₹ 9000 and wages ₹ 3500 have been used in making loose tools for use in own factory. But no adjustments were made in the books.
(b) ₹ 4500 paid in installments to an injured worker was debited to Wages Account, pending the settlement of workmen's compensation claim against insurance company.
Pass the necessary Journal Entries to rectify the above errors.

(v) Classify the following between Capital and Revenue giving reasons
(a) Old machinery of book value of ₹ 10,000 worn out, dismantled at a cost ₹ 2,500 and scraps realized for ₹ 500.
(b) A firm of builders spent ₹ 4, 00,000 for purchasing a plot of land and erected its own office over 1/4th of the site. The remaining area was developed for sale to public.

(vi) Calculate the amount of Insurance claim to be lodged based on the following information:

Value of stock destroyed by fire	**₹ 90,000**
Insurance policy amount (subject to average clause)	**₹ 65,000**
Value of stock salvaged from fire	**₹ 40,000**

(vii) S Ltd. recognizes Goodwill at ₹ 25 lakhs in the Balance Sheet. An amount of ₹ 9 lakhs is allocable on a reasonable and consistent basis to a Cash Generating Unit. The carrying amount of the CGU is ₹ 27 lakhs before allocation of goodwill. What will be the treatment of impairment loss if the recoverable amount of the CGU is ₹ 22 lakhs.

(viii) Describe Going Concern Concept of Accounting

(ix) Discuss when closing stock is included/not included in a trial balance.

(x) D Ltd. sold 3000, 12% Debentures (Face value ₹ 100 each) from S Ltd. at ₹ 105 cum-interest on 01.09.2013.Interest is payable on 30th June and 31st December every year. Find out the actual amount to be received.

Solution:

1. (i) As per AS 4, Contingencies and Events Occurring After the Balance Sheet Date, assets and liabilities should be adjusted for events occurring after the Balance Sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the Balance Sheet date.
In the present case the immovable property was sold before the closing of books of account, the agreement was effected before the balance sheet date i.e. on 28th Feb, 2014 but the registration was done after the Balance Sheet date i.e. on 30th April, 2014.So, the adjustment must be made in the books of account for the year ended 31st March, 2014 for the sale of immovable property.

(i) As per AS 3, Cash Flow Statement, Dividend paid as well as Corporate Dividend Tax paid, both are always classified as financing activities.
In case of ABC Ltd. also both interim dividend paid for ₹ 1,00,000 and Corporate Dividend Tax paid for ₹ 10,200 for the financial year 2012-13 should be shown as financing activities in the preparation of Cash Flow Statement.

(iii) Under Section 210A of Companies Act, 1956, Central Government by notification has constituted a committee to advise the Central Government on the formulation and lying down of accounting policies and accounting standards for adoption by companies or class of companies specified under the Act. Based on the recommendations of National Advisory Committee on Accounting Standard (NACAS), The Central Government has notified AS-1 to AS-7 and AS-9 to AS-29 in December 2006 in the form of Companies (Accounting Standards) Rules, 2006.

(iv)

Books of A & Co.
Journal

Date	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
31.03.2013	Loose Tools A/c Dr. To Purchases A/c To Wages A/c [Being materials and wages utilized for making loose tools now adjusted]		12,500	 9,000 3,500
31.03.2013	Workmen's Compensation A/c Dr. To Wages A/c [Being installment paid to an injured worker debited to Wages A/c, rectified]		4,500	 4,500

(v) (a) The book value of the dismantled machinery ₹ 10,000 is a revenue loss as it arose due to under provision of depreciation in the past. Cost of dismantling ₹ 2,500 is a revenue expense as it does not create any extra benefit. However these are not regular loss/expense so may also be treated as deferred revenue loss. The sale of scrap ₹ 500 is a capital receipt as it represents sale proceeds of Fixed Asset.

(b) ₹ 1,00,000 (1/4th of the cost of land) is a capital expenditure as it helps to acquire office premises, a fixed asset. Rest ₹ 3,00,000 is a revenue expenditure as trading activities of the firm includes buying and selling of lands.

(vi) Total value of stock before fire = ₹ (90,000+40,000) = ₹ 1,30,000.

$$\text{Amount of Insurance Claim} = \frac{\text{Stock destroyed by fire}}{\text{Total stock before fire}} \times \text{Amount Insured}$$

$$= \frac{₹90,000}{₹1,30,000} \times ₹65,000$$

= ₹ 45,000.

(vii)

1. Carrying Amount of the CGU	₹ 27 lakhs
2. Add: Value of goodwill allocated to the CGU	₹ 9 lakhs
3. Revised carrying amount of CGU(1+2)	₹ 36 lakhs
4. Recoverable amount of the CGU	₹ 22 lakhs
5. Impairment Loss(3-4)	₹ 14 lakhs
6. Treatment of Impairment Loss	Goodwill reduced by ₹ 9 lakhs and assets of the CGU reduced by ₹ 5 lakhs on pro-rata basis.

(viii) The basic principle of this concept is that business is assumed to exist for an indefinite period and is not established with the objective of closing it down. Unless there is good evidence to the contrary, the accountant assumes that a business entity is a going concern that it will continue to operate as usual for a longer period of time. It will keep getting money from its customers, pay its creditors, buy and sell goods, use assets to earn profits in future. This concept enables the accountant to carry forward the values of assets and liabilities from one accounting period to other without asking the question about usefulness and worth of the assets and recoverability of the receivables. If going concern assumption is not considered, one will have to constantly value the worth of the assets and resources. The going concern concept also forms a sound basis for preparation of a Balance Sheet.

(ix) Normally Closing Stock is not included in a trial balance as its account is not opened. It represents the unsold goods.
However, where it is adjusted against purchases, it appears in the trial balance.

(x) Total amount received =3000 x ₹ 105 = ₹ 3,15,000
Less: Interest (from 01.07.2013 to 31.08.2013)
i.e. 2 months = 3,00,000 x (12/100) x(2/12)= ₹ 6,000
Actual Amount to be received = ₹ (3,15,000 - 6,000)= ₹ 3,09,000

SECTION B

2. (a) Mr. S who keeps financial records in single entry mode provides the following data for the year ended 31st March, 2014. [12]

Gross Profit Ratio	**40% on sales**	**Net Profit Ratio**	**10% on sales**
Debtors Turnover Ratio	**2Months**	**Other Expenses (Administrative)**	**₹ 25 lakhs**
Creditors Turnover Ratio	**1.5Months**	**Depreciation**	**₹ 5 lakhs**
Inventory Turnover Ratio	**2Months**	**Debentures to Equity share capital**	**10%**
Current Ratio	**2.5Months**		

Opening Stock was less than the Closing Stock by ₹ 4 lakhs. The ratio of cash sales to credit sales was 16:9. Depreciation was charged on Fixed Asset at 20%. Other expenses include the payment of interest on debentures. No dividends were declared during the year. Ignore taxation. By application of ratios compute Sales, Gross Profit, Net Profit, Credit sales, Closing Stock, Purchases, Debtors, Creditors, Current Assets, Fixed Assets and Debentures.

(b) The following particulars are available from the books of Mascot Ltd. : [4]
April 1, 2012 Provision for Bad Debts ₹ 1,750.

During 2012 Bad Debts written off ₹ 1,500.
On 31st March 2013 balance of Sundry Debtors ₹ 64,800. Further bad debts to be written off amounted ₹ 800. It realized ₹ 980 written off as bad in 2010 and a provision of 5% was to be made on 31.03.2013. Show the Bad Debts Account for the year 2012-2013 assuming that the concern adjusts provision through the Bad Debts Account.

Solution:

2. (a)

Application of Ratios for computing missing figure

1	Sales	Since GP Ratio and NP Ratio are 40% and 10% of Sales respectively, Other Expenses debited to P&L Account = 40% - 10% = 30% of Sales. Since Other Expenses + Depreciation debited in P&L A/c = (₹ 25 + ₹ 5) Lakhs = ₹ 30 lakhs, Sales = 30 ÷ 30% =	₹ 100 lakhs
2	Gross Profit	40% of Sales =	₹ 40 lakhs
3	Net Profit	10% of Sales =	₹ 10 lakhs
4	Credit Sales	Cash Sales to Credit Sales = 16:9 Hence, credit Sales =Total Sales x 9/25= ₹100 x 9/25 =	₹ 36 lakhs
5	Closing Stock	To find closing stock, average stock value is required. Average Stock = COGS x 2 months ÷ 12 months = (Sales – GP) x 2/12 = 60 x 2/12 = ₹ 10 lakhs Average Stock = (Opening Stock + Closing Stock) ÷ 2 = ₹10 lakhs. As per question; Opening Stock=Closing Stock–4 lakhs on substituting. (Closing Stock – 4 + Closing Stock) ÷ 2 = 10; Hence, Closing Stock = Therefore, Opening Stock = 12 – 4 = ₹ 8 lakhs.	₹12 lakhs
6	Purchases	COGS = Opening Stock + Purchases – Closing Stock. Since COGS = Sales – GP = ₹ (100 – 40) = ₹ 60. Opening and Closing Stocks are known, on substitution, Purchases will be the balancing figure =	₹ 64 lakhs
7	Debtors	Credit Sales x 2 months / 12 months = ₹ 36 x 2 / 12 =	₹ 6 lakhs
8	Creditors	Credit Purchases x 1.5 months ÷ 12 months = ₹ 64 x 1.5/12	₹ 8 lakhs
9	Current Assets	Current Ratio =2.5; CA ÷ CL =2.5; Hence, CA =2.5 CL. Since CL = Creditors = ₹ 8 lakhs, on substitution, CA = 2.5 x 8 lakhs =	₹ 20 lakhs
10	Fixed Assets	Depreciation ÷ Depreciation Rate=₹ 5 lakhs ÷ 20%= Net Block =Gross Block – Depreciation = ₹ 25 lakhs – ₹ 5 lakhs = ₹ 20 lakhs	₹ 25 lakhs
11	Debentures	To find Debentures, we have to find out Capital Employed. Capital Employed = Fixed Assets + Net Working Capital = ₹20 + ₹(20 – 8) = ₹ 32 lakhs Again, Capital Employed = Debt + Equity = Debenture + (Capital + R & S) ₹ 32 lakhs, of which P&L = ₹ 10 lakhs. Hence, debentures + Share Capital = ₹ 22 lakhs. Since Debentures to Share Capital = 10%, Debentures = ₹ 22 x 10/110 =	₹ 2 lakhs

(b)

Books of Mascot Ltd.
Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.13	To Sundry Debtors A/c [1,500 + 800]	2,300	01.04.12	By Provision b/d	1,750
31.03.13	To Provision c/d [5% of (64,800 – 800)]	3,200	31.03.13	By Profit & Loss A/c (Bal. Figure)	3,750
		5,500			5,500
			01.04.13	By Provision b/d	3,200

Note:

₹ 980 recovered out of Bad Debts written off in 2010 is to be recorded as:

Cash A/c ………………………………………… Dr.	980	
To Bad Debt Recovered A/c		980
Bad Debt Recovered A/c …………………… Dr.	980	
To Profit & Loss A/c		980

Alternatively Bad Debt recovered can be credited to Provision A/c or Bad Debts A/c (at least, here). In that case amount transferred to Profit & Loss Account would be ₹ 3,750 – ₹ 980 = ₹ 2,770.

3. (a) Gupta Limited, an Indian Company has a branch at New York (USA). The trial balance of the branch as at 31st March, 2013 is as follows:

Particulars	US$	
	Dr.	Cr.
Fixed Assets	**51,200**	**-**
Opening Stock	**22,400**	**-**
Purchases/ Sales	**96,000**	**1,66,400**
Goods Sent from HO	**32,000**	**-**
Carriage Inward	**600**	**-**
Branch Expenses	**4,800**	**-**
H.O. Account	**-**	**45,600**
Sundry Debtors / Creditors	**9,600**	**6,800**
Cash at Bank	**2,200**	**-**
	2,18,800	**2,18,800**

The following further information's are given:

(i) Expenses outstanding $ 400.

(ii) Depreciation charged on Fixed Assets @10% p.a. at W.D.V.

(iii) The H.O. sent goods to Branch for ₹ 15,80,000.

(iv) The H.O. shown an amount of ₹ 20,50,000 due from branch.

(v) Closing Stock $ 21,500.

(vi) There were no transit items either at the start or at the end of the year. On April 1, 2011 when the fixed assets were purchased the rate of exchange was ₹ 43 to one $. On April 2012 the rate was ₹47 per $. On March 31, 2012 the rate was ₹50 per $. Average rate during year was ₹45 to one $.

Assuming that the branch is an Integral Foreign Operation of the Indian Company. Calculate the Difference in Exchange and show its Accounting treatment as per AS 11.

(b) What are the disclosure requirement as per Accounting Standard 10? [3]

(c) G Insurance Company Ltd. furnishes the following information:

(i) On 31.03.2013 it had reserve for unexpired risks to the tune of ₹86 crore. It comprised ₹32 crore in respect of Marine Insurance business, ₹40 crore in respect of Fire Insurance business and ₹14 crore for Miscellaneous Insurance business.

(ii) It is the practice of G Insurance Company Ltd. to create reserve at 100% of net premium income in respect of Marine Insurance policies and 50% of net premium in respect of Fire and Miscellaneous Insurance business.

(iii) During year ended 31st March, 2014 the following business was conducted:

Particulars	Marine	Fire	Miscellaneous
	₹ crore	₹ crore	₹ crore
Premia collected from			
Insured(other than insurance companies) in respect of policies issued	40	84.6	30
Other insurance companies in respect of risk undertaken	16	18	10
Premia paid/payable to other insurance companies on business ceded	12.6	8.6	15

Pass journal entries in the books of G Insurance Company Ltd. relating to "Unexpired Risks Reserve" [6]

Solution:

3. (a)

Trial Balance (in ₹) of New York (USA) Branch as on 31.03.2013

	Dr. US $	Cr. US $	Conversion	Dr. ₹	Cr. ₹
Fixed Assets	46,080	-	43	19,81,440	-
Depreciation on Fixed Assets	5,120	-	43	2,20,160	-
Opening Stock	22,400	-	47	10,52,800	-
Purchases	96,000	-	45	43,20,000	-
Sales		1,66,400	45	-	74,88,000
Goods sent from H.O.	32,000	-	Taken at amounts of recorded in H.O. books	15,80,000	-
Carriage Inward	600	-	45	27,000	-
Branch Expenses (4,800 +400)	5,200	-	45	2,34,000	-
Outstanding Expenses	-	400	50	-	20,000
Head Office Account	-	45,600	Taken at amounts of recorded in H.O. books		20,50,000
Trade Debtors	9,600	-	50	4,80,000	-
Trade Creditors	-	6,800	50	-	3,40,000
Cash & Bank	2,200	-	50	1,10,000	-
Exchange gain (Baln. Fig)					1,07,400
	2,19,200	**2,19,200**		**1,00,05,400**	**1,00,05,400**
Closing Stock	21,500	-	50	10,75,000	-

Difference in exchange [e.g.1,07,400] will be credited to Profit and Loss Account.

(b) Disclosure requirement as per Accounting Standard 10.

- Gross and net book values of fixed assets at the beginning and at the end of accounting period showing additions, disposal, acquisition and other movements.
- Expenditure incurred on account of fixed assets in the course of construction or acquisition.
- Revalued amount substituted for historical cost of fixed assets, the method adopted to compute the revalued amount, and whether an external valuer has valued the fixed assets, in case where fixed assets are stated at revalued amount.

(c)

In the books of G Insurance Company Ltd.
Journal

Date	Particulars	L.F.	Dr. ₹ Crore.	Cr. ₹ Crore.
31.3.14	Marine Revenue A/c Dr. To Unexpired Risks Reserve A/c (Excess of closing provision for unexpired risks of ₹ 43.40 crore over opening provision of ₹ 32 crore charged to Marine Revenue A/c)		11.4	11.4
31.3.14	Fire Revenue A/c Dr. To Unexpired Risks Reserve A/c (Excess of closing provision for unexpired risks of ₹ 47.00 crore over opening provision of ₹ 40.00 crore charged to Fire Revenue A/c)		7.00	7.00
31.3.14	Unexpired Risks Reserve A/c Dr. To Miscellaneous Revenue A/c (Excess of Opening provision for unexpired risks of ₹ 14.00 crore over the required closing balance of ₹ 12.50 crore in the provision account credited to Miscellaneous Reserve Account.)		1.50	1.50

Working Notes:

Required closing balance in Unexpired Risks Reserve Account:

For Marine business = ₹ (40 + 16 – 12.6) = ₹ 43.40

For Fire business = ₹ (84.6+18-8.6)= ₹ 94×(50%)= ₹ 47.00

For Miscellaneous business =₹ (30+10-15)= ₹ 25×(50%)= ₹ 12.50

4. (a) The following information is presented by Mr. Z, relating to his holding in 9% Central Government Bonds.

Opening balance (face value) ₹ 1,20,000, Cost ₹ 1,18,000 (Face value of each unit is ₹ 100).

01.03.2012	**Purchased 200 units, ex-interest at ₹ 98.**
01.07.2012	**Sold 500 units, ex-interest out of original holding at ₹ 100**
01.10.2012	**Purchased 150 units at ₹ 98, cum interest.**
01.11.2012	**Sold 300 units, ex-interest at ₹ 99 out of original holdings.**

Interest dates are 30th September and 31st March. Mr. Z closes his books every 31st December. Show the investment account as it would appear in his books. [10]

(b) During the year ended 31st March 2013, Sourav Cricket Club received subscriptions as follows: [3+3]

	(₹)
For year ended 31st March,2012	**12,000**
For year ended 31st March,2013	**6,15,000**
For the year 2013-14	**18,000**
Total	**6,45,000**

There are 700 members and annual subscription is ₹ 1,000 per member.

On 31st March, 2013, a sum of ₹ 15,000 was still in arrear for subscription for the year ended 31st March, 2012.

Ascertain the amount of subscriptions that will appear on the credit side of Income and Expenditure Account for the year ended 31st March,2013.Also show how the items would appear in the Balance Sheet as on 31st March,2012 and the Balance Sheet as on 31st March,2013.

Solution:

4. (a)

In the books of Mr. Z

9% Central Government Bonds (Investment) Account

Dr. **Cr.**

Date	Particulars	Face Value (₹)	Interest (₹)	Principal (₹)	Date 2012	Particulars	Face Value (₹)	Interest (₹)	Principal (₹)
01.01.12	To Balance b/d	1,20,000	2,700	1,18,000	31.03.12	By Bank A/c	---	6,300	---
01.03.12	To Bank A/c	20,000	750	19,600	01.07.12	By Bank A/c	50,000	1,125	50,000
01.07.12	To P&L A/c	---	---	833	30.09.12	By Bank A/c	---	4,050	---
01.10.12	To Bank A/c	15,000	---	14,700	01.11.12	By Bank A/c	30,000	225	29,700
01.11.12	To P&L A/c		---	200	31.12.12	By Balance c/d	75,000	1,688	73,633
31.12.12	To P&L A/c (Transfer)		9,938						
		1,55,000	13,388	1,53,333			1,55,000	13,388	1,53,333

Working Note: Calculation of Closing Balance:

	Face Value (₹)	(₹)
From original holding (1,20,000 – 50,000 – 30,000)39,333 i.e., (1,18,000/1,20,000) x 40,000	40,000	
Purchased on 1st March	20,000	19,600
Purchased on 1st October	15,000	14,700
	75,000	73,633

(b)

An extract of Income and Expenditure Account
for the year ended 31st March 2013

Dr. **Cr.**

Expenditure	₹	Income	₹
		By Subscription (700 x ₹ 1000)	7,00,000

An extract of Balance Sheet as at 31st March, 2013

Liabilities	₹	Assets	₹
Subscription received in advance	18,000	Subscription outstanding For 2011 – 2012 15,000 For 2012 – 2013 85,000	1,00,000

An extract of Balance Sheet as at 31st March, 2012

Liabilities	₹	Assets	₹
		Subscription outstanding	27,000

5. (a) From the following information, compute the amount of provision to be made against the advances of a commercial bank **[6]**

(₹ in '00,000)

Particulars	Amount ₹
Advance fully secured	**140**
Advance overdue for 15 months	**40**
Advance overdue for more than 2.5 year but less than 3 years	**20**
(Secured by mortgage of land & building valued ₹ 10 lakhs)	**-**
Unsecured advance not recoverable	**40**
Total amount of Loans & Advances	**240**

(b) DESC Limited decided to replace one of its old plants by an improved plant. This plant was built in 1974 for ₹ 33,75,000. To build a new plant of the same size and capacity it would now cost ₹ 50,00,000. The cost of the new plant with larger capacity was ₹ 1,06,25,000 and in addition, materials of the old plant valued at ₹ 3,43,750 were used in the construction of the new plant. The balance of the old plant was sold for ₹ 1,87,500.

You are required to calculate the amount to be charged to Revenue Account and the amount to be capitalized. Also show the Plant Account and the Replacement Account. [2+2+3+3]

Solution:

5. (a)

Statement Showing the Ascertainment of Provisions

Type of Advance	**Amount (₹In '00,000)**	**Percentage of Interest (%)**	**Amount of Provision (₹)**
Standard Asset	140	0.40%	56,000
Sub-Standard Asset	40	15%	6,00,000
Doubtful Asset			
- Unsecured Portion	10	100%	10,00,000
- Secured Portion	10	40%	4,00,000
(More than 2.5 years but less than 3 years)			
Loss Asset	40	100%	40,00,000
			60,56,000

Workings Note:

Unsecured Provision (₹ 20,00,000 – ₹ 10,00,000)= ₹ 10,00,000

(b)

Amount chargeable to Revenue Account	**Amount (₹)**	**Amount (₹)**
Estimated current cost of replacing old plant		50,00,000
Less: Sale proceeds of old plant	1,87,500	
Value of materials used in new plant	3,43,750	
		5,31,250
		44,68,750

Amount to be Capitalized	**Amount (₹)**	**Amount (₹)**
Cost of building new plant	1,06,25,000	
Add: Value of materials used from old plant	3,43,750	
		1,09,68,750
Less: Estimated current cost of replacing old plant		50,00,000
		59,68,750

Plant Account

Dr. Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To balance b/d	33,75,000	By Balance c/d	93,43,750
To Bank A/c (₹ 59,68,750 – ₹ 3,43,750)	56,25,000		
To Replacement A/c	3,43,750		
	93,43,750		93,43,750

Replacement Account

Dr. Cr.

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Bank A/c	50,00,000	By Bank A/c (sale proceeds)	1,87,500
(Current cost of replacement)		By Plant A/c (materials used)	3,43,750
		By Revenue A/c (transfer)	44,68,750
	50,00,000		50,00,000

6. P, Q and R were carrying on business in partnership, sharing profits and losses in the ratio of 5:4:3 respectively. The trial balance of the firm as on 31st March, 2013 was the following:

Particulars	Debit (₹)	Credit (₹)
Plant and Machinery	85,000	---
Stock	64,200	---
Sundry Debtors	66,500	---
Sundry Creditors	---	84,700
Capital Accounts: P	---	63,000
Q	---	42,000
R	---	21,000
Drawings Accounts: P	20,000	---
Q	20,000	---
R	15,000	---
Depreciation on Plant and Machinery	---	25,000
Trading profit for the year	---	1,23,300
Cash at Bank	88,300	---
	3,59,000	3,59,000

Interest on Capital accounts @ 5% p.a. on the amount standing to the credit of partner's Capital Account at the beginning of the year was not provided before preparing the above Trial Balance. On 31st March, they formed a Private Limited Co. with an authorized share capital of ₹ 2,00,000 in shares of ₹ 10 each to be divided in different classes to take over the business of partnership.

You are informed as under.

(a) Plant and Machinery is to be transferred at ₹ 66,000.

(b) Shares in the company are to be issued to the partners, in such numbers and such classes as will give the partners, by reason of their share holdings alone, the same rights as regards interest on capitals and the sharing of profit and losses as they had in the partnership.

(c) Before transferring the business, the partners wish to draw from the partnership their profit to such an extent that the Bank balance is reduced to ₹ 50,000. For this purpose, sufficient profits of the year are to be retained in profit sharing ratio.

(d) All assets and liabilities except plant and machinery and the bank balance are to be transferred at their values in the books of the partnership as on 31st March.

You are required to prepare:

(i) Profit and Loss Account for the year ending on 31.03.2013.

(ii) Capital Accounts showing all the adjustments required to dissolve the partnership.

(iii) A statement showing the number of shares of each class to be issued by the company to each of the partners and details of rights attaching to those shares.

(iv) The Balance Sheet of the company immediately after acquiring the partnership and issuing of shares. **[2+5+2+6]**

Solution:

(i)

Profit and Loss Account
for the year ending 31st March, 2013

Dr. **Cr.**

Particulars		₹	Particulars	₹
To Interest on Capitals:			By Trading Profit	1,23,300
P	3,150			
Q	2,100			
R	1,050	6,300		
To Profit transferred to capital A/c's:				
P	48,750			

Q	39,000			
R	29,250	1,17,000		
		1,23,300		1,23,300

(ii)

Capital Accounts of Partners

Dr. **Cr.**

Particulars	P ₹	Q ₹	R ₹	Particulars	P ₹	Q ₹	R ₹
To Drawings	20,000	20,000	15,000	By Balance b/d	63,000	42,000	21,000
To Bank (drawings)	19,400	11,100	7,800	By Interest on Capital	3,150	2,100	1,050
To 5% Preference Shares	28,000	14,000	---	By P&L A/c	48,750	39,000	29,250
To Equity Shares	50,000	40,000	30,000	By Plant & Machinery (Profit on transfer)	2,500	2,000	1,500
	1,17,400	85,100	52,800		1,17,400	85,100	52,800

(iii) The question of preference and equity shares to be issued to P, Q and R can be dealt with in the following manner:

Particulars	P ₹	Q ₹	R ₹
A. Total amount due as capital	78,000	54,000	30,000
B. Proportionate Capitals taking R's Capital as the Base Capital (for which Equity Shares should be issued)	50,000	40,000	30,000
C. Surplus Capital (A – B) (for which 5% Non-Cum Pref. Shares should be issued)	28,000	14,000	Nil

The above treatment is based on the principle that the function of interest in case of partnership is to compensate those partners who contribute capital in excess of what is required as per profit sharing ratio.

(iv)

Balance Sheet of Ltd. As at 1st April, 2013

Particulars	Note No.	₹
(i) Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,62,000
(2) Non-Current Liabilities		
(3) Current Liabilities		
Trade Payables		84,700
Total		2,46,700
(ii) Assets		
(1) Non-Current Assets		
(i) Tangible Assets (Plant & Machinery)		66,000
(2) Current Assets		
Inventories		64,200
Trade Receivables		66,500
Cash and Cash Equivalents		50,000
Total		2,46,700

Notes to Accounts:

Note 1: Share Capital

Authorized Capital	
20,000 Shares of ₹ 10 each	2,00,000
Issued & Subscribed Capital	
12,000 Equity Shares of ₹ 10 each	1,20,000
4,200, 5% Pref. Shares of ₹ 10 each	42,000
(Of the above all Shares were issued for consideration other than cash)	1,62,000

Working Notes:

(i) Calculation of Additional Drawings

Drawings (already made: ₹ 55,000, plus those to be made ₹ 38,300, (i.e., ₹ 88,300 – 50,000), are ₹ 93,300. Of these, ₹ 6,300 is for interest. The remaining ₹ 87,000 is to be drawn by the partners in the ratio of 5 : 4 : 3.

Statement showing the calculation of additional drawings

Particulars	**P** ₹	**Q** ₹	**R** ₹
A. Total Drawings (excluding interest) (Ratio 5 : 4 : 3)	36,250	29,000	21,750
B. Add: Interest on Capital	3,150	2,100	1,050
	39,400	31,100	22,800
C. Less: Amount already drawn	20,000	20,000	15,000
D. Additional Drawings to be made (A + B – C)	19,400	11,100	7,800

(ii) Purchase Consideration = Agreed Value of Assets taken over – Agreed amount of Liabilities taken over
= ₹ 66,000 + ₹ 64,200 + ₹ 66,500 + ₹ 50,000 – ₹ 84,700
= ₹ 1,62,000.

7. (a) The net total balances extracted from purchases ledger of Mr. P on 31st March, 2012 amounted to ₹ 12,560 which did not agree with balance on the purchase Ledger Control Account.
The Audit revealed the following errors which were appropriately adjusted to make the books balances:

1. **A debit balance of ₹ 40 in the Purchase Ledger had been recorded as a credit balance**
2. **Mr. X had been debited for goods returned to him ₹ 90 but no other entry was made.**
3. **The Purchase Day Book had been overcast by ₹ 100.**
4. **Credit Balance on the Purchase Ledger amounting to ₹ 480 and the debit balance amounting to ₹ 20 had been omitted from the list of the balances.**
5. **A payment of ₹ 8 to Mr. Y for a cash purchase of goods had been recorded in the petty cash book and posted to this account in the purchase ledger, no other entry having been made.**
6. **The transfer of ₹ 120 from Mr. Z's account in the Sales Ledger to the credit of his account in the Purchase Ledger had not been entered in the Control Account.**

You are to prepare

a. **Statement reconciling the original net balance extracted from the Purchase Ledger with the corrected balance on the Purchase Ledger Control Account**
b. **Purchase Ledger Control Account showing the balance just before the correction of the errors and the adjustments made thereon. [5+6]**

(b) State the specified revenue or gain where Accounting Standard 9 is not applicable [5]

Solution:

7. (a)

Statement for reconciling the Purchase Ledger Balance with the Balance of Purchase Ledger Control Account on 31.03.2012.

	₹	₹
Original Net Total of Purchase Ledger Balances Extracted		12,560
Add: Credit Balance Omitted (item 4)		480
		13,040
Less: (a) Debit Balance Omitted (item 4)	20	
(b) Debit Balance in Purchase Ledger recorded as a Credit Balance (Item No. 1)	80	100

Amended Balance on Purchase Ledger Control A/c		12,940

In General Ledger
Purchase Ledger Control Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.3.12	To Purchase Returns To Purchase (Overcasting Set off) To Petty Cash To Balance c/f	90 100 8 12,940	31.3.12	By Balance b/f (Balancing Figure) By Sales Ledger Control A/c	13,018 120
		13,138			13,138

(b) Accounting Standard 9 is not applicable to following revenue or gain –

- Revenue arising from construction contracts
- Revenue arising from hire purchase, lease agreements
- Revenue arising from Govt. grants and subsidies
- Revenue of Insurance companies arising from insurance contracts
- Gain – realized or unrealized gain. Example: Profit on sale of fixed asset.

8. (a) On 01.07.2013 Anil, for mutual accommodation of himself and Sunil, drew on the other a bill for ₹ 10,000 payable at 3 months date. The bill was discounted with Punjab National Bank at 5% and half of the proceeds were remitted to Sunil on 02.07.2013. On 02.07.2013, Sunil drew a bill on Anil for ₹ 4,000 payable at 3 months date. He discounted the bill with Central Bank of India at 10% and remitted half of the proceeds to Anil. Sunil became bankrupt on 31.08.2013 and only 25% was received by Anil on 20.09.2013 as the first and final dividend from his estate. Show the journal entries in the books of Anil. [10]

(b) Describe Level I Entities for applicability of accounting standards [6]

Solution:

(a)

In the books of Anil
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
01.07.13	Bills Receivable A/c Dr. To, Sunil A/c (Being bill drawn for mutual accommodation for 3 months)		10,000	 10,000
02.07.13	Bank A/c Dr. Discount A/c Dr. To, Bills Receivable A/c (Being bill discounted by the bank)		9,875 125	 10,000
02.07.13	Sunil A/c Dr. To, Bank A/c To, Discount A/c (Being half the proceeds remitted to Sunil)		5,000	 4,937.5 62.5
02.07.13	Sunil A/c Dr. To, Bills Payable A/c (Being bills accepted for 3 months)		4,000	 4,000
02.07.13	Bank A/c Dr. Discount A/c Dr.		1,950 50	

	To, Sunil A/c (Being proceeds received from Sunil)			2,000
31.08.13	Sunil A/c Dr. To, Bank A/c (Being bill dishonoured as Sunil became insolvent)		10,000	 10,000
20.09.13	Bank A/c Dr. Bad Debts A/c Dr. To, Sunil A/c (Being amount realized from the official liquidator of Sunil @ 25% and the balance proved bad)		1,750 5,250	 7,000
05.10.13	Sunil A/c Dr. To, Bank A/c (Being bill honoured at maturity)		4,000	 4,000

(b) Level I Entities:

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.
(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.
(v) Holding and subsidiary entities of any one of the above.