Group I
Paper 5 – Financial Accounting

1. **Answer the following questions (give workings):**

(i) Mukta Ltd. purchased a machine for ₹ 40 lakhs including excise duty of ₹ 8 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 ₹8 lakhs be treated?

(ii) Calculate the amount of subscription to be shown in the Income and Expenditure Account for the year ending 31st March, 2012 from the following information :

- Subscription received during 2011-12 — ₹ 63,000.
- Subscription received in advance on 31.03.2011 — ₹ 4,200.
- Arrears of subscription on 31.03.2012 — ₹ 9,400.
- Subscription received in advance on 31.03.2012 — ₹ 4,300.

(iii) X,Y and Z were in partnership sharing profits and losses in the ratio of 3: 2:1. Z retired. His share was taken by X and Y in 2:1. Calculate the gaining ratio and new profit – sharing ratio.

(iv) The following data apply to a company's defined benefit pension plan for the year:

Particulars	Amount (₹)
Fair Market Value of Plan Assets (beginning of year)	8,00,000
Fair Market Value of Plan Assets (end of year)	1,14,00,000
Employer Contribution	2,80,000
Benefit Paid	2,00,000

Calculate the Actual Return on Plan Assets.

(v) PQR Ltd. held an average inventory of finished goods of ₹40,000 (CP) with an inventory turnover ratio of 5. If the gross profit is 25% on the cost of goods sold. What is the total sales during the year?

(vi) Mega Ltd. deals in three products A,B and C, which are neither similar nor interchangeable. At the time of closing of its account for the year 2012-13 the historical cost and net realizable value of the items of closing stock are determined as below:

Items	Historical Cost (₹ in Lakhs)	Net realizable value (₹ in Lakhs)
A	21	16
B	18	18
C	10	14

What will be the value of closing stock?

(vii) ₹60,000 is the annual instalment to be paid for four years (given Present Value of an annuity of Re. 1 p.a. @ 5% interest is ₹3.5460). Ascertain the Cash Price in case of Hire-Purchase.

(viii) The profit margin of a company is 10% and the asset turnover is 3 times. What is the Return on Investment (in percentage) of the company?

(ix) Following are the information provided by Vikram Ltd. for the year 2012-13:

Particulars	Amount(₹)
Opening balance of Provision for Bad and Doubtful Debts Account	20,000
Bad Debt during the year	18,000
Closing balance of Sundry Debtors	2,65,000

If the company has the practice of maintaining provision at the rate of 4% on sundry debtors, What amount will be debited to the Profit and Loss Account for the period ended March 31,2012?

(x) The following information has been extracted from the books of a lessee for the year 2012-2013:

Particulars	Amount(₹)
Short workings lapsed	8,000
Short workings recovered	12,000
Actual royalty based on output	30,000

Compute the minimum rent.

1. Solution:

(i) Treatment of Excise Duty:

Particulars		Debit Amount (₹)	Credit Amount (₹)
Year of Acquisition			
Machine A/c	Dr.	32	
CENVAT Credit Receivable A/c	Dr.	4	
CENVAT Credit Deferred A/c	Dr.	4	
To, Supplier's A/c			40
Next Year			
CENVAT Credit Receivable A/c	Dr.	4	
To, CENVAT Credit Deferred A/c			4

(ii)

Particulars	Amount (₹)
Subscription received in 2011-12	63,000
Add: Subscription received in advance on 31.03.2011	4,200
Add : Arrears of subscription on 31.03.2012	9,400
	76,600
Less : Subscription received in advance on 31.03.2012	8,600
The amount of subscription to be shown in the Income and Expenditure Account for 2011-12	**68,000**

(iii) Old ratio = X:Y:Z = 3:2:1.

Now, X gains $\frac{2}{3}$ of $\frac{1}{6} = \frac{2}{18}$ from Z   Similarly, Y gains $\frac{1}{3}$ of $\frac{1}{6} = \frac{1}{18}$ from Z

So, his new ratio between be $\frac{3}{6} + \frac{2}{18} = \frac{11}{18}$ and his new ratio will be $= \frac{2}{6} + \frac{1}{18} = \frac{7}{18}$.

Thus, the new ratio between X and Y is 11:7.

(iv) The actual return is computed as follows:

Particulars	Amount (₹)	Amount(₹)
Fair market value of plan assets (end of year)		1,14,00,000
Fair market value of plan assets (beginning of the year)		8,00,000
Change in plan assets		3,40,000
Adjustment for employee contribution		
Employer contribution	2,80,000	
Less: Benefit Paid	2,00,000	80,000
Actual return on plan assets		2,60,000

(v) ∴ Cost of Goods Sold = ₹40,000× 5= ₹2,00,000

Sales= Cost of Goods Sold+ Gross Profit=₹2,00,000+ 25% of ₹2,00,000=₹2,50,000.

Workings: $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$ = Inventory Turnover Ratio i.e. $\frac{\text{Cost of Goods Sold}}{\text{Rs.40,000}} = 5$

(vi) Computation of value of closing stock

Lower of Historical Cost and Net Realisable Value will be considered	₹
A	16
B	18
C	10
Value of Closing Stock	44

(vii)

Computation of Cash Price

Amount of Instalment	Present Value
₹ 1	3.5460
₹60,000	$\frac{3.5460 \times 60,000}{1}$ = ₹2,12,760
Cash Price is	₹2,12,760

(vii) Return on Investment = Profit Margin × Assets Turnover= 10% ×3= 30%

(ix) Computation of Amount to be debited to Profit & and Loss Account:

	Particulars	Amount(₹)
	Bad Debts	18,000
2.	Add: Closing Provision (4% on ₹2,65,000)	10,600
3.		28,600
4.	Less: Opening Provision	20,000
5. 6.	Amount to be debited to Profit & and Loss Account	8,600

(x) Minimum rent = Actual royalty – Short workings recovered
= ₹30,000 - ₹12,000 = ₹18,000.

2.(a) A limited Company was registered with a capital of ₹ 5,00,000 in share of ₹ 100 each and issued 2,000 such shares at a premium of ₹ 20 per share, payable as ₹ 20 per share on application, ₹ 50 per share on allotment (including premium) and ₹ 20 per share on first call made three months later. All the money payable on application, and allotment were duly received but when the first call was made, one shareholder paid the entire balance on his holding of 30 shares, and another shareholder holding 100 shares failed to pay the first call money.
Required:

Give Journal entries to record the above transactions.

(b) Amrit Softex Ltd. expects that a plant has become useless which is appearing in the books at ₹ 20 lakhs gross value. The company charges Straight Line Method of depreciation on a period of 10 years estimated life and estimated scrap value of 3%. At the end of seventh year the plant has been assessed as useless. Its estimated net realizable value is ₹6,20,000. Determine the loss / gain on retirement of the fixed assets.

2. Solution:
(a)

Journal

Particulars		L.F.	Dr. Amount ₹	Cr. Amount ₹
Bank A/c	Dr		40,000	
To Share Application A/c				40,000
[Being the issue of 2,000 shares and application money received @ ₹ 20 per share]				
Share Application A/c	Dr		40,000	
To Share Capital A/c				40,000
[Being the transfer of application money on 2,000				
shares @ ₹ 20 per share to Share Capital A/c)				
Share Allotment A/c	Dr		1,00,000	

Particulars		L.F.	Dr. Amount ₹	Cr. Amount ₹
To Share Capital A/c				60,000
To Securities Premium A/c				40,000
(Being the allotment money on 2,000 shares @ ₹ 50 including premium made due)				
Bank A/c	Dr		1,00,000	
To Share Allotment A/c				1,00,000
(Being the allotment money on 2,000 shares				
@ ₹ 50 per share received)				
Share First Call A/c	Dr		40,000	
To Share Capital A/c				40,000
(Being the first call money on 2,000				
shares @ ₹ 20 per share made due)				
Bank A/c	Dr		38,900	
To Share First Call A/c				38,000
To Call-paid-in-advance A/c				900
(Being the first call money on 1,900 shares @ ₹ 20				
per share and share Second call money on 30 shares @ ₹ 30 per share received)				

(b) Cost of the plant ₹20,00,000
Estimated realisable value ₹60,000
Depreciable amount ₹19,40,000
Depreciation per year ₹1,94,000
Written down value at the end of 7th Year = ₹20,00,000 – (1,94,000 × 7)= ₹6,42,000

As per of AS – 10 , items of fixed assets that have been retired from active use and are held for disposal are stated at the lower of their net book value and net realizable value and are shown separately in the financial statements. Any expected loss is recognized immediately in the profit and loss statement. Accordingly, the loss of ₹22,000 (6,42,000 – 6,20,000) to be shown in the profit and loss account and asset of ₹6,20,000 to be shown in the balance sheet separately.

3. (a) Mayank furnishes you with the following information and asks you to :

(i) Recorded the transactions in the cash book with bank column for November,2012, and

(ii) Prepare reconciliation statements with State Bank of India as on 31st October, and 30th November 2012.

- On October 31,2012 there was bank overdraft of ₹14,000 as per Cash Book and cash in hand of ₹7,500.

  Bank Statement as on that date showed cheques deposited but not yet realized of ₹40,000 while cheques issued but not presented for payment amounted to ₹60,000.
- During the month, customers paid ₹4,50,000 which were deposited into bank. Of these, cheques of ₹50,000 were deposited on 30th November 2012, and realized subsequently. The bank realized all the other cheques and charged ₹300 as collection expenses. These charges are to be entered in the Cash Book and not kept as reconciliation item.
- Cheques issued during the month totaled to ₹4,20,000. Bank statement showed that cheques presented for payment totaled to ₹4,50,000 only of which one cheque of ₹7,000 issued in October,2012 was returned on 5.11.2012 for want of Mayank's signature on the cheque. Mayank paid cash to the payee of the cheque and cancelled the cheque. The bank charged ₹25 for cheque return.
- Cheque presented for payment during the month included cash withdrawal from bank ₹15,000. 40% of this cash is handed over on various dates to the petty cashier while 50% is taken by Mayank for his personal use.
- Bank Charged ₹200 for cheque book issued.

(b) The following particulars are presented by Utkal Ltd. (deals in fabrics) as on 31.03.2013:

Stock held by Utkal Ltd.	
Cost Price	₹10,800
Net Realisable value	₹11,700

The details of such stocks were:

	₹	₹
Cotton	5,700	5,160
Nylon	4,450	4,540
Woolen	1,650	2,000
	11,800	11,700

3. Solution:

(a)

Cash Book

Dr. Cr.

Date	Particulars	Cash ₹	Bank ₹	Date	Particulars	Cash ₹	Bank ₹
2012 Nov. 30	To, Balance b/d	7,500	-	2012 Nov. 30	By, Balance b/d	-	14,000
	To, Customers A/c	-	4,50,000		By, Bank Charges	-	300
	To, Suppliers A/c	-	7,000		By, Cash A/c	-	15,000
	To, Bank A/c	15,000	-		By, Suppliers A/c	7,000	4,05,000[1]
					By, Petty cash A/c	6,000	-

					By, Drawings A/c	7,500	-
					By, Bank Charges A/c - Cheque return - Cheque book	 - -	 25 200
					By, Balance c/d	2,000	22,475
		22,500	**4,57,000**			**22,500**	**4,57,000**

Reconciliation Statement with State Bank of India
As on 31st October 2012

Particulars	Amount (₹)
Overdraft as per Cash Book	14,000
Add: Cheques deposited but not yet realized	40,000
	54,000
Less: Cheques issued but not yet presented for payment	60,000
Balance as per bank statement (Favourable)	6,000

Reconciliation Statement with State Bank of India
As on 30th November 2012

Particulars	Amount (₹)
Balance as per Cash Book	22,475
Add: Cheques issued but not yet presented for payment (₹60,000 + ₹4,20,000 -₹4,50,000)	30,000
	52,475
Less: Cheques deposited but not yet realized (₹4,50,000- ₹4,00,000)	50,000
Balance as per bank statement	2,475

Working Note:

I. Total withdrawals amounted to ₹4,20,000 which include ₹15,000;
So, ₹4,20,000- ₹15,000 = ₹4,05,000 was paid to creditors.

II. Of the amount of ₹15,000,40% of ₹15,000 i.e. ₹6,000 was given to petty Cashier,50%, i.e,₹7,500 taken for personal use, balance 10% or 1,500 remained in Cash in hand.

(b) Valuation of Stock as per AS 2

As per AS 2, inventories are usually written – down to net realisable value on an item-by-item basis:

	Cost Price ₹	**Net Realisable Value** ₹	**Value of Closing Stock** ₹
Cotton	5,700	5,160	5,160
Nylon	4,450	4,540	4,450
Woolen	1,650	2,000	1,650
	11,800	11,700	11,260

4. (a)

The firm of ABC was dissolved on 31.3.2012 at which date its Balance Sheet stood as :

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	6,00,000	Fixed Assets	1,35,00,000
Bank Loan	15,00,000	Cash at Bank	6,00,000
A's Loan	30,00,000		
Capital :			
A	45,00,000		
B	30,00,000		
C	15,00,000		
	1,41,00,000		1,41,00,000

Partners share profits equally. A firm of Chartered Accountant is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which are to include all expenses is fixed at ₹ 3,00,000. No loss is expected on realization; semi-fixed assets include valuable land and building.

Realisation are :

1. ₹ 15,00,000 (including Cash and Bank); 2. ₹ 45,00,000; 3. ₹ 45,00,000; 4. ₹ 90,00,000.

The Chartered Account firm decided to pay off the partner in High Relative Capital Method.

You are required to prepare a statement showing distribution of Cash with necessary working.

(b) Alpha Co. Ltd. has a paid up equity share capital of ₹ 20,00,000 in 2,00,000 shares of ₹ 10 each. It resolved to buy-back 50,000 equity shares at ₹ 15 per share. For this purpose it issued 20,000 12% preference shares of ₹ 10 each, at par, payable along with application. The company has to its credit ₹ 2,50,000 in securities premium account and ₹ 10,00,000 in the general reserve account. The company utilized the whole of the securities premium and for the balance, general reserve. Pass the necessary journal entries.

4. Solution:

(a)

Computation of Absolute Surplus :

	A ($\frac{1}{3}$)	B ($\frac{1}{3}$)	C ($\frac{1}{3}$)
Capital as per Balance Sheet	45,00,000	30,00,000	15,00,000
Less : Capital as per profit-sharing ratio taken C's capital as basis	15,00,000	15,00,000	15,00,000
	30,00,000	15,00,000	—
Less : Capital as per profit-sharing ratio, Taken B's Capital as basis	15,00,000	15,00,000	
Absolute Surplus	15,00,000		

Statement showing the Distribution

Particulars	Total Realisation ₹	Creditors	Loan	Bank/A's Loan	Capital		
					A ₹	B ₹	C ₹
Amount Due		6,00,000	15,00,000	30,00,000	45,00,000	30,00,000	15,00,000
Payment out of 1st Realisation	15,00,000						
Less: Liquidation Expenses	3,00,000						
Balance to creditors and Bank	12,00,000	3,42,858	8,57,142				
Loan in 2:5		2,57,142	6,42,858				
Payment out of 2nd Realisation							
₹ 2,52,142 To Creditor							
₹ 6,42,858 To Bank Loan		2,57,142	6,42,858				
₹ 30,00,000 To A's Loan							
₹ 6,00,000 Balance to A				30,00,000	6,00,000		
₹ 45,00,000	45,00,000				39,00,000		
Payment out of 3rd Realization					9,00,000		
₹ 9,00,000 To A					30,00,000	30,00,000	
₹ 15,0,000 To A					15,00,000	15,00,000	
₹ 15,0,000 To B					15,00,000	15,00,000	15,00,000
₹ 6,00,000 To A, B and C					2,00,000	2,00,000	2,00,000
₹ 45,00,000	45,00,000				13,00,000	13,00,000	13,00,000
Payment out of 4th Realisation							
₹ 45,00,000 to A,B and C equally	90,00,000				30,00,000	30,00,000	30,00,000
Profit Realisation	90,00,000				17,00,000	17,00,000	17,00,000

Alternatively, applying Maximum possible loss method :

Particulars	₹	Total ₹	Creditors ₹	Loan ₹	Bank/A's ₹	Capital		
						A ₹	B ₹	C ₹
Balance Due		1,41,00,000	6,00,000	15,00,000	30,00,000	45,00,000	30,00,000	15,00,000
Cash at Bank	6,00,000							
(+)1st Realisation	9,00,000							
	15,00,000							
(-)Liquidation Exp.	3,00,000							
Available Cash	12,00,000	12,00,000	3,42,858	8,57,142	—	—	—	—
To be distributed								
in o/s liability								
ratio (30:75)								
		1,29,00,000	2,57,142	6,42,858	30,00,000	45,00,000	30,00,000	15,00,000
2nd Realisation	45,00,000							
(-) payment to								
Creditors	3,57,142							
(-) payment of		2,57,142						
Bank Loan	6,42,858							
Available cash	36,00,000	6,42,858	2,57,142	6,42,858				
		1,20,00,000						
(-)L's Loan	30,00,000	30,00,000			30,00,000			
		90,00,000	Nil	Nil	Nil	45,00,000	30,00,000	15,00,000

Balance Due								
Available cash	6,00,000	(-)6,00,000						
Maximum Loss (in Capital contribution ratio) i.e. 3:2:1		84,00,000				(42,00,000)	(28,00,000)	(14,00,000)
Payment to Partners						3,00,000	2,00,000	1,00,000
Balance Due	84,00,000					42,00,000	28,00,000	14,00,000
3rd Realisation	45,00,000							
Maximum Loss (in Capital contribution ratio) i.e. 3:2:1	39,00,000					(19,50,000)	(13,00,000)	(6,50,000)
Payment to Partners						22,50,000	15,00,000	6,50,000
Balance Due	39,00,000					19,50,000	13,00,000	6,50,000
4th Realisation	90,00,000							
Profit (in Capital contribution ratio) i.e. 3:2:1	51,00,000					25,50,000	17,00,000	8,50,000
						45,00,000	30,00,000	15,00,000

(b)

In the Books of Alpha Co. Ltd
Journal Entries

Date	Particulars		Debit ₹	Credit ₹
	Bank A/c To Preference Share Application A/c (Application money on 20,000 preference shares at ₹ 10 each)	Dr.	2,00,000	 2,00,000
	Preference Share Application A/c To Preference Share Capital A/c (Transfer of application money to preference share capital account on shares being allotted)	Dr	2,00,000	 2,00,000
	Equity Share Capital A/c Securities Premium A/c To Equity Shareholders A/c (Amount due to equity shareholders consequent upon buy-back of 50,000 Shares at ₹ 15)	Dr. Dr.	5,00,000 2,50,000	 7,50,000
	Equity Shareholders A/c To Bank A/c (Payment to equity shareholders for amount due to them)	Dr	7,50,000	 7,50,000
	General Reserve A/c To Capital Redemption Reserve A/c (Transfer of the nominal value of shares bought back.)	Dr.	3,00,000	 3,00,000

5.

(a) The Secretary of the Brotherhood Club had prepared the following draft Balance Sheet of the Club as at 30.9.2012 :

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts	14,300		Fixtures & Fitting as on 30.9.2012	10,600	
Balance as on 30.9.2012	2,100	12,200	Less : Depreciation for the year	1,000	9,600
Less : Loss for the year			Stock		3,200
Subscriptions Received in			Debtors		1,400
Advance		600	Balance at bank		950
Creditors		2,400	Cash in hand		50
		15,200			15,200

You are to ascertain the :

(i) The amount of loss was only a balancing figure as the book had been kept on a single entry basis.

(ii) The balance at Bank was that shown by the bank statement at the close of the business on 30.9.2012.

(iii) The following amount had been paid into bank on 30.9.2012 but had not been credited by the bank :

A. Two cheques of ₹ 50 each had been cashed for a member—one had since been duly honoured but the other had been returned marked 'refer to drawer' and, on being approached, the member repaid ₹ 50 in cash.

(iv) The following cheques had been drawn in September but had not been presented until October :

(i) ₹ 480 for bad supplies which had been delivered but had not been included in stock;

(ii) ₹ 350 for an additional typewriter received on October;

(iii) ₹ 100 as bonus to the professional included under the creditors;

(iv) ₹ 140 for fuel which has been included in the stock figure but not in the creditors and this cheque was dated October 1.

You are also required to prepare :

A. A Bank Reconciliation Statement as on 30.9.2012.

B. Revised Balance Sheet as on the date to give effect to the consequential adjustments.

(b) The following was the balance sheet of Diamond Ltd. as at 31st March, 2012.

Liabilities	₹ in lakhs
10% Redeemable Preference Shares of ₹ 10 each, fully paid up	2,500
Equity Shares of ₹ 10 each fully paid up	8,000

Capital Redemption Reserve	**1,000**
Securities Premium	**800**
General Reserve	**6,000**
Profit and Loss Account	**300**
9% Debentures	**5,000**
Sundry creditors	**2,300**
Sundry Provisions	**1,000**
	26,900
Assets	**` in lakhs**
Fixed assets	**14,000**
Investments	**3,000**
Cash at Bank	**1,650**
Other Current assets	**8,250**
	26,900

On 1st April, 2012 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹ 20 per share. In order to make cash available, the company sold all the investments for ₹ 3,150 lakhs and raised a bank loan amounting to ₹ 2,000 lakhs on the security of the company's plant.

Pass journal entries for all the above mentioned transactions including cash transactions and prepare the company's balance sheet immediately thereafter. The amount of securities premium has been utilized to the maximum extent allowed by law.

5. Solution:

(a)

In the books of Brotherhood Club
Bank Reconciliation Statement
as on 30th September, 2012

		₹	₹
	Balance as per Pass Book		950
Add:	Cheques paid into bank but not yet credited : (₹ 100 – ₹ 50)	50	
	Subscription Received from the member	80	130
			1,080
Less:	Cheques issued but not presented :		
	Cheque for Bar supplies	480	
	Cheque for Bonus to professionals	100	
	Cheque for Typewriter	350	930
	Balance as per Cash Book		150

Balance Sheet
as at 30th September, 2012

Liabilities	₹	₹	Assets	₹
Capital	14,300		Fixtures & Fittings	9,600
Less : Loss for the year (*bal. fig.*)	2,140	12,160	Advance for Typewriter	350
Subscriptions Received in Advance		680[A]	Stock	3,680[B]
Creditors		2,440[C]	Debtors	1,400
			Cash at bank	150
			Cash in hand (₹ 50 + ₹ 50)	100
		15,280		15,280

Workings:

A. Subscription Received in Advance

	₹
Subscription received in Advance (already given)	600
Add : Subscription deposited into bank but not Credited for the year 2012-13	80
	680

B. Closing Stock

	₹
Stock (already given)	3,200
Add : Stock of Bar	480
	3,680

C. Creditors

	₹
Creditors (already given)	2,400
Add : Fuel	140
	2,540
Less: Bonus to Professional	100
	2,440

Note: Net Loss is considered as the balancing figure as the detected information is not given for ascertaining the correct amount of loss.

(b)

Journal Entries

	Particulars		Debit ₹	Credit ₹
A.	Bank A/c	Dr.	3,150	
	To Investment A/c			3,000
	To Profit and Loss A/c			150
	(Being sale of investments and profit thereon)			
B.	Bank A/c	Dr.	2,000	
	To Bank Loan A/c			2,000
	(Being loan taken from bank)			
C.	10% Redeemable preference Share capital A/c	Dr.	2,500	
	Premium on redemption of preference shareholder A/c	Dr.	200	
	To Preference shareholder A/c			2,750
	(Being redemption of preference shares)			
D.	Preference shareholders A/c	Dr.	2,750	
	To Bank A/c			2,750
	(Being payment of amount due to preference shareholders)			
E.	Securities premium A/c	Dr.	250	
	To Premium on redemption of preference share A/c			250
	(Being use of securities premium to provide premium on redemption of preference shares)			
F.	Equity Share capital A/c	Dr.	2,000	
	Securities premium A/c [800 - 250]	Dr.	550	
	General reserves A/c	Dr.	1,450	
	[(200×20) - 2000 - 550]			
	To Equity shareholders A/c			4,000
	(being buy back of equity shares)			

	Particulars		Debit	Credit
			₹	₹
	Note : Balance of General Reserve [6000 - 1450] = ₹ 4550.			
G.	General Reserves A/ c	Dr.	4,500	
	To Capital redemption reserve A/c (2000 + 2500)			4,500
	(Being creation of capital redemption reserve to the extent of the face value of preference share redeemed and equity shares bought back).			
	Note: Balance in General reserve as on 01.04.2012 (4550 - 4500) = ₹ 50.			
H.	Equity shareholders A/c	Dr.	4,000	
	To Bank A/c			4,000
	(Being payment of amount due to equity shareholders).			
	Note : Cash at Bank [1650+3150+2000-2750-4000] = ₹ 50			

Balance Sheet of Diamond Ltd., as on 01.04.2012
Balance Sheet as at: 01.04.2012 **(₹ in lakhs)**

Ref No.	Particulars	Note No.	Current Year Reporting Period	Previous Year Reporting Period
			₹	₹
1	EQUITY AND LIABILITIES			
	(a) Share capital	1	6,000	
	(b) Reserves and surplus	2	6,000	
	(c) Money received against share warrants			
2	Share application money pending allotment			
3	Non-current liabilities			
	(a) Long-term borrowings	3	7,000	
	(b)Deferred tax liabilities (Net)			
	(c) Other Long term liabilities			

	(d) Long-term provisions			
4	Current Liabilities			
	(a) Short-term borrowings			
	(b) Trade payables		2,300	
	(c)Other current liabilities			
	(d) Short-term provisions	4	1,000	
	Total(1+2+3+4)		22,300	
1	ASSETS			
	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	5	14,000	
	(ii) Intangible assets			
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investments (Market value of Investment)			
	(c)Deferred tax assets (Net)			
	(d) Long-term loans and advances			
	(e) Other non-current assets			
2	Current assets			
	(a)Current investments			
	(b) inventories			
	(c) trade receivables			
	(d) Cash and cash equivalents		50	
	(e)Short-term loans and advances			
	(f) Other current assets		8,250	
	Total(1+2)		22,300	

Notes to the Accounts

(₹ in crores)

Note 1. Share Capital	**Current Year Reporting Period (₹)**	**Previous Year Reporting Period(₹)**
Issued Capital , Subscribed and Paid Up capital		
Equity Shares of ₹ 10 each	6,000	
Total	6,000	

Note 2. Reserve and Surplus	**Current Year Reporting Period**	**Previous Year Reporting Period**
Capital Redemption Reserve (1,000+4,500)	5,500	
General Reserve	50	
Profit and Loss(300+150)	450	
Total	6,000	

Note 3. Long Term borrowings	**Current Year Reporting Period**	**Previous Year Reporting Period**
9% Debenture	5,000	
Bank Loan	2,000	
Total	7,000	

Note 4. Short Term Provisions	**Current Year Reporting Period**	**Previous Year Reporting Period**
Sunday Provision	1,000	
Total	1,000	

Note 5. Tangible Assets	**Current Year Reporting Period**	**Previous Year Reporting Period**
Fixed Assets	14,000	
Total	14,000	

6.

(a) On 1.1.2011, Mr. Yugal purchased one machine from Machineries Ltd. on Hire-Purchase System and paid ₹ 8,000 on signing the agreement. Subsequently three other instalments of ₹ 5,200, ₹ 4,800 and ₹ 4,400, were paid at the end of First, Second and Third years, respectively, to pay-off the cash price of the machine along with arrear interests accruing from year to year.

Ascertain the cash price of the machine and the total amount of interest to be paid assuming that each instalment consists of equal part of capital sum plus the interest on unpaid capital. Prepare also the Machineries Ltd. Account in the books of Mr. Yugal.

(b) A fire occurred in the office premises of lessee in the evening of 31.3.2012 destroying most of the books and records. From the documents saved, the following information is gathered:

Short-working recovered :

2009-10 ₹ 2,000 (towards short-workings which arose in 2006-07)

2010-11 ₹ 4,000 (including ₹ 1,000 for short-working 2007-08)

2011-12 ₹ 1,000

Short-working lapsed :

2008-09 ₹ 1,500
2009-10 ₹ 1,800
2011-12 ₹ 1,000

A sum of ₹ 50,000 was paid to the landlord in 2008-09. The agreement of Royalty contains a clause of Minimum Rent payable for fixed amount and recoupment of short-workings within 3 years following the year in which Short-workings arise.

Information as regards payments to landlord subsequent to the year 2008-09 is not four years ended 31.3.2012. Show the Short – working Account and the Royalty Account in the books of lessee.

6. Solution:

(a) Let P = the amount of instalment paid for capital sum at the end of each year;
= the rate of interest on each rupee of unpaid capital.

Therefore, the amount of interest at the end of First year, Second year and Third. year will be: 3 Pi, 2 Pi and Pi, respectively.

So, for First Instalment	= P + 3 Pi	= 5,200	... ...	(i)
" Second "	= P + 2Pi	= 4,800	... ...	(ii)
" Third "	= P + Pi	= 4,400	... ...	(iii)

By subtracting (ii) from (i) we get

	₹	
P + 3 Pi	= 5,200	... (i)
P + 2Pi	= 4,800	... (i)
– –	–	
Pi	= 400	

Putting the value of Pi in (iii), we get

P + Pi = ₹ 4,400

∴ P + 400 = ₹ 4,400

∴ P = ₹4,400 – ₹ 400

P = ₹ 4,000

	Principal (a)	Interest (i)	Total amounts (P + i)
	₹	₹	₹
First Instalment	4,000	1,200	5,200
Second Instalment	4,000	800	4,800
Third Instalment	4,000	400	4,400
	12,000	2,400	14,400

∴ Cash Price of the machine = Down payment + Principal = ₹ 8,000 + ₹ 12,000 = ₹ 20,000.

In the books of Mr. Yugal
Machinery Ltd. Account
(Prepared Under Sales Method)

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Jan. 1	To Bank A/c	8,000	2011 Jan. 1	By Machinery A/ c:	20,000
Dec. 31	" Bank A/c	5,200	Dec. 31	" Interest A/c	1,200
"	" Balance c/d	8,000			
		2,1200			2,1200
2012 Dec. 31	To Bank A/c	4,800	2012 Jan. 1	By Balance b/d	8,000
	" Balance c/d	4,000	Dec. 31	" Interest A/c	800
		8,800			8,800
2013 Dec. 31	To Bank A/c	4,400	2013 Jan. 1	By Balance b/d	4,000
			Dec. 31	" Interest A/c	400
		4,400			4,400

(b)

Before preparing the respective ledger accounts we are to compute the following information:

Year	Royalty ₹	Short-working ₹	Short-working recovered ₹	Short-working Lapsed ₹	Payment to Landlord ₹
2008-09	-	-	-	1,500	25,000
2009-10	-	-	2,000 (for 2006-07)	8,800	-
2010-11	-	-	4,000 (including 1,000 for 2007-08)	-	-
2011-12	-	-	1,000	1,000	-

From the above statement it is quite clear that:

(i) Short –working lapsed in 2011-12 ₹1,000 which relates to 2008-09 as per terms, short-working should be recouped within three years i.e.,2011-12 is the last year for recoupment.
(ii) Short-working recovered in 2010-11 ₹4,000, (out of which ₹1,000 for 2007-08 and the balance ₹3,000 for the year 2008-09)
(iii) Short –working recovered in 2011-12 ₹1,000 which is also related to 2008-09 in which year actually is arose.

Thus, the total short-working balance in 2008-09 amounted to ₹5,000 (i.e. ₹1,000+₹3,000+₹1,000).

Now, we can prepare our usual statement as under:

Actual Royalty	= Payment to landlord + Recoupment – Short-working
2008-09	=₹25,000+NIL-₹5,000=₹20,000
2009-10	=₹25,000+₹2,000-NIL=₹27,000
2010-11	=₹25,000+₹4,000-NIL=₹29,000
2011-12	=₹25,000+₹1,000-NIL=₹26,000

Memorandum Royalty Statement

Year	Royalty ₹	Short-working ₹	Recoupment ₹	Tr. To P&L A/c ₹	Payment to Landlord ₹
2008-09	20,000	5,000	-	1,500	25,000
2009-10	27,000	-	2,000	1,800	25,000
2010-11	29,000	-	4,000	-	25,000
2011-12	26,000	-	1,000	1,000	25,000

In the books .....

Royalty Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2008-09	To, Landlord a/c	20,000	2008-09	By, Profit and Loss A/c	20,000
		20,000			**20,000**
2009-10	To, Short workings A/c	2,000	2009-10	By, Profit and Loss A/c	27,000
	To, Landlord A/c	25,000			
		27,000			**27,000**
2010-11	To, Short workings A/c	4,000	2010-11	By, Profit and Loss A/c	29,000
	To, Landlord A/c	25,000			
		29,000			**29,000**
2011-12	To, Short workings A/c	1,000	2011-12	By, Profit and Loss A/c	26,000
	To, Landlord A/c	25,000			
		26,000			**26,000**

Royalty Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2008-09	To, Balance b/d	6,300[A]	2008-09	By, Profit and Loss A/c	1,500
	To, Landlord A/c	5,000		By, Balance c/d	9,800

		11,300			**11,300**
2009-10	To, Balance b/d	9,800	2009-10	By, Royalty A/c	2,000
				By, Profit and Loss A/c	1,800
				By, Balance c/d	6,000
		9,800			**9,800**
2010-11	To, Balance b/d	6,000	2010-11	By, Royalty A/c	4,000
				By, Balance c/d	2,000
		6,000			**6,000**
2011-12	To, Balance b/d	2,000	2011-12	By, Royalty A/c	1,000
				By, Balance c/d	1,000
		2,000			**2,000**

A. This includes: ₹

Lapsed:	in 2008-09	1,500
	in 2009-10	1,800
Recoupment:	in 2009-10	2,000
	in 2010-11	1,000
		6,300

7. **(a) Show adjustment journal entries in the books of Head Office at the end of April 2011 for incorporation of inter-branch transactions assuming thet only Head Office maintains different branch account in its books.**

A. Delhi Branch:

(i) Received goods from Mumbai - ₹70,000 and ₹30,000 from Kolkata.

(ii) Sent goods to Chennai - ₹50,000, Kolkata - ₹40,000

(iii) Bills receivable received - ₹40,000 from Chennai.

(iv) Acceptances sent to Mumbai - ₹50,000 , Kolkata - ₹20,000.

B. Mumbai Branch (apart from the above):

(v) Received goods from Kolkata - ₹30,000, Delhi - ₹40,000.

(vi) Cash sent to Delhi - ₹30,000, Kolkata-₹14,000.

C. Chennai Branch (apart from the above)

(vii) Received goods from Kolkata- ₹60,000

(viii) Acceptances and cash sent to Kolkata - ₹40,000 and ₹20,000 respectively.

D. Kolkata Branch (apart from the above):

(ix) Sent goods to Chennai - ₹70,000

(x) Paid cash to Chennai - ₹70,000

(xi) Acceptances sent to Chennai – ₹30,000

(b) The total of debit side of Trial balance of a larger boot and shoe repairing firm as on 31.12.2013 is ₹1,66,590 and that of the credit side is ₹42,470. After several checking and re-checking the mistakes are discovered:

Items of Account	Correct Figure (as it would be)	Figures as it appear in the Trial Balance
Opening Stock	₹15,900	₹15,600
Maintenance	₹61,780	₹61,780
Rent & Taxes	₹4,640	₹4,400
Sundry Creditors	₹6,270	₹5,900

Sundry Debtors	**₹7,060**	**₹7,310**

Ascertain the correct total of the Trial Balance.

7. Solution:

(a)

In the books of Head Office

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2011 April 30	Mumbai Branch A/c Dr. Chennai Branch A/c Dr. To, Delhi Branch A/c To, Kolkata Branch A/c (adjustment entry made by head office in respect of inter-branch transaction)		6,000 1,40,000	 30,000 1,16,000

Workings:

Inter-Branch Transactions

Particulars	**Delhi** ₹	**Mumbai** ₹	**Chennai** ₹	**Kolkata** ₹
A. Delhi Branch				
(i) Received goods	1,00,000 (Dr.)	70,000 (Cr.)	-	30,000 (Cr.)
(ii) Sent goods	90,000 (Cr.)	-	50,000 (Dr.)	40,000 (Dr.)
(iii) Received Bills receivable	40,000 (Dr.)	-	40,000 (Cr.)	-
(iv) Sent acceptance	70,000 (Cr.)	50,000 (Dr.)	-	20,000 (Dr.)
B. Mumbai Branch				
(v) Received goods	40,000 (Cr.)	70,000 (Dr.)	-	30,000 (Cr.)
(vi)Sent Cash	30,000 (Dr.)	44,000 (Cr.)	-	14,000 (Dr.)
C. Chennai Branch				
(vii) Received goods			60,000 (Dr.)	60,000 (Cr.)
(viii) Sent Cash and acceptance			60,000 (Cr.)	60,000 (Dr.)
D. Kolkata Branch				
(ix) Sent goods			70,000 (Dr.)	70,000 (Cr.)
(x) Sent Cash			30,000 (Dr.)	30,000 (Cr.)
(xi) Sent acceptances			30,000 (Dr.)	30,000 (Cr.)
	30,000 (Cr.)	6,000 (Dr.)	1,40,000 (Dr.)	1,16,000 (Cr.)

(b)

Particulars	**Debit (₹)**	**Credit (₹)**
Total as per Trial Balance	1,66,590	42,470
Opening stock understated((15,900-15,600)	+300	-
Maintenance being credit balance, but shown as debit balance	-61,780	+61,780
Rent & Taxes overstated (4,640-4,400)	-240	-
Sundry Creditors understated(6,270-5,900)	-	+370
Sundry Debtors overstated(7,310-7,060)	-250	-
Total	**1,04,620**	**1,04,620**

8.

(a) 'City Club' was registered in a city and the accountant prepared the following Receipts and Payments Account for the year ended Oct. 31, 2012 and showed a deficit of ₹ 14,520:

Particulars	₹	Particulars	₹
Receipts:		**Payments:**	
Subscriptions	**62,130**	**Premises**	**30,000**
Fare Receipts	**7,200**	**Honorarium to Secretary**	**12,000**
Variety Show Receipts (net)	**12,810**	**Rent**	**2,400**
		Rates and Taxes	**3,780**
Interest	**690**	**Printing and Stationery**	**1,410**
Bar Collection	**22,350**	**Sundry Expenses**	**5,350**
Cash spent more	**1,000**	**Wages**	**2,520**
Deficit	**1,06,180**	**Fair Expenses**	**7,170**
	14,520	**Bar Purchase – Payments**	**17,310**
		Repairs	**960**
		New Car (less: proceeds of old Car ₹ 9,000)	**37,800**
	1,20,700		**1,20,700**

The additional information should be obtained:

	31.10.2011 ₹	31.10.2012 ₹
Cash in hand	**450**	**---**
Bank balance as per Pass Book	**24,690**	**10,440**
Cheques issued not presented for Sundry Expenses	**270**	**90**
Subscriptions due	**3,600**	**2,940**
Premises at Cost	**87,000**	**1,17,000**
Accumulated dep. On Premises	**56,400**	**---**
Car at Cost	**36,570**	**46,800**
Accumulated dep. On car	**30,870**	**---**
Bar Stock	**2,130**	**2,610**
Creditors for Bar Purchases	**1,770**	**1,770**

Cash overspent represents honorarium to Secretary not withdrawn due to Cash deficit. His annual honorarium is ₹ 12,000. Depreciation on premises and car is to be provided at 5% and 20% on written-down value.

You are required to prepare the correct Receipts and Payments Account, Income and Expenditure Account and Balance Sheet as at October 31, 2012.

(b) On 31st Dec 2012 , Sundry Debtors and provision for Bad Debts were ₹50,000 and ₹5,000, respectively. During the year 2013 , ₹3,000 were bad and written off . On 30th , an amount of ₹400 was received on account of a debt which was written-off as bad last year. On 31st dec.2013 the Debtors' list was verified and it was found that Sundry Debtors stood in the books as ₹40,000, out of which a customer , Mr. Mohan, who owed ₹800, was to be written-off as bad. Paper Bad Debts account and provision for Bad Debts account , assuming that same percentage should be maintained for Provision for Bad Debts as it was 31st Dec. 2012. Show also how the items will appear in Profit and Loss Account and the Balance Sheet.

8. Solution:

(a)

In the books of City Club

Receipts and Payments Account for the year ended 31st October 2012

Dr. **Cr.**

Receipts	₹	Payments	₹
To Balance b/d	450	By Premises	30,000
To Bank (24,690 – 270)	24,420	By Honorarium to Secretary	11,000
To Subscription	62,130	By Rent	2,400
To Fair Receipts	7,200	By Rates and Taxes	3,780
To Variety Show Receipts	12,810	By Printing and Stationery	1,410
To Interest	690	By Sundry Expenses	5,350
To Bar Receipts	22,350	By Wages	2,520
		By Fair Expenses	7,170
		By Bar Purchases	17,310[1]
		By Repairs	960
		By New Car	37,800
		By Bank Balance (10,440 – 90)	10,350
	1,30,050		1,30,050

Income and Expenditure Account for the year ended 31st October 2012

Dr. **Cr.**

Expenditures	₹	₹	Incomes	₹
To Honorarium to Secretary			By Subscriptions	61,470[4]
Add: Outstanding	11,000		By Fair Receipts	7,200
To Rent	1,000	12,000	By Variety Show Receipts	12,810
To Rates & Taxes		2,400	By Interest	690
To Printing and Stationery		3,780	By Profit on Sale of old Car	3,300[2]
To Sundry Expenses		1,410	By Bar Trading A/c	
To Wages		5,350	- Gross Profit	6,000
To Fair Expenses		2,520		
To Repairs		7,170		
To Depreciation on:		960		
Premises @ 5% on 60,600				
Car @ 20% on 46,800		3,030		
To Surplus – Excess of Income		9,360		
over Expenditure				
		43,490		
		91,470		91,470

Balance Sheet as at 31st October 2012

Dr. **Cr.**

Liabilities	₹	₹	Assets	₹	₹
Capital Fund as on 01.11.2011	65,130[3]		Premises at Cost	1,17,000	
Add: Surplus	43,490		Less: Depreciation	59,430	57,570
		1,08,620	Car at Cost	46,800	
Creditors (for bar purchase)			Less: Depreciation	9,360	37,440
Secretary's Honorarium		1,000	Bar Stock		2,610
outstanding			Outstanding Subscription		2,940
			Cash at Bank		
			(₹ 10,400 – ₹ 90)		10,350
		1,10,910			1,10,910

Bar Trading Account

Dr. **Cr.**

Expenditures	Amount ₹	Amount ₹	Incomes	Amount ₹
To Opening Stock		2,130	By Bar Receipts	22,350
To Bar Purchase	17,310[1]		By Closing Stock	2,610
Add: Creditors for 2012	1,290			
Less: Creditors in 2011	1,770	16,830		
To Income and Expenditure A/c		6,000		
		24,960		24,960

Workings:

1.Dr. **Creditors for Bar Purchase Account** **Cr.**

	₹		₹
To Bank A/c	17,310	By Balance b/d	1,770
To Balance c/d	1,770	By Purchase (bal. fig.)	17,310
	19,080		19,080

2. Profit on Sale of Old Car

	₹
WDV of Old Car:	
Cost Price	36,570
Less: Accumulated Dep.	30,870
WDV	5,700
Less: Sold for	9,000
Profit on Sale	3,300

3.

Balance Sheet as at 01.01.2011

Liabilities	₹	Assets	₹
Accumulated Dep.:		Premises	87,000
On premises	56,400	Car	36,570
On Car	30,870	Bank Stock	2,130
Credit for Bar Purchase	1,770	Outstanding Sub.	3,600
Capital Fund (bal. fig.)	65,130	Cash at Bank	
		(24,690 – 270)	24,420
		Cash in hand	450
	1,54,170		1,54,170

4. Subscription Received for 2012

	₹
Subscription Received	62,130
Add: Outstanding Subscription for 2012	2,940
	65,070
Less: Outstanding for 2011	3,600
Profit on Sale	61,470

(b)

In the books of ………

Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2013 Dec. 31	To, Sundry Debtors	3,000	2013 Dec. 31	By, Provision for Bad Debts A/c	3,800
	To, Mohan A/c	800			
		3,800			**3,800**

Provisions for Bad Debts Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2013 Dec. 31	To, Bad Debts A/c	3,800	2013 Jan 1	By, Balance b/d	5,000
	To, Balance c/d [10% on ₹39,200 (40,000-800)]	3,920	Dec. 31	By, P& L A/c (bal.fig)	2,720
		7,720			**7,720**

Particulars	Amount ₹	Amount ₹	Particulars	Amount ₹
To, Provision for Bad Debts Provision Required	3,920		By, Bad Debts Recovery A/c	400
Add: Bad Debts	3,800			
	7,720			
Less: Existing provision	5,000	2,720		

Balance Sheet (Extracts)
As at 31st Dec.2013

Liabilities	Amount ₹	Assets	Amount ₹	Amount ₹
		Sundry Debtors	40,000	
		Less: Bad Debts	800	
			39,200	
		Less: Provision for Bad Debts @ 10%	3,920	
				35,280

Workings:

I. Recovery of Bad Debts may be treated in the following manner

Cash/Bank A/c	**Dr.**
To, Bad debts Recovery A/c	

Bad Debts Recovery A/c is to be transferred to Profit and Loss A/c directly by passing the following entry:

Bad Debts Recovery A/c	**Dr.**
To, Profit and Loss A/c	

II. Percentage of Provision $\frac{5{,}000}{50{,}000} \times 100 = 10\%$

9.

(a) The following data has been abstracted from the annual accounts a Company-

Particulars	₹ in lakhs	Particulars	₹ in lakhs
Share Capital: 40,000 Equity Shares of ₹10 each	**400**	**Profit before Tax**	**280**
General Reserve	**300**	**Provision for Tax**	**168**
Investment Allowance Reserve	**100**	**Proposed Dividend**	**20**
15% Long term loan.	**600**		

Calculate the following ratios – (1) Return on Capital Employed (ROCE) and (2) Return on Net Worth, (RONW).

(b) On 01.04.08, P Ltd. issued 1,000, 15% Debentures of ₹ 100 each at a discount of 10% redeemable at par.

Required: Show the 'Discount on Issue of Debentures A/c if (i) such debentures are redeemable after 4 years, and (ii) such debentures are redeemable by equal annual drawings in 4 years. A Ltd. follows financial year as its accounting year.

9. Solution :

(a)

(i) Computation of ROCE and RONW

Particulars	₹ lakhs
Profit Before Tax	280
Add : Interest on Long Term Loan at 15%	90
Profit Before Tax and Interest (PBIT) **(for RONW purposes)**	370
Less : Interest on Long Term Loan at 15%	(90)
Less : Provision for Tax	(168)
Profit After Tax (PAT) (for ROCE purpose)	112

(i) Computation of Net Worth on Net Worth and Capital Employed (Amount in ₹ lakhs)

Particulars	₹ lakhs
a. Net Worth = Share Cap. + Gen. Reserve +Investment Allowance Reserve = 400+300+100	800
b. Capital Employed = Net Worth + Long term Borrowings = 800 + 600	1,400

(ii) Computation of Ratios

Particulars			%
a. Return on Capital Employed	= (PBIT ÷ Capital Employed)	= (370 ÷ 1,400) ÷ 100	26.43%
b. Return on Net Worth	=(PAT ÷Net Worth)	= (112 ÷ 800) X 100	14.00%

(b) (i) When such debentures are redeemable after 4 years:

A.	Total discount allowed (₹ 1,00,000 × 10/100)	= ₹ 10,000
B.	Period for which debentures are held	= 4 Years
C.	Amount of discount to be written off to P & L A/c every year (A/B)	= ₹ 2,500

Dr. Discount on Issue of Debentures Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.08	To 15% Debentures A/c	10,000	31.03.09	By P & L A/c	2,500
				By Balance c/d	7,500
		10,000			10,000
01.04.09	To Balance b/d	7,500	31.03.10	By P & L A/c	2,500
				By Balance c/d	5,000
		7,500			7,500
01.04.10	To Balance b/d	5,000	31.03.11	By P & L A/c	2,500
				By Balance c/d	2,500
		5,000			5,000
01.04.11	To Balance b/d	2,500	31.03.12	By P & L A/c	2,500
		2,500			2,500

(ii) When such debentures are redeemable by equal annual drawings in 4 years:
Statement Showing the Debentures Discount to be Written Off Each Year

Year ended on A	Face Value of Deb. used B	Period of Use (Month) C	Product D = B×C D	Ratio E	Amount of Discount to be w/o 10,000×E/10
31.03.09	1,00,000	12 months	12,00,000	4	4,000
31.03.10	75,000	12 months	9,00,000	3	3,000
31.03.11	50,000	12 months	6,00,000	2	2,000
31.03.12	25,000	12 months	3,00,000	1	1,000

Dr. Discount on Issue of Debentures Account Cr.

Date	Particulars	₹	Date	Particulars	₹
01.04.08	To 15% Debentures A/c	10,000	31.03.09	By P & L A/c	4,000

				By Balance c/d	6,000
		10,000			10,000
01.04.09	To Balance b/d	6,000	31.03.10	By P & L A/c	3,000
				By Balance c/d	3,000
		6,000			6,000
01.04.10	To Balance b/d	3,000	31.03.11	By P & L A/c	2,000
				By Balance c/d	1,000
		3,000			3,000
01.04.11	To Balance b/d	1,000	31.03.12	By P & L A/c	1,000
		1,000			1,000

10.

(a) Prasad Ltd. had the following borrowing during a year in respect of capital expansion.

Plant	Cost of Asset	Remarks
Plant A	**100 Lakhs**	**No specific Borrowings**
Plant B	**125 Lakhs**	**Bank loan of ₹ 65 Lakhs at 10%**
Plant C	**175 Lakhs**	**9% Debenture of ₹ 125 Lakhs were issued**

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks (i) ₹ 100 lakhs at 10% from Corporation Bank and (ii) ₹ 110 lakhs at 11.5% from State Bank of India, to meet its capital expansion requirements. Determine the borrowing costs to be capitalized in each of the above plants, as per AS-16.

(b) On 01.01.2009 E Ltd. issued 500, 10% Debentures of ₹ 100 each, at a discount of 10% redeemable at a premium of 10%.

Required: Show the 'Loss on Issue of Debentures A/c', if (i) such debentures are redeemable after 4 years, and (ii) such debentures are redeemable by equal annual drawings in 4 years. E Ltd. follows calendar year as it accounting year.

10. Solution :

(a) A. Computation of Actual Borrowing Costs incurred during the year:

Source	Loan Amount ₹ in Lakhs	Interest Rate	Interest Amount ₹ in Lakhs
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation	100.00	10%	10.00

Bank			
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowing included in above	190.00		17.75

B. Weighted Average Capitalization Rate for General Borrowings:

$$= \frac{\text{Total Interest - Interest on Specific Borrowing}}{\text{Total Borrowing - Specific Borrowing}} = \frac{(40.40 - 17.75)}{(400 - 190)} = 22.65 - 210 = 10.79\%$$

C. Capitalization of Borrowing Costs under AS-16 will be as under:

Plant	Borrowing	Loan Amount ₹ in lakhs	Interest rate	Interest amount ₹ in lakhs	Cost of Asset	
					₹ in Lakhs	₹ in Lakhs
A	General	100	10.79%	10.79		110.79
B	Specific	65	10.10%	6.50	71.50	
	General	60	10.79%	6.47	<u>66.47</u>	137.97
C	Specific	125	9.00%	11.25	136.25	
	General	50	10.79%	5.39	55.39	191.64
	Total	400		40.40		440.40

Note: The amount of borrowing costs capitalized should not exceed the actual interest cost.

(b)

Loss on Issue at Discount = 10%; Loss on Redemption at premium = 10%

∴Total Loss = 20%

(i) When such debentures are redeemable after 4 years:

A. Total Loss (₹ 50,000 × 20/100) = ₹ 10,000

B. Period for which debentures are held = 4 Years

C. Amount of discount to be written off to P & L A/c every year (A/B) = ₹ 2,500

Dr. **Loss on Issue of Debentures Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
01.01.09	To 10% Debentures A/c	5,000	31.12.09	By P & L A/c	2,500
	To Premium on redemption	5,000		By Balance c/d	7,500
		10,000			10,000
01.01.10	To Balance b/d	7,500	31.12.10	By P & L A/c	2,500
				By Balance c/d	5,000
		7,500			7,500

01.01.11	To Balance b/d	5,000	31.12.11	By P & L A/c	2,500
				By Balance c/d	2,500
		5,000			5,000
01.01.12	To Balance b/d	2,500	31.12.12	By P & L A/c	2,500
		2,500			2,500

(ii) When such debentures are redeemable by equal annual drawings in 4 years:

Statement Showing the Debentures Discount to be Written Off Each Year

Year ended on A	Face Value of Deb. used B	Period of Use (Month) C	Product D = B×C D	Ratio E	Amount of Discount to be w/o 10,000×E/10
31.03.09	1,00,000	12 months	6,00,000	4	4,000
31.03.10	75,000	12 months	4,50,000	3	3,000
31.03.11	50,000	12 months	3,00,000	2	2,000
31.03.12	25,000	12 months	1,50,000	1	1,000

Dr. **Discount on Issue of Debentures Account** ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
01.01.09	To 10% Debentures A/c	5,000	31.12.09	By P & L A/c	4,000
	To Premium on redemption	5,000		By Balance c/d	6,000
		10,000			10,000
01.01.10	To Balance b/d	6,000	31.12.10	By P & L A/c	3,000
				By Balance c/d	3,000
		6,000			6,000
01.01.11	To Balance b/d	3,000	31.12.11	By P & L A/c	2,000
				By Balance c/d	1,000
		3,000			3,000
01.01.12	To Balance b/d	1,000	31.12.12	By P & L A/c	1,000
		1,000			1,000

11. (a) The following is the Statement of Profit and Loss Account of ABC Ltd., for the year ended 31st March, 2012:

Dr. **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
Administrative, Selling and distribution expenses	8,22,542	Balance b/d		5,72,350
Donation to Charitable Funds	25,500	Balance form Trading A/c		40,25,365
Directors Fees	66,750	Subsidies received from Govt.		2,32,560
Interest on debentures	31,240	Interest on Investments		15,643
Compensation for breach of contracts	42,530	Transfer fees		722
Managerial remuneration	2,85,350	Profit on sale of machinery:		
Depreciation on fixed assets	5,22,543	Amount realized	55,000	
Provision for taxation	11,42,500	Written down value	30,000	25,000
General reserve	5,00,000			
Investment Revaluation Reserves	12,500			
Balance c/d	14,20,185			
	48,71,640			48,71,640

Additional Information:

(i) Original cost of the machinery sold was ₹40,000.

(ii) Depreciation on fixed assets as per Schedule XIV of the Companies Act,1956 was ₹5,75,345.

You are required to comment on the managerial remuneration in the following situations:

I. There is only one whole time director;

II. There are two whole time director;

III. There are two whole time directors, a part time director, and a manager.

(b) A firm of contractors obtained a contract for completion of bridges across river Revathi. The following details are available in the records kept the year ended 31st March, 2012:

Particulars	₹ in Lakhs
Total Contract Price	2,000
Works Certified	1,000
Works not Certified	210
Estimated further cost	990
Progress payment received	800
Progress payment to be received	280

The firm seeks your advice and assistance in presentation of accounts keeping in view the requirements of AS-7 " Accounting for Construction Contract".

11. Solution.

(a) Calculation of Profits u/s 349

Particulars	**Amount (₹)**
Net Profit (bal c/d)	14,20,185
(+) Managers remuneration	2,85,350
(+) Depreciation charged	5,22,543
(+) Provision for taxation	11,42,500
(+) General Reserve	5,00,000
(+) Investment Revaluation Reserve	12,500
(-) Opening Profit	5,72,350
(-) Profit on machinery — Capital Profit (₹55,000-₹40,000)	15,000
(-) Depreciation as per Schedule XIV	5,75,345
Book Profit	27,20,383

I. 5% of ₹27,20,383 = ₹1,36,019

II. 10% of ₹27,20,383 = ₹2,72,038

III. 11% of ₹27,20,383 = ₹2,99,242

(b)

As per AS 7, 'Construction Contract', when it is probable that total contract costs will exceed total revenue, the expected loss should be immediately recognized as an expense. The amount of such a loss is determined irrespective of (a) Whether or not work has commenced on the contract,(b) the stage of completion of contract activity as per AS 7.

We are to compute the anticipated loss and current loss which are computed as:-

Anticipated or Foreseeable Loss

Particulars	**₹ in lakhs**
Cost of Total Contract:	
Work Certified	1,000
Add: Work not certified	210
Add: Estimated further cost to completion	990
	2,200
Less: Contract Price	2,000
Anticipated / Foreseeable loss	**200**

Work-in-Progress/Stage of Completion: = Work certified+ Work not certified
= ₹ (1,000+210) = ₹ 1,210

% of work completed

(1,210/2200) x 100 = 55%

Recognition of Contract Revenue:

Total Contract Price x 55% = ₹ (2,000 x 55%) = ₹ 1,100 lakhs
Amount due from /to customers = Contract costs + Recognised profits-recognised losses – (progress payments received+ Progress payments to be received)
=[1,210+NIL – 200-(800+280)] (₹in lakhs) = [1,210-200-1,080] (₹ in lakhs)
Amount due to customers =₹70 lakhs . The amount of ₹70 lakhs will be shown in the balance sheet as liability.

12. (a) UPC Ltd. purchased fixed assets for US $ 50 lakhs costing ₹ 1825 lakhs on 1.4.2011 and the same was fully financed by the foreign currency loan [i.e.US Dollars] repayment in five equal instalments annually. [Exchange rate at the time of purchase was 1 US Dollar = ₹ 36.50]. As on 31.3.2012 the first installment was paid when 1 US Dollar fetched ₹41.50. The entire loss on exchange was included in cost of goods sold etc. UPC Ltd. normally provides depreciation on fixed assets at 20% on WDV basis.

(b) AD Softex (India) Ltd. entered into purchase of forward contract as under:

Amt. of foreign currency	**US $ 100000**
Date of entering in forward cover	**28-2-2013**
Exchange rate of this date	**₹ 47.00 per US $**
Forward Rate	**₹ 48**
Period of forward cover	**3 months (31-5-2013)**
Spot Rate on reporting date (31-3-2013)	**₹ 47.75**
Forward Rate available at the reporting date For the remaining maturity of the contract	**₹47.50**

Forward cover has been entered into for sole purchase of managing risk associated with change of exchange rate for payment to supplier against purchase.
Required:

i. **Calculate the forward premium/discount**
ii. **Accounting for such forward premium/discount.**
iii. **Calculate the exchange difference on 31-3-2013 (reporting date)**
iv. **If the forward contract entered into is for speculation, what is the profit/loss for the period?**

12. Solution:

(a) In this case AS-11 (pre-revised 1994) shall be applicable on Accounting for effects of changes in Foreign Exchange Rates, as the transaction in foreign currency has been entered into by the reporting enterprises before 1.4.2012. Exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets, should be adjusted in the carrying amount of the respective fixed assets. The carrying amount of such fixed assets to the extent not already so adjusted or otherwise accounted for , also to be adjusted to account for any increase or decrease in the liability of enterprise, as expressed in the reporting currency by applying the closing rate, for making payments towards the whole or a part of the cost of the assets of for repayment of the whole or a part of the monies borrowed by the enterprise from any person directly or indirectly, in foreign currency specifically for the purpose of acquiring those assets.

Thus the entire exchange loss due to variation of ₹ 50 lakhs on 31-3-2012 on payment of US $ 10 lakhs should be added to the carrying amount of fixed assets and not to the cost of goods sold.
Further, depreciation on the unamortized depreciable amount should also be provided, in accordance with AS-6 on Depreciation Accounting.
Calculation Exchange loss:

Foreign currency loan = $\frac{1825 \text{ lakh}}{36.50 \text{ lakh}}$ = 50 lakhs US Dollar

Exchange loss on outstanding loan on 31-3-2012 = 40 lakhs US $ X (41.50-36.50) = ₹ 200 lakhs should also be added to cost of fixed asset with corresponding credit to outstanding loan.
Calculation of additional depreciation on account of increase in the depreciable amount of fixed assets = 20% of ₹ 250 lakhs = ₹50 lakhs.

(b) (i) As per AS-11 forward premium is to be calculated as under:

(Forward contract rate less spot rate on the date of entering forward contract)

= (48.00 - 47.00) = 1 X 1, 00,000 = ₹1, 00,000 is premium paid for forward contract.

(ii) This premium should be amortized as expense over the life of the contract in absence of clear cut method of amortization in AS-11, it is better to amortize on straight-line method over three months. One month for the reporting period 31-3-2013 = 1,00,000/3 = ₹ 33,333.33

Two months for the next accounting period (April and May 2013) = 1,00,000/3 X 2 = 66,666.66
(iii) Exchange difference on reporting date 31-3-2013
Rate at the inception of forward contract ₹47 per USD
Rate on the reporting date ₹47.75 per US $

Difference (47.75-47.00) = 0.75 X 100,000 = ₹ 75,000 credited to Profit and Loss A/c as exchange gain on forward contract.

(iv) If the forward contract is for speculation -

The forward contract value should be marked to market on the reporting date

Rate of forward contract ₹48.00 per US$

Forward contract available for remaining period of maturity on the reporting date = ₹47.50 per US $ (Current market value)

If forward contract is marked to market there will be a loss of ₹ 50,000 as under:

Difference (48.00-47.50) X 1,00,000 = ₹50,000 (loss)

This loss should be debited to profit and loss account for the period ended 31-3-2013.

13. (a) M Ltd. presented the following particulars for the period ended 31st March 2012, from which you are requested to calculate the diluted earnings per share:

Particulars	Amount

Net Profit earned for the year 2011-12 (₹)	**20,00,000**
No of equity shares outstanding at the end of the period	**10,00,000**
No. of 12% Convertible Debentures of ₹ 100 each to be convertible into 10 equity shares	**25,000**
Income Tax Rate	**30%**

(b) What will be the treatment of the following in the final statement of accounts for the year ended 31.3.2012, of a limited company?

In 2010-11, the company has spent and carried forward in the books a total of ₹ 5,00,000 on developing a cure for cancer. During the current year, i.e., 2011-12, it is decided to terminate this product, as test results in the current year have proved adverse.

13. Solution:

(a) Interest to be paid to 12% Convertibles Debenture holders

Particulars	Amount ₹
No. of Debentures x Value per Debenture = 25,000 x ₹ 100	25,00,000
$\therefore$ Interest = ₹ 25,00,000 x $\frac{12}{100}$	3,00,000
Tax on the said interest = ₹ 3,00,000 x 30%	90,000

Adjusted Net Profit

Particulars	Amount ₹
Net Profit	20,00,000
Add: Debenture Interest	3,00,000
	23,00,000
Less: Tax on Debenture Interest @30%	90,000
Adjusted Net Profit	22,10,000

Ordinary Earning per Share = $\frac{\text{Net Profit}}{\text{No. of Equity Shares}} = \frac{20,00,000}{10,00,000}$ = ₹ 2.00

Diluted Earnings per Share =

No. of additional equity shares for conversion of debentures will be 25,000 x 10 = 2,50,000 Shares.

$\therefore$ Diluted Earnings per Share =

$$\frac{\text{Adjusted Net Profit}}{(\text{No. of Equity Shares + Convertible EquityShares})} = \frac{22,10,000}{(10,00,000 + 2,50,000)}$$

= ₹ 1.768

(b) As per para 87 of AS 26, an intangible asset should be derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. As per para 88 of AS 26, gains or losses arising from the retirement or disposal of an intangible asset should be recognised as income or expense in the Statement of Profit and Loss.

In this case, however, the company decided ultimately to discontinue the product due to adverse test result. As such, the entire amount of ₹ 5 lakhs should be treated as an expense which should be adjusted against current year's P&L A/c.

14. (a) From the following information relating to Virat Ltd., prepare a Balance Sheet as on 31.3.2012.

Current Ratio	**3**
Fixed Assets/Shareholders' Net worth	**0.9**
Reserve & Surplus/Share Capital	**0.25**
Average Debt Collection period	**2 months**
G.P Ratio	**25 %**
Cost of Sales/Closing Stock	**13.5 times**
Net Working Capital	**₹ 600,000**
Liquid Ratio	**2.25**

(b) Briefly explain the discloser requirement of Accounting Standard-6.

14. Solution:

(a)

Current Ratio = Current Assets / Current Liabilities =3

Or, Current Assets (CA) = 3 Current Liabilities (CL)

Net Working Capital = CA – CL = 6,00,000

Or, 3 CL- CL = 6,00,000

Or, 2 CL = 6,00,000

Or, CL= 3,00,000

Thus, CA = 9,00,000

Liquid Ratio = (CA – Stock)/CL = 2.25

Or, (9,00,000 - Stock)/3,00,000 = 2.25

Or, Stock (Inventories)= 2,25,000

Cost of Sales/Closing Stock = 13.5

Cost of Sales = 2,25,000 × 13.5 = ₹ 30,37,500

G/P Ratio = 25%

Cost of Sales/Sales = 75%

Sales = ₹ 30,37,500 / 75% = ₹ 40,50,000

Average Debt Collection period = 2 months = 6 times

Or, Sales/Debtors = 6

Or, Debtors (Trade receivables) = ₹ 40,50,000 / 6 = ₹ 6,75,000

Fixed Assets/Net worth = 0.9

Or, Working Capital/ Net worth = 1 – 0.9 = 0.1

Or, Net worth = ₹ 6,00,000 / 0.1 = ₹ 60,00,000

Fixed Asset (Tangible) = 0.9 × ₹ 60,00,000 = ₹ 54,00,000

Reserves & Surplus/Share Capital = 0.25/1

Reserves & Surplus + Share Capital = 1+0.25 = 1.25

Reserves & Surplus = ₹ 60,00,000 × 0.25/1.25 = ₹ 12,00,000

Share Capital = ₹ 12,00,000/0.25 = ₹ 48,00,000

Name of the Company Virat Ltd.

Balance Sheet as at 31st March, 2012 **[as per Revised Schedule VI]**

			₹ in lakhs
	Note No.	**Figures as at the end of current reporting period**	**Figures as at the end of previous reporting period**
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital		48,00,000	—
(b) Reserves and Surplus		12,00,000	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)		—	—
(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings		—	—
(b) Trade Payables		—	—
(c) Other current liabilities		3,00,000	—
(d) Short term provisions		—	—
Total		**63,00,000**	**—**
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets		54,00,000	—
(ii) Intangible assets		—	—
(iii) Capital work-in progress		—	—
(iv) Intangible assets under development		—	—
(b) Non-current Investment		—	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—

(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories		2,25,000	—
(c) Trade receivables		6,75,000	—
(d) Cash and Cash equivalents		—	—
(e) Short-term loans and advances		—	—
(f) Other Current assets		—	—
Total		**63,00,000**	—

(b)

Disclosure requirements: Following information should be disclosed in the financial statements:

- Historical cost or revalued amount of each class of depreciable assets;
- Total depreciation for the period for each class of assets; and
- Accumulated depreciation
- Depreciation methods used; and
- Depreciation rates or useful lives, if different from rates specified in the statute.

15. (a) Bijlee Electric Supply Ltd. re-built and reequipped one of their mains at a cash cost of ₹60,00,000. The old Mains thus, superseded Cost ₹22,50,000. The capacity of the new Mains is double that of old Main. ₹1,05,000 was realized from sale of old materials. Four old motors valued at ₹3,00,000 salvaged from the old Main were used in the re-construction. The cost of labour and Materials is, respectively, 30% and 25% higher now than when the old Mains was built. The proportion of labour to materials in the Main then and now is 2:3.
Show the journal entries for recording the above transactions of accounts as maintained under Double Account System.

(b) From the following figures of Well Life assurance Co. Ltd. prepare a Valuation Balance Sheet and Profit Distribution Statement for the year ended 31st March 2012. Also pass necessary journal entries to record the above transactions with narrations:

Particulars	₹ (in lakhs)
Balance of Life Assurance Fund as on 1.4.2011	**334.30**
Interim bonus paid in the valuation period	**50.00**
Balance of Revenue Amount for the year ended 31.3.2012	**480.00**
Net Liability as per valuer's Certificates as on 31.3.2012	**330.00**

The company declares a revisionary bonus of ₹185 per ₹1,000 and gave the policyholders an option to take bonus in cash ₹105 per ₹1,000. Total business conducted by the company was ₹1,200 lakhs. The company issued profit policy only, 3/5th of the policyholders in value opted for cash bonus.

15. Solution:
(a)

(i) Computation of Current Cost of Replacement

Particulars	Cost of Old Materials (₹)	Increase in Percentage	Increased Amount (₹)	Current Cost (₹)
Materials (₹ $22,50,000 \times \frac{3}{5}$)	13,50,000	25%	3,37,500	16,87,500
Labour (₹ $22,50,000 \times \frac{2}{5}$)	9,00,000	30%	2,70,000	11,70,000
	22,50,000			28,57,500

(ii) Computation of Capital Expenditure

Particulars	Amount (₹)
Cost of New Main	60,00,000
Add: Value of Old Materials used	3,00,000
	63,00,000
Less: Estimated Current Cost	28,57,500
	34,42,500

(iii) Cash Cost = ₹ 34,42,500 - ₹3,00,000 (value of Old Materials)
= ₹ 31,42,500

(iv) Computation of Revenue Expenditure

Particulars		Amount (₹)
Current Cost of Replacement		28,57,500
Less: Sale of old Materials	1,05,000	
Use of old materials	3,00,000	4,05,000
		24,52,500

In the books of Bijlee Electric Supply Ltd.
Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
?	New Main A/c Dr. Replacement A/c Dr. To, Bank A/c (Current Cost Charged to Replacement A/c and Balance treated as Capital Expenditure)		31,42,500 28,57,500	 60,00,000
	New Main A/c Dr. To, Replacement A/c (Old materials sold)		3,00,000	 3,00,000
	Bank A/c Dr. To, Replacement A/c (Old material sold)		1,05,000	 1,05,000
	Revenue A/c Dr. To, Replacement A/c (Net Current Cost of replacement transferred to Revenue A/c)		24,52,500	 24,52,500

(b)

In the Books of Well Assurance Co. Ltd.
Valuation Balance Sheet
As at 31st March 2012

Liabilities	Amount (₹)	Assets	Amount (₹)
Net Liabilities as per Actuarial Valuation Surplus/Net Profit	3,30,00,000 1,50,00,000	Life Insurance Fund	4,80,00,000
	4,80,00,000		4,80,00,000

Distribution Statement, i.e. Distribution of Surplus	Amount (₹)
Surplus/ Net Profit Add: Interim Bonus Paid	1,50,00,000 50,00,000
	2,00,00,000

Policyholders' shares @95% of ₹2,00,00,000 **Less:** Interim Bonus paid	1,90,00,000 50,00,000
	1,40,00,000

Shareholders' Share @5% of ₹1,00,00,000	10,00,000

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
?	Life Assurance Fund A/c Dr. To, Profit and Loss A/c (Surplus/Net Profit transferred to P&L A/c as per Valuation Balance Sheet)		1,50,00,000	1,50,00,000
	Profit and Loss A/c Dr. To, Bonus (in cash) Payable A/c (Bonus paid in cash)		75,60,000	75,60,000
	Profit and Loss A/c Dr. To, Life Assurance Fund A/c (Revisionary Bonus payable transferred to Life assurance Fund)		88,80,000	88,80,000

Workings:

1. Bonus Payable in Cash

@ ₹ 105 per ₹ 1,000

On 7,20,00,000 (₹12,00,00,000 × $\frac{3}{5}$)

$= ₹\ \frac{7{,}20{,}00{,}000}{1{,}000} \times 105$

= ₹75,60,000

2. Revisionary Bonus

@ ₹ 185 per ₹ 1,000

On 4,80,00,000 (₹12,00,00,000 × $\frac{2}{5}$)

$= ₹ \frac{4,80,00,000}{1,000} \times 185$

=₹88,80,00,000

16. (a) Welcome Ltd. purchased goods on credit from Thank You Ltd. for ₹500 crore for export . The export order was cancelled. Welcome Ltd. decided to sell the same goods in the local market with a price discount. Thank You Ltd. was requested to offer a price discount of 15% .The Chief accountant of Thank You Ltd. wants to adjust the sales figure to the extent of discount requested by Welcome Ltd. Discuss whether this treatment is justified.

(b) What do you understand by Receipts and Payment Account?

16. Solution:

(a) As per the appendix attached to AS – 9 " Revenue Recognition", trade discount and volume rebates received are not encompassed within the definition of revenue. Trade discounts and volume rebates given should be deducted in determining the revenue, therefore the chief accountant of Thank You Ltd. is correct in adjusting the sales period to the extent of discount of 15%.

(b) It is an Account which contains all Cash and Bank transaction made by non-profit organization during a particular financial period. It starts with the opening balance of Cash and Bank. All Cash receipts both capital and revenue during the period are debited to the Receipts and Payment Account and all cash payments both capital and revenue are credited to this account. this account ends with the closing Cash and Bank Balances .It follows Real Account and it is a summary of Cash Book.

17. (a) Jay Yatra Bank Ltd had extended the following credit lines to a Small scale Industry, which had not paid any interest since march,2006:

Term Loan	**Term Loan**	**Export Loan**
Balance Outstanding on 31.03.2012	**₹ 105 lakhs**	**₹ 90 lakhs**
DICGC/ECGC cover	**40%**	**50%**
Securities held	**₹ 45 lakhs**	**₹ 30 lakhs**
Realisable value of Securities	**₹ 30 lakhs**	**₹ 24 lakhs**

Compute the necessary provisions to be made for the year ended 31st March ,2012.

(b) The following is the Income and Expenditure Account of Mumbai Youth Club for the year ended 31st March,2011

Dr. Income and Expenditure Account for the year ended 31st March,2012 Cr.

	₹		₹
To, Salaries	**19,500**	**By, Subscription**	**68,000**
To, Rent	**4,500**	**By, Donation**	**5,000**
To, Printing	**750**		
To, Insurance	**500**		

To, Audit Fees	750		
To, Games and Sports	3,500		
To, Subscription Written off	350		
To, Misc. Expenses	14,500		
To, Loss on sale of furniture	2,500		
To, Depreciation:			
Sports Equipment	6,000		
Furniture	3,100		
To, Excess of income over expenditure	17,050		
	73,000		**73,000**

Additional Information:

	31.3.2011	31.3.2012
	₹	₹
Subscription in arrears	2,600	3,700
Advance Subscription	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fees	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	----	150

Book value of furniture sold is ₹7,000. Entrance fees capitalized ₹4,000. On 1st April,2011 ,there was no cash in hand but Bank Overdraft for ₹15,000. On 31st March ,2012 Cash in hand amounted to ₹850 and the rest was Bank balance.

Prepare Receipts and Payment Account of the club for the year ended 31st March,2012.

17. Solution:

(a)

Particulars	**Term Loan (₹ in lakhs)**	**Export Credit (₹ in Lakhs)**
Balance outstanding on 31.03.	105.00	90.00
Less: Realisable Value of Securities	30,00	24.00
	75.00	66.00
Less: DICGC cover @40%	30.00	-
ECGC cover @50%	-	33.00
Unsecured balance	45.00	33.00

Required Provision:

Particulars	**Term Loan (₹ in lakh)**	**Export Credit (₹ in lakhs)**
100% for unsecured portion	45.00	33.00
100% for secured portion	30.00	24.00
Total provision required	75.00	57.00

(b)

Dr. **Receipts and Payment Account** **Cr.**

	Amount ₹		Amount ₹
To, Subscription A/c (1) To, Donation A/c To, Entrance Fees A/c To, Furniture A/c (Sale of Furniture)	67,050 5,000 4,000 4,500	By, balance b/d Bank By, Salary 19,500 Add: Outstanding last year 1,200 Less: Outstanding this year 350 By, Rent 4,500 Add: Outstanding last year 500 Less: Outstanding this year 800 Printing By, Insurance 500 Add: Prepaid this year 150 By, audit Fees 750 Add: Outstanding last year 500 Less: Outstanding this year 750 By, Games & Sports By, Misc. Expenses A/c By, Sports Equipment A/c (Purchased) (2) By, Furniture A/c (Purchased)(3) By, Balance c/d Cash Bank (balancing figure)	15,000 20,350 4,200 750 650 500 3,500 14,500 5,000 8,000 850 7,250
	80,550		80,550

Working Notes:

1. Calculation of subscription received during the year 2011-12

Subscription as per Income & Expenditure A/c		₹68,000
Less: Arrears of 2011-12	₹3,700	
Advance in 2011-12	₹1,000	₹4,700
		₹63,300
Add: Arrears of 2010-11	₹2600	
Advance for 2012-13	₹1,500	₹4,100
		₹67,400
Less: Written off during 2011-12		₹350
		₹67,050

2. Calculation of Sports Equipment Purchased during 2011-12

Dr. **Sports Equipment Account** **Cr.**

	Amount		Amount
To, Balance b/d To, Receipts and Payment A/c (balancing figure)	25,000 5,000	By, Income & Expenditure A/c (depreciation) By, Balance c/d	6,000 24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2011-12

Dr. **Furniture Account** **Cr.**

	Amount ₹		Amount ₹
To, Balance b/d To, Receipts and Payment A/c (balancing figure)	30,000 8,000	By, Receipts and Payment A/c* By, Income & Expenditure A/c (loss on sale) By, Income & Expenditure A/c (Depreciation) By, Balance c/d	4,500 2,500 3,100 27,900
	38,000		38,000

*** Sale Value of furniture, having book value of ₹7,000 and sold at a loss of ₹2,500, is ₹4,500.**

18.

(a) On 01.01.2011, Hubco Ltd. issued 1,000, 15% Convertible Debentures of ₹ 200 each at a discount of 5% redeemable at par after 4 years by converting their holdings into equity shares of ₹ 100 each at a premium of 25%. As per terms of issue, the holders of these Debentures also have an option to convert their holdings as aforesaid at any time after 6 months but within 3 years. On 31.12.2011, a holder of 250 Debentures notified his intention to exercise the option.
Requirements:
(i) Give Journal entries as on 01.01.2011, 31.12.2011 and on 31.12.2012 (ignoring interest), and
(ii) Prepare the Balance Sheet as on 31.12.2012 (showing related items only).

(b) M Ltd. Has a retail branch at Noida. Goods are sold on 60% profit on cost. The wholesale price is cost plus 40%. Goods are invoiced from Calcutta head office to Noida branch at wholesale price. From the following particulars , ascertain the profit made at head office and branch for the year ended 31.12.2012:

	H.O(₹)	Branch(₹)		H.O(₹)	Branch(₹)
Stock on 1.1,2012	1,75,000	-	Expenses (Selling)	56,000	7,000
Purchases	10,50,000	-	Sales	10,71,000	3,50,000
Goods sent (invoice price)	3,78,000	-	Stock on 31.12,2012	4,20,000	63,000

18. Solution:

(a)

Journal

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
01.01.07	Bank A/c Discount on Issue of Debentures A/c To 15% Debenture A/c (Being the issue of 1,000 debentures at a discount of 5%)	Dr. Dr.		1,90,000 10,000	 2,00,000
31.12.11	15% Debentures A/c To Discount on Issue Debentures A/c To Equity Shares Capital A/c To Securities Premium A/c (Being the issue of 380 shares at 25% premium to a holder of 500 Debentures as per Board Resolution dated....)	Dr.		50,000	 2,500 38,000 9,500
31.12.12	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Being the issue of 1,200 share @ 25% premium to the holders of 1,500 Debentures as per Board's Resolution dated...)	Dr.		1,50,000	 1,20,000 30,000

An Extract of Balance Sheet as at 31st December 2012

Liabilities	₹	Assets	₹
Share Capital:		Miscellaneous Expenditure:	
Equity Shares of ₹ 100 each fully paid up	38,000	Discount on Issue of Debentures	7,500
Reserves & Surplus:			
Securities Premium	9,500		
Secured Loans:			
750, 15% Debentures of ₹ 200 each	1,50,000		

Working Notes:

(i) It has been assumed that no portion of Discount on Issue of Debentures has yet been written off.

(ii) Calculation of No. of Shares to be issued on 31.12.2012.

a. Normal Value of Debentures to be converted (250 × 200) ₹ 50,000

b. Less: Reversal of Discount @ 5% ₹ 2,500

c.	Amount actually received (a – b)	₹ 47,500
d.	Issued price of an Equity Share (₹ 100 + 25%)	₹ 125
e.	No. of Shares to be issued (c/d)	380

New Shares have been issued exactly equal to be amount actually received (i.e., Net of discount) at the time of issue of Debentures, otherwise it would amount to an issue of shares at discount indirectly without complying with the provision of Sec. 79 of the Companies Act, 1956.

(iii) Calculation of No. of Shares to be issued on 31.12.2010.

a.	Nominal Value of Debentures to be converted	₹ 1,50,000
b.	Issue Price of an Equity Share (₹ 100 + 25%)	₹ 125
c.	No. of Equity Shares to be issued (a/b)	1,200

Since the debentures are due for redemption and the conversion of debentures into shares is on the basis of terms and conditions mutually agreed upon at the time of issue for redemption, even the debentures originally issued at a discount can be converted into shares.

(b)

Dr. Head Office Trading and Profit & Loss Account Cr.

Particulars	₹	₹	Particulars	₹	₹
To, Opening Stock	1,75,000	-	By, Sales	10,71,000	3,50,000
To, Purchases	10,50,000	-	By, Goods Sent to Branch	3,78,000	-
To, Goods Sent to Branch	-	3,78,000	By, Closing Stock	4,20,000	63,000
To, Gross Profit c/d	6,44,000	35,000			
	18,69,000	4,13,000		18,69,000	4,13,000
To, Expenses (Selling)	56,000	7,000	By, Gross Profit b/d	6,44,000	35,000
To, Stock Reserve (Note A)	18,000	-			
To, Net Profit	5,70,000	28,000			
	6,44,000	35,000		6,44,000	35,000

Working Notes: (A) Goods sent to branch at invoice price should be treated as sale of the head office. Some of the goods are still unsold at the branch. For calculating actual profit of the head office, a stock reserve is to be created by debiting head office Profit and Loss Account. The amount of loading will be 40/140×₹63,000=₹18,000

19. (a) On 1st December ,2012, Nirman Construction Co. Ltd. undertook a contract to construct a building for ₹170 lakhs. On 31st March,2013 the company found that it had already spent ₹1,29,98,000 on the construction. Prudent estimate of additional cost for completion was ₹64,02,000. What is the additional provision for foreseeable loss, which must be made in the final accounts for the year ended 31st March,2013 as per provision of AS – 7 on "Accounting for Construction Contracts".

(b) What is the accounting entry to be passed as per AS-10 for the following situations:
(i) Increase in value of fixed assets by ₹20,00,000 on account of revaluation.
(ii)Decrease in the value of fixed asset by ₹20,00,000 on account of revaluation.

19. Solution:

(a)

Contract Price	₹170 lakhs
Cost incurred	₹129.98 lakhs
Estimated cost to completion	₹64.02 lakhs

Loss to be provided:	
As per AS – 7 31.03.2013	= ₹24.00 lakhs
Loss to be recognized (₹129.98 lakhs / ₹194 lakhs)×100 =67/100×24	=₹ 16.08 lakhs
Loss to be provided (provision)	₹ 7.92 lakhs

(b)

Journal entries are:

(i) Fixed Asset A/c	Dr.	₹20,00,000	
To, Revaluation Reserve A/c			₹20,00,000
(Increase in Value of fixed assets by revaluation)			
(ii) Profit and Loss A/c	Dr.	₹20,00,000	
To, Fixed Assets			₹20,00,000
(Decrease in value of fixed by downward revaluation assuming that there was no upward revaluation of this asset earlier)			

20. (a) It was decided to make a specific provisions in the accounts for the year ended 31.03.12 for the following doubtful debts after examining the sales ledger of the firm:

A ₹ 5,700; B ₹ 900 ; C ₹ 8,040 and D ₹ 4,140.

It was decided to make also a general provision of 5% on the other debtors who were on 31st March 2011 amounted to ₹ 6,48,000.

No other transaction relating to the debtors were made but successors of A and D sent final dividend of ₹ 1,800 and ₹ 2,520 respectively and C paid his debt in full.

On 31.03.2012, it was decided to maintain the provision against B's debt and make further provision for the following debts considered doubtful:

E ₹ 3,900; F ₹ 2,040 and G ₹ 3,060.

The other debtors amounted to ₹ 7,80,000 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.

(b) Ting-Tong Ltd. acquired a machine for ₹4,00,000 on 30.11.2008. The machine has five-years life with ₹2,50,000 salvage value and was depreciated using straight-line method. On 31.03.11 a test for impairment reveals the following:

(i) Present Value of future cash flow	**₹6,75,000**
(ii) Net selling price	**₹7,70,000**
(i) Salvage Value Estimated	**₹Nil**

Assuming loss for impairment is recognized for the year 31.03.2011. What will be the amount of impairment loss on 31.03.2011.

20. Solution:

(a)

In the Books of ………..

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

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Mar 31	To, Sundry Debtors A/c	5,520[1]	2012 Mar 31	By, Provision for Bad debts A/c	5,520
		5,520			**5,520**

Dr. Provision for Bad Debts Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Dec 31	To, Bad Debts A/c	5,520	2011 April 1	By, Balance b/d	51,180[2]
2012 Dec,31	To, Balance c/d	48,900	2012 Mar. 31	,,Profit and Loss A/c (further provision required)	3,240
		54,420			54,420

Workings:

A. Bad Debts

A: ₹(5,700-18,00)=₹3,900
B; ₹(4,140-2,520)=₹1,620
₹5,520

B. Opening Balance of provision for Bad Debts

A:	₹5,700
B:	₹900
C:	₹8,040
D:	₹4,140
General Provision (5% of ₹6,48,000)	₹32,400
	₹51,180

C. Closing Balance of provision for Bad Debts

B:	₹900
E:	₹3,900
F:	₹2,040
G:	₹3,060
General Provision (5% of ₹7,80,000)	₹39,000
	₹48,900

(b) Computation of impairment loss for the year ended 31.03.2011

Particulars	Amount (₹)
A. Carrying amount of machine [16,00,000-(16,00,000-2,50,000) × $\frac{28}{60}$]	9,70,000
Present Value of Future Cash Flow	6,75,000
Net Present Value	7,70,000
B. Recoverable Amount is higher of ₹7,70,000 and ₹6,75,000	7,70,000
Impairment Loss (A-B)	2,00,000

21. (a) Durga and Kali were working in partnership sharing profits equally. On 31st December 2011 Durga decided to retire and in her place it was decided that Lakshmi, her daughter, would be admitted as partner from January, 1, 2012, and her share in profits will be one-third.

The Balance Sheet of the firm as on December 31, 2011 was:

Liabilities	₹	Assets	₹
Sundry Creditors	22,050	Goodwill	22,500
Capital:		Land and Buildings	60,075
Durga	81,450	Motor Car	18,000
Kali	72,000	Furniture	13,950
		Sundry Debtors	36,225
		Cash & Bank Balances	24,750
	1,75,500		1,75,500

It was further decided:
(i)The Goodwill should be raised to ₹ 30,000. (ii) The Motor Car would be taken over by Durga at its Book Value. (iii) The value of Land and Buildings would be increased by ₹ 12,420. (iv) Kali and Lakshmi would introduced sufficient Capital to pay off Durga and to leave thereafter a sum of ₹ 11,025 as working capital in a manner that the capitals of the new partners will be in proportion to their profit sharing ratio. (v) The capital payable by Lakshmi was to be gifted to her by her mother. (f) The new partners decided not to show Goodwill as an asset.

The partners introduce the Capital on 10.01.2012. Show Capital Account, Cash Account and the Balance Sheet.

(b) Autumn Ltd. issued 1,20,000 Equity shares of ₹ 10 each . It wanted to buy back 20,000 equity shares at par. It issued 6% 2,000 Preference Shares of ₹100 each, the proceeds being utilized for the purpose of buy-back. Expenses relating to the buy-back amounted to ₹18,000.

21. Solution:

(a)

In the books of the firm
Capital Account

Dr. **Cr.**

Particulars	Durga	Kali	Lakshmi	Particulars	Durga	Kali	Lakshmi

	₹	₹	₹		₹	₹	₹
To Motor Car A/c	18,000	---	---	By Balance b/d	81,450	72,000	---
To Goodwill A/c	---	20,000[4]	10,000	By Goodwill A/c	3,750[4]	3,750	---
To Lakshmi's Capital A/c	47,215	---	---	By Rev. A/c			---
				- Land & Building	6,210	6,210	-
To Cash A/c	26,195[3]	---	---	By Durgas' Capital A/c	---	---	47,215[2]
- Final settlement (bal. fig.)	---	74,430[1]	37,215	By Cash (bal. fig.)	---	12,470	
To Balance c/d							
	91,410	94,430	47,215		91,410	94,430	47,215

Cash Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	24,750	By Durgas' Capital A/c	26,195
To Kalis' Capital A/c	12,470	By Balance c/d	11,025
	37,220		**37,220**

Balance Sheet as at 1st January, 2012

Liabilities	₹	Assets	₹
Capital Accounts		Land and Building	
Kali 74,430		(₹ 60,075 + ₹ 12,420)	72,495
Lakshmi 37,215	1,11,645	Furniture	13,950
		Sundry Debtors	36,225
Sundry Creditors	22,050	Cash and Bank	11,025
	1,33,695		**1,33,695**

Working:

1. **Capital of Kali and Lakshmi (i.e., total Capital of the new firm)**

Particulars	₹
Land and Building	72,495
Furniture	13,950
Sundry Debtors	36,225
Cash	11,025
	1,33,695
Less: Creditors	22,050
	1,11,645

∴ Kali = ₹ 1,11,645 x $\frac{2}{3}$ = ₹74,430

Lakshmi = ₹ 1,11,645 x $\frac{2}{3}$ = ₹37,215

(₹ 37,215 + ₹ 10,000 + ₹ 10,000 for Goodwill) ₹47,215

2. **The entire Capital of Lakshmi is to be to gifted by her mother from her own share; the entry will be:**

   Durgas' Capital A/c Dr. 37,215

   To Lakshmi's Capital A/c 37,215

3. **Durgas' total claim to the firm was ₹ 91,410 of which she took Motor Car for ₹ 18,000; gifted her daughter Lakshmi ₹ 37,215, and balance she was paid off for ₹ 26,195;**

4. For Goodwill
In order to raise goodwill to ₹ 30,000 the following entry to be:

Particulars		Dr. (₹)	Cr. (₹)
Goodwill A/c	Dr.	7,500	
To Durga's Capital A/c			3,750
To Kali's Capital A/c			3,750
For Written-off			
Kali's Capital A/c	Dr.	20,000	
Lakshmi Capital A/c	Dr.	10,000	
To Goodwill A/c			30,000

(b)

In the books of Autumn Ltd.
Journal

Date	Particulars		L.F	Debit	Credit
				₹	₹
?	Bank A/c (2,000 X ₹100)	Dr.		2,00,000	
	To, 6% Preference Share Capital A/c				2,00,000
	(2,000 , 6% Preference Shares of ₹100 each issued at par as per special resolution dated….)				
	Equity Share Capital A/c (20,000 X ₹10)	Dr.		2,00,000	
	To, Equity Shareholders A/c				2,00,000
	(20,000 equity shares are bought back at par as per special resolution dated….)				
	Equity Shareholders A/c	Dr.		2,00,000	
	To, Bank A/c				2,00,000
	(Amount paid to equity shareholders)				
	Buy-back Expenses A/c	Dr.		18,000	
	To, Bank A/c				18,000
	(Buy-back expenses paid)				
	Profit and Loss A/c	Dr.		18,000	
	To, Buy-back Expenses A/c				18,000
	(Buy-back expenses transferred to Profit and Loss A/c)				

22. (a) Bhagavati Ltd. has the following capital structure on 31st March 2012.

Particulars	₹ in crores
Equity share capital (Share of ₹10 each)	**300**
Reserve:	
General Reserve	**270**
Security Premium	**100**
Profit and Loss A/c	**50**
Export Reserve (Statutory reserve)	**80**
Loan Funds	**800**

The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 12th April ,2012 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following sale of one of its divisions.

The market price was hovering in the range of ₹25 and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.
Advice the company on maximum number shares that can be bought back and record journal entries for the same assuming the buyback has been completed in full within the next three months.
If borrowed funds were ₹1200 Lakhs , and ₹1500 Lakhs respectively would your answer change?

(b)
Bharti Ltd., has 3 departments, A,B,C . The following information is provided :

	A ₹	B ₹	C ₹
Opening Stock	9,000	12,000	18,000
Consumption of direct materials	24,000	36,000	—
Wages	15,000	30,000	—
Closing Stock	12,000	42,000	24,000
Sales	—	—	1,02,000

Stock of each department is valued at cost to the department connected. Stocks of A department are transferred to B at a margin of 50% above departmental cost. Stocks of B department are transferred to C department at a margin of 10% above departmental cost. Other expenses were : Salaries ₹ 6,000, Printing & Stationery ₹ 3,000, Rent ₹ 18,000, Interest paid ₹12,000, Depreciation ₹ 9,000, Allocate expenses in the ratio of departmental gross profit. Opening figures of reserve for unrealised profits on departmental stocks were : Department B ₹ 3,000 ; Department C ₹ 6,000.

Required : Prepare Departmental Trading and Profit & Loss Accounts for the year ended March 31, 2013.

22. Solution:

(a) Maximum Shares that can be bought back:

		Situation I	Situation II	Situation III
a.	Shares outstanding test (WN#1)	7.5	7.5	7.5
b.	Resource test (WN#2)	6	6	6
c.	Debt Equity Ratio test (WN#3)	10.67	4	-
d.	Maximum number of shares for Buy back –LEAST of the above	6	4	-

Particulars	Situation I		Situation II	
	Debit ₹	Credit ₹	Debit ₹	Credit ₹
a. Shares bought back A/c Dr.	180		120	
To, Bank A/c		180		120
(Being purchase of shares from public)				
b. Share Capital A/c Dr.	60		40	
Security Premium A/c Dr.	100		80	
General Reserve A/c (Balancing figure)	20		-	
To, Shares Bought back A/c		180		120
(Being cancellation of shares bought				

on buy back)				
c. General Reserve A/c Dr. To, Capital Redemption Reserve A/c (being transfer reserves to capital redemption reserve to the extent capital is redeemed)	60	60	40	40

Note : Under situation III, the company does not qualify the debt equity ratio test. Therefore the company cannot perform the buyback of shares (Under section 77A of the Companies Act, 1956)

Working Notes:

WN# A : Shares outstanding test

		Amount (₹ in crores)
a.	No. of shares outstanding	30 crores
b.	25% of shares outstanding	7.5 crores

WN# B : Resource test (₹ in crores)

		Amount (₹ in crores)
a.	Paid up capital	300
b.	Free Reserves	420
c.	Shareholders fund(a+b)	720
d.	25% of shareholders fund	180
e.	Buyback price per share	₹30
f.	Number of shares that can be bought back	6 crores

WN# C : Debt Equity ratio test: (₹ in crores)

		Situation I	**Situation II**	**Situation III**
a.	Borrowed Funds	800	1200	1500
b.	Minimum equity to be maintained after buy back in the ratio 2:1	400	600	750
c.	Present equity	720	720	720
d.	Maximum possible dilution in equity	320	120	-
e.	Maximum shares that can be bought back @ ₹30/- per share	10.67	4	-

(b)

Departmental Trading and Profit & Loss Account

Dr. for the year ended 31st March, 2013 Cr.

Particulars	**A**	**B**	**C**	**Total**	**Particulars**	**A**	**B**	**C**	**Total**

	₹	₹	₹	₹		₹	₹	₹	₹
To, Opening Stock	9,000	12,000	18,000	39,000	By, Internal transfer	54,000	99,000	-	1,53,000
To, Direct Material	24,000,	36,000	-	60,000	By, sales	-	-	1,02,000	1,02,000
To, Wages	15,000	30,000	-	45,000	By, Closing Stock	12,000	42,000	24,000	78,000
To, Internal Transfer	-	54,000	99,000	1,53,000					
To, Gross Profit c/d	18,000	9,000	9,000	36,000					
	66,000	1,41,000	1,26,000	3,33,000		66,000	1,41,000	1,26,000	3,33,000
To, Salaries	3,000	1,500	1,500	6,000	By, Gross Profit b/d	18,000	9,000	9,000	36,000
To, Printing & Stationery	1,500	750	750	3,000	By, Net Loss c/d	6,000	3,000	3,000	12,000
To, Rent	9,000	4,500	4,500	18,000					
To, Depreciation	4,500	2,250	2,250	9,000					
To, Interest paid	6,000	3,000	3,000	12,000					
	24,000	12,000	12,000	48,000		24,000	12,000	12,000	48,000
To, Net Loss b/d				12,000	By, Provision for unrealized profit on Opening Stock				9,000
To, Provision for Unrealised profit on Closing Stock				11,754	By, Balance transferred to Profit & Loss A/c				14,750
				23,754					**23,754**

Working Notes :

(i) FIFO method for stock issue has been assumed. Alternatively this question could have been solved by assuming other methods for stock issue like LIFO Basis, Weighted Average basis, etc.

(ii) Calculation of unrealised profit on Closing Stock of Deptt. B	₹
Current cost incurred by Dept. B (₹ 36,000 + ₹ 30,000 + ₹ 54,000)	1,20,000
Profit included in Above (₹ 54,000 × 50/150)	18,000
Profit included in Closing Stock of ₹ 42,000	
(₹ 18,000 × ₹ 42,000/₹ 1,20,000)	6,300
(iii) Calculation of unrealised profit on Closing Stock of Dept C	₹
Current Cost incurred by Dept. C	99,000
Profit of Dept. B included in above (₹99,000 × 10/110)	9,000
Cost element of Dept. B included in current cost (₹ 99,000 – 9,000)	90,000
Profit of Dept. A included in above cost (₹ 18,000 × ₹ 90,000/₹ 1,20,000)	13,500
Total Profit included in current cost of Dept. C (₹ 9,000 + ₹ 13,500)	22,500
Unrealised profit included in closing stock of ₹ 24,000 (₹ 22,500 × ₹ 24,000/₹ 99,000)	5,454
(iv) Total unrealised profit (₹ 6,300 + ₹ 5,454)	11,754

23. (a) Beautiful Ltd. , with its Head Office in Kolkata invoiced goods to its Branch at Mumbai at 20% less than the catalogue price which is cost plus 50%, with instructions that cash sales were

to be made at invoice price and credit sales at catalogue price less discount at 15% on prompt payment.

From the following particulars available from the branch, prepare the Branch Trading and Profit & loss Account for the year ended 31st March 2012 (showing adjustments) in the Head Office Books so as to show the actual profit or loss for the Branch for the year:

Particulars	Amount (₹)	Particulars	Amount (₹)
Stock on 1.4.2011 (invoice price)	12,000	Discount allowed to Debtors	13,365
Debtors on 1.4.2011	10,000	Expenses at the Branch	6,000
Goods received from Head Office (invoice Price)	1,32,000	Remittance to Head Office	1,20,000
Sales (Cash)	46,000	Debtors on 31.03.2012	11,000
Sales (Credit)	1,00,000	Cash in hand on 31.03.2012	5,635
Cash realized from Debtors	85,635	Stock on 31.03.2012 (invoice price)	15,000

It was further reported that a part of stock at the Branch was lost by fire (not covered by insurance) during the year whose value is to be ascertained and provision should be made for Discount to be allowed to Debtor as on 31.03.2012 on the basis of year's trend of prompt payment.

(b) What is Redeemable Dead Rent?

23. Solution.

(a)

In the books of H.O
Branch Trading and Profit & Loss Account
For the year ended 31st March 2012

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹	Amount ₹
To, Opening Stock ($₹12{,}000 \times \frac{100}{120}$)	10,000	By, Sales -Cash - Credit	 46,000 1,00,000	 1,46,000
To, Goods sent to Branch ($₹1{,}32{,}000 \times \frac{100}{120}$)	1,10,000	By, Closing Stock: ($₹15{,}000 \times \frac{100}{120}$) Add: Stock Destroyed ($₹3{,}000^{B} \times \frac{100}{120}$)	12,500 2,500	 15,000
To, Gross Profit c/d	41,000			
	1,61,000			1,61,000
To, Expenses	6,000	By, Gross Profit b/d		41,000
To, Discount Allowed	13,365			
To, Stock destroyed by fire	2,500			
To, Provision For Discount	1,337[C]			

To, General P/L A/c	17,798			
	41,000			**41,000**

Workings :

A.

Cost Price	**Catalogue Price**	**Invoice Price**
₹100	**(Cost Price + 50%)**	**(Catalogue Price less 20%)**
	(₹100 + ₹50) = ₹150	**(₹150 - ₹30) = ₹120**

B. Stock destroyed by fire

Particulars	**Amount (₹)**	**Amount (₹)**
Opening Stock (Invoice Price)		12,000
Add: Goods sent to Branch (invoice Price)		1,32,000
		1,44,000
Less: Cash Sales	46,000	
Invoice value of goods sold on credit (₹ $1{,}00{,}000 \times \frac{120}{150}$)	80,000	
Closing Stock already in hand	15,000	1,41,000
$\therefore$ Stock Destroyed by fire		3,000

C. Provision for Discount on Debtors

Prompt payments to be made by the Debtors ₹89,100(i.e. ₹ $13{,}365 \times \frac{100}{15}$)

out of ₹1,10,000

(i.e. ₹1,00,000 for credit sales+ ₹10,000 for opening Debtors)

For closing Debtors of ₹11,000, prompt payment to be made for ₹8,910

i.e.,₹ $\frac{11{,}000 \times 89{,}100}{1{,}10{,}000}$

$\therefore$ Provision to be made for Discount

₹1,337 i.e., ₹ $\frac{8{,}910 \times 15}{100}$

(b) Redeemable Dead Rent /Short Workings is the amount by which the minimum rent exceeds the actual royalty. It is the difference between actual Rent and Minimum rent.

Suppose royalty per ton of production is ₹10 and the minimum (annual) rent is ₹2,00,000. Now the actual production is 17,500 tons, then actual royalty would become ₹1,75,000. In this case the Redeemable Dead Rent/ Short Workings is ₹25,000 (₹2,00,000 - ₹1,75,000).

Where there is Redeemable Dead Rent /Short Workings in a period the lease is liable to pay the minimum rent and, in effect, Redeemable Dead Rent /Short Workings become the part of the minimum rent and not represented by the use of rights.

The question of Redeemable Dead Rent /Short Workings will arise only when there is a stipulation for minimum rent in the agreement.

24. (a) A Company purchased following machines on different dates as follows;-

- **On April 1,2009 for ₹ 90,000**
- **On October 1,2010 for ₹ 60,000**
- **On July 1,2011 for ₹ 30,000**

The depreciation is to be charged @ 10% p.a. on original cost. On February 1, 2012 it sold one third of first machine which was bought on April 1, 2009 for ₹ 9,000 and one-half of the second machine bought on October 1,2010, on 31st March 2012 for ₹28,000 because it had become obsolete.

Prepare Machinery account for 3 years.

(b) Sahapur Electricity Ltd. Earned a profit of ₹19,40,000 during the year ended 31st March 2012 after charging interest on debentures amounting to ₹45,000 @ 7 $\frac{1}{2}$ %.

You are required to show the disposal of profits assuming bank rate at 6% with the help of the following data:

Particulars	Amount(₹)
Fixed assets at cost	2,50,00,000
Preliminary Expenses	5,00,000
Monthly average of current assets including amounts due from customers ₹6,00,000	36,00,000
Reserve Fund (represented by 6% Govt. Securities)	40,00,000
Total Depreciation written-off	77,00,000
Contingency Reserve Investment	10,00,000
Loan from Electricity Board	50,00,000
Tariff and Dividend Control reserve	2,00,000
Security Deposit received from customers	5,00,000
Development Reserve	5,00,000

24. Solution:

(a)

Machinery Account

Dr. **Cr.**

Dateate	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009 Jan 1	To, Bank A/c (I)	90,000	2010 March 31	By, Depreciation A/c By, Balance c/d	9,000 81,000
		90,000			90,000
2010 April 1 Oct.1	To, Balance b/d To, Bank (II)	81,000 60,000	2011 March 31	By, Depreciation A/c I-9,000 II-3,000 By, Balance c/d I-72,000	12,000

				II-57,000	1,29,000
		1,41,000			1,41,000
2011			2012		
April 1	To, Balance b/d		Feb 1	By, Deprecation	2,500
	I-72,000			By, Bank A/c (Sales)	9,000
	II-57,000	1,29,000		By, P&L A/c(Loss)	12,500
July 1	To, Bank A/c	30,000	March		
March 31	To, P&L A/c	2,500	31	By, Depreciation	3,000
				(On half of Machine-II)	
				By, Bank (Sale)	28,000
				By, Depreciation	
			March 31	I- (⅔ of Machine –I)	6,000
				II- (½ of Machine –II)	3,000
				Machine-III	2,250
				By, Balance c/d	
				I-42,000	
				II-25,500	
				III-27,750	95,250
		1,61,500			**1,61,500**

Working Notes:

Statement Showing Computation of Depreciation:

Date	Particulars	Machine I ₹ 90,000		Machine II ₹60,000		Machine III ₹30,000	Total ₹
		2/3rd (Retained)	1/3rd (sold)	½ (retained)	½ (sold)	(retained)	
1.4.2009	Purchase of Machine-I	60,000	30,000				90,000
31.3.2010	Less: Depreciation for 2009-10	6,000	3,000				9,000
1.4.2010	WDV of Machine	54,000	27,000				81,000
1.10.2010	Purchase of Machine-II			30,000	30,000		60,000
							1,41,000
31.3.2011	Less: Depreciation for 2010-11 (in case of Machine-II depreciation will be calculated for 6 months i.e. from 1.10.2010 to 31.3.2011)	6,000	3,000	1,500	1,500		12,000
1.4.2011	WDV of Machines	48,000	24,000	28,500	28,500		1,29,000
1.7.2011	Purchase of Machine-III					30,000	30,000
							1,59,000
1.2.2012	Less: Depreciation on 1/3 of Machine-I till date (1/3 of Machine-I is sold for ₹9,000 on 1.2.2012)		2,500				
1.2.2012	WDV of 1/3 of Machine-I on 1.2.2012		21,500				
1.2.2012	Less: Sale proceed received for 1/3 of Machine-I		9,000				
1.2.2012	Loss on sale of 1/3 of Machine-I (to be transferred to P& L A/c)		12,500				
	WDV after sale of machine	48,000	NIL	28,500	28,500	30,000	1,35,000
31.3.2012	Less: Depreciation for 2011-12(depreciation on Machine –III will be for 9 months from1.7. 2011 to 31.3.2012)	6,000	NIL	3,000	3,000	2,250	14,250
31.3.2012	WDV after depreciation	42,000	NIL	25,500	25,500	27,750	1,20,750

31.3.2012	**Less: Sale proceed received for 1/2 of Machine-II(Sale proceed is ₹28,000)**				28,000		
31.3.2012	**Gain on sale of ½ of Machine II (to be transferred to P& L A/c)**				2,500		
31.3.2012	**WDV of Machines(after sale of ½ of Machine–II)**	42,000	NIL	25,500	NIL	27,750	95,250

(b) Computation of Capital Base

Particulars	Amount (₹)	Amount(₹)
Fixed Assets at Cost	2,50,00,000	
Preliminary Expenses	5,00,000	
Monthly Average of Current Assets	36,00,000	
Contingency Reserve Investment	10,00,000	3,01,00,000
Less:		
Total Depreciation written-off	77,00,000	
Loan from Electricity Board	50,00,000	
Debentures $\frac{45,000\times100}{7\frac{1}{2}}$	6,00,000	
Security Deposit of Customers	5,00,000	
Tariff and Dividend Control Reserve	2,00,000	
Development Reserve	5,00,000	1,45,00,000
Capital Base		1,56,00,000

Computation of Reasonable Return

Particulars	Amount(₹)
@ 8% (i.e. 6% bank Rate + 2%) on ₹1,56,00,000	12,48,000
Income from Reserve Fund Investment@6% on ₹ 40,00,000	2,40,000
½% on Loan from Electricity Board on ₹50,00,000	25,000
½% on Development Reserve on ₹5,00,000	2,500
	15,15,500

Computation of Disposal of Surplus

Particulars	Amount(₹)
Net Profit after charging Debenture Interest	19,40,000
Less: reasonable Return	15,15,000
	4,24,500
Less: 20% Reasonable Returns Refundable to customers	3,03,100
	1,21,400

Disposal

A. Least of the following;

(i) $\frac{1}{3}$ of surplus or 5% of Reasonable Return whichever is less

i.e. $\frac{1}{3}$ of ₹3,03,100 = ₹1,01,033 } ₹75,775

(ii) or, ₹15,15,500 $\times \frac{5}{100}$ = ₹75,775

Least of the above is ₹75,775

And, of the balance , i.e ₹2,27,325(3,03,100-75,775)

A. 50% or $\frac{1}{2}$ = to be transferred to Tariff and development

Control Reserve i.e.₹ 2,27,,325 $\times \frac{50}{100}$) ₹1,13,662

C. and , 50% or $\frac{1}{2}$ = to be distributed among consumers

by way of reduction of rate i.e. Consumers' Benefit Reserve = ₹1,13,663

₹3,03,100

25. (a) On 1.7.2012, Saraswati Printers purchased a printing machine from Magma Ltd. on a Hire-Purchase basis, payments to be made ₹10,000 on said date and the balance three half-yearly instalments of ₹8,200, ₹7,440 and ₹6,300, commencing from December 31,2012.The vendor charged interest at 10% p.a. calculated on half-yearly rates. Saraswati Printers closes their books annually on December 31, and provide depreciation at 105 p.a. on Diminishing Balance in each year . determine the Cash Price of the Machine.

(b) From the following information , as furnished by Badal Ltd. , calculate its Net cash flow from the Financing Activities for the year that ended on 31st March, 2012:

Particulars	31st March 2011 Amount (₹)	31st March 2012 Amount(₹)
Equity Share Capital	**6,00,000**	**10,00,000**
Preference Share Capital	**4,00,000**	**2,00,000**
Debentures	**4,00,000**	**5,00,000**

During the year 2011-12 debentures of ₹2,00,000 were redeemed for cash and debenture interest paid was ₹60,000. Preference Dividend paid was ₹40,000 and equity dividend paid was ₹80,000.

25. Solution:

(a) Ascertainment of Cash Price

[(P+i)=Instalment

Since rate of interest is @10% p.a. for half-yearly rates, it will be 5%

(100+5)= ₹105

$\therefore \frac{5}{105} = \frac{1}{21}$]

Particulars	Amount(₹)
Last Instalment	6,300
Less: Interest @ $1/21$	300
Principal	6,000
Add: Instalment	7,440
	13,440

Less: Interest @ $\frac{1}{21}$	640
	12,800
Add: Instalment	8,200
	21,000
Less: Interest @ $\frac{1}{21}$	1,000
Principal	20,000
Add: Down payment	10,000
Cash Price	**30,000**

(b) Calculation of Net Cash flow from the financing activities of Badal Ltd. for the year that ended on 31st March 2012

Particulars	Amount (₹)	Amount(₹)
Inflows of Cash:		
Proceeds Received from issue of Equity Shares	4,00,000	
Proceeds received from issue of Debenture	3,00,000	7,00,000
Less: Outflows of Cash:		
Redemption of Preference Shares	2,00,000	
Redemption of Debentures	2,00,000	
Payment of Debentures' interest	60,000	
Payment of Preference Dividend	40,000	
Payment of Equity Dividend	80,000	5,80,000
		1,20,000

Working Notes:

A.

Debenture Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount(₹)
To, Bank- redeemed	2,00,000	By, Balance b/f	4,00,000
To, Balance c/f	5,00,000	By, Bank – New Issue (Bal. fig)	3,00,000
	7,00,000		7,00,000

B. Analysis of other Non-Current Liabilities

Liabilities	Opening Balance ₹	Closing Balance ₹	Increase/ Decrease ₹	Analysis
Equity Share Capital	6,00,000	10,00,000	(+)4,00,000	New issue of Equity Shares
Preference Share Capital	4,00,000	2,00,000	(-) 2,00,000	Redemption of Preference Shares

26. (a) On December 31,2012 , my Cash Book showed a Bank Overdraft of ₹49,350 . On going through the bank Pass Book for reconciling the balance , I find the following:
Out of the cheques drawn on December 2012, those for ₹3,700 were cashed by the bankers on January 2,2012,and a crossed cheque for ₹750 was given to judy, was returned by her and a bearer one was issued to her in lieu on January 1,2012.

Cash and cheques amounting to ₹3,400 were deposited in bank on December 29,2012 but cheques worth ₹1,300 were cleared by the bank on January 1,2013, and one cheque for ₹250 was returned by them as dishonoured on the latter date.
According to my standing order , the bankers have, on December ,31,2013, paid ₹320 as interest to my creditors, paid quarterly premium on my policy amount to ₹160 and have paid a second call for ₹600 on shares held by me and lodged with the bankers for safe custody. They have also received ₹150 as dividend on my shares and recovered an insurance claim on ₹800 , their charges and commission on the above being ₹15 . On receipt on information of the above transaction , I have passed necessary entry on my cash book on January 1, 2013.
My bankers seem to have given me a wrong credit for ₹500 paid in by me in No. 2 Account, and a wrong debt in respect of a cheque for ₹300 drawn against my No. 2 Account.
Prepare a Reconciliation Statement as on December 2012.

(b) At the commencement of the year 2012, Jhik-Mik Ltd. estimated expected long-term return on plan assets as follows:

Interest and Dividend Income (after tax) receivable by the fund	**9% per annum**
Realised and Unrealised gain on Plan Assets (after tax)	**2% per annum**
Administrative costs	**1% per annum**
Expected rate of return (after tax)	**10% per annum**

The fair value of the plan assets as at 01.01.2012 was ₹15,000. During the year ₹4,000 is contributed to the fund and ₹2,000 is paid out of the fund towards employee benefits. The fair value of assets as at 31.12.2012 is ₹18,500. Calculate the actual return, expected and actuarial gain (loss).

26. Solution:

(a)

Bank Reconciliation Statement
As at 31st December 2012

Particulars	Amount(₹)	Amount(₹)
Overdraft as per Cash Book		49,350
Add:		
Cheques deposited into Bank but not credited (1,300+250)	1,550	
Bank paid Interest , Insurance Premium and Call money , not entered in Cash Book (320+160+600)	1,080	
Wrong debt made by Bank	300	2,930
Less:		52,280
Cheques drawn but not cashed (3,700+750)	4,450	
Bank received Dividend and recovered Insurance Claim , not entered in the Cash Book (150+800-15)	935	
Wrong credit made by Bank	500	5,885
Overdraft as per Pass Book		46,395

(b) Actual and expected return and Actuarial Gain or Loss

Particulars	Amount(₹)	Amount(₹)
Fair Value as on 01.01.2012		15,000

Contribution during the period	4,000	
Payment towards employee benefits	(2,000)	2,000
Total (a)		17,000
Fair value as on 31.12.2012 (b)		18,500
Actual Return on Plan Assets (c)=(b-a)		1,500
Expected Return on Plan assets (d)	0.10×15,000=1,500	
	0.10/2×2,000=100	**1,600**
Acturial Loss (d-c)		**100**

27. (a) Write a short note on: Double Column method of recording transactions in relation to Dependent Branch.

(b) Pass closing entries for the following particulars as on 31st March 2013 presented by Ding-Dong Ltd.

Particulars	Amount (₹)
Opening stock	20,000
Purchases	1,00,000
Wages	10,000
Returns outward	10,000
Sales	2,00,000
Returns inward	20,000
Salaries	16,000
Insurance	2,000
Bad debts	6,000
Interest received	6,000
Discount allowed	8,000
Discount received	6,000
Closing stock	30,000

27. Solution:

(a) <u>Double Column method of recording transactions in relation to Dependent Branch</u>:

The Branch Account under this method will contain two columns to record the transactions Which are- (i) Cost Column and
(ii) Invoice Price Column

(i) Cost Column and – Entries recorded hereunder will part of Double Entry System and show the value of goods sent out to Bran at Cost.

(ii) Invoice Price Column – This column will contain entries recorded at selling price. They do not form part of the entity's double entry system and do not disclose the Profit/Loss of the Branch. They would balance by including the value of closing stock provided trere has been no physical loss of stock.

Branch Account

Particulars	Invoice Price	Cost	Particulars	Invoice Price	Cost
To, Balance b/d- Opening Stock	×××	×××	By, Cash Sales	×××	×××
To, Goods Sent to Branch	×××	×××	By, Credit Sales	×××	×××
To, Stock Adjustment A/c	×××	×××	By, Balance c/d	×××	×××
To, Gross Profit	×××	×××	- Closing Stock	×××	×××

-Transferred to P & L A/c					
Total	×××	×××	**Total**	×××	×××

(b)

In the Books of Ding-Dong Ltd.
Journal Entries

Date	Particulars	LF	Dr. Amount (₹)	Cr. Amount (₹)
2013 March 31st	Trading A/c Dr. To, Opening Stock A/c To, Purchases A/c To, Wages A/c To, Returns inward A/c (Transfer to balances for closing the latter accounts)		1,50,000	 20,000 1,00,000 10,000 20,000
	Sales A/c Dr. Returns outward A/c Dr. Closing Stock A/c Dr. To, Trading A/c (Transfer of balances for closing the former accounts)		2,00,000 10,000 30,000	 2,40,000
	Trading A/c Dr. To, Profit and Loss A/c (Gross profit transferred)		90,000	 90,000
	Profit and Loss A/c Dr. To, Salaries A/c To, Insurance A/c To, Bad Debts A/c To, Discount allowed A/c (Transfer of balances for closing the latter accounts)		32,000	 16,000 2,000 6,000 8,000
	Interest received A/c Dr. Discount received A/c Dr. To, Profit and Loss A/c (Transfer of balances for closing the former accounts)		6,000 6,000	 12,000
	Profit and Loss A/c Dr. To, Capital A/c (Net profit transferred to Capital A/c)		70,000	 70,000

28. (a) Pass Journal entries :

(i) Purchased a plant for ₹1,50,000, paid by a cheque , and installation expenses being ₹3,000 and cost of carriage ₹1,500 , paid by cash.

(ii) Purchased Furniture from Mishra and Co. for ₹36,000, carriage paid ₹1,500.

(iii) Bought goods from Manish for cash ₹24,000, carriage paid ₹300.

(b) Plant and Machinery of a company was ₹6,000 lakhs as on 01.04.2012. It provided depreciation at 15% per annum under Written Down Value Method. However it noticed

that about ₹1,000 lakhs worth of imported assets, which is component of above plant and machinery acquired on 01.04.2012, would be obsolete in 2 years. Company wants to write off asset over 2 years. Can Company do so? Give comments.

28. Solution:

(a)

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit(₹)
?	(i) Plant A/c Dr. To, Bank A/c To, Cash A/c (Bought a Plant by cheque and paid installation expenses and carriage paid in Cash)		1,51,500	 1,50,000 500
	(ii) Furniture A/c Dr. To, Mishra and Co. A/c To, Cash A/c (Bought furniture on credit and paid carriage in Cash)		37,500	 36,000 1,500
	(iii) Purchase A/c Dr. To, Cash A/c (Goods purchased for Cash)		24,000	 24,000
	Carriage Inwards A/c Dr. To, Cash A/c (Carriage paid)		300	 300

(b) As per AS 6 where an addition or extension retains a separate identity and is capable of being used after the existing asset is disposed of, depreciation should be provided independently on the basis of an estimate of its own useful life.

As it appears that imported asset of ₹1,000 lakhs. Which is component of plant and machinery, is having independent useful life? Therefore, the company's policy to write off over two years is correct.

29. (a) Mr.Vinay who was closing his books on 31.03.2012 failed to take the actual Stock which he did only on 09.04.2012, when it was ascertained by him to be worth ₹40,500

It was found that sales are entered in the sales book on the same day of dispatch and return inwards in the returns book as and when the goods are received back. Purchases are entered in the purchases day book once the invoices are received.

It was found that sales between 31.03.2013 and 09.04.2012 as per Sales day book are ₹4,080. Purchases between 31.03.2012 and 09.04.2012 as per purchases day book are ₹255, out of these goods amounting to ₹120 were not received until after the stock was taken. Goods invoiced during the month of March,2012 but goods received only on 04th April,2011 amounted to ₹300 rate of gross profit is 25 % on cost.

Ascertain the Value of Physical stock as on 31.03.2012.

(b)

Prof. R wrote a book on Economics and gave the right of its publication to M/s Sarswati Book Agency at a royalty of 10% on the printed price of the copies sold up to 31st March each year. The printed price of the book is ₹150. The amount of royalty is paid on 31st October following but the books are closed on 31st March.

The publisher submitted the following information:

Year	Copies	Damaged	Specimen given	Closing Stock
31.3.2009	**2,000**	**50**	**150**	**400**
31.3.2010	**2,500**	**100**	**200**	**600**
31.3.2011	**3,500**	**200**	**400**	**800**
31.3.2012	**5,000**	**300**	**600**	**1,000**

Show the necessary ledger accounts in the books of M/s Sarswati Book Agency .

29. Solution:

(a)

Value of Physical Stock as on 31.03.2012

		Amount(₹)
Stock on 09.04.2012		40,500
Add: Cost goods sold during 1-9 April	₹	
Sales	4,080	
Less: Profit (20% of sales)	816	3,264
		43,764
Less: Goods purchased and received during 1-9 April	(255-120)	135
Value of Stock on 31.03.2012		43,629
Less: Goods purchased before 31.03.2012		
But delivered on 04.04.2012		300
Value of physical stock on 31.03.2012		43,329

It must be noted that physical stock on 31.03.2012 is ₹43,329. But value of stock on 31.03.2012 is ₹43,629 because ₹ 300 goods delivered on 04.04.2012 are purchases of the year ending on 31st March,2012 as purchases are entered in the purchases day book once the invoices are received.

(b)

In the books of M/s Sarswati Book Agency

Dr. **Royalty Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2009		₹	2009		₹
March.31	To, Prof R A/c	21,000	March.31	By, Profit & Loss A/c	21,000
2010			2010		
March.31	To, Prof R A/c	30,000	March.31	By, Profit & Loss A/c	30,000
2011			2011		
March.31	To, Prof R A/c	40,500	March.31	By, Profit & Loss A/c	40,500
2012			2012		
March.31	To, Prof R A/c	58,500	March.31	By, Profit & Loss A/c	58,500

Dr. **Prof. R Account** **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
		₹			₹
2009 March.31	To, Balance c/d	21,000	2009 March.31	By, Royalty A/c	21,000
		21,000			21,000
2009 Oct.31	To, Bank A/c	21,000	2009 April.1	By, Balance b/d	21,000
2010 March.31	To, Balance c/d	30,000	2010 March.31	" Royalty A/c	30,000
		51,000			51,000
2010 Oct.31	To, Bank A/c	30,000	2010 April.31	By, Balance b/d	30,000
2011 March.31	To, Balance c/d	40,500	2011 March.31	" Royalty A/c	40,500
		70,500			70,500
2011 Oct.31	To, Bank A/c	40,500	2011 April.31	By, Balance b/d	40,500
2012 March.31	To, Balance c/d	58,500	2012 March.31	" Royalty A/c	58,500
		99,000			99,000
			2012 April.31	By, Balance b/d	58,500

No. of copies sold = Copies Printed – Damaged – Specimen given – Closing Stock + Opening Stock

Workings:

Year	Copies Printed	Damaged	Specimen given	Closing Stock	Opening Stock	Copies sold	Rate per copy	Total Amount	Royalty @ 10%
2009	2,000	50	150	400	----	1,400	150	2,10,000	21,000
2010	2,500	100	200	600	400	2,000	150	3,00,000	30,000
2011	3,500	200	400	800	600	2,700	150	4,05,000	40,500
2012	5,000	300	600	1,000	800	3,900	150	5,85,000	58,500

30. (a) M retired from a company and started a business in Chennai. On retirement he got ₹ 1,00,000 from his employer which he invested in his business on 1.4.2012. He got from Life Insurance Corporation ₹ 20,000 on the maturity of his policy which he also invested in his business. He draws ₹ 1,000 for his personal expenses every month from 30th April 2012.

The following figures are extracted from his books on 31st December 2012:

	₹		₹
Purchases	3,10,000	Bad Debts	2,000
Cartage	5,000	Sundry Debtors	45,000
Salaries and Wages	24,000	Bills Receivable	30,000
Electricity Charges	4,500	Cash in hand	8,997
Travelling	8,900	Sales	3,00,000
Telephone	4,300	Income from Personal Investments	20,000
Advertisement	10,000	Creditors	85,000
Repairs and Renewais	3,303	Bank Overdraft	80,000
Plant and Machinery	1,50,000	Building (Cr.)	10,000

You are requested to prepare a Trading and Profit & Loss Account of the business for the period ended 31st December 2012, and also the Balance Sheet as on that date after taking into consideration the following further information :

i. Purchases include ₹ 10,000 representing the value of furniture purchased.

ii. ₹ 4,000 representing erection wages on plant and machinery are debited to salaries and wages.

iii. Electricity charges include ₹2,500 paid as deposits to Electric Supply Company. There are bills outstanding to the extent of ₹ 500.

iv. Advertisement includes ₹ 4,000 representing the cost of a neon sign.

v. A dishonoured bill of ₹ 5,000 stands debited to the debtor. 50% thereof considered doubtful and has to be provided for accordingly.

vi. A debtor for ₹ 1,000 was declared insolvent on 30th December 2011, and it is expected that nothing would be recovered from his estate.

vii. Provide 5% discount on net realisable debtors.

viii. M received ₹ 25,000 in respect of a business with R. The sum received stood credited to Sundry Creditors. It is noted that a sum of ₹ 5,000 was due to M as his share of profit from that business.

ix. During the period there was a fire damaging stock costing ₹ 50,000. The damaged goods were sold for ₹ 20,000. This sum of ₹ 20,000 is included in sales. The insurance company paid ₹ 25,000 towards the loss of stock. The godown containing the stock was also damaged to the extent of ₹15,000, which has also been paid by the insurance company. The total amount received from the insurance company was credited to Building Account.

x. The bank overdraft was given on the hypothecation of stock-in-trade. You are informed that the bank had a margin of 33⅓% and the overdraft balance on 31st December 2011 was the maximum which could have been drawn on the basis of this margin.

xi. The manager of the business is entitled to a commission of 5% on the gross profit.

xii. Provide 10% depreciation on plant and machinery and on furniture and fittings and 5% on building. Depreciation to be provided on closing balance.

(b) Mithil Mukherjee sells two products manufactured in her own factory . The goods are made in two departments, X and Y , for which separate sets of accounts are maintained. Some of the

manufactured goods of department X are used as raw materials by department Y, and vice versa.
From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y :

Particulars	Department X	Department Y
Total units manufactured	10,00,000	5,00,000
Total cost of manufactured	10,000	5,000

Department X transferred 2,50,000 units to Department Y and the latter transferred 1,00,000 units to the former.

30. Solution:
(a)

In the books of Sri M
Dr. Trading and Profit & Loss Account for the year ended 31st December 2012 Cr.

Particulars	Amount	Amount	Particulars	Amount	Amount
	₹	₹		₹	₹
To Purchases	3,10,000		By Sales	3,00,000	
Less : Purchase of Furniture	10,000	3,00,000	Less : Sales of damaged goods[A]	20,000	2,80,000
			" Closing Stock[B]		1,20,000
" Cartage		5,000	" Goods damaged by Fire[A]		50,000
" Profit and Loss A/c -Gross Profit Transferred		1,45,000			
		4.50.000			4.50.000

To Goods damaged by Fire[1]		5,000	By Trading A/c (Gross Profit)		1,45,000
" Salaries & Wages	24,000		" Share of profit from business with B		5,000
Less: Wages for erection of machinery	4,000	20,000			
" Electric Charges	4,500				
Less : Deposit with E. S. Co.	2,500				
	2,000				
Add : Outstanding	500	2,500			
" Travelling		8,900			
" Telephones		4,300			
" Advertisement	10,000				
Less: Cost of Neon Sign	4,000	6,000			
" Repairs and Renewals		3,303			
" Bad Debts	2,000				
Add: Further Bad Debts written-off	1,000	3,000			
" Provision for Bad Debts[3]		2,500[C]			
" Provision for Discount on Debtors[4]		2,075[D]			
" Depreciation :					
On Plant & Machinery @ 10% on ₹ 1,54,000	11,550				
" On Furniture & Fixture @ 10% on ₹ 14,000	1,050				
"On Building @ 5% on ₹ 15,000[5]	563	13,163			
" Manager's Commission Capital A/c		7,250			
" Net Profit transferred		72,009			
		1,50,000			1,50,000

Balance Sheet

as on 31st December 2012

Liabilities	₹	₹	Assets	₹	₹
Current Liabilities			Current Assets		
Sundry Creditors		80,000[F]	Cash in hand		8,997
Outstanding Expenses :			Bills Receivable		30,000
Electricity Charges	500		Sundry Debtors	45,000	
Commission to Manager	7,250	7,750	Less : Bad Debts Written-off	1,000	
Secured Loan				44,000	
Bank Overdraft		80,000	Less : Provision for		
(Secured by hypothecation of Stock-in-trade)			Bad Debts	2,500	
				41,500	
Capital Account	1,20,000		Less : Prov. for Discount	2,075	39,425
Introduced on 1.3.2012			Deposit with Electric Supply Co.		2,500
Add : Income from			Stock-in-trade		1,20,000
Personal investment	20,000		Fixed Assets		
Balance on 1.3.2012	1,40,000		Furniture & Fixture	10,000	
Add : Net Profit	72,009		Add : Cost of Neon Sign	4,000	

	2,12,009			14,000	
Less : Drawings	9,000	2,30,009	Less : Depreciation	1,050	12,950
			Plant & Machinery	1,50,000	
			Add : Cost of Erection	4,000	
				1,54,000	
			Less : Depreciation	11,550	1,42,450
			Buildings	15,000[E]	
			Less : Depreciation	563	14,437
		3,70,759			3,70,759

Workings :

A. It is better to open a Goods Destroyed by Fire A/ c in the following manner :

Dr. **Goods Destroyed by Fire Account** **Cr.**

	Particulars	₹		Particulars	₹
To	Trading A/c	50,000	By	Bank (Sales)	20,000
			"	Bank (Ins. Co.)	25,000
			"	P & L A/ c *(bal. fig.)*	5,000
		50,000			50,000

Thus, ₹ 20,0000 which was received from sale of damaged good should be deducted from Sales.

B. Since overdraft is available from the bank up to $\frac{2}{3}$ of closing stock, value of closing stock to be determined on the basis of overdraft i.e., ₹ 80,000 x $\frac{3}{2}$ = ₹ 1,20,000.

C. Provision should be made for bad debts@ 50% on dishonoured bills.

D. Provision should be made on debtors as usual.

E. Wrong credit made to Building A/c for ₹ 40,000 (i.e., ₹ 25,000 for goods destroyed and ₹ 15,000 for go down destroyed). From that amount, if ₹ 10,000 (i.e., Building A/c credit) is deducted, ₹ 30,000 opening balance will come out and thus ₹ 15,000 for goods destroyed, if deducted ₹ 15,000 will also come out.

F. ₹ 25,000 has been received from R which has already been credited. But M's (owne's) claim to it amounts to ₹ 5,000 (no longer his credit) which should be deducted from creditors.

(b)

Suppose a is the total cost of Department X, and
b is the total cost of Department Y

$$a = ₹10,000 + \frac{1}{5}a$$

$$b = ₹5,000 + \frac{1}{4}b$$

or, $a = ₹10{,}000 + \frac{1}{5}(5{,}000 + \frac{1}{4}a)$

$= ₹10{,}000 + 1{,}000 + \frac{1}{20}a$

$= ₹11{,}000 + \frac{1}{20}a$

Or, 20 a = ₹2,20,000+a

Or, 19a = ₹2,20,000

$= \frac{2{,}20{,}000}{19}$

= ₹11,579

Now, b $= ₹5{,}000 + \frac{1}{4}a$

$= ₹5{,}000 + \frac{1}{4} \times 11{,}579$

=₹5,000 + ₹2,895

=₹7,895

Total Cost goods manufactured

Particulars	Amount (₹)	Amount(₹)
Cost (already given)	10,000	5,000
Add: Cost of goods transferred	1,579	2,895
	11,579	7,895
Less: Transfer to department	2,895	1,579
Net Cost of Goods manufactured	8,684	6,316