Paper-5 : FINANCIAL ACCOUNTING

Q1.(a) XYZ Ltd. purchased a machine costing ₹2,00,000 for its manufacturing operations and paid shipping costs of ₹30,000. XYZ Ltd. spent an additional ₹12,000 testing and preparing the machine for use. What amount should MGS record as the cost of machine?

Answer:

As per As 10, the cost of fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Cost includes the purchase price, freight and handling charges, insurance cost on the machine while in transit, cost of special foundations, and costs of assembling, installation and testing.
Therefore the cost to be recorded is ₹(2,00,000+30,000+12,000) i.e. ₹2,42,000.

(b) In preparing the bank reconciliation statement for the month of June 2013, PQ Company has the following data:

	₹
Balance as per bank statement	**15,375**
Cheques in transit	**1,450**
Cheques issued but not presented	**1,925**
Bank service charges	**100**

Compute the Bank Balance as per Cash Book .

Answer:

Bank Balance as per Cash Book
=₹15,375 + ₹1,450 - ₹1,925 + ₹100
=₹15,000.

(c) 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	22	16
B	18	18
C	11	14

What will be the value of closing stock?

Answer:

Computation of value of closing stock

Lower of Historical Cost and Net Realisable Value will be considered	₹
A	16
B	18
C	11
Value of Closing Stock	**45**

(d) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹ 54,000, then determine the amount of stock reserve on closing stock.

Answer:

Stock Reserve on Closing Stock = ₹54,000$\times \frac{33.33\%}{133.33\%}$ =₹13,500.

(e) M Ltd. purchased a machine of ₹ 80 lakhs including excise duty of ₹ 16 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?

Answer:

Treatment of Excise Duty:

Particulars		Debit Amount (₹)	Credit Amount (₹)
Year of Acquisition			
Machine A/c	Dr.	64	
CENVAT Credit Receivable A/c	Dr.	8	
CENVAT Credit Deferred A/c	Dr.	8	
To, Supplier's A/c			80
Next Year			
CENVAT Credit Receivable A/c	Dr.	8	
To, CENVAT Credit Deferred A/c			8

(f) An company borrowed ₹28,00,000 for purchase of machinery on 1.6.2013. Interest on loan is 12% per annum. The machinery was put to use from 1.1.2014. What is the amount to be charged for the year ended 31.3.2014 to record the borrowing cost of loan as per AS 16.

Answer:

Particulars	₹
Interest upto 31.3.2013 (28,00,000 x 12% x 10/12 months)	2,80,000
(b) Less: interest relating to pre-operative period to be capitalized [2,80,000 x 7/10]	1,96,000
Amount to be charged to P & L A/c [2,80,000 x 3/10]	84,000

(g) On 12th January, 2013, a fire occurred in the premises of Mr. Sukla, has a textile factory. Most of the stocks were destroyed, cost of stock salvaged being ₹ 30,000. Estimated value of the stock at the date of fire is ₹ 2,40,000. Mr. Sukla has insured his stock for ₹ 1,80,000. Compute the amount of the claim .

Answer:

Statement of claim Particulars	₹
Estimated Value of Stock as at date of fire	2,40,000
Less: Value of Salvaged Stock & damaged Stock	30,000
Estimated Value of Stock lost by fire	2,10,000
Average clause is not applied here. Because Estimated value of stock is higher than Insured stock amount.	

(h) Comptronics sells computers on Hire Purchase basis at cost plus 25%. Terms of sale are ₹ 20,000 down payment and eight monthly instalments of ₹ 10,000 for each computer. Three computers were repossessed for non-payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers.

Answer:

Total HP price per computer

= Down payment + Instalments = 20,000 + (8 × 10,000) = ₹ 60,000

HP Price = 125% of cost

$\therefore$ cost per computer = $\frac{1,00,000}{125\%}$ = ₹ 80,000

Value of repossessed computers = 50% of cost i.e.(50% of ₹80,000) = ₹40,000 each.

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

Particulars	**Amount(₹)**
Shortworkings lapsed	**16,000**
Shortworkings recovered	**24,000**
Actual royalty based on output	**60,000**

Answer:

Minimum rent = Actual royalty – Shortworkings recovered

= ₹60,000 - ₹24,000 = ₹36,000

(j) Classify the following between Capital and Revenue giving reasons:

An old machinery of book value of ₹ 40,000 worn out, dismantled at a cost ₹ 10,000 and scraps realized for ₹ 1,000.

Answer:

The book value of the dismantled machinery ₹ 40,000 is a revenue loss as it arose due to under provision of depreciation in the past. Cost of dismantling ₹ 10,000 is a revenue expense as it does not create any extra benefit. However these are not regular loss/expense and it may also be treated as deferred revenue loss. The sale of scrap ₹ 1,000 is a capital receipt as it represents sale proceeds of Fixed Asset.

Section - A

Q2. (a) State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

(i) Expenses incurred in connection with obtaining a licence for starting the factory were ₹ 10,000.

(ii) ₹ 1,000 paid for removal of stock to a new site.

(iii) Rings and Pistons of an engine were changed at a cost of ₹5,000 to get full efficiency.

(iv) ₹ 2,000 spent as lawyer's fee to defend a suit claiming that the firm's factory site belonged to the Plaintiff. The suit was not successful.

(v) ₹ 10,000 were spent on advertising the introduction of a new product in the market, the benefit of which will be effective during four years.

(vi) A factory shed was constructed at a cost of ₹ 1,00,000. A sum of ₹ 5,000 had been incurred for the construction of the temporary huts for storing building materials.

(b) Mr. Mrinal could not agree the Trial Balance. He transferred to the Suspense Account of ₹296,being excess of the debit side total. The following errors were subsequently discovered:

(i) Sales Day Book was overcast by ₹400.

(ii) An amount of ₹55, received from Mr. Y, was posted to his account as ₹550.

(iii) Purchases return book total on a folio was carried forward as ₹331, instead of ₹222.

(iv) A car sale of ₹2,235, duly entered in the Cash Book but posted to Sales A/c, as ₹1,235

(v) Rest of the difference was due to wrong total in Salaries A/c.

Show the entries to rectify the above errors and prepare Suspense Account.

Answer 2. (a)

(i) ₹ 10,000 incurred in connection with obtaining a license for starting the factory is a Capital Expenditure. It is incurred for acquiring a right to carry on business for a long period.

(ii) ₹ 1,000 incurred for removal of stock to a new site is treated as a Revenue Expenditure because it is not enhancing the value of the asset and it is also required for starting the business on the new site.

(iii) ₹ 5,000 incurred for changing Rings and Pistons of an engine is a Revenue Expenditure because, the change of rings and piston will restore the efficiency of the engine only and it will not add anything to the capacity of the engine.

(iv) ₹ 2,000 incurred for defending the title to the firm's assets is a Revenue Expenditure.

(v) ₹ 10,000 incurred on advertising is to be treated as a Deferred Revenue Expenditure because the benefit of advertisement is available for 4 years, ₹ 2,500 is to be written off every year.

(vi) Cost of construction of Factory shed of ₹ 1,00,000 is a Capital Expenditure, similarly cost of construction of small huts for storing building materials is also a Capital Expenditure.

Answer 2. (b)

In the books of Mr. Mrinal
Journal

Date	Particulars	L.F	Debit	Credit
?			₹	₹
	Sales A/c Dr. To Suspense A/c (Sales Book was overcast, now rectified)		400	 400
	YA/c Dr. To Suspense A/c (Amount received from Y ₹55 wrongly recorded as ₹550. Now rectified)		495	 495
	Returns outward A/c Dr. To Suspense A/c (Total of purchase return book was carried forward as ₹331, instead of ₹222 Now rectified)		109	 109
	Suspense A/c Dr. To Sales A/c (Cash sales being ₹2,235, recorded only ₹1,235 in sales A/c. Now rectified)		1,000	 1,000
	Suspense A/c Dr. To Salaries A/c (Salary A/c was overcast by ₹300. Now rectified.		300	 300

Suspense Account

Dr. **Cr.**

	₹		₹
To Sales A/c	1,000	By Difference in T. B.	296
To Salaries A/c	300	By Sales A/c	400
(bal. fig.)		By Y A/c	495
		By Returns Outwards A/c	109
	1,300		1,300

Q3.(a) Mr. Wise sold goods on credit to various customers. Details related to one of the customer, Mr. Best, is as under:

(i) Goods sold on credit ₹ 7,00,000

(ii) Goods returned by the customer ₹ 55,000 due to defective quality, credit note raised but not recorded.

(iii) Payment received from customer in cash ₹ 1,00,000 and by cheques ₹ 2,30,000. Out of cheques received, a cheque of ₹ 38,000 was dishonoured by bank.

(iv) Customer accepted a Bills of ₹ 56,000 for 3 months.

Mr. Best, the customer is in need to ascertain the actual balance due to Mr. Right. Prepare a Reconciliation Statement.

(b) State four items which are not to be included in determining the cost of inventories in accordance with paragraph 6 of AS 2?

Answer 3. (a)

Receivable from Mr. Best - Reconciliation Statement

Particulars	Amount (₹)
Credit Sales during the period	7,00,000
Less: Goods returned by the Customer, adjustment of credit note	55,000
Less: Payment received in cash	1,00,000
Less: Payment received by cheque less dishonored cheque (2,30,000 - 38,000)	1,92,000
Less: Bills Receivable accepted by Customer, yet to be matured	56,000
Net Receivable from Customer	2,97,000

Answer 3. (b)

In determining the cost of inventories in accordance with paragraph 6 of AS 2, it is appropriate to exclude certain costs and recognize therein as expenses in the period in which they are incurred. Examples of such cost are —

(i) abnormal amounts of waste materials, labour or other production costs,

(ii) storage costs unless those costs are necessary in the production process prior to a further production stage,

(iii) administrative overheads that do not contribute to bring the inventories to their present location and condition, and

(iv) selling and distribution cost.

(v) Interest and borrowing cost, If AS 16 allows such cost to be included it, can form part of the cost

Q4. (a) Determine the value of stock on 31st March, 2013 from the following particulars:

Stock was valued on 15th April 2014 and the amount came to ₹ 1,00,000.

(i) Sales ₹ 82,000 (including cash sales ₹ 20,000)

(ii) Purchase ₹ 10,068 (including cash purchase ₹ 3,980)

(iii) Returns inward ₹ 2,000

(iv) On 15th March, goods of the sale value of ₹ 20,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April approving the rest, the customer was received on 16th April.

(v) Goods received value ₹ 16,000 in March for sale on consignment basis; 20% of the goods has been sold by 31st March, and another 50% by 15th April. These sales are not included in above sales.

Goods are sold at a profit of 20% on sales.

(b) The following is a summary from Cash Book of M/s Mitra Trading for the month of Sept. 2013:

Particulars	₹	Particulars	₹
Balance b/d	1,507	Payments	15,520
Receipts	15,073	Balance c/d	1,060
	16,580		16,580

On investigation it was found that:

(i) Bank charges of ₹ 35 were not entered in the Cash Book.

(ii) A cheque of ₹ 47 issued to supplier was entered by mistake as a receipt in the Cash Book.

(iii) A cheque of ₹ 81 was returned by the Bank marked as 'refer to drawer' but it's not entered in Cash Book.

(iv) The balance brought forward in Sept. 2013 should have been ₹ 1,570.

(v) Cheque paid to suppliers ₹ 217 , ₹ 70 and ₹ 330 have not been presented for payment. Deposits of ₹ 1,542 on 30th Sept were cleared by the Bank on 2nd October.

(vi) The Bank charged a cheque wrongly to Mitra trading ₹ 92.

(vii) Bank statement shows overdraft of ₹ 104 as on 30th Sept.2013.

Show what adjustments will you make in the Cash Book and prepare a Bank Reconciliation Statement as on 30.09.2013.

Answer 4. (a)

Stock Reconciliation Statement as on 31st March 2013

Particulars	Amount (₹)	Amount (₹)
Value of Stock as on 15th April 2013		1,00,000
Add: Cost of Goods Sold from 31st March to 15th April :		
Net Sales (₹ 82,000 – ₹ 2,000)	80,000	
Less: Gross Profit @ 20%	16,000	64,000
Add: Cost of goods sent on approval basis (80% of ₹ 12,000)		9,600
		1,73,600
Less: Purchase from 31st March to 15th April	10,068	
Less: Stock of Consigned goods (30% of ₹ 16,000)	4,800	14,868
Value of stock as on 31st March 2014		1,58,732

Answer 4. (b)

As we know, the errors in the Cash Book must first be corrected and entries that have been missed out in the Cash Book should be recorded.

Dr. Cash Book for Sept 2013 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Original balance b/d	1,060	By Bank charges not recorded earlier	35
To Error in balance carried (1,570 - 1,507)	63	By Cheques issued recorded as receipt, now corrected (2×47)	94
		By Cheque returned	81
		By Revised balance c/d	913
	1,123		1,123

Now we can prepare the Bank Reconciliation Statement.

Bank Reconciliation from member as on 30.9.2013

Particulars	Amount ₹	Amount ₹
Balance as per Cash Book		913
Add: Cheques issued but not presented (217 + 70 + 330)	617	617
		1,530
Less: (i) Deposits not cleared	1542	1,634
(ii) Cheques charged by mistake	92	
Overdraft as per Pass Book		(104)

Section – B

Q 5. (a) On July 1,2010, River Ltd. purchased a second –hand machinery for ₹20,000 and spent ₹ 3,000 on Re-conditioning it. On January 1,2011 , another machinery was purchased worth ₹12,000. On July 30th, 2012, the machinery purchased on January 1,2011 was sold for ₹ 8,000.
Depreciation is written off @ 10% p.a on original cost. Accounts are closed on March 31st every year. Prepare Machinery Account for year ending 31st March 2012.

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

Answer 5 (a).

Dr. **Machinery Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount(₹)
2010 July 1	To, Bank A/c (Machine-I) (20,000+3,000)	23,000	2011 March,31	By, Depreciation A/c (Machinery-I) – ₹ 1,725 (for 9 mths) (Machinery-II) - ₹ 300 (for 3 mths)	2,025
2011 Jan 1	To, Bank A/c (Machine-II)	12,000		By, Balance c/d (Machinery-I)- ₹21,275 (Machinery-II)- 11,700	32,975
		35,000			**35,000**
2011 April 1	To, Balance b/d Machine I- ₹ 21,275 Machine II- ₹11,700	32,975	2012 March 31	By, Depreciation (Machinery-I)- ₹2,300 (Machinery-II)- ₹1,200	3,500

				By, Balance c/d (Machinery-I)- ₹ 18,975 (Machinery-II)- ₹ 10,500	29,475
		32,975			**32,975**
2012 April 1	To, Balance b/d Machine I- ₹18,975 Machine II- ₹10,500	29,475	2012 July 30	By,Depreciation (Machinery-II) (3 months)	400
				By, Bank A/c	8,000
				By, P&L A/c	2,100
			2013 March 31	By, Depreciation (Machinery-I)-₹2,300	2,300
				By, Balance b/d I- ₹ 16,675	16,675
		29,475			**29,475**

Answer 5. (b)

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

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

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

Q6.Laxman does not maintain proper books of account. However, he maintains a record of his bank transactions and is also to give the following information from which you are requested to prepare his final accounts for the year 2013:

Particulars	**01.01.2013 (₹)**	**31.12.2013 (₹)**
Debtors	**1,02,500**	**?**
Creditors	**?**	**46,000**
Stock	**50,000**	**62,500**
Bank Balance	**?**	**52,000**
Fixed Assets	**7,500**	**9,000**

Details of his bank transactions were as follows:

Particulars	**₹**
Received from Debtors	**3,40,000**
Additional Capital Brought in	**5,000**
Sale of Fixed Assets (Book value ₹ 2,500)	**1,750**

Paid to Creditors	**2,80,000**
Expenses Paid	**50,250**
Personal Drawings	**24,000**
Purchase of Fixed Assets	**5,000**

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was ₹ 2,60,000.

Answer 6

Laxman

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

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	50,000	By Sales A/c (Note 6)	3,25,000
To Purchases (Note 7)	2,72,500	By Closing Stock	62,500
To Gross Profit (c/d)	65,000		
	3,87,500		3,87,500
To Expenses	50,250	By Gross Profit b/d	65,000
To Depreciation on Fixed Assets	1,000		
To Loss on Sale of Fixed Assets	750		
To Net Profit c/d	13,000		
	65,000		65,000

Balance Sheet of Lucky as at 31st December, 2013

Particulars	₹	Particulars	₹
Capital Account:		Fixed Assets	9,000
Opening Balance (Note 5)	1,71,000	Stock	62,500
Add: Capital Introduced	5,000	Debtors (Note 3)	87,500
Add: Net Profit	13,000	Bank	52,000
	1,89,000		
Less: Drawings	24,000		
	1,65,000		
Creditors	46,000		
	2,11,000		2,11,000

Working Notes:

(1) Bank Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d (Balancing figure)	64,500	By Creditors A/c	2,80,000
To Debtors A/c	3,40,000	By Expenses A/c	49,250
To Capital A/c	5,000	By Drawings A/c	25,000
To Fixed Assets A/c (Sale)	1,750	By Fixed Assets A/c (Purchase)	5,000
		By Balance c/d	52,000
	4,11,250		4,11,250

(2) Fixed Assets Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	7,500	By Bank A/c	1,750
To Bank A/c	5,000	By Loss on Sale of Fixed Assets A/c	750
		By Depreciation A/c (Balancing figure)	1,000
		By Balance c/d	9,000
	12,500		12,500

(3) Debtors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	1,02,500	By Bank A/c	3,40,000
To Sales A/c (Note 6)	3,25,000	By Balance c/d (Balancing figure)	87,500
	4,27,500		4,27,500

(4) Creditors Account

Dr. **Cr.**

Particulars	₹	Particulars	₹
To Bank A/c	2,80,000	By Balance b/d (Balancing figure)	53,500
To Balance c/d	46,000	By Purchases A/c (Note 7)	2,72,500
	3,26,000		3,26,000

(5) Balance Sheet as at 31st January, 2013

Dr. **Cr.**

Liabilities	₹	Assets	₹
Capital (Balancing figure)	1,71,000	Fixed Assets	7,500
Creditors (Note 4)	53,500	Debtors	1,02,500
		Stock	50,000
		Bank (Note 1)	64,500
	2,24,500		2,24,500

(6) Calculation of Sales

Particulars	Amount (₹)
Cost of goods sold	2,60,000
Profit 25%	65,000
Sales	3,25,000

Q7.(a) On 31.12.2012, Sundry Debtors and Provision for Bad Debts are ₹ 50,000 and ₹ 5,000 respectively. During the year 2013, ₹ 3,000 are bad and written off on 30.9.2013, an amount of ₹ 400 was received on account of a debt which was written off as bad last year on 31.12.2013, the debtors left was verified and it was found that sundry debtors stood in the books were ₹ 40,000 out of which a customer Mr. X who owed ₹ 800 was to be written off as bad.

Prepare Bad Debt Account. Provision for bad Account. assuming that some percentage should be maintained for provision for bad debt as it was on 31.12.2012.

Show also how it will appear in Profit & Loss Account. and Balance Sheet.

(b) P, Q and R were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. The Balance Sheet as on 31.3.2013 is as under :

Liabilities	Amount ₹	Assets	Amount ₹
Capital – P	60,000	Machinery	80,000
Capital - Q	50,000	Furniture	15,000
Capital – R	40,000	Motor Car	30,000
Sundry Creditors	72,000	Stock	50,000
Bank Loan	30,000	Sundry Debtors	60,000
Other Liabilities	20,000	Cash at Bank	37,000
	2,72,000		2,72,000

P retired on 1.9.2013 and the partnership deed provided inter alia that in the event of admission, retirement or death of a partner, the assets and liabilities are to be revalued and that goodwill of the firm is to be computed on the basis of 2 years purchase of the correct profit of the last 4 years.

During the period he drew ₹30,000, interest on drawings @ 6% p.a.

It is discovered that the accounts required adjustments owing to certain mistakes in earlier years. On 1.10.2010 repairs to machinery for ₹ 6,000 had been wrongly debited to the Machinery Account, and on 1.4.2011 a piece of furniture, whose book value was ₹2,000 was disposed of for ₹800 but the proceeds were wrongly credited to Sales Account. The partners had been charging depreciation on all fixed assets at 10% p.a. on the reducing balance system on a time basis. Profits for the last four years without adjusting the above mentioned mistakes were as follows:

2009-10 ₹20,000; 2010-11 ₹24,000; 2011-12 ₹32,000; 2012-13 ₹36,000.

Revaluation on the date of retirement was:

Machinery- ₹90,000; Furniture- ₹10,000; Motor car - ₹22,000.

Partner will also be given proportionate share of profits based on the last year's profit.

Determine the amount to be paid to the retiring partner.

Answer 7. (a)

In the books of ……….

Dr. **Bad Debt Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013 Sept. 30	To, Sundry Debtors A/c	3,000	2013 Dec. 31	By, Provision for Bad Debt A/c	3,800
Dec. 31	To, X A/c.	800			
		3,800			3,800

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

Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
2013 Dec. 31	To, Bad Debt A/c " Balance c/d	3,800 3,920	2013 Dec. 31	By, Balance b/d	5,000
	[10% on ₹ 39,200, (₹ 40,000 - ₹ 800)]			" Profit & Loss A/c -for the provision required	2,720
		7,720			7,720

Workings : Calculation of '%' of Provision for bad debts —

(5,000/50,000 × 100) = 10%

Profit & Loss Account (Extract)

Dr. **For the year ended 31.12.2012** **Cr.**

Particulars	**Amount (₹)**	**Amount (₹)**	**Particulars**	**Amount (₹)**	**Amount (₹)**
To, Bad Debts		3,400	By Bad Debts Recovery A/c		400
			" Provision for Bad Debts: Existing Less: Provision Required	 5,000 3,920	 1,080

Balance Sheet (Extract)
As at 31.12.2013

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**	**Amount (₹)**
		Sundry Debtors	40,000	
		Less: Bad Debts	800	
			39,200	
		Less: Provision for Bad Debts	3,920	35,280

Answer 7. (b)

Statement showing computation of the amount to be paid to the retiring partner:

Particulars	**Amount(₹)**
Capital	60,000
Share of Loss on revaluation	(808)
Proportionate share of goodwill [₹52,880 × $\frac{3}{6}$]	26,440

Proportionate share of last year's profit - [₹36,693 × $\frac{3}{6}\times\frac{5}{12}$]	7,644
Drawings	(30,000)
Interest on Drawings[₹30,000 × $\frac{6}{100}\times\frac{5}{12}\times\frac{1}{2}$]	(375)
Amount to be paid to the retiring partner	**62,901**

Workings:

A.

Dr. **Revaluation Account** **Cr.**

Date	Particulars	₹	Date	Particulars	₹
	To, Motor Car A/c	8,000		By, Machinery A/c	14,617
	To, Furniture A/c	5,000			
	To, Partner's Capital A/c (P-₹ 808; Q-₹ 539; R-₹ 270)	1,617			
		14,617			**14,617**

B. Ascertainment of Adjusted Profits

	2009-10 ₹	2010-11 ₹	2011-12 ₹	2012-13 ₹
Profits without adjustment	20,000	24,000	32,000	36,000
Less : Repairs previously capitalised		(–) 6,000		
Add : Depreciation wrongly charged on the above		(+) 300	(+) 570	(+) 513
Less : Sale of Furniture wrongly credited to Sales			(–) 800	
Less : Loss on sale of Furniture not recorded (₹ 2,000 – 800)			(–) 1,200	
Add : Depreciation on Furniture wrongly provided			(+) 200	(+) 180
Adjusted Profits	20,000	18,300	30,770	36,693

C. Ascertainment of the Value of Goodwill and its Adjustment

Aggregate adjusted profits for 4 years: ₹ 1,05,763; Average Profits — ₹1,05,763 / 4 = ₹ 26,440.
Goodwill at 2 years' purchase of average profit = ₹ 52,880 (₹ 26,440 × 2).

Q8.(a) Provision for Unrealized Profit, Reconciliation Statement to be prepared, statement of Income etc.

The following information is available:

Debit:		Head Office ₹	Branch ₹
	Branch Account	3,200	-
	Closing Stock	3,000	800
	Cost of Sales	22,000	9,300
	Other Expenses	7,000	1,000
Credit:	Sales	35,000	15,000
	Head Office Account	-	900

The Branch receives all its supplies from the H.O. which are invoiced to it at 25% profit over cost. During the year 2013, the H.O. sent bills to the branch for ₹9,500. The H.O. credits its Sales Account with the invoice price of goods supplied to the Branch.
The stock of goods at the H.O. on 1st Jan. 2013 was ₹ 2,500 and that at the Branch was ₹ 600.
The H.O. has billed the branch for ₹ 1,200 on 31.12.2012 representing the branch's share of expenses incurred by the H.O. The said expenses have not been recorded in the books of the Branch.
All cash collections made by the Branch are deposited in a local bank to the account of the H.O. Deposits of this nature included :

Amount ₹	Date of deposit by Branch ₹	Date of receipt by H. O. ₹
800	24.12.2013	30.12.2013
700	25.12.2013	31.12.2013
500	29.12.2013	03.01.2014
300	31.12.2013	04.01.2014

The expenses of the branch are met by the H.O. from time to time for which amounts are sent in advance to the branch. A sum of ₹ 300 sent to the branch by the H.O. on 29th Dec. 2013, towards meeting the expenses was received by the branch on 2.1.2013. You are required to prepare : (1) A reconciliation of Head Office Account in the Branch books and that of Branch Account in the Head Office books. (2) A Statement of Income for the year for the H.O. and the Branch.

(b) The Secretary of The Systematic Club has prepared the following draft Balance Sheet of the Club as on 30.9.2013:

Liabilities		₹	Assets		₹
Capital Account:			Fixtures and Fittings:		
Balance as on 30.9.2013	14,300		As on 30.9.2013	10,600	
Less: Loss for the year	2,100	12,200	Less: Depreciation for the year	1,000	9,600
Subscriptions in Advance		600	Stock		3,200
Creditors		2,400	Debtors		1,400
			Balance at Bank		950
			Cash in Hand		50
		15,200			15,200

You ascertain the following:

A. **The amount of loss was only a balancing figure as the books had been kept on a single entry basis.**

B. The balance at bank was that shown by the bank statement at the close of the business on 30.9.2013.

C. The following amounts had been paid into bank on 30.9.2013 but had not been credited by the bank:

(i) 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.

(ii) A member's subscriptions of ₹ 80 for the year 2013-14.

D. The following cheques had been drawn in September but has not been presented until October :

(i) ₹ 480 for bar supplies which had been delivered but had not been included in stock;
(ii) ₹ 350 for additional typewriter received on October 2;
(iii) ₹ 100 as bonus of the professional included under the creditors;
(iv) ₹140 for fuel which had been included in the stock figure but not in the creditors and this cheque was dated October 1, 2013.

You are required to prepare:

(i) a bank reconciliation statement as on 30.9.2013; and

(ii) a revised Balance Sheet as on the date to give effect to the consequential adjustments, assuming that otherwise the items in the draft Balance Sheet were correct.

Answer 8. (a)

(1) In the books of head office
Reconciliation of Branch Account and Head Office Account
As at 31st Dec. 2013

	₹	₹
Balance of Branch Account in H. O. books		3,200
Less:		
Share of expenses incurred by H. O. and not recorded in Branch books	1,200	
Remittance by H. O. but not received by the branch within 31.12.2013	300	
Remittance by Branch but not received by H. O. within 31.12.13 (500 + 300)	800	2,300
Balance of H. O. Account in Branch Books		900

Statements of Income for the year ended 31st Dec. 2013

	Head Office	Branch		Head Office	Branch
	₹	₹		₹	₹
Opening Stock	2,500	600	Sales	25,500	15,000
Purchases	21,500	-	Closing Stock	3,000	800
Goods from H. O.	-	9,500	Goods Sent to Br.	9,500	-
Expenses	7,000	1,000	Provision for		
Share of H. O.'s Exps.	-	1,200	Unrealized Profit		
Provisions for Unrealised Profit on closing stock of branch (800 x 1/5)	160	-	on opening Stock of branch (₹600 x 1/5)	120	-
Net Income	6,960	3,500			
	38,120	15,800		38,120	15,800

Answer 8. (b)

(i) **Bank Reconciliation Statement of The Systematic Club as on 30th September, 2013 Club**

Bank balance as per Bank Statement		950
Add : Cheque dishonoured but not entered in the Cash Book	50	
Cheque deposited but not credited	80	130
		1,080
Less: Cheques issued but not presented for payment:		
Bar supplies	480	
Advance for office equipment	350	
Bonus of the professional	100	930
Fuel (Note 1)	-	
Bank Balance as per Cash Book		150

(ii) **Balance Sheet of The Systematic Club as at 30th September, 2013**

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:		12,160	Furniture and Fittings	10,600	
Opening balance	14,300		Less: Depreciation	1,000	
Less: Excess of Expenditure over Income (Balancing figure)	2,140				9,600
			Stock : ₹ (3,200 + 480)		3,680
			Debtors		1,400
Subscriptions in Advance ₹ (600 + 80)		680	Advance for Office Equipment (Note 2)		350
			Bank		150
Creditors (Note 3)		2,440	Cash : ₹ (50 + 50)		100
		15,280			15,280

Working Notes :

(1) No adjustment is required for ₹ 140 for fuel since the cheque was dated October 1.

(2) Since the typewriter was not received before 30.9.2013, it should be shown as an advance for office equipment in the Balance Sheet on 30.9.2013.

(3) Ascertainment of correct balance of creditors.

Creditors Account

Dr. **Cr.**

Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
	To Bonus of Professional (cancelled)	100		By Balance c/d	2,400
	To Balance c/d	2,440		By Fuel (previously not recorded)	140
		2,540			2,540

Q9. Jamnadas provides you with the following T. B. as on 31st March 2013.

Particulars	Debit (₹)	Credit (₹)
Stock as on 1st April 12	35,000	
Depreciation	5,000	
Accumulated depreciation		40,000
Fixed asset	50,000	
Loss on sale of fixed asset	8,000	
Investments	1,25,000	
Profit on sale of investments		80,000
Sales at 20% gross margin		800,000
Purchases	7,50,000	
Customers' accounts	1,00,000	20,000
Creditors' accounts	5000	60,000
Expenses	42,000	
Discount	18,000	12,000
Commission	50,000	80,000
Amounts due to principals		8,000
Amounts due from dealers	75,000	
Deposits with Principals	1,00,000	
Deposits from dealers		1,50,000
Cash	7,000	
Income on investments		5,000
Interest on deposits with Principals		12,000
Interest on deposits from dealers	18,000	
Prepaid/outstanding expenses As on 31st March 2012 As on 31st March 2013	 7,000 9,000	 13,000 6,000
Fixed deposits with bank	2,00,000	
Interest on fixed deposits with bank		20,000
Drawings/Capital	60,000	3,00,000

Particulars	Debit (₹)	Credit (₹)
Banks		**58,000**
Total	**16,64,000**	**16,64,000**

The cost of fixed assets sold is ₹ 30,000, accumulated depreciation being ₹ 9,000.
Prepare the financial statements. Also, separately show Accumulated depreciation Account, and Expenses Account.

Answer 9.

Dr. Accumulated Depreciation Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31-Mar-13	To, Asset (sold)	9,000	1- Apr-12	By Balance b/d (balancing figure)	44,000
31-Mar-13	To, Balance c/d	40,000	31 -Mar-13	By P & L (depreciation)	5,000
		49,000			49,000
				By balance b/d	40,000

Dr. Expenses Account Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1-Apr-12	To, Balance (pre paid)	7,000	1- Apr-12	By, Balance b/d (due)	13,000
31-Mar-13	To, Cash paid (balancing figure)	45,000	31-Mar-13	By, P & L A/c (42,000-13,000+7,000)	36,000
31-Mar-13	To, Balance b/d (due)	6,000	31-Mar-13	By, Balance c/d (pre paid)	9,000
		58,000			58,000
	To Balance b/d (pre paid)	9,000		By, Balance b/d (due)	6,000

Dr. Trading Account for the year ended 31st March 2013 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening stock		Sales	8,00,000
Finished goods	35,000		
Purchases	7,50,000		
		Closing stock:	
Gross Profit c/d (8,00,000×20%)	1,60,000	Finished goods (Balance in fig.)	1,45,000
	9,45,000		9,45,000

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

Particulars	Amount (₹)	Particulars	Amount (₹)
Administrative expenses	-	Gross Profit b/d	1,60,000
Expenses	42,000	Profit on sale of investment	80,000
Depreciation	5,000	Discount received	12,000
Loss on sale of fixed asset	8,000	Commission received	80,000
Discount allowed	18,000	Income from investments	5,000
Commission given	50,000	Interest deposits with principals	12,000
Interest on deposits to dealers	18,000	Interest bank deposits	20,000
Net profit	2,28,000		
	3,69,000		369,000

Sales	8,00,000	
Gross margin on sales @ 20%	1,60,000	
Cost of goods sold	6,40,000	
Goods available for sale	7,85,000	(this is op stock 35,000 + purchases 750,000)
Hence, closing stock should be	1,45,000	(785,000- 640,000)

Now, the balance sheet is given below.

Balance Sheet as on 31st March 2013

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Jamnadas's Capital	3,00,000		Fixed Assets:	80,000	
Less: Drawings	(60,000)		Less: Acc. Dep for sold	(30,000)	
Add: Net Profit for the year	2,28,000	4,68,000	Balance of assets	50,000	
			Depreciation opening	44,000	
Long term Liabilities:			Less: Acc Dep for sold	(9,000)	
Current Liabilities:			Add for the year	5,000	
Sundry creditors		60,000	Net Acc. Dep	40,000	
Advance from Customers		20,000	Net fixed Asset		10,000
Dues to Principals		8,000			

Bank overdraft		58,000	Investments		1,25,000
Outstanding expenses		6,000			
Deposits from dealers		1,50,000	Current Assets:		
			Stocks		1,45,000
			Sundry debtors		1,00,000
			Deposits with Principals		1,00,000
			Cash in hand		1,000
			Fixed deposit with Bank		2,00,000
			Dues from dealers		75,000
			Advance to suppliers		5,000
			Prepaid expenses		9,000
		7,70,000			7,70,000

Please carefully interpret the balances given. Customer balances are in debit as well as credit column. While debit indicates Debtor and credit means advances received from customers. Same logic will apply to suppliers, commission, discounts. Computation of closing stock was very important in this case.

Q10.(a) The following was the Balance Sheet of A, B and C who shared profits in the ratio of 1 : 2 : 2 as on 31st December, 2013.

Liabilities	**Amount (₹)**	**Assets**	**Amount (₹)**
Sundry Creditors	**10,000**	**Goodwill**	**15,000**
Capital Account : **A 10,000** **B 20,000** **C 20,000**	**50,000**	**Debtors**	**10,000**
General Reserve	**5,000**	**Machinery**	**20,000**
Investment Fluctuation Fund	**3,000**	**Buildings**	**30,000**
Bad Debts Reserve	**2,000**	**Stock**	**10,000**
Bank Loan	**30,000**	**Cash at Bank**	**5,000**
		Investments	**10,000**
	1,00,000		**1,00,000**

C died on 31st March, 2014. His account is to be settled under the following terms :

Goodwill is to be calculated at the rate of 2 years purchase on the basis of the average of 5 years profit or loss. Profit for January to March' 14 is to be calculated proportionately on the average profit of 3 years. The profits were: 2009 ₹ 3,000, 2010 ₹ 7,000, 2011 ₹ 10,000, 2012₹ 14,000, 2013 loss ₹ 12,000. During 2013 a Moped costing ₹ 4,000 was purchased and debited to Travelling Expenses Account on which depreciation is to be calculated @ 25%. Other values agreed on assets are: Stock ₹ 12,000, Building ₹ 35,000, Machinery ₹ 25,000 and Investments ₹ 8,000. Debtors are considered good.

Prepare new Balance Sheet of the firm, necessary Journal entries and Ledger Accounts of the Partners.

(b) The Accountant of City Club furnished the following information about the Receipts and Payments of the club for the year ended 31st March, 2013:

Receipts	₹	Payments	₹
To Subscriptions	62,130	By Premises	30,000
" Fair Receipts	7,200	" Rent	2,400
" Variety show Receipts (net)	12,810	" Rates and Stationery	3,780
" Interest	690	" Printing & Stationery	1,410
" Bar Collections	22,350	" Sundry Expenses	5,350
		" Wages	2,520
		" Fair Expenses	7,170
		" Honorarium to Secretary	11,000
		" Bar Purchases (Payment)	17,310
		" Repairs	960
		" New Car (less proceeds of old car ₹ 9,000)	37,800

The following additional information could be obtained :

	1.4.12 (₹)	31.3.13 (₹)
Cash in hand	450	NIL
Bank Balance as per Cash Book	24,420	10,350
Cheque issued for Sundry Expenses not presented to the bank (entry has been duly made in the Cash book)	270	90
Subscriptions Due	3,600	2,940
Premises at cost	87,000	117,000
Provision for Depreciation on Premises	56,400	
Car at cost	36,570	46,800
Accumulated Depreciation on Car	30,870	
Bar Stock	2,130	2,610
Creditors for Bar Purchases	1,770	1,290

Annual Honorarium to Secretary is ₹ 12,000 Depreciation on Premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%. You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 3 1.3.13.

Answer 10 (a) .

Working Notes :

A.	Adjusted profit for 2013	₹
	Profit	(12,000)
Add :	Cost of Moped Wrongly treated as Travelling Expense	4,000
Less :	Depreciation not charged on Moped @ 25% on ₹ 4,000	(1,000)
	Adjusted Profit	(9,000)

B. Valuation of Goodwill

Total Profit/Loss for the last 5 years = 3,000 + 7,000 + 10,000 + 14,000 – 9,000 = ₹ 25,000 Average Profit = ₹ 25,000/5 = ₹ 5,000; Goodwill = 2 × ₹ 5,000 = ₹ 10,000

But Goodwill is appearing at Balance Sheet at ₹ 15,000. Over valuation of Goodwill ₹ 5,000 should be written off among A, B & C as 1 : 2 : 2.

The balance of Goodwill between A & B in the ratio 1:2

C. Share of Profit of Deceased Partner till his date of death

Average Profit of the last 3 years [2011, 2012 & 2013] = (10,000 + 14,000 – 9,000)/3 = ₹ 5,000
Estimated Profit for 3 months [Jan to March, '14] = ₹ 5,000 x 3/12 = ₹ 1,250

C's share of profit = ₹ 1,250 × 2/5 = ₹ 500

Books of A, B & C

Journal Entries

Date	Particulars		Amount (₹)	Amount (₹)
31.03.14	Stock A/c	Dr.	2,000	
	Buildings A/c	Dr.	5,000	
	Machinery A/c	Dr.	5,000	
	Moped A/c [4,000 –Depr. 1,000]	Dr.	3,000	
	To Revaluation A/c			15,000
	[Values of assets increased on revaluation]			
	General Reserve A/c	Dr.	5,000	
	Investment Fluctuation Fund A/c	Dr.	3,000	
	Bad Debts Reserve A/c	Dr.	2,000	
	To A's Capital A/c			2,000
	To B's Capital A/c			4,000
	To C's Capital A/c			4,000

	[Transfer of Reserves etc. to Partners Capitals in			
	Revaluation A/c To Investment A/c [Value of investments reduced]	Dr.	2,000	2,000
	Revaluation A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being profit on revaluation shared in 1:2:2)	Dr.	13,000	2,600 5,200 5,200
	A's Capital A/c B's Capital A/c C's Capital A/c To Goodwill A/c [Value of Goodwill reduced]	Dr. Dr. Dr.	1,000 2,000 2,000	5,000
	Profit & Loss Suspense A/c To C's Capital A/c [Estimated share of Profit till his date of death	Dr.	500	500
	C's Capital A/c To C's Executors A/c [Total dues to the deceased partner transferred to his Executor's A/c]	Dr.	27,700	27,700

Dr. **Capital Account** **Cr.**

Date	Particulars	A	B	C	Date	Particulars	A	B	C
		₹	₹	₹			₹	₹	₹
31.3.14	To Goodwill A/c	1,000	2,000	2,000	1.1.13	By Balance b/d	10,000	20,000	20,000
	To, Goodwill A/c	3,333	6,667	–	31.3.14	"Revaluation A/c	2,600	5,200	5,200
	To C's Executors A/c (Balance transferred)			27,700		" Sundry Reserves A/c	2,000	4,000	4,000
	To Balance c/d	10,267	20,533	–		" P/L Suspense A/c	–	–	500
		14,600	29,200	29,700			14,600	29,200	29,700

A and B
Balance Sheet as at 3 1.3.2014

Liabilities	Amt ₹	Amt ₹	Assets	Amt ₹	Amt ₹
Capital A/cs :			Buildings		35,000
A	10,267		Machinery		25,000
B	20,533	30,800	Moped (cost less		3,000
C's Executor's A/c		27,700	depreciation)		
Bank Loan		30,000	Investments		8,000
Sundry Creditors		10,000	Stock		12,000
			Debtors		10,000
			Bank		5,000
			Profit &Loss Suspense		500
			A/c (Dr.)		
		98,500			98,500

Answer 10 (b)

Working Notes :

		₹
(1) Depreciation on New Car :		
	Net Amount	37,800
Add :	Sale proceeds of Old Car	9,000
	Actual Cost	46,800
Less :	Depreciation @ 20%	9,360
		37,440
(2) Profit on sale of Old Car :		
	Sale proceeds	9000
Less:	Written Down Value : Cost - 36,570	
	Provision for Depreciation - 30,870	
		5700
	Profit on Sale	3300

(3) Cheques issued for Sundry Expenses not presented to the Bank need not be considered as Bank Balance as per Cash Book is given and the entry for the expenses have been duly made in the Cash Book.

(4) **Calculation of Bar Purchases**

Dr. Creditors for Bar Purchases Account Cr.

Particulars	₹	Particulars	₹
To cash Payment for Bar Purchases	17,310	By Balance b/d	1,770
To Balance c/d	1,290	By Purchases (Balance Figure)	16,830
	18,600		18,600

(5)

Dr. Bar Trading Account for the year ended 31.03.13 Cr.

Particulars	₹	Particulars	₹
To Opening stock	2,130	By Bar collections	22,350
To Bar Purchases	16,830	By Close stock	2,610
To Income & Expenditure A/c profit from Bar transfered	6,000		
	24,960		24,960

City Club

Dr. Receipts and Payments Account for the year ended 31st March, 2013 Cr.

Receipts	**Amount ₹**	**Payments**	**Amount ₹**
ToBalance b/d :		By Premises	30,000
" Cash in hand	450	" Rent	2,400
" Cash at Bank	24,420	" Rates & Taxes	3,780
" Subscriptions	62,130	" Printing & Stationery	1,410
		" Sundry Expenses	5,350
" Fair Receipts	7,200	" Wages	2,520
" Variety Show Receipts (Net)	12,810	" Fair Expenses	7,170
" Interest	690	" Honorarium to Secretary	11,000
" Bar Collections	22,350	" Payments for Bar Purchases	17,310
" Sale Proceeds of Old Car	9,000	" Repairs	960
		" Cost of New Car	46,800
		" Balance c/d : Cash at Bank	10,350
	1,39,050		13,9050

City Club

Income and Expenditure Account for the year ended 31st March, 2013

Dr. **Cr.**

Expenditure	Amount ₹	Amount ₹	Income	Amount ₹	Amount ₹
To Rent		2,400	By Subscription	62,130	
Rates & Taxes		3,780	Add: Amount		
			On 31.3.08	2,940	
" Printing & Stationery		1,410		65,070	
" Wages		2,520	Less: Amount		
" Honorarium to Secy.	11000		On 31.3.07	3,600	61470
" Add: O/S on 31.3.08	1000	12,000	" Profit on Sale of		
" Sundry Expenses		5,350	Old Car [Note 1]		3300
" Repairs		960	" Profit from Bar		
" Depreciation :			[Note 5]		6000
On Car [Note 1]	9360		" Variety Show		
On Premises					
[5% of 60600]	3030	12,390	Receipts (net)		12810
			" Income from Fair :		
" Surplus (Excess of			Receipts	7200	
Incomes over			Less : Expenses	7170	30
Expenditure, transfer		43,490	" Interest		690
to Capital Fund)					
		84,300			84,300

Q11.(a).The firm of M/s LMS was dissolved on 31.3.2008, at which date its Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Creditors	**2,00,000**	**Fixed Assets**	**45,00,000**
Bank Loan	**5,00,000**	**Cash and Bank**	**2,00,000**
L's Loan	**10,00,000**		
Capitals :			
L	**15,00,000**		
M	**10,00,000**		
S	**5,00,000**		
	47,00,000		**47,00,000**

Partners share profits equally. A firm of Chartered Accounts is retained to realise the assets and distributed the cash after discharge of liabilities. Their fees which are to include all expenses is fixed at ₹ 1,00,000. No loss is expected on realisation since fixed assets include valuable land and building.

Realizations are : 1st ₹ 5,00,000, 2nd ₹ 15,00,000, 3rd ₹ 15,00,000, 4th ₹ 30,00,000, 5th ₹ 30,00,000.

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

(b) Journalize the following transactions in the books of Head Office. Delhi Branch and Agra Branch:

(i) Goods worth ₹ 50,000 are supplied by Delhi Branch to Agra Branch under the instructions of Head Office. (ii) Delhi Branch draws a bill receivable for ₹ 40,000 on Agra Branch which sends its acceptance. (iii) Delhi Branch received ₹ 10,000 from Agra Branch. (iv) Goods worth ₹ 20,000 were returned by a customer of Agra Branch to Delhi Branch. (v) Agra Branch collected ₹ 20,000 from a customer of Delhi Branch.

(c) A. Ltd. obtain from B.S. Ltd. a lease of some coal-bearing land, the terms being a royalty of ₹ 15 per ton of coal raised subject to a minimum rent of ₹ 75,000 p.a. with a right of recoupment of short-working over the first four years of the lease. From the following details, show (i) Short-working Account, (ii) Royalty Account and (iii) B.S. Ltd. Account in the books of A. Ltd.

Year	Sales (Tons) ₹	Closing Stock (Tons) ₹
2009	2,000	300
2010	3,500	400
2011	4,800	600
2012	5,600	500
2013	8,000	800

Answer 11(a).

Piecemeal Distribution Statement under Higher Relative Capital Method: (₹)

Particulars	Amount Available	Creditors	Bank Loan	L's Loan	L	M	S
Balance due		2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000
1st Installment (including Cash & Bal.)	5,00,000	-	-	-			
Less: Liquidator's Exps & Fees	(1,00,000)	-	-	-			
Balance	4,00,000	2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000
Less: Crs & Bank Loan paid in ratio of balance o/s, i.e. 2: 5	(4,00,000)	(1,14,286)	(2,85,714)	-	-	-	-
Balance	-	85,714	214,286	10,00,000	15,00,000	10,00,000	5,00,000
2nd Installment	15,00,000						
Less: Creditors & BK Loan fully paid	(3,00,000)	(85,714)	(2,14,286)	-	-	-	-
Balance	12,00,000	NIL	NIL	10,00,000	15,00,000	10,00,000	5,00,000
Less: Repayment of L's Loan	(10,00,000)	-	-	(10,00,000)			

Balance	2,00,000	NIL	NIL	NIL	15,00,000	10,00,000	5,00,000
Less: Paid to L towards Higher Relative Capital	(2,00,000)	-	-	-	(2,00,000)	-	-
Balance	-	-	-	-	13,00,000	10,00,000	5,00,000
3rd Instalment	15,00,000						
Less: Paid to L towards Higher Relative Capital	(3,00,000)	-	-	-	(3,00,000)	-	-
Balance	12,00,000	-	-	-	10,00,000	10,00,000	5,00,000
Less: Paid to L and M towards Excess Capital	(10,00,000)	-	-	-	(5,00,000)	(5,00,000)	-
Balance	2,00,000	-	-	-	5,00,000	5,00,000	5,00,000
Less: Payment to all Partners equally	(2,00,000)				(66,667)	(66,667)	(66,666)
Balance Due	-	-	-	-	4,33,333	4,33,333	4,33,334
4th Instalment	30,00,000						
Less: Payment to all Partners equally	(30,00,000)				(10,00,000)	(10,00,000)	(10,00,000)
Balance Due	30,00,000				(5,66,667)	(5,66,667)	(5,66,666)
5th Instalment							
Less: Payment to all Partners equally	(30,00,000)				(10,00,000)	(10,00,000)	(10,00,000)
Excess being Realisation Profit credited to all Partners					(15,66,667)	(15,66,667)	(15,66,666)

Working Notes:

(i) Statement showing the computation of Highest Relative Capital

	Particulars	***L***	***M***	***S***
A	Actual Capitals	15,00,000	10,00,000	5,00,000
B	Profit Sharing Ratio	1	1	1
C	Actual Capital × Profit Sharing Ratio	15,00,000	10,00,000	5,00,000
D	Proportionate Capital taking S's Capital as Base Capital	5,00,000	5,00,000	5,00,000
E	Surplus Capital (A - D)	10,00,000	5,00,000	—
F	Profit Sharing Ratio	1	1	—
G	Surplus Capital × Profit Sharing Ratio	10,00,000	5,00,000	—
H	Revised Proportional Capital taking M's Capital as Base Capital	5,00,000	5,00,000	—
I	Revised Surplus Capital (E - G)	5,00,000	—	—

(ii) Scheme of Distribution : First ₹ 5,00,000 will be paid to L, next ₹ 10,00,000 will be distributed between L and M in their profit sharing (i.e. 1 : 1) and the balance will be distributed among L, M and S in their profit sharing ratio (i.e. 1 : 1 : 1).

(iii) It has been assumed that the amounts of realisation given in the question pertain to realisation of fixed assets.

Answer 11(b).

Journal of Head Office

Particulars		L.F.	Dr. (₹)	Cr. (₹)
(a) Agra Branch A/c	Dr.		50,000	
To Delhi Branch A/c				50,000
(Being the goods supplied by Delhi Branch to Agra Branch)				
(b) Delhi Branch A/c	Dr.		40,000	
To Agra Branch A/c				40,000
(Being a B/R drawn by Delhi upon Agra Branch)				
(c) Delhi Branch A/c	Dr.		10,000	
To Agra Branch A/c				10,000
(Being Cash sent by Agra Branch to Delhi Branch)				
(d) Delhi Branch A/c	Dr.		20,000	
To Agra Branch A/c				20,000
(Being the goods returned by customer of Agra Branch to Delhi Branch)				
(e) Agra Branch A/c	Dr.		20,000	
To Delhi Branch A/c				20,000
(Being the Cash collected by Agra Branch from a customer of Delhi Branch				

Journal of Delhi Branch

Particulars		L.F.	Dr. (₹)	Cr. (₹)
(a) H.O. A/c	Dr.		50,000	
To Goods sent to Branch A/c				50,000
(Being the goods supplied to Agra Branch)				
(b) Bills Receivable A/c	Dr.		40,000	
To H.O. A/c				40,000
(Being the acceptance of a B/R received from Agra Branch)				
(c) Cash A/c	Dr.		10,000	
To H.O. A/c				10,000
(Being the cash received from Agra Branch)				
(d) Goods Sent to Branch A/c	Dr.		20,000	
To H.O. A/c				20,000
(Being the goods received from a customer of Agra Branch)				
(e) H.O. A/c	Dr.		20,000	
To Debtors A/c				20,000
(Being the cash collected by Agra Branch from our customer)				

Journal of Agra Branch

Particulars		L.F.	Dr. (₹)	Cr. (₹)
(a) Goods sent to Branch A/c	Dr.		50,000	
To H.O. A/c				50,000
(Being the goods received from Delhi Branch)				
(b) H.O. A/c	Dr.		40,000	
To Bill Payable A/c				40,000
(Being a B/P accepted for Delhi Branch)				
(c) H.O. A/c	Dr.		10,000	
To Cash A/c				10,000
(Being cash paid to Delhi Branch)				
(d) H.O. A/c	Dr.		20,000	
To Debtors A/c				20,000
(Being the goods returned by customer of Delhi Branch)				
(e) Cash A/c	Dr.		20,000	
To H.O. A/c				20,000
(Being the Cash received from a customer of Delhi Branch				

Answer 11(c).

Workings:

[Coal raised i.e., Production = Sales + Closing Stock – Opening Stock.]

Year	Sales	+	Closing Stock	-	Opening Stock	=	Net Production
2009	2,000	+	300	-	Nil	=	2,300
2010	3,500	+	400	-	300	=	3,600
2011	4,800	+	600	-	400	=	5,000
2012	5,600	+	500	-	600	=	5,500
2013	8,000	+	800	-	500	=	8,300

In the books of A. Ltd.
Memorandum Royalty Statement

Year	Quantity	Rate ₹	Royalty ₹	Minimum Rent ₹	Short working ₹	Recoupment ₹	Short working carried forward ₹	Short working Transferred to P&L A/c or lapsed ₹	Payment to Landlord ₹
2009	2,300	15	34,500	75,000	40,500	---	40,500	---	75,000
2010	3,600	15	54,000	75,000	21,000	---	61,500	---	75,000
2011	5,000	15	75,000	75,000	---	---	61,500	---	75,000
2012	5,500	15	82,500	75,000	---	7,500	---	54,000	75,000
2013	8,300	15	1,24,500	75,000	---	---	---	---	1,24,500

Dr. **B. S. Ltd. (Landlord) Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009	To Bank A/c	75,000	2009	By Royalty A/c " Short-working A/c	34,500 40,500
		75,000			75,000
2010	To Bank A/c	75,000	2010	By Royalty A/c " Short-working A/c	54,000 21,000
		75,000			75,000
2011	To Bank A/c	75,000	2011	By Royalty A/c	75,000
		75,000			75,000
2012	To Bank A/c To Short-Working A/c	75,000 7,500	2012	By Royalty A/c	82,500
		82,500			82,500
2013	To Bank A/c	1,24,500	2013	By Royalty A/c	1,24,500
		1,24,500			1,24,500

Dr. **Short-Working Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009	To B. S. Ltd. A/c (Landlord)	40,500	2009	By Balance c/d	40,500
		40,500			40,500
2010	To Balance b/d " B. S. Ltd. A/c (Landlord)	40,500 21,000	2010	By Balance c/d	61,500
		61,500			61,500
2011	To Balance b/d	61,500	2011	By Balance c/d	61,500
		61,500			61,500
2012	To Balance b/d	61,500	2012	By B. S Ltd. (Landlord) A/c " Profit and Loss A/c	7,500 54,000
		61,500			61,500

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

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009	To B. S. Ltd. A/c	34,500	2009	By Profit & Loss A/c	34,500
2010	To B. S. Ltd. A/c	54,000	2010	By Profit & Loss A/c	54,000
2011	To B. S. Ltd. A/c	75,000	2011	By Profit & Loss A/c	75,000
2012	To B. S. Ltd. A/c	82,500	2012	By Profit & Loss A/c	82,500
2013	To B. S. Ltd. A/c	1,24,500	2013	By Profit & Loss A/c	1,24,500

Q.12. River Traders sells Goods on hire purchase basis at cost plus 50%. The following information is provided for the year:

	Opening ₹	Closing ₹
Stock out with Hire Purchase Customers	**90,000**	**?**
Stock at shop	**1,80,000**	**2,00,000**
Instalment Due (Customers still Paying)	**50,000**	**90,000**

Cash received from hire purchasers amounted to ₹ 6,00,000, Goods purchased during the year amounted to ₹ 6,00,000. Goods repossessed (Installments due ₹ 20,000) valued at ₹ 5,000 which have not been included in the Stock at shop at the end. Prepare Shop Stock Account, Goods Sold on Hire Purchase Account, Hire Purchase Stock Account, Hire Purchase Debtors Account and Hire Purchase Adjustment Account.

Answer 12.

Dr. **1. Shop Stock Account** **Cr.**

Particulars	**₹**	**Particulars**	**₹**
To Balance b/d To Purchases	1,80,000 6,00,000	By Goods Sold on Hire Purchase A/c By Balance c/d [Excluding Goods Repossessed]	5,80,000 2,00,000
	7,80,000		7,80,000

Dr. 2. Goods Sold on Hire Purchase Account Cr.

Particulars	₹	Particulars	₹
To Shop Stock A/c To Hire Purchase Adjustment A/c	5,80,000 2,90,000	By Hire Purchase Stock A/c	8,70,000
	8,70,000		8,70,000

Dr. 3. Hire Purchase Stock Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d To Goods Sold on Hire Purchase A/c	90,000 8,70,000	By Hire Purchase Debtors A/c By Balance c/d (b.f.)	6,60,000 3,00,000
	9,60,000		9,60,000

Dr. 4. Hire Purchase Debtors Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d To Hire Purchase Stock A/c	50,000 6,60,000	By Bank A/c By Goods Repossessed A/c By Balance c/d	6,00,000 20,000 90,000
	7,10,000		7,10,000

Dr. 5. Hire Purchase Adjustment Account Cr.

Particulars	₹	Particulars	₹
To Hire Purchase Stock Reserve A/c [₹ 3,00,000x50/150]	1,00,000	By Hire Purchase Stock Reserve A/c [₹ 90,000x50/150]	30,000
To Goods Repossessed A/c [Loss on Repossession] [₹ 20,000 - ₹5,000]	15,000	By Goods Sold on Hire Purchase A/c [₹8,70,000x50/150]	2,90,000
To Profit t/f to Profit & Loss A/c	2,05,000		
	3,20,000		3,20,000

Q.13(a) From Department A sells goods to Department B at a profit of 25% on cost and to Department C at 10% profit on cost. Department B sells goods to A and C at a profit of 15% and 20% on sales, respectively. Department C charges 20% and 25% profit on cost to Department A and B, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealized profit are as under:

Particulars		
Department A 72,000	**Department B 54,000**	**Department C 36,000**

Stock lying at different departments at the end of the year are as under :

	Dept. A ₹	Dept. B ₹	Dept. C ₹
Transfer from Department A	—	30,000	22,000
Transfer from Department B	28,000	—	24,000
Transfer from Department C	12,000	10,000	—

Find out the correct departmental Profits after charging Managers' commission.

(b) A firm has two departments- Cloth and Ready-Made clothes department. The cloths are made by the firm itself out of cloth supplied by the cloth department at its usual selling price. From the following figures, prepare departmental Profit and Loss Account for the year 2013:

	Cloth Department	Ready-made clothes Department
Opening Stock	1,44,000	28,800
Purchases	10,80,000	14,400
Sales	12,00,000	3,60,000
Transfer to Ready-made clothes department	2,40,000	—
Expenses –Manufactu ring	—	40,800
Expenses- selling	24,000	2,400
Closing Stock	1,80,000	36,000

The stocks in the ready-made clothes department may be considered as consisting of 80% cloth and the rest as expenses. The cloth department made a gross profit of 25% in 2012. General expenses of the business as a whole came to ₹ 1,08,000.

Answer 13. (a)

Calculation of correct Profit

	Department A ₹	Department B ₹	Department C ₹
Profit after charging managers' Commission	72,000	54,000	36,000
Add back : Managers' commission (1/9)	8,000	6,000	4,000
	80,000	60,000	40,000
Less : Unrealized profit on stock (Working Note)	8,000	9,000	4,000
Profit before Manager's commission	72,000	51000	36,000
Less : Commission for Department Manager @10%	7,200	5,100	3,600
	64,800	45,900	32,400

Working Note :

Unrealized Profit on Stock

	Dept. A ₹	Dept. B ₹	Dept. C ₹	Total ₹
Department A		$\frac{1}{5} \times 30{,}000 = 6{,}000$	$\frac{1}{11} \times 22{,}000 = 2{,}000$	8,000
Department B	$\frac{15}{100} \times 28{,}000 = 4{,}200$		$\frac{20}{100} \times 24{,}000 = 4{,}800$	9,000
Department C	$\frac{1}{6} \times 12{,}000 = 2{,}000$	$\frac{1}{5} \times 10{,}000 = 2{,}000$		4,000

Answer 13. (b)

Dr. Departmental Profit & Loss Account for the year 2013 Cr.

Particulars	Clothes ₹	Ready-made	Particulars	Clothes ₹	Ready-made
To Opening Stock	1,44,000	28,800	By Sales	12,00,000	3,60,000
To Purchases	10,80,000	14,400	By Ready-made		
To Cloth Department Transfer	—	2,40,000	ment (transfer)	2,40,000	—
			By Closing stock	1,80,000	36,000
To Manufacturing	—	40,800			
To Gross Profit c/d	3,96,000	72,000			
	16,20,000	3,96,000		16,20,000	3,96,000
To General Expenses (ratio of sales 24:6)	86,400	21,600	By Gross Profit b/d	3,96,000	72,000
			By Stock	5,760	—
To Selling Expenses	24,000	2,400			
To Stock Reserve	7,920	—			
To Net Profit	2,83,440	48,000			
	4,01,760	72,000		4,01,760	72,000

Working Notes:

(i) Opening stock Reserve

Cost of cloth in ready-made department

80% of ₹ 28,800	₹ 23,040
Gross Profit @ 25%	₹ 5,760

(ii) Gross Profit Rate in cloth department in 2013

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 \quad \text{or,} \quad \frac{3{,}96{,}000}{14{,}40{,}000} \times 100 = 27.5\%$$

(iii) Stock Reserve on closing stock in 2011 : 27.5% of ₹ 28,800 = ₹ 7,920.

Alternatively, stock reserve may be charged to combined Profit and Loss Account.

Section – C

Q.14 (a).The balance on the Sales Ledger Control Account of Quick Ltd. on Sept. 30,2012 amounted to ₹ 9,700 which did not agree with the net total of the list of Sales Ledger Balance on that date.

Errors were found and the appropriation adjustments when made balanced the books. The errors were:

(i) A Bad Debt amounting to ₹850 had been written-off in the sales ledger, but had not been posted to the Bad Debts Account, or entered in Control Account.

(ii) An item of goods sold to Amar for ₹450 had been entered once in the Day Book but posted to his account twice.

(iii) No entry had been made in the Control Account in respect of the transfer of a debit of ₹260 from Kumar's Account in the Sales Ledger to his account in the purchase ledger.

(iv) The Discount Allowed column in the Cash Book had been under cast by ₹280.

You are required to give the journal entries, where necessary, to rectify these errors, indicating whether or not any control accounts is affected, and to make necessary adjustments in the Sales Ledger Control Account bringing down the balance.

(b) What are the advantages of Self Balancing System?

Answer 14. (a)

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2012 Sept. 30				
	Bad Debts A/c Dr. To, Sales Ledger Control A/c (Bad Debts written-off without recording in general ledger, now rectified.)		850	850
	Amar's Account should be credited by ₹450. It will not affect Control Account.		----	----
	Purchase Ledger Control A/c Dr. To, Sales Ledger Control A/c (Transfer of debit of Kumar's Account to Purchase Ledger , not recorded, now rectified.)		260	260
	Discount Allowed A/c Dr. To, Sales Ledger Control A/c (Discount allowed account undercast, now rectified.)		280	280

In General Ledger

Sales Ledger Control Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 Sept. 30	To Balance b/d	9,700	2012 Sept. 30	By Bad Debts A/c By, Transferred (Purchases Ledger Control) A/c By, Discount Allowed A/c By, Balance c/d	850 260 280 8,310
		9,700			9,700
Oct. 1	To, Balance c/d	8,310			

Answer 14.(b)

The advantages of Self-Balancing System are as follows:

(i) If ledgers are maintained under self-balancing system it becomes very easy to locate errors.

(ii) This system helps to prepare interim account and draft final accounts, as a complete trial balance can be prepared before the abstraction of individual personal ledger balances.

(iii) Various works can be done quickly as this system provides sub-division of work among the different employees.

(iv) This system is particularly useful -
- Where there are a large number of customers or suppliers and
- Where it is desired to prepare periodical accounts.

(v) Committing fraud is minimized as different ledgers are prepared by different clerks.

(vi) Internal check system can be strengthened as it becomes possible to check the accuracy of each ledger independently.

Q.15. The following information is avail from the books of the trader for the period 1st Jan. to 31st March 2013:

(i) Total Sales amounted to ₹70,000 including the sale of old furniture for ₹10,000 (book value is ₹12,300). The total cash sales were 80% less than total credit sales.

(ii) Cash collection from Debtors amounted to 60% of the aggregated of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to ₹ 2,600

(iii) Bills receivable drawn during the period totaled ₹7,000 of which bills amounting to ₹ 3,000 were endorsed in favour of suppliers.Out of these endorsed bills, a Bill receivable for ₹ 1,600 was dishonoured for non-payament, as the party became insolvent and his estate realized nothing.

(iv) Cheques received from customer of ₹5,000 were dishonoured; a sum of ₹500 is irrecoverable.

(v) Bad Debts written-off in the earlier year realized ₹ 2,500.

(vi) Sundry debtors on 1st January stood at ₹40,000.

You are required to show the Debtors Ledger Adjustment Account in the General Ledger.

Answer 15.

In the General Ledger
Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2013 Jan 1	To Balance b/d	40,000	2013 Jan 1		
March 31	" General Ledger Adjustment A/c :		March 31	By General Ledger Adjustment A/c :	
	- Sales	50,000		Cash	54,000
	-Bills Receivable Dishonoured	1,600		Discount Allowed	2,600
	-Cheque Dishonoured	5,000		Bills Receivable	7,000
				Bad Debts	2,100
				" Balance c/d	30,900
		96,600			96,600
April 1	To Balance b/d	30,900			

Workings:

1. Computation of Credit Sales
   Cash Sales were 80% less than Credit Sales. So, if credit sales are ₹ 100 Cash Sales will be ₹ 20; Total Sales (Cash+Credit) will be ₹120. Total Sales (₹ 70,000 - ₹ 10,000) = ₹ 60,000
   Amount of Credit sales will be = ₹ 50,000
2. Cash received
   Cash received is 60% of opening Debtors plus Credit sales i.e. ₹ 40,000 + ₹ 50,000 = ₹ 90,000
   Cash Received ₹ 90,000 × = ₹ 54,000

Section – D

Q.16. Write short note on Effect of Uncertainties on Revenue Recognition.

Answer 16

Para 9 of AS 9 on "Revenue Recognition" deals with the effect of uncertainties on Revenue Recognition. The Para states :

(i) Recognition of revenue requires that revenue is measurable and at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.

(ii) Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc. revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize, revenue only when it is reasonably certain that the ultimate collection will be made. When there is uncertainty as to ultimate collection, revenue is recognized at the, time of sale or rendering of service even, though payments are made by installments.

(iii) When the uncertainty relating to collectability arises subsequent to the time of sale or rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

(iv) An essential criterion for the recognition of revenue is that the consideration receivable for the sale of goods, the rendering of services or from the use by others of enterprise resources is reasonably determinable. When such consideration is not determinable within reasonable limits; the recognition of revenue is postponed.

(v) When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognized.

Q.17.(a) The company undertook a contract for building a crane for ₹ 15 lacs. As on 31.03.13 it incurred a cost of ₹2.25 lacs and expects that there will be ₹13.5 lacs more for completing the crane. It has received so far ₹1.5 lacs as progress payment.

(b) Write a note on Internally Generated Computer Software.

Answer 17.(a)

Para 21 of AS 7 (Revised) 'Construction Contracts' provides that when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively with reference to the stage of completion of the contract activity at the reporting date.

As per para 32 of the standard, during the early stages of a contact it is often the case that the outcome of the contract cannot be estimated reliably. Nevertheless, it may be probable that the enterprise will recover the contract costs incurred. Therefore, contract revenue is recognized only to the extent of costs incurred that are expected to be recovered. As the outcome of the contract cannot be estimated reliably, no profit is recognized. Para 35 of the standard states that when it is probable that the total contacts costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately. Thus the foreseeable loss of ₹ 75000 (expected cost ₹15.75 lacs less contract revenue ₹15 lacs should be recognized as an expense in the year ended 31st March, 2013.

Also, the following disclosures should be given in the financial statements:

(i) The amount of contract revenue recognized as revenue in the period;

(ii) The aggregate amount of costs incurred and loss recognized up to the reporting date;

(iii) Amount of advances received;

(iv) Amount of retentions; and

(vi) Gross amount due from/due to customers Amount.

Answer 17.(b)

Internally generated computer software for internal use is developed or modified internally by the enterprise solely to meet the needs of the enterprise and at no stage it is planned to sell it.

The stages of development of internally generated software may be categorized into the following two phases:

i. **Preliminary project stage. i.e., the research phase.**
ii. **Development stage.**

Preliminary project stage. i.e., the research phase.

At the preliminary project stage the internally generated software should not be recognized as an asset. Expenditure incurred in the preliminary project stage should be recognized as an expense when it is incurred. The reason for such a treatment is that at this stage of the software project an enterprise cannot demonstrate that an asset exists from which future economic benefits are probable.

Development stage
Internally generated software arising at the development stage should be recognized as an asset if, and only if, an enterprise can find out all of the following:
The intention of the enterprise to complete the internally generated software and use it to perform the functions needed.
The intention to complete the internally generated software can be demonstrated if -

- The enterprise commits to the funding of the software project.
- There is technical feasibility of installing the internally generated software.
- The enterprise is able to use the software;
- There is availability of adequate technical, financial and other resources to complete the development and to use the software; and
- There is enough capacity to measure the expenditure attributable to the software during its development.

Q.18. Assume a ₹2,50,000 contract that requires 3 years to complete and incurs a total cost of ₹2,02,500. The following data pertain to the construction period:

	Year I	Year II	Year III
Cumulative costs incurred to date	**75,000**	**1,80,000**	**2,02,500**
Estimated cost yet to be incurred at year end	**1,50,000**	**20,000**	**-**
Progressive billing made during the year	**50,000**	**1,85,000**	**15,000**
Collection of billings	**37,500**	**1,50,000**	**62,500**

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS – 7.

Answer 18 :

Particulars	Year I	Year II	Year III
Initial amount of Revenue agreed in contract	2,50,000	2,50,000	2,50,000
Variation	-	-	-
Total Contract Revenue (A)	2,50,000	2,50,000	2,50,000
Contract Cost Incurred	75,000	1,80,000	2,02,500
Contract cost yet to be incurred to complete	1,50,000	20,000	-
Total Estimated Contract Cost (B)	2,25,000	2,00,000	2,02,500
Estimated Profit (A-B)	25,000	50,000	47,500

Stage of Completion $\frac{₹75,000}{₹2,25,000}\times 100$; $\frac{₹1,80,000}{₹2,00,000}\times 100$; $\frac{₹2,02,500}{₹2,02,500}\times 100$

=33⅓% **=90%** **=100%**

Revenue, Expense and Profit recognized in Profit and Loss Statement

Year I	Upto the reporting date	Recognised in Prior Year	Recognised in Current Year
Revenue (2,50,000 × 33⅓%)	83,333	-	83,333
Cost incurred	75,000	-	75,000
Profits	8,333	-	8,333
Year II			
Revenue (2,50,000 × 90%)	2,25,000	83,333	1,41,667
Cost incurred	1,80,000	75,000	1,05,000
Profits	45,000	8,333	36,667
Year III			
Contract Revenue Earned	2,50,000	2,25,000	25,000
Cost incurred	2,02,500	1,80,000	22,500
	47,500	45,000	2,500

Contract Disclosure (AS-7)

	Year I	Year II	Year III
1. Contract revenue recognised	83,333	2,25,000	2,50,000
2. Contract expenses recognised	75,000	1,80,000	2,02,500
3. Recognised Profit (Loss)	8,333	45,000	47,500
4. Contract cost incurred	75,000	1,80,000	2,02,500
5. Contract cost that relates to future activity recognised as an asset	NIL	NIL	NIL
6. Progress Billing	50,000	2,35,000	2,50,000
7. Unbilled contract revenue	33,333	NIL	NIL
8. Advances	37,500	1,50,000	62,500
9. Contract cost incurred and recognised Profit (Less recognised Loss)	83,333	2,25,000	2,50,000
10. Gross amount due from customer	33,333	NIL	NIL
11. Gross amount due to customer	NIL	10,000	NIL
12. Retention	12,500	47,500	NIL

Section - E

Q.19.(a)The following is an extract from the Trial Balance of Utsav Bank Ltd. as on 31st March 2013:

		₹
Rebate on Bills Discounted on 01.04.2012		**68,259 (Cr.)**
Discount Received		**1,70,156 (Cr.)**
Analysis of the bills discounted reveals:		
Amount (₹)	**Due Date**	
2,80,000	**June 1, 2013**	
8,72,000	**June 8, 2013**	
5,64,000	**June 21,2013**	
8,12,000	**July 1, 2013**	

You are required to find out the amount of discount to be credited to Profit and Loss Account for the year ending 31st March 2013, and pass journal entries.
The rate of discount may be taken at 10% p.a.

(b) Ayurvedic Ltd. produce a bottle of "Drakharista" at a cost of ₹10 each. They appointed Junior Medical Store of Chennai their agent on the terms that the agent would get commission @ 10% on invoice price of goods sold and an extra commission at 25% on any surplus price realised above invoice price.
On 01.07.2012, Ayurvedic Ltd. sent 50 boxes of "Drakharista" each box containing 50 bottles at invoice price showing a profit of $33\frac{1}{3}\%$ on such invoice price. They spent ₹ 3,000 for freight and ₹2,000 for insurance. 5 boxes were totally destroyed in – transit and insurance claim of ₹2,300 was realized from insurance company. The agent took delivery of the remaining goods and spent ₹2,000 for duty and ₹1,000 for freight to carry the goods to the rented godown. He also sent a bill of exchange for ₹20,000 payable after two months to the consignor as advance.
At the end of the year the agent reported that 40 boxes were sold at ₹18 per bottle and 1 box goods were lost due to bad packing. This would be treated as normal loss. The agent remitted a bank draft for the net amount after deducting his commission, advance money godown rent ₹800 and selling expenses ₹200.
On 01.01.2013 Ayurvedic Ltd. discounted the bill of ₹20,000 for ₹19,800. On 01.03.2013 the bank informed that the bill was dishonoured. Ayurvedic Ltd. demanded the entire amount along with an additional amount of ₹200 as interest. The Junior agent sent a bank draft for the amount on 15.03.2013.
You are asked to show the following accounts in the books of the consignor: (a) Consignment to Madras Account; (b) Madras Medical Stores Account; (c) consignment Stock Account; (d) Consignment stock Destroyed Account; (e) Consignment Stock Reserve Account.

Answer 19 (a) :

Rebate on bills discounted as on 31st March 2013 (for unexpired portion) is calculated as:

	Amount (₹)
On ₹2,80,000 $\times \frac{62}{365} \times \frac{10}{100}$	4,756
On ₹8,72,000 $\times \frac{69}{365} \times \frac{10}{100}$	16,484
On ₹5,64,000 $\times \frac{82}{365} \times \frac{10}{100}$	12,671
On ₹8,12,000 $\times \frac{92}{365} \times \frac{10}{100}$	20,467
	54,378

Thus, amount of discount to be credited to Profit and Loss Account

Particulars	Amount (₹)
Rebate on Bill Discounted (01.04.2012)	68,259
Add: Discount Received	1,70,156
	2,38,415
Less: Rebate on Bills Discounted (31.03.2013)	54,378
	1,84,037

In the Books of Utsav Bank Ltd.
Journal Entries

Date	Particulars	L.F	Debit (₹)	Credit (₹)
2013 March 31	Rebate on Bills Discounted A/c Dr. To, Interest and Discount A/c (Transfer of unexpired discount as on 31.03.2013)		68,259	68,259
	Interest and Discount A/c Dr. To, Rebate on Bills Discounted A/c (Unexpired discount considered as on 31.03.2013)		54,378	54,378
	Interest and Discount A/c Dr. To, Profit and Loss A/c (Interest and Discount transferred to P&L A/c.)		1,84,037	1,84,037

Answer 19 (b) :

In the books of Ayurvedic
Consignment to Junior Medical Stores Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012		37,500	2012		
July 1.	To Goods Sent on Consignment A/c (wn- 1)			By Goods Sent on Consignment - Loading	
	To Bank A/c	5,000	Dec.31.	By Consignment Stock Destroyed A/c	12,500
	-Freight 3,000		,,	By Junior Medical store	
	-Insurance 2,000			A/c (W.N.2)	4,250
Dec.31				-Sale Proceeds (40 x 50 x ₹18)	
	To Junior Medical Stores A/c				
	-Duty 2,000			By Consignment stock	36,000
	-Freight 1,000			A/c (W.N.2)	
	-Godown rent 800	4,000			
	- Selling Expense 200				3,750
	To Junior Medical Stores A/c(W.N.3)	4,500			
	-Commission	1,250			
	To Consignment Stock Destroyed A/c				
	-Loading $\left(₹12{,}500\times\frac{1}{10}\right)$	1,000			
	To Consignment Stock Reserve A/c				
	-Loading on closing stock $\left(₹12{,}500\times\frac{4}{50}\right)$				
		3,250			
Dec.31	To Profit and Loss A/c -Profit on Consignment Transferred				
		56,500			56,500

Junior Medical Store Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012			2012		
Dec.31.	To Consignment to Junior		Dec.31	By Bills receivable A/c	20,000
	Medical stores A/c	36,000		By Consignment to Junior	
	-Sale Proceeds			Medical stores A/c	
				-Expenses	4,000
				- Commission	4,500
				By Bank Draft A/c	7,500

		36,000			36,000
2013 Mar.1	To Bank A/c (B/R dishonoured	20,000 200	2013 Mar.15	By Bank Draft A/c	20,200
	To Interest A/c	20,200			20,200

Consignment Stock Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2012 Dec.31	To Consignment to Madras A/c	3,750	2012 Dec.31.	By Balance c/d	3,750
		3,750			3,750

Consignment Stock Destroyed Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2012		₹	2012		₹
	To Consignment to Junior Medical Store A/c	4,250		By Consignment to Junior Medical Stores (Loading) A/c	1,250
				By Bank A/c Insurance Claims	2,300
				By Profit and Loss A/c (bal. fig.)	700
		4,250			4,250

Consignment Stock reserve Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
2012		₹	2012		₹
Dec.31.	To Balance c/d	1,000	Dec.31	By Consignment to Junior Medical Stores A/c [Loading on Closing Stock]	1,000
		1,000			1,000

Workings:

1. **Invoice value of goods sent**

Particulars	₹
Cost of good sent (50 boxes @ ₹500(i.e. ₹10 x 50 bottles)	25,000
Add: Loading (50% of cost or $33\frac{1}{3}$% of I.P)	12,500
Invoice Price	37,500

2. **Valuation of goods destroyed in – transit and unsold stock:**

Particulars	₹
Invoice value of goods sent	37,500
Add: consignor's Expenses	12,500
	42,500
Less: Lost-in-Transit $\left(\frac{₹2{,}500 \times 5}{50}\right)$	4,250
	38,250
Add: Non-recurring expenses of Consignee (2,000 + 1,000)	3,000
I.P. of (50 – 5 – 1) 44 boxes	41,250

$\therefore$ Invoice Value of unsold Stock = ₹41,250 x $\frac{4}{44}$ = ₹3,750.

3. **Commission payable to Junior Medical Stores**

Particulars	₹
Total Sales	36,000
Less: Invoice value of goods sold	30,000
Surplus price	6,000

Particulars	₹
$\therefore$ Ordinary Commission @ 10% on ₹30,000 =	3,000
Add: Special Commission @25% on ₹6,000 =	1,500
	4,500

Note:
Loading on 'Normal Loss' is not to be considered at all since the cost Price/Invoice Price of such loss is not a charge against the profit on consignment.

Q.20. On 1.1.2013, 9% 200 Debentures of ₹ 100 each of Yuba Ltd. were held as investments by X Ltd. at a cost of ₹ 18,200. Interest is payable on 31st December.
On 1.4.2013, ₹4,000 of such Debentures were purchased by X Ltd. @ ₹98 and on 1.1.2013. ₹6,000 Debentures were sold at ₹96 ex-interest. On 1.12.2013 ₹8,000 Debentures were sold @ ₹99 cum-interest. On 31.12.2013, X Ltd. sold ₹10,000 Debentures @ ₹95.
Prepare Investment Account for 9% Debentures of Yuba Ltd. in the books of X Ltd. Ignore income-tax.

Answer 20:

In the Books of X Ltd.
Investment Account
(9% Debentures of Yuba Ltd. of ₹ 100 each)

Dr. **Cr.**

Date	Particulars	No. of Debentures	Value ₹	Date	Particulars	No. of Debentures	Value ₹
2013				2013			
Jan. 1	To Balance b/d	200	18,200	Jan. 1	By Bank – Sale	60	5,760
April 1	To Bank – Purchases	40	3,920	Dec. 1	By Bank – Sale	80	7,260*
	To Profit & Loss A/c	---	400	Dec 31	By Bank - Sale	100	9,500

	Profit						
		240	22,520			240	22,520

*Actual amount to be received on sale of debenture =₹(80×99) - [₹(80×100)×9%]×11/12
=₹7,920 - ₹660 =₹7,260.

Q.21.Amal and Bina entered into a joint venture for guaranteeing the subscription at par of 1,00,000 shares of ₹ 10 each of a Joint Stock Company. They agree to share profit and losses in the ration of 2 : 3. The terms with the company are 4½% commission in cash and 6,000 shares of the company as fully paid-up.

The public took up 88,000 of the shares and the balance share of the guaranteed issue are taken up by Amal and Bina who provide cash equally. The commission in cash is taken by partners in the ratio of 5:4.

The entire shareholding of the joint venture is then sold through brokers – 25% price of ₹ 9. 50% at a price of ₹ 8.75; 15% at a price of ₹ 8.50 and the remaining 10% are taken over by Amal and Bina equally at ₹ 8 per share. The sale proceeds of the shares are taken by the partners equally.

Prepare a Joint Venture Memorandum Account and the separate accounts of Amal and Bina in the books of Bina and Amal, respectively, showing the adjustment of the final balance between Amal and Bina.
Ignore interest and income-tax.

Answer 21:

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Amal (Cost of Shares) ,, Bina (Cost of Shares) ,, Profit to Joint Venture Amal 32,640 Bina 48,960	60,000 60,000 81,600	?	By Amal (Commission) Bina (Commission) ,, Amal (Sale Proceeds) Bina (Sale Proceeds) ,, Amal (Shares taken) Bina (Shares taken)	25,000 20,000 71,100 71,100 7,200 7,200
		2,01,600			2,01,600

In the books of Amal
Joint Venture with Bina

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Bank – Cost of Shares ,, Share of Profit ,, Bank – final settlement	60,000 32,640 10,660	?	By Bank – Commission ,, Bank – Sale Proceeds ,, Shares taken	25,000 71,100 7,200
		1,03,300			1,03,300

In the books of Bina
Joint Venture with Amal

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Bank – Cost of Shares ,, Share of Profit	60,000 48,960	?	By Bank – Commission ,, Bank – Sale Proceeds ,, Shares taken ,, Bank – Final settlement	20,000 71,100 7,200 10,660
		1,08,960			1,08,960

Workings:

A. Purchase of Shares
(1,00,000 – 88,000) = 12,000 @ ₹ 10 = ₹ 1,20,000 provided by Amal and Bina equally i.e., ₹ 60,000 each.

B. Calculation of Sales

6,000 Shares taken as Commission
12,000 shares purchase
Entire share-holding **18,000**

Particulars	₹
25% of 18,000 = 4,500 shares @ 9.00 =	40,500
50% of 18,000 = 9,000 shares @ 8.75 =	78,750
15% of 18,000 = 2,700 shares @ 8.50 =	22,950

1,42,200 x ½ = ₹ 71,100 made by Amal and Bina each.

C. Commission in Cash
1,00,000 Shares @ ₹ 10 = ₹ 10,00,000 x 4½% = ₹ 45,000 to be taken by Amal and Bina in the ratio 5:4.

D. Unsold Shares taken equally by Amal and Bina
10% of 1,800 shares @ ₹ 8.00 = ₹ 14,400 x ½ = ₹ 7,200 each.

Q.22 The factory premises of Toy Ltd. were engulfed in fire on 31st March 2013, as a result of which a major part of stock burnt to ashes. The stock was covered by policy for ₹ 2,00,000, subject to Average Clause.
The records at the office revealed the following information:

I. (i) The Company sold goods to dealers on one month credit at dealer's price which is catalogue price less 15%. A cash discount is allowed @ 5% for immediate payment.
(ii) The goods are also sold to agents at catalogue price less 10% against cash payment.
(iii) Goods are sent to branches at catalogue price.
(iv) Catalogue price is cost + 100%.

II. The sale/despatch during the period up to date of fire is –
(i) Sale to Dealer ₹ 6,80,000 (without Cash Discount)
(ii) Sale to Dealer ₹ 6,46,000 (Net of Cash Discount)
(iii) Sale of Agent ₹ 2,70,000
(iv) Despatch to branches ₹ 6,00,000.

III. Stock on 01.01.2013 was ₹ 5,00,000 at catalogue price. Purchases at cost from 01.01.2013 to 31st March, 2013 ₹ 12,50,000.

IV. Salvaged Stock valued at ₹ 90,000.

Compute the amount of claim to be lodged.

Answer 22:

In the books of Toy Company

Let the Cost price be ₹ 100.

Catalogue price will be ₹ 200 (i.e., ₹ 100 + 100%)

Agents' Price will be ₹ 180 (i.e., ₹ 200 – 10%)

Dealers' Price will be ₹ 170 (i.e., ₹ 200 – 15%)

Dealers' Price when cash discount is allowed will be ₹ 161.50 (i.e., dealers' price–5% on ₹161.50).

Ascertainment of Loss of Stock

Particulars	₹	₹
Opening Stock (₹ 5,00,000 x 50%)		2,50,000
Add: Purchases		12,50,000
		15,00,000
Less: Cost of Goods Sent:		
(i) To Dealers ₹ 6,80,000 x $\frac{100}{170}$ =	4,00,000	
(ii) To Agents ₹ 2,70,000 x $\frac{100}{180}$ =	1,50,000	
(iii) To Branches ₹ 6,00,000 x $\frac{100}{200}$ =	3,00,000	
(iv) To Dealers (enjoying Cash Discount) ₹ 6,46,000 x $\frac{100}{161.50}$ =	4,00,000	
		12,50,000
Closing Stock at Cost		2,50,000
Less: Salvaged Stock		90,000
∴ Loss of Stock		1,60,000

So, claim to be lodged after applying Average Clause : as policy value is less than the loss of stock

Net claim $= \text{Loss of Stock} \times \frac{\text{Policy Value}}{\text{Stock at the date of fire}}$

$= ₹\ 1{,}60{,}000 \times \frac{2{,}00{,}000}{2{,}50{,}000} = ₹\ 1{,}28{,}000.$

Q.23 M. Mitali had the following transactions with Sonali:

2013			**₹**
Jan.	**20**	**Sold goods to Sonali**	**280**
March	**2**	**Bought goods from Sonali**	**150**
	3	**Accepted Sonali's draft at 1 month due**	**120**
April	**11**	**Cash paid to Sonali's due end of May**	**100**
	30	**Goods sold to Sonali (will be due on 31st May)**	**80**
May	**11**	**Bought goods from Sonali**	**200**
June	**12**	**M. Mitali drew a bill on Sonali, this day, payable two months after date and this was duly accepted by Sonali**	**210**

Make out an Account Current to be rendered by M.Mitali to Sonali as at 30th June, bringing interest into account @10% p.a.

Answer 23:

M.Mitali in Account Current with Sonali

Dr. **Cr.**

Date	Due Date	Particulars	Amount ₹	Days	Products	Date	Due Date	Particulars	Amount ₹	Days	Products
2013 Jan. 20	2013 Jan. 20	To, Sales A/c	280.00	161	45,080	2013 Mar.2	2013 Mar.2	By, Purchase A/c	150.00	120	18,000
Mar.3	Apr.6	To, B/P A/c	120.00	85	10,200	May 11	May 11	By, Purchases A/c	200.00	50	10,000
Apr. 11	Apr.11	To, Cash A/c	100.00	80	8,000	June 11	Aug 14	To, B/R A/C	210.00	(-)45	(-)9,450
Apr.30	May.31	To, sales A/c	80.00	30	2,400	June 30	Aug 14	To, Balance of products	-	-	47,130
June 30		To, Interest on balance of product for one day @ 10%	12.91		-			To, Balance c/d	32.91		
			592.91		**65,680**				**592.91**		**65,680**
July 1		To, Balance b/d	32.91								

Note: (i) Interest =₹ $47{,}130 \times \frac{10}{100} \times \frac{1}{365} = ₹12.91.$

Q.24 (a) R considered the debt of S as irrecoverable and wrote-off that debt of ₹ 1,200 as bad on 02.03.2013. On 30.6.2013, S paid cash ₹ 1,000 to R in full settlement of the account and on the date further goods were sold to S invoiced at ₹ 3,120. S paid by a cheque of ₹ 1,000 and accepted a bill of exchange for the balance of ₹ 2,120 at 2 months. R discounted the bill at the bank for ₹ 2,040. The bill at maturity was returned to R as dishonoured, noting charge being ₹ 5. Next day S accepted a fresh bill at one month and paid cash for the noting charge and interest at 6%. A day before due date, S paid cash ₹ 640 and accepted another bill for the balance sum at 3 months. After a month, thereafter, S, having become insolvent, paid a compensation of 50 p. in the rupee. Show the entries in the books of R.

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

Date	Customer	Value (₹)
May 2	P	15,000
May 8	B	20,000
May 12	Q	28,000
May 18	D	30,000
May 20	E	10,000
May 27	R	26,000

Within the stipulated time P and Q returned the goods and B, D and E signified that they have accepted the goods. Show in the books of the firm the Sale or Return Account and Customers for Sale or Return Account as on 15th June, 2013.

Answer 24(a):

In the Books of R
Journal

Date	Particulars		L.F.	Debit	Credit
2013				₹	₹
March 2	Bad Debts A/c	Dr.		1,200.00	
	To S A/c				1,200.00
	(Amount due to S written-off as bad.)				
June 30.	Bank A/c	Dr.		1,000.00	
	To Bad Debts Recovery A/c				1,000.00
	(Amount recovered from S written-off as bad.)				
June 30	SA/c	Dr.		3,120.00	
	To Sales A/c				3,120.00
	(Goods sold to S.)				
June 30.	Bank A/c	Dr.		1,000.00	
	Bills Receivable A/c	Dr.		2,120.00	
	To S A/c				3,120.00
	(cash and bill received from S.)				
June 30.	Bank A/c	Dr.		2,040.00	
	Discount A/c	Dr.		80.00	
	To Bills receivable A/c				2,120.00
	(Bill discount by the bank.)				
Sept. 3.	S A/c	Dr.		2,125.00	
	To bank A/c				2,125.00
	(Bill dishonoured by S, noting charge being ₹5.)				
Sept. 4.	S A/c	Dr.		10.60	
	To Interest A/c				10.60
	(Interest receivable from S on ₹2,120 @ 6% for 1 months.)				
Sept. 4.	Bank A/c	Dr.		15.60	
	To S A/c				15.60

	(Cash received from, S for interest and noting charges)			
Sept. 4.	Bills Receivable A/c Dr. To S A/c (Fresh bill drawn and accepted by S.)		2,120.00	2,120.00
Oct. 7.	S A/c Dr. To Bills receivable A/c (Bill dishonoured on maturity.)		2,120.00	2,120.00
Oct. 7.	Bank A/c Dr. To S A/c (Cash received from S as part payment.)		640.00	640.00
Oct. 7.	Bills receivable A/c Dr. To S A/c (Fresh bill drawn and accepted by S.)		1,480.00	1,480.00
Nov. 7.	S A/c Dr. To Bills receivable A/c (Bill dishonoured as S became insolvent)		1,480.00	1,480.00
Nov. 7.	Bank A/c Dr. Bad debts A/c Dr. To S A/c (Cash received from S @ 50 in the rupee and the balance proved bad.		740.00 740.00	1480.00

Answer 24(b):

In the Sale or Return Ledger of the firm..........
Sale or Return Total Account (Folio............)

Dr. Cr.

Date 2013	Particulars	L.F.	Amount ₹	Date 2013	Particulars	L.F.	Amount ₹
15.6.	To Sundries — Sales [20,000+30,000+10,000]		60,000	15.6.	By Sundries (Goods sent on Sale or Return)		1,29,000
	" Sundries — Returns [15,000 + 28,000]		43,000				
	'' Balance c/f		26,000				
			1,29,000				1,29,000

P. Account

Dr. **Cr.**

Date 2013	Particulars	L. F.	Amount ₹	Date 2013	Particulars	L. F.	Amount ₹
2.5.	To Sale or Return A/c		15,000		By Sale or Return A/c (Return)		15,000

B. Account

Dr. **Cr.**

Date 2013	Particulars	L. F.	Amount ₹	Date 2013	Particulars	L. F.	Amount ₹
8.5.	To Sale or Return A/c		20,000		By Sale or Return A/c (Sales)		20,000

Q. Account

Dr. **Cr.**

Date 2013	Particulars	L.	Amount	Date 2013	Particulars	L. F.	Amount
12.5.	To Sale or Return A/c		28,000		By Sale or Return A/c (Returns)		28,000

D. Account

Dr. **Cr.**

Date 2013	Particulars	L. F.	Amount ₹	Date 2013	Particulars	L. F.	Amount ₹
18.5.	To Sale or Return A/c		30,000		By Sale or Return A/c (Sales)		30,000

E. Account

Dr. **Cr.**

Date 2013	Particulars	L.	Amount	Date 2013	Particulars	L. F.	Amount
20.5.	To Sale or Return A/c		10,000		By Sale or Return A/c (Sales)		10,000

R. Account

Dr. **Cr.**

Date 2013	Particulars	L. F.	Amount	Date 2013	Particulars	L. F.	Amount ₹
27.5.	To Sale or Return A/c		26,000	15.6.	By Balance c/f		26,000

Note: It has been assumed that June 15, 2013 is the closing day of the period concerned.

Section – F

Q. 25. When closing the books of a bank on 31.12.2012 you find in the loan ledger an unsecured balance of ₹ 2,00,000 in the account of a merchant whose financial condition is reported to you as bad and doubtful. Interest on the same account amounted to ₹ 20,000 during the year.

How would you deal with this item of interest in 2012 account?

During the year 2013, the bank accepts 75 paise in the rupee on account of the total debt due up to 31.12.2012.

Show the entries and the necessary accounts showing the ultimate effect of the transactions in 2013 books of account under Interest Suspense Method.

Answer 25.

Under Interest Suspense Method

When preparing the 2012 accounts the sum of ₹ 20,000 due from the merchant on account of interest should not be carried to Profit and Loss Account, because its recovery was doubtful. It should, therefore, be transferred to an Interest Suspense Account which would appear as a liability in Balance Sheet on 31.12.2012.

In the Books of Bank Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2012 Dec. 31	Merchant A/c Dr. To Interest Suspense A/c (Interest due transferred to Interest Suspense A/c)		20,000	20,000
	Interest Suspense A/c Dr. Bad Debts A/c Dr. To Merchant A/c (Interest not received and balances transferred to Bad Debts A/c)		5,000 50,000	55,000
	Cash A/c Dr. To Merchant A/c (Amount received @ 0.75 p in the rupee from the merchant.)		1,65,000	1,65,000
	Interest Suspense A/c Dr. To Profit and Loss A/c (Interest received out of Interest Suspense transferred)		15,000	15,000

In the Books of the Bank

Dr. Merchant's Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Dec. 31	To Balance b/d Int. Suspense A/c	2,00,000 20,000	2012 Dec. 31	By Balance c/d	2,20,000
		2,20,000			2,20,000

2013 Jan. 1	To Balance b/d	2,20,000	2013 Dec. 31	By Cash (Dividend @ 75p in the rupee) " Int. Suspense A/c (amount of Int. not covered) " Bad Debts	1,65,000 5,000 50,000
		2,20,000			2,20,000

Interest Suspense Account

Dr. **Cr.**

Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
2012 Dec. 31	To Balance c/d	20,000	2012 Dec. 31	By Merchant's A/c	20,000
		20,000			20,000
2013 Dec. 31	To Merchant's A/c " Profit & Loss A/c	5,000 15,000	2013 Jan. 1	By Balance b/d	20,000
		20,000			20,000

Notes:

1. Interest amounting to ₹20,000 due from customer has been debited to him by crediting Interest Suspense Account (and not to Interest A/c as its recovery is doubtful) and Interest Suspense A/c will appear in the liability side of the Balance Sheet.
2. Actual amount of interest which has been received in cash, i.e. ₹15,000, is transferred to P&LA/c.

Q. 26. The following balances appeared in the books of Happy Mutual Life Assurance Society Ltd. as on 31st March 2014:

Dr. **Cr.**

Particulars	**(₹ in lakh)**	**Particulars**	**(₹ in lakh)**
Claims less reassurance paid during The year		**Life Assurance Fund at the beginning of the year**	**1,00,000**
By death	**4,400**	**Premium less Reassurances**	**30,000**
By maturity	**3,000**	**Claims less reassurances outstanding**	
Annuities	**12**	**At the beginning of the year:**	
Furniture and Office Equipment at			

cost		By death	1,800
(including ₹80 lakh bought during the year)	500	By maturity	1,200
		Credit balances pending adjustments	120
Printing and Stationery	154		
Cash with Bank in current account	2,700	Consideration for annuities granted	4
Cash and stamp in hand	60	Interest, dividends and rents	
Surrenders less Reassurances	80	Registration and other Fees	3,600
Commission	500	Sundry Deposits	4
Expenses of Management	6,200	Taxation Provision	200
Sundry Deposits with Electricity Companies	2	Premium Deposits	600
		Sundry Creditors	2,300
Advance Payment of Tax	100	Contingency Reserve	700
Sundry Debtors	100	Furniture and Office Equipment	300
Agents Balances	200	Depreciation Account	
Income Tax	900	Building Depreciation Account	80
Income Tax on Interest, Dividend and Rents	1,000		600
Loans and Mortgages	300		
Loans on Policies	6,500		
Investments (₹500 lakh deposited with Reserve Bank of India)	1,04,000		
House Property at Cost (including ₹ 170 lakh added during the year)	10,800		
	1,41,508		1,41,508

From the foregoing balances and the following information, prepare the Balance Sheet of Happy Mutual Life Assurance Society Ltd. as on 31st March 2014 and its Revenue Account for the year ended on that date:

(i) Claims less reassurance outstanding at the end of the year: By death ₹ 1,200 lakh, By maturity ₹ 800 lakh.

(ii) Expenses outstanding ₹ 120 lakh and prepaid ₹ 30 lakh.

(iii) Provide ₹ 90 lakh for depreciation on buildings, ₹ 30 lakh for depreciation on furniture and office equipment and ₹ 220 lakh for taxation.

(iv) Premiums outstanding ₹4056 lakh, commission thereon ₹ 130 lakhs.

(v) Interests, dividends and rents outstanding (net) ₹ 60 lakh and interests and rents accrued (net) ₹ 700 lakh.

Answer 26. **Happy Mutual Life Assurance Society Ltd.**

Form A-RA

Revenue Account for the Year Ended 31 st March 2014

Particulars	**Schedule**	**Current Year (₹ in lakh)**	**Previous Year (₹ in lakh)**
Premium earned-net	1	34,056	
Investment from Investments			
Interest, Dividends and Rent(Gross)(3,600+60+700)		4,360	
Other Income:			
Annuities granted		4	
Registration and other Fees		4	
Total (A)		38,424	
Commission	2	630	
Operating Expenses	3	6,564	
Provision for Tax		1,520	
Total (B)		8,714	
Benefits paid (net)	4	6,492	
Total (c)		6,492	
Surplus (D)=A-B-C		23,218	

Form A-BS

Balance Sheet as on 31st March 2014

Particulars	**Schedule**	**Current Year (₹ in lakh)**	**Previous Year (₹ in lakh)**
Share Capital	5		
Reserves and Surplus	6	1,23,518	
Borrowings	7	2,500	
Total		**1,26,018**	
Application of Funds			
Investment	8	1,13,610	
Loan	9	6,800	
Fixed Assets	10	390	
		1,20,800	
Current Assets:			

Cash and Bank Balance Advances and Other Assets	11 12	2,760 5,748	
Sub-Total (A)		**8,508**	
Current Liabilities Provisions	13 14	3,070 220	
Sub-Total (B)		**3,290**	
Net Current Assets=Sub-Total (A)-Sub-Total (B)		**1,26,018**	

Note: Since the question is silent about the preparation of Profit & Loss Account, as such (From A-PL) is not prepared.
Thus Provision for Taxation and adjustments are shown in Revenue Account.
Schedules forming parts of Financial Statements

Workings:

Schedule 1: Premium Earned	**(₹ in lakh)**
Premium Add: Outstanding	30,000 4,056
	34,056

Schedule 2: Commission	**(₹ in lakh)**
Commission Paid Add: Commission on Re-Insurance Accepted	500 130
	630

Schedule 3: Operating Expenses	**(₹ in lakh)**	**(₹ in lakh)**
Expenses of management Add: Outstanding	6,200 120	
 Less: Prepaid	6,320 30	 6,290
Printing & Stationary Depreciation on: Building Furniture	 90 30	154 120
		6,564

Schedule 4: Benefit (Paid)	**(₹ in lakh)**	**(₹ in lakh)**
Insurance Claims: By Death-		

Paid Add: Outstanding at the ends	4,400 1,200	
Less: Out. at the beginning	5,600 1,800	3,800
By Maturity- Paid Add: Outstanding at the end	3,000 800	
Less: Outstanding at beginning	3,800 1,200	2,600
Annuities		12
Surrender, less Re-insurance		80
		6,492

Schedule 5: Share Capital	**(₹ in lakh)**
Share Capital	Nil
	Nil

Schedule 6: Reserves & Surplus	**(₹ in lakh)**
Contingency Reserve Add: Other Life Assurance Fund	300 1,23,218
	1,23,518

Schedule 7: Borrowings	**(₹ in lakh)**
Premium Deposit Add: Sundry Deposits	2,300 200
	2,500

Schedule 8: Investments	**(₹ in lakh)**	**(₹ in lakh)**
Investment in House Property Additions	10,630 170	
Less: Depreciation Other Investments	10,800 690	10,110 1,03,500
		1,13,610

Schedule 9: Loans	**(₹ in lakh)**
Mortgage Policies	300 6,500
	6,800

Schedule 10: Fixed Assets	**(₹ in lakh)**
Furniture (420-30)	390
	390

Schedule 11: Cash and Book Balance	**(₹ in lakh)**
Cash + Stamps Bank at Current A/c	60 2,700
	2,760

Schedule 12: Advance and Other Assets	**(₹ in lakh)**	**(₹ in lakh)**
Advances:		
Prepaid Expenses	30	
Adv. Payment of Tax	100	130
Other Assets:		
Int. Dividend & Rent Outstanding		60
Int. Dividend Rent Accruing		700
Outstanding Premium		4,056
Agents' balance		200
Sundry Debtors		100
Deposit with RBI		500
Deposit with Electricity Co.		2
		5,748

Schedule 13: Current Liabilities	**(₹ in lakh)**
Creditors	700
Outstanding Expenses	120
Com. Due but not paid	130
Claims outstanding	2,000
Credit balance Pending adjustments	120
	3,070

Schedule 14: Provisions	**(₹ in lakh)**
Provisions for Tax	220
	220

Schedule 15: Miscellaneous	**(₹ in lakh)**
Misc. Expenses	Nil
	Nil

Q. 27. In Calculate Rebate on Bills discounted as on 31 December, 2011 from the following data and show journal entries:

	Date of Bill	₹	Period	Rate of Discount
(i)	15.10.2011	50,000	5 months	8%
(ii)	10.11.2011	30,000	4 months	7%
(iii)	25.11.2011	40,000	4 months	7%
(iv)	20.12.2011	60,000	3 months	9%

Answer 27.

(a) Calculation of Rebate on Bills Discounted

₹	Due Date	Days after 31 December, 2013	Discount Rate	₹
50,000	18/03/2012	31+29+18=78	8%	852.46
30,000	13/03/2012	31+29+13=73	7%	418.85
40,000	28/03/2012	31+29+28=88	7%	673.22
60,000	23/03/2012	31+29+23=83	9%	1,224.59
Total				3,169.12

Date	Particulars	Dr. ₹	Cr. ₹
Dec.31	Interest and Discount Account Dr. To, Rebate on Bills Discounted (Being the provision for unexpired discount required at the end of the year)	3,169.12	 3,169.12

Q. 28. The Trial Balance of Vivan Electric Supply Ltd. For the year ended 31st March, 2013 is as below:

Particulars	*Dr.* Amount (₹ in '000)	*Cr.* Amount (₹ in '000)
Share Capital:		
Equity Shares of ₹10 each		50,000
14% Preference Shares of ₹100 each		15,000
Patents and trade mark	2,504	
15% Debentures		24,700
16% term loan		15,300
Land (additons during the year 20,50)	12,450	
Building (additions during the year 50,80)	35,134	
Plant & Machinery	57,058	
Mains	4,524	
Meters	3,150	
Electrical Instruments	1,530	
Office Furniture	2,450	
Capital Reserve		4,020
Contingency Reserves		12,030
General Reserve		1,000
Transformers	16,440	
Opening Balance of Profit & Loss Account		350
Profit for the year 2012-13 subject to adjustments		5,000
Stock in hand	12,050	
Sundry Debtors	6,246	
Contingency Reserve Investments:		
SBI Bonds-2020	10,010	
Other Investments	2,000	
Cash & Bank	3,254	
Public lamps	3,040	
Depreciation Fund		25,816
Sundry Creditors		
	1,71,840	1,71,840

During 2012-13 1,00,000, 14% Preference Shares were redeemed at a premium of 10% out of proceeds of fresh issue of equity shares of necessary amounts at a premium of 10%

Required prepare for the above period general balance sheet as on 31st March, 2013 as per the revised schedule VI:

Adjustments:

1. **Transfer to Contingency Reserve ₹ 1,70,000 & to General Reserve ₹ 2,00,000**
2. **Loss on Contingency Reserve Investment ₹ 10,000**
3. **Make a Provision for debts considered doubtful of ₹ 1,014,000**

Answer 28.

Vivan Electric Supply Ltd.

Balance Sheet as at 31st March, 2013

Particulars	Note No.	(₹ in '000)
I. EQUITYANDLIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital	1	65,000
(b) Reserves and Surplus	2	21,376
(2) Non-Current Liabilities		
(a) Long-term Borrowings	3	40,000
(3) Current Liabilities		
(a) Trade Payables		6,524
(b) Short-Term Provisions	4	12,100
Total		1,45,000
II. ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	5	1,09,960
(ii) Intangible Assets		2,504
(b) Non-Current Investments	6	12,000
(2) Current Assets		
(a) Inventories		12,050
(b) Trade Receivables	7	5,232
(c) Cash and Cash Equivalents		3,254
Total		1,45,000

Notes to Accounts:

1. Share Capital

	(₹ in '000)
Authorised Capital	
50,00,000 shares of 10 each	50,000
2,50,000 14% Pref. Shares of 100 each	25,000
	75,000

Issued & Subscribed Capital 50,00,000 shares of 10 each 2,50,000 14% Pref. Shares of 100 each Less: 1,00,000 14% Pref. Shares of 100 each	 50,000 25,000 (10,000)
	65,000

2. Reserves and Surplus

	(₹ in '000)	(₹ in '000)
Capital Reserve		4,020
Contingency Reserve (12,030 + 170 – 10)		12,190
General Reserve (1,000 + 200)		1,200
Profit & Loss Account		
Opening Balance	350	
Add: Profit for the period	5,000	
Less: Transfer to General Reserve	(200)	
Less: Transfer to Contingency Reserve	(170)	
Less: Provision for Doubtful Debts	(1,014)	3,966
Total		**21,376**

3. Long-term Borrowings

	(₹ in '000)
15% Debentures	24,700
16% Term Loan	15,300
	40,000

4. Short-term Provisions

	(₹ in '000)
Proposed Dividend	12,100
	12,100

5. Tangible Assets

	(₹ in '000)
Land (10,400 + 2,050)	12,450
Building (30,054 + 5,080)	35,134
Plant & Machinery	57,058
Mains	4,524
Meters	3,150
Electrical Instruments	1,530
Office Furniture	2 450
Transformers	16 440
Public lamps	3 040
Less: Depreciation Fund	(25,816)
Total	**1,09,960**

6. Non-Current Investments

	(₹ in '000)
SBI Bond-2020 (10,010 – 10)	10,000
Other Investments	2,000
	12,000

7. Trade Receivables

	(₹ in '000)
Sundry Debtors	6,246
Less : Provision for Doubtful Debts	(1,014)
	5,232

Q. 29. Bijli Electric Company decides to replace one of its old plant by an improved plant with larger capacity. The cost of the new plant is ₹ 8,00,000.
Materials and Labour earlier and now are in the ratio of 4 : 6.

Original cost of the old plant is ₹ 1,50,000. Materials cost has gone up by 2½ times and Labour cost by 3 times since then. Old materials worth ₹5,000 were used in the construction of the new plant and ₹ 15,000 were realised from the sale of old materials.

Give the necessary Journal Entries for recording the above transactions.

Answer 29:

Journal Entries

Particulars	L.F.	Amount (₹)	Amount (₹)
Plant A/c To Bank A/c To Replacement A/c (Being the additional cost incurred and old materials utilized in new plant)		3,85,000	 3,80,000 5,000
Replacement A/c To Bank A/c (Being the current cost of replacement)		4,20,000	 4,20,000
Bank A/c To Replacement A/c (Being the old materials sold)		15,000	 15,000
Revenue A/c To Replacement A/c (Being the balance of replacement account transferred to Revenue Account)		4,00,000	 4,00,000

Working Note:

Old cost of the plant ₹ 1,50,000:

Material = 1,50,000 x 40/100 = 60,000

Labour = 1,50,000 x 60/100 = 90,000

Particulars	Amount (₹)	Amount(₹)
Cost of material increased by 250% =₹60,000×250%		1,50,000
Cost of labour increased by 300% = ₹90,000×300%		2,70,000
Current cost of replacing old plant		4,20,000
Less: Sale of old materials	15,000	
Old materials utilized in new plant	5,000	20,000
Amount to be transferred to Revenue Account		4,00,000
Cash cost of new plant		8,00,000
Add: Old materials utilized		5,000
		8,05,000
Less: Current cost of replacing old plant		4,20,000
Amount to be capilised		3,85,000

* The cost of new plant has been given as ₹8,00,000 in the question. It has been assumed in the above solution that this cost does not include the cost of old materials used in the construction of new plant worth ₹5,000.

Q. 30. Given below are details of interest on advance of a Commercial Bank as on 31.03.2013:

(₹ in Lakhs)

Particulars	Interest Earned (₹)	Interest Received (₹)
Performing Assets		
Term Loan	**730**	**480**
Cash Credit and Overdraft	**4,500**	**3,720**
Bills Purchased and Discounted	**900**	**900**
Non-Performing Assets		
Term Loan	**450**	**20**
Cash Credit and Overdraft	**900**	**72**
Bills Purchased and Discounted	**600**	**120**

Find out the income to be recognized for the year ended 31st March 2013.

Answer:

As per RBI Circular, interest on non-performing assets are considered on Cash Basis whereas interest on performing assets are considered on Accrual Basis.

Statement Showing the Recognition of Income

Particulars	Amount ₹	Amount ₹
A. Interest on Term Loans		
(i) Performing Assets	730	
(i) Non-performing Assets	20	750
B. Interest on Csah Credit and Overdraft		
(i) Performing Assets	4,500	
(ii) Non-performing Assets	72	4,572
C. Interest on Bills Purchased and Discounted		
(i) Performing Assets	900	
(ii) Non-performing Assets	120	1,020
Income to be Recognized		6,342