

Paper 5- Financial Accounting

Working Notes should form part of the answer.

Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates.

Section A is compulsory and any 5 questions from the rest

Section - A

- 1 (a) From the four alternatives given against each statement, choose the correct

Alternative:

[1×6=6]

- (i) In a written agreement amongst the partners, interest @ 5% p.a. is to be provided on loan. The interest given by a partner to the firm will be at an interest at the rate of
(A) 5% (B) 6% (c) 8% (D) 10%

- (ii) Depreciation accounting is a process of
(A) Apportionment
(B) Valuation
(C) Allocation
(D) Appropriation

- (iii) X Ltd . has

Equity share @	₹ 100 each
Equity share @	₹ 50 each
Equity share @	₹ 10 each

They are :-

- (A) Same Class
(B) Different Class
(C) None of the above
(D) Both (A) and (B) All of the above
- (iv) AS-6 is related to:
(A) Valuation of inventories
(B) Accounting for Construction Contracts
(C) Cash Flow Statements
(D) Depreciation accounting
- (v) Current Ratio is a:
(A) Current Assets/ Current liability
(B) Current Asset/ Current Liability – Bank Overdraft
(C) Current Assets – Stock/ Current Liability
(D) None of the Above
- (vi) In Accounting Equation:
(A) Equity and assets are dependent variables.
(B) Assets and liabilities are dependent variables.
(C) Equity and liabilities are dependent variables.
(D) Assets and Liabilities are Independent variables.

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- (b) State whether following statements are True/False [1×5 = 5]
- (i) Issue of bonus shares does not change the amount of equity in the Balance Sheet.
 - (ii) Depreciation is charged on "Wasting Assets".
 - (iii) Stock and debtors system is generally used when the goods are sent to the branch at cost price.
 - (iv) Wages incurred by departmental workers of a factory in installing new machinery is revenue expenditure.
 - (v) One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets.

- (c) Fill in the blanks [1 x 5 = 5]
- (i) Dividends are usually paid as a percentage of _____ .
 - (ii) Debenture holders are _____ of a company.
 - (iii) Minimum partners required for a non-banking partnership firm are _____.
 - (iv) Compensation given to old partners for sacrifice made in favour new partner is known as _____.
 - (v) Partners X, Y and Z change their profit sharing ratio from 5:3:2 to 3:2:1 respectively and goodwill for the purpose is valued at ₹10,00,000. Goodwill will be raised by partners in _____ ratio.

- (d) Match the following: [1×5=5]

A	B
(i) AS-3	(A) Accounting for Government grants
(ii) AS-20	(B) Segmental Reporting
(iii) Garner Vs Murray Rule	(C) Cash Flow Statement
(iv) AS-17	(D) Dissolution of Partnership
(v) AS-12	(E) Earnings per Share
	(F) No matching statements found

- (e) (i) During the year ₹ 96,000 was Debited as salary in the Income Expenditure Account. There was outstanding on Salary Account at the beginning and at the end of the year were ₹ 12,000 and ₹ 15,000 respectively. What would be the amount of salary paid shown in Receipt and Payments Account?
- (ii) The capital of a Company comprises of equity shares of ₹ 10 each amounting to ₹ 10 lakhs and 10% Preference Shares of ₹ 2 lakhs. Profit after tax for the year is ₹ 4 lakhs. Dividend declared is @ 25% and current market price of Equity Share is ₹ 80 each. What is the Price- Earning Ratio?

Solution:

- (a) (i) (B) 5%
 (ii) (C) Allocation
 (iii) (C) None of the above
 (iv) (D) Depreciation Accounting
 (v) (A) Current Assets/ Current liability
 (vi) (D) Assets and Liabilities are Independent variables

- (b)(i) **True:** Issue of bonus share results in transfer of an amount from one component of equity in the balance sheet to another component. Issue of bonus share is a book adjustment.

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(ii) **False:** Accounting Standard 6 is not applicable on "wasting Asset".

(iii) **False.** This system is generally used when the goods are sent to the branch at an Invoice price.

(iv) **False.** The wages are part of installation cost and should be capitalized with value of machinery.

(v) **True.** The amount of depreciation is accumulated in a separate fund called sinking fund.

- (c) (i) Paid up capital.
 (ii) Creditors.
 (iii) Two
 (iv) Premium
 (v) Old Profit sharing ratio.

(d)

(i) AS-3	(C) Cash Flow statement
(ii) AS-20	(E) Earnings per share
(iii) Garner Vs Murray Rule	(D) Dissolution of Partnership
(iv) AS-17	(B) Segmental Reporting
(v) AS-12	(A) Accounting for Government grants

(e) (i)

Dr.		Salary Account		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To, Receipts and Payments A/c (B.f.)	93,000	By, Balance b/d	12,000		
To, Balance c/d	15,000	By, Income and Expenditure A/c	96,000		
	1,08,000		1,08,000		

(ii) $EPS = \frac{\text{Net Profit attributable to equity shareholders}}{\text{Weighted Average Number of equity shares outstanding}}$

$$\frac{4,00,000 - (10\% \text{ of } 2,00,000)}{1,00,000} = \frac{3,80,000}{1,00,000} = 3.8$$

Price Earnings Ratio is:

$$\frac{MPS}{EPS} = \frac{80}{3.8} = 21.05 \text{ times}$$

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Section - B

2. (a) CAS Ltd. furnishes you with the following Balance Sheet as at 31.03.2014

Particulars	(₹ In crores)	
Sources of Funds:		
Share Capital:		
Authorized		<u>100</u>
Issued:		
12% Redeemable Preference Shares of ₹ 100 each fully paid	75	
Equity shares of ₹ 10 each fully paid	<u>25</u>	100
Reserves and surplus:		
Capital reserve	15	
Securities premium	25	
Revenue reserves	<u>260</u>	300
		<u>400</u>
Funds Employed in:		
Fixed assets: cost	100	
Less: Provision of depreciation	<u>100</u>	Nil
Investment at cost (market value ₹ 400 Cr.)		100
Current assets	340	
Less: Current liabilities	<u>40</u>	300
		<u>400</u>

The company redeemed preference shares on 1st April, 2014. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as part of current assets.

You are asked to:

- (i) Pass journal entries to record the above.
- (ii) Prepare Balance Sheet.
- (iii) Value equity share on net asset basis.

(b) NDA Limited purchased a machine of ₹ 20 lakhs including excise duty of ₹ 4 lakhs. The excise duty is Cenvatable under the excise laws. The enterprise intends to avail CENVAT credit and it is reasonably certain to utilize the same within reasonable time. How should the excise duty of ₹ 4 lakhs be treated? [12+3]

Solution:

Journal of CAS Ltd.		(₹ in Crores)	
Particulars		Dr. (₹)	Cr. (₹)
Redeemable Preference Share Capital A/c	Dr.	75	
To Redeemable Preference Shareholders A/c			75
(Being redemption of 12% preference shares pursuant to capital re-organization)			
Redeemable Preference Shareholders A/c	Dr.	75	
To Bank A/c			75
(Being the payment made to Redeemable Preference Shareholders)			
Revenue Reserves A/c	Dr.	75	
To Capital Redemption Reserve A/c			75
(Being amount equal to par value of preference shares redeemed out of profits, transferred to capital redemption reserve)			
Equity Shares Capital A/c	Dr.	25	
To Bank A/c			25

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(Being buyback of 50 lakh equity shares of ₹ 10 each from the members at a price of ₹ 50 per share, premium paid out of revenue reserves)			
Equity Shares Capital A/c	Dr.	5	
Revenue Reserves A/c	Dr.	20	
To Equity Share Buy Back A/c			25
(Being the cancellation of Equity Share Buy Back A/c)			
Revenue Reserves A/c	Dr.	5	
To Capital Redemption Reserve A/c			5
(Being transfer to capital redemption reserve, on buyback out of reserves)			

(ii) Balance Sheet of CAS Ltd. as at 01.04.2014

Particulars	Note No.	₹ (lacs)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital (₹ 10 each) [25 – 5]		20
(b) Reserves and Surplus	1	280
(2) Non-Current Liabilities [Debentures]		
(3) Current Liabilities		40
Total		340
II. Assets		
(1) Non-Current Assets		0
(a) Fixed Assets [100 – 100]		
(b) Non-Current Investments [Market Value ₹ 400 crores]		100
(2) Current Assets [340 – 75 – 25]		240
Total		340

Notes to Accounts:

(1) Reserve and surplus

Particulars	₹ (lacs)
Reserves and Surplus	
Revenue Reserve [260-80-20]	160
Capital Reserve	15
Capital Redemption Reserve	80
Securities Premium	25
Total	280

(iii) Net Asset Value of an Equity Share

Particulars	₹ In crores
Investments (at market value)	400
Net current assets	200
Net assets available to equity shareholders	600

No. of equity shares = 2 crores

Value of an equity share = 600 crores/2 crores = ₹ 300 crores

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(b) (₹ In lakh)

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

3. (a) Prepare the working capital requirement from the following information:

Average collection period 60 days

Average payment period 75 days

Inventory holding period 90 days

(Calculate with reference to cost of goods sold)

Cash and Bank balance 2.5% of sales.

Sales ₹ 2,00,000, gross profit 25%

Credit purchase = 1/3 of cost of goods sold.

The company expects 50% sales increment during the next year. (Assume 1 year = 360 days)

(b) X, Y and Z were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. No interest was to be allowed on current or capital accounts of the partner but their loan accounts were to carry an interest of 10% p.a.

Due to persistent losses and the continued illness of Y, the firm decided to get dissolved on 31st March 2014. Its accounts were closed for the last time on 31st Dec. 2013 on which date its Balance Sheet was:

Particulars	Amount (₹)	Particulars	Amount (₹)
₹		Plant and Machinery	60,000
Capital Account		Furniture & Fittings	10,000
X 48,000		Motor Cars	40,000
Y <u>33,000</u>	81,000	Stock	55,000
Loan A/C—X	22,000	Sundry Debtors	40,000
Trade Creditors	80,000	Capital A/c	
Bank Overdraft	30,000	Z	8,000
	<u>2,13,000</u>		<u>2,13,000</u>

Between 31st Dec. 2013 and 31st March 2014, goods to the value of ₹ 30,000 were purchased and sales amounted to ₹ 45,000. In addition to payment to trade creditors, payments made were for Salaries, Wages ₹ 12,000 and for general and office expenses ₹ 6,000. Drawings of each partner were ₹ 800 p.m. On 31st March 2013, debtors, creditors and stock-in-trade were ₹ 60,000; ₹ 70,000 and ₹ 45,000, respectively. In dissolution proceedings the partners agreed to transfer the entire business (with all assets and liabilities including partners' loan) as a going concern to D for a consideration of ₹ 90,000. Cost of dissolution amounted to ₹ 2,800 which were met by X.

Show the necessary entries for the dissolution of the firm and also the capital account of the partners, assuming that all of them are solvent. [5+10]

Answer to PTP_Intermediate_Syllabus2008_June 2015_Set 3

Solution:

(a) Before ascertaining the working capital requirement, the following figures should be calculated:

Sales ₹ 2,00,000 + 50% increase = ₹ 30,00,000.

$$(i) \text{ Debtors' Turnover Ratio} = \frac{\text{Debtors}}{\text{Credit Sales}} \times 360$$

$$(ii) \text{ Or, } 60 = \frac{\text{Debtors}}{\text{₹ 30,00,000}} \times 360$$

$$\text{Debtors} = \text{₹ 5,00,000.}$$

(iii) Cost of goods sold :

Particulars	Amount (₹)
Sales	30,00,000
Less: Gross Profit @ 25%	7,50,000
Cost of Goods sold	22,50,000

Therefore, Amount of purchase will be : ₹ 22,50,000 x 1/3 = 7,50,000

$$(iv) \text{ Creditors' Turnover Ratio} = \frac{\text{Creditors}}{\text{Credit Purchase}} \times 360$$

$$75 = \frac{\text{Creditors}}{7,50,000} \times 360$$

$$\text{Creditors} = \text{₹ 1,56,250}$$

$$(v) \text{ Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Closing Stock}} \times 360$$

$$90 = \frac{22,50,000}{\text{Closing Stock}} \times 360$$

$$\text{Closing Stock} = \text{₹ 5,62,500.}$$

(vi) Cash and Bank is 2.5% of sales (i.e., ₹ 30,00,000 x $\frac{2.5}{100}$) = ₹ 75,000.

Working Capital Requirement

Particulars	₹	₹
Current Assets		
Stock/Inventory	5,62,500	
Debtors	5,00,000	
Cash and Bank	75,000	
		11,37,500
Less: Current Liabilities		
Creditor		1,56,250
Net Working Capital		9,81,250

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(b) Note:

Before preparing the Journal entries for preparing Realization Account and Capital Account, the following Trading Profit and Loss Account and the Balance Sheet for the year ended 31st March 2014 should be prepared:

Trading and Profit and Loss Account for the year ended 31st March 2014

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	55,000	Sales	45,000
" Purchases	30,000	Closing Stock	45,000
" Gross Profit c/d	5,000		
	90,000		90,000
To Salaries & Wages	12,000	Gross Profit b/d	5,000
" General Office Expenses	6,000	Net Loss	
" Interest on Loan	550	X	6,775
		Y	4,517
		Z	2,258
	18,550		13,550
			18,550

Balance Sheet as at 31st March 2014

Liabilities	₹	₹	Assets	₹
Capital A/c			Plant & Machinery	60,000
X—Balance	48,000		Furniture & Fitting	10,000
Less: Net Loss	6,775		Motor Car	40,000
	41,225		Stock	45,000
Less: Drawings	2,400	38,825	Debtors	60,000
Y—Balance	33,000		Capital A/c	12,658
Less: Net Loss	4,517		Z (8,000 + 2,258 + 2,400)	
	28,483			
Less: Drawings	2,400	26,083		
X's Loan (22,000 + 550)		22,550		
Sundry Creditors		70,000		
Bank Overdraft		70,200		
		2,27,658		2,27,658

Total Debtors Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance b/d	40,000	By Bank (bal.fig.)	25,000
" Credit Sales	45,000	" Balance c/d	60,000
	85,000		85,000

Total Creditors Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Bank (bal.fig.)	40,000	By Balance b/d	80,000
" Balance c/d	70,000	" Credit Purchase	30,000
	1,10,000		1,10,000

Bank Account

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Dr.		Cr.	
Particulars	₹	Particulars	₹
To Sundry Debtors	25,000	By Balance b/d	30,000
" Balance c/d	70,200	`` Salaries & Wages A/c	12,000
		`` General & Office Expenses	6,000
		`` Sundry Creditor A/c	40,000
		`` Drawings	7,200
	95,200		95,200

Journal		Dr.	Cr.
Date	Particulars	L. F.	Amount ₹
	Realization A/c Dr. To Plant and Machinery " Furniture & Fittings A/c " Motor Car A/c " Stock A/c " Debtors A/c (Various assets transferred to Realization A/c.)		2,15,000
	Sundry Creditors A/c Dr. Bank Overdraft A/c Dr. X's Loan A/c Dr. To Realization A/c (Various liabilities transferred to Realization A/c.)		1,62,750
	Bank A/c Dr. To Realization A/c (Purchase consideration realized.)		90,000
	Realization A/c Dr. To X's Capital A/c (Expenses of realization paid by X.)		2,800
	Realization A/c Dr. To X's Capital A/c `` Y's Capital A/c `` Z's Capital A/c (Profit on realization transferred.)		34,950
	X's Capital A/c Dr. Y's Capital A/c Dr. To Bank A/c (Final payment made to the partners)		96,833
	Bank A/c Dr. To Z's Capital A/c (Amount brought in by Z.)		6,833

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Partners' Capital Account

Dr.							Cr.
Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Balance b/d	---	---	8,000	By Balance b/d	48,000	33,000	—
` Drawings A/c	2,400	2,400	2,400	` Realization A/c			
` Net Loss	6,775	4,517	2,258	— Profit	17,475	11,650	5,825
` Bank A/c				` Realization A/c			
- Final settlement	59,100	37,733	---	— Expenses	2,800	---	---
				` Bank A/c	---	---	6,833
	68,275	44,650	12,658		68,275	44,650	12,658

4 (a) S had patented a new type of pocket transistor. On 1.1.2011 he granted P a licence to manufacture and sell the transistors on the following terms:

- (i) P to pay a royalty of ₹ 5 for each transistor manufactured and a further royalty of ₹ 3 for each transistor sold with a minimum rent of ₹ 8,000 per annum.
- (ii) If in any year the royalties calculated on the transistors manufactured and sold be less than the minimum rent, P to have the right to recoup short working out of the royalties in excess of the minimum rent during the two years immediately following, subject to a maximum amount of ₹ 2,000 per annum.

The number of transistors manufactured and sold for the first 4 years were as follows:

Year	Manufactured	Sold
2011	800	500
2012	1,000	700
2013	2,500	1,500
2014	500	2,000

All the payments were made by P on due dates. Prepare (1) P's Account; (2) Royalty Receivable Account and (3) Short working Account in the books of S.

- (b) Define Computer Software and explain what should be the period of amortization of the computer software. [10+5]

Solution:

(a)

Working Note:

Analysis of Royalty Receivable

Year	Dead Rent	Royalty Receivable	Short workings				Actual Receipts
			S/W Suspense	Allowed to be recovered	Amount irrecoverable	Carried forward	
	₹	₹	₹	₹	₹	₹	₹
2011	8,000	$800 \times 5 + 500 \times 3 = 5,500$	2,500	—	—	2,500	8,000
2012	8,000	$1,000 \times 5 + 700 \times 3 = 7,100$	900	—	—	3,400	8,000
2013	8,000	$2,500 \times 5 + 1,500 \times 3 = 17,000$	—	2,000 (maximum allowable)	$2,500 - 2,000 = 500$	900	15,000
2014	8,000	$500 \times 5 + 2,000 \times 3 = 8,500$	—	500	$900 - 500 = 400$	—	8,000

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Books of S Royalty Receivable Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.11	To Profit & Loss A/c	5,500	31.12.11	By P's A/c	5,500
31.12.12	To Profit & Loss A/c	7,100	31.12.12	By P's A/c	7,100
31.12.13	To Profit & Loss A/c	17,000	31.12.13	By P's A/c	17,000
31.12.14	To Profit & Loss A/c	8,500	31.12.14	By P's A/c	8,500

Short workings Suspense Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.11	To Balance c/d	2,500	31.12.11	By P's A/c	2,500
31.12.12	To Balance c/d	3,400	01.01.12	By Balance b/d " P's A/c	3,400
		3,400			900
31.12.13	To P's A/c " Profit & Loss A/c " Balance c/d	2,000 500 900	01.01.13	By Balance b/d	3,400
		3,400			3,400
31.12.14	To P's A/c " Profit & Loss A/c	500 400	01.01.14	By Balance b/d	900
		900			900

P's Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.12.11	To Royalty Receivable A/c " Short working Suspense A/c	5,500 2,500	31.12.10	By Bank A/c	8,000
		8,000			8,000
31.12.12	To Royalty Receivable A/c " Short workings Suspense A/c	7,100 900	31.12.11	By Bank	8,000
		8,000			8,000
31.12.13	To Royalty Receivable A/c.	17,000	31.12.12	By Short working Suspense A/c " Bank A/c	2,000
		17,000			15,000
31.12.14	To Royalty Receivable A/c	8,500	31.12.13	By Short working Suspense A/c " Bank A/c	500
		8,500			8,000
					8,500

- (b) Software is the general term describing programmes of instructions, languages and routines or procedures that make it possible for an individual to use the computer. It is any prepared set of instructions that controls the operations of the computer for computation and

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processing. Computer Software that are used internally may be (i) acquired, or (ii) internally generated.

The depreciable amount of software should be allocated on a systematic basis over the best estimate of its useful life. The amortization should commence when the software is available for use. As per AS-26, there is a presumption that the useful life of an intangible asset should not exceed ten years from the date when the asset is available for use. However, due to phenomenal changes in the technology, computer software is susceptible to technological obsolescence. Therefore, it is prudent to consider the useful life of the software much shorter than ten years, may be between 3 to 5 years.

5 (a) The Income and Expenditure Account of the Bombay Club for the year 2014 is as follows:

Expenditure	₹	Income	₹
To Salaries	1,20,000	By Subscriptions	1,70,000
To Printing & Stationery	6,000	By Entrance Fee	4,000
To Postage	500	By Contribution for Dinner	36,000
To Telephone	1,500		
To General Expenses	12,000		
To Interest and Bank Charges	5,500		
To Audit Fees	2,500		
To Annual Dinner Expenses	25,000		
To Depreciation	7,000		
To Surplus	30,000		
	2,10,000		2,10,000

The account has been prepared after the following adjustments:

Subscriptions outstanding on 31.12.2013	16,000	The club owned a building since 2013	1,90,000
Subscriptions outstanding on 31.12.2014	18,000	The club had sports equipments on 31.12.2013 valued at	52,000
Subscriptions received in advance on 31.12.2013	13,000	At the end of the year after depreciation of ₹ 7,000 equipments amounted to	63,000
Subscriptions received in advance on 31.12.2014	8,400	In 2013, the club had raised a bank loan which is still unpaid	30,000
Salary outstanding on 31.12.2013	6,000	Cash in hand on 31.12.2014	28,500
Salary outstanding on 31.12.2014	8,000	Audit fees for 2013 not paid	2,500
Audit fees for 2013 paid during 2014	2,000		

Prepare the Receipts and Payments Account of the Club for 2014 and the Balance Sheet as on 31st December, 2014. All workings should form part of your answer.

(b) Distinguish between Hire Purchase System and Installment Payment System.

[10+5]

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Solution: (a)

Bombay Club Receipts and Payments Account for the year ended 31st December, 2014

Receipts	₹	Payments	₹
To Balance c/d (balancing figure)	13,600	By Salaries (Note 3)	1,18,000
To subscriptions (Note 2)	1,63,400	By Printing and Stationery	6,000
To Entrance Fees	4,000	By Postage	500
To Contribution for Dinner	36,000	By Telephone	1,500
		By General Expenses	12,000
		By Audit Fees	2,000
		By Annual Dinner Expenses	25,000
		By Interest and Bank Charges	5,500
		By Sports Equipment (Note 4)	18,000
		By Balance c/d	28,500
	2,17,000		2,17,000

Balance Sheet of Bombay Club as at 31st December, 2014

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			Fixed Assets		
Opening Balance	2,20,600		Building		1,90,000
Add: Surplus	<u>30,000</u>	2,50,600	Sports Equipment		
Bank Loan		30,000	Opening Balance	52,000	
Current Liabilities			Addition	<u>18,000</u>	
Creditors for expenses				70,000	
Salaries	8,000		Less: Depreciation	<u>7,000</u>	63,000
Audit Fees	<u>2,500</u>	10,500	Current Assets		
Subscription received in advance		8,400	Cash in Hand		28,500
			Subscriptions Due		18,000
		2,99,500			2,99,500

Working Notes:

(i) Balance Sheet as at 31st December, 2013

Liabilities	₹	Assets	₹
Capital Fund (balancing Figure)	2,20,600	Building	1,90,000
Bank Loan	30,000	Sports Equipment	52,000
Creditors for expenses:		Cash in Hand	13,600
Salaries	6,000	Subscriptions Due	16,000
Audit Fees	2,000		
Subscription received in advance	13,000		
	2,71,600		2,71,600

Answer to PTP_Intermediate_Syllabus2008_June 2015_Set 3

(ii)

Subscriptions Account

Dr.			Cr.
Particulars	Amount (₹)	Particulars	Amount (₹)
To, Balance b/d(31.12.13) - Opening Outstanding	16,000	To, Balance b/d (31.12.13) - Opening Received in Advance	13,000
To, Income and Expenditure	1,70,000	To, Receipts and Payments (b.f)	1,63,400
To, Balance c/d (31.12.14) - Received for 2015	8,400	By , Balance c/d - Closing Outstanding	18,000
	1,94,400		1,94,400

(iii) Salaries

As per Income and Expenditure A/c	1,20,000
Add: outstanding of 2012	6,000
	1,26,000
Less: outstanding of 2013	8,000
	1,18,000

(iv) Sports Equipment

Closing Balance	63,000
Add: Depreciation	7,000
	70,000
Less: Opening balance	52,000
Purchases	18,000

(b) Difference between Hire Purchase System and Installment Purchase System

Hire Purchase System	Installment Purchase System
(i) It is an agreement of hiring of goods.	(i) It is an agreement of sale of goods.
(ii) The title of the goods is transferred to the buyer after payment of last installment	(ii) The title of goods is passed on to the buyer at the signing of agreement.
(iii) If the buyer fails to pay any of the installment the goods can be repossessed by the seller	(iii)The seller cannot repossess the goods.
(iv) The buyer can not hire out, sell, transfer, destroy, and pledge the goods.	(iv)The buyer can hire out, sell, transfer, destroy and pledge the goods
(v) The buyer may return the goods without further payment, except for the installment overdue.	(v)Except seller's default, goods cannot be returned
(vi) In case of default, the total amount of installment paid is forfeited and treated as hire charge.	(vi)In case of default, the total amount of installments paid by the buyer cannot be forfeited

Answer to PTP_Intermediate_Syllabus2008_June 2015_Set 3

6(a) Bombay Ltd. sends goods to its Madras branch at cost plus 25 per cent. The following particulars are available in respect of the Branch for the year ended 31st March, 2014.

	₹
Opening Stock at Branch at cost to Branch	80,000
Goods sent to Branch at Invoice Price	12,00,000
Loss-in-transit at invoice price	15,000
Pilferage at invoice price	6,000
Sales	12,19,000
Expenses	60,000
Closing Stock at Branch at cost to Branch	40,000
Recovered from Insurance Company against loss-in-transit	10,000

Show the ledger accounts in the head office books for : (i) Branch Stock Account; (ii) Branch Adjustment Account (iii) Branch Profit & Loss Account .

(b) State the various accounting concepts.

(c) What do you understand by gradual realization of assets and piecemeal distribution? State the priority that should be followed in piece meal distribution. [9+3+3]

Solution:

(a)

**Books of Bombay Ltd. (Head Office)
Branch Stock Account**

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
01.04.13	To Balance b/f	80,000	31.03.14	By Cash/Branch Debtors (Sales)	12,19,000
31.03.14	To Goods Sent to Branch A/c	12,00,000		`` Loss-in-Transit A/c	15,000
				`` Pilferage	6,000
				By Balance c/f (Closing Stock)	40,000
		12,80,000			12,80,000

Answer to PTP_Intermediate_Syllabus2008_June 2015_Set 3

Branch Adjustment Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
31.03.14	To Loss-in-transit A/c [1/5 of 15,000]	3,000	01.04.13	By (Opening) Stock Reserve A/c [1/5 of 80,000]	16,000
	` Pilferage A/c [1/5 of 6,000]	1,200	31.03.14	` Goods Sent to Branch A/c [1/5 of 12,00,000]	2,40,000
	` Stock Reserve A/c [1/5 of 40,000]	8,000			
	` Branch P&L A/c [Gross Profit]	2,43,800			
		2,56,000			2,56,000

Branch P&L Account

Dr.		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)
To Expenses	60,000	By Branch Adjustment A/c	2,43,800
` Loss-in-transit A/c [Note 2]	2,000		
` Pilferage A/c [Note 3]	4,800		
` General P&L A/c [Branch Net Profit]	1,77,000		
	2,43,800		2,43,800

Working Note:

(i). Opening Stock Reserve A/c may be written as by Balanced b/d and Closing Stock Reserve as To Balance c/d in the Branch Adjustment A/c.

(ii).

	₹
Loss-in-transit at Invoice Price	15,000
Less: Loading Adjusted	3,000
Loss-in-transit at cost	12,000
Less: Claim Received	10,000
Net Loss	2,000

(iii).

	₹
Pilferage at Invoice Price	6,000
Less: Loading Adjusted	1,200
Loss due to Pilferage at cost charged to Profit & Loss A/c	4,800

(b) Various accounting concepts are as follows:

- (i) Money measurement concept
- (ii) Dual aspect concept.
- (iii) Going concern concept.
- (iv) Periodicity concept.

Answer to PTP_Intermediate_Syllabus2008_June 2015_Set 3

- (v) Accrual concept.
- (vi) Matching concept.
- (vii) Realization concept.
- (viii) Materiality concept.
- (ix) Consistency concept.
- (x) Business entity concept.
- (xi) Historical cost concept

(c) When a partnership is in process of being dissolved, assets are sold gradually one after another to fetch maximum price. Assets are realized individually and it may need a time period to realize from all the assets.

The partners in such a case may not wish to wait till all the assets are realized. It is universally accepted practice that an interim distribution is made to the partners for their claim (after paying off all creditors) as and when cash is available.

Priority of distribution will be as under:

- (i) To meet the realization expenses
- (ii) To pay off preferential creditors
- (iii) To pay off other creditors
- (iv) To pay off partner's loans
- (v) To pay off partner's capital

7 (a) The following balances are appearing in the books of X Ltd on 01.04.2014:

Redeemable Preference Share Capital (Shares of ₹10 each) ₹2,00,000; Calls in Arrear ₹ 2,000; General Reserve ₹1,00,000; Securities Premium ₹5,000

The Preference Shares are fully called up and are due for redemption at a premium of 10%. Calls-in-arrear are in respect of final call at the rate of ₹ 4 per share and these shares are held by Mr. M. Sen whose whereabouts are not known.

The Board of Directors decided that 50% of the General Reserve to be utilized for the purpose of redemption of Redeemable Preference Share Capital and for the balance necessary Amount of equity shares of ₹ 10 each were issued at a premium of 10%.

The redemption of Preference Shares are duly carried out and subsequently the company utilizes the balance of Capital Redemption Reserve Account to issue Equity Shares at ₹ 10 each as bonus to shareholders.

You are required to pass the necessary Journal Entries in the books of X Ltd (workings must be shown).

(b) On 31st March, 2013 Risk Bank Ltd. has a balance of ₹ 9 crore in "Rebate on Bills Discounted" account. During the year ended 31.3.2014, Risk Bank Ltd. Discounted bill of exchange of ₹ 4,000 crore charging interest at 18% per annum, the average period of discount being for 73 days. Of these, bills of exchange of ₹600 crore were due for realization from the acceptors/customers after 31st March 2014, the average period outstanding after 31st March, 2014 being 36.5 days.

Uncertain Bank Ltd. You ask to prepare pass Journal Entries.

[9+6]

Answer to PTP_Intermediate_Syllabus2008_June 2015_Set 3

Solution:

(a) Working Notes:

(i) No. of Preference Shares = $\frac{₹2,00,000}{₹10} = ₹20,000$

(ii) Partly paid shares (These cannot be redeemed) = $\frac{\text{Call-in-Arrear}}{\text{ArrearPerShare}} = \frac{₹2,000}{₹4} = 500 \text{ shares}$

(iii) ∴ Fully paid shares to be redeemed = 20,000 – 500 = 19,500 Shares

(iv) **How the Required Amount is to be provided**

Amount Payable on Redemption		Fresh Issue of Shares		Reserves & Surplus	
	₹		₹		₹
Red. Pref. Sh. Capital [19,500 x ₹100]	1,95,000	Balance Required ∴ No. of shares issued	1,45,000	50% of general reserve	50,000
Premium on @ 10% Red.	19,500	14,500 sh. Of ₹10 Each Securities Premium (New) @ 10%	14,500	Existing Premium	5,000

Books of X Ltd.

Journal Entries

Date	Particulars	L.F.	Dr.	Cr.
			Amount (₹)	Amount (₹)
	Bank A/c.....Dr. To Equity Share Capital A/c ,, Securities Premium A/c [14,500 Equity Shares of ₹10 each issued at 10% premium as per Board's resolution No.....dated.....]		1,59,500	1,45,000 14,500
	Preference Share capital A/c.....Dr. Premium on Redemption of preference shares A/c....Dr. To Preference Shareholders A/c [Redeemable Preference Share Capital and Premium payable thereon transferred to the preference Shareholders A/c]		1,95,000 19,500	2,14,500
	Preference shareholders A/c..... Dr. To Bank A/c [Amount due to Preference shareholders paid off]		2,14,500	2,14,500
	Securities Premium A/c.....Dr. To Premium on Redemption A/c [The Premium on Redemption provided out of Securities Premium A/c]		19,500	19,500
	General Reserve A/c.....Dr. To capital redemption Reserve A/c [Necessary transfer made from general reserve for Capital Redemption]		50,000	50,000
	Capital redemption reserve A/c..... Dr. To Bonus to Equity Shareholders A/c [Bonus declared to Equity Shareholders as per Shareholders resolution No.....dated.....]		50,000	50,000
	Bonus to Equity Shareholders A/c.....Dr. To Equity Share capital A/c [The Bonus utilized to issue, 5,000 Equity Share of ₹10 each]		50,000	50,000

Answer to PTP_Intermediate_Syllabus2008_June 2015_Set 3

(b) Working Notes :

1. Discount on Bills Discounted ₹ 4,000 × $\frac{18}{100} \times \frac{73}{365} = 144$ crore
2. Rebate on Bills Discounted 600 crore × $\frac{18}{100} \times \frac{36.5}{365} = 10.8$ crore

In the books of Risk Bank

Journal Entries

			Dr.	Cr.
Date	Particulars	L.F.	Amount (₹ crore)	Amount (₹ crore)
1.4.13	Rebate on Bills Discounted A/c Dr. To Discount on Bills A/c [Amount spent on plant of which ₹ 74,40,000 representing the current cost of replacement in the original form charged to Replacement A/c]		9.00	9.00
1.4.13 To 31.3.14	Bills Purchased and Discounted A/c Dr. To Discount on Bills A/c To Customers A/c [Discounting of Bills made during 2012-13]		4,000.00	144.00 3,856.00
31.3.14	Discount on Bills A/c Dr. To Rebate on Bills Discounted [Unexpired discount in respect of bills carried forward]		10.80	10.80
31.3.14	Discount on Bills A/c Dr. To Profit and Loss A/c [Income from discounting of bills transferred to P/L A/c]		142.20	142.20

8. Write short notes on any 3

[3 x 5 =15]

(a) **Conditions of Buy Back**

(b) **Maintenance of the Cash Reserve under section 18 of the Banking Companies**

(c) **Valuation of Inventory (As – 2)**

(d) **Capital Redemption Reserve**

Solution:

(a) Conditions of Buy Back:

Conditions to be fulfilled:

- (i) The buy-back must be authorized by the Articles
- (ii) The special resolution must be passed in the General Meeting of shareholders.

OR

The Board must pass a resolution at its meeting where the buy-back does not exceed 10% of the total equity paid up capital and free reserves of the company. **Note:** Minimum Time Interval between Two buy-back made in pursuance of Board's Resolution—No offer

Answer to PTP_Intermediate_Syllabus2008_June 2015_Set 3

of such buy back must be made within a period of 365 days from the date of preceding offer of buy-back.

- (iii) All the shares for buy-back must be fully paid-up.
- (iv) The Company must file solvency declaration with the Registrar and SEBI in the form of an affidavit signed by at least two directors of the company. The affidavit must state that the Board has made full inquiry into the affairs of the company as a result of which they have formed an opinion that the company is capable of meeting its liabilities and will not render insolvent within a period of one year from the date of declaration adopted by the Board.
- (v) Buy-back must be as per SEBI Guidelines
- (vi) The buy-back must be completed within 12 months from the date of passing the Special Resolution/Board's Resolution.
- (vii) Transfer of Certain Sums to Capital Redemption Reserve Account—Where a company purchases its own shares out of free reserves, than a sum equal to the nominal value of the shares so purchased shall be transferred to the Capital Redemption Reserve Account referred to in Clause (d) of the proviso to Sub-section (1) of Section 80 and details of such transfer shall be disclosed in the Balance Sheet.
- (viii) The shares acquired through 'Buy Back' process should be expunged and destroyed within 7 days.
- (ix) Further issue of same class of shares , as bought back , is not permitted within 24 months from the date of completion of buy back . The company may, however , issue bonus shares or sweat equity shares or convert warrants or debentures into shares.

Three Tests Conditions

- (x) Maximum Debt-Equity Ratio—The debt-equity ratio must not be more than 2:1 after such buy-back.
Here, Debt = Secured + Unsecured Debt, Equity = Capital + Free Reserves, Free Reserves = Free Reserves as per Sec 372A which includes Securities Premium as per Sec 78 also.
- (xi) Maximum Limit of Amount of Equity Shares to be bought back—The buy-back of the shares must not exceed 25% of total paid-up capital and free reserves.
- (xii) Maximum Limit of Number of Equity Shares to be bought back in any Financial Year—The buy-back of equity shares in any financial year must not exceed 25% of its total paid up equity capital.

(b) Maintenance of Cash Reserve

Every non-scheduled bank has to maintain a cash reserve atleast to the extent of at % prescribed (by RBI) of its demand and time liabilities in India on the last Friday of the second preceding fortnight.

Cash reserve can be maintained by way of balance in a current account with the Reserve Bank of India or by way of net balance in current accounts.

Every non-scheduled bank has to submit a return showing the amount so held for cash reserve along with the particulars of its demand and time liabilities in India on such Friday before 20th day of every month.

If any such Friday is a holiday under the Negotiable Instruments Act 1881, such return is to be sent at the close of business on the preceding working day.

Every Scheduled Commercial Bank has to maintain cash reserve as per direction of the RBI issued under Section 42 (IA) of the Reserve Bank of India Act, 1934.

Answer to PTP_Intermediate_Syllabus2008_June 2015_Set 3

(c) Valuation of Inventory (AS – 2)

Inventories are lower of cost or net realizable value. Disclosure under AS – 2 are given below:

- (i) Accounting policy adopted in measuring inventories.
- (ii) The cost formula used.
- (iii) Inventory Commonly classified as Raw Materials and components, WIP, Finished goods and Stores, Spares and Lose tools.
- (iv) Scheduled VI and AS- 2 disclosure are at par. As- 2 does not permit LIFO method (tends to undervalues thus reducing profit and tax liability) in contrast with IAS and US GAAP which allows LIFO along with FIFO/ Weighted Average.

(d) Capital Redemption Reserve Account

When a company seeks to redeem preference shares it can be redeem them either out of profit or by issue of new shares, or partly by one way and partly by another way. To redeem the fully paid preference shares the company has to transfer equivalent amount from general reserve or profit and loss account to an account called capital Redemption Reserve.

The following Journal entry is passed to this effect:

P& L A/c or General Reserve A/c	Dr.
To Capital Redemption Reserve A/c	

Having been Passed the above journal entry the company can redeem the preference shares as follows:

Preference Share Capital A/c	Dr.
To Preference Share Holders A/c	

Preference Share Holders A/c	Dr
To Bank A/c	

The Balance of capital redemption reserve after redemption reserve of shares becomes a free reserve and can be utilized to issue bonus shares etc.