Group I
Paper 5 – Financial Accounting

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

(i) Mukta Ltd. purchased a machine for ₹ 40 lakhs including excise duty of ₹ 8 lakhs. The excise duty is Cenvatable under the excise laws. The enterprise intends to avail CENVAT credit and it is reasonably certain to utilize the same within reasonable time. How should the excise duty of ₹8 lakhs be treated?

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

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

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

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

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

Calculate the Actual Return on Plan Assets.

(v) A is in need for funds and approaches B. B unable to find the money, agrees to accept a bill of Exchange for ₹ 5,000 drawn on him at 3 months for accommodation. The bill was drawn, accepted and discounted with bank at 6 % p.a. On the due date A remits the required amount to B . Give the entry for remittance of the amount.

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

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

What will be the value of closing stock?

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

(viii) Oscar Ltd. furnished the following particulars:

Debtors ledger include ₹ 10,000 due from Das & Co. whereas Creditors Ledger include ₹ 6,000 due to Das & Co. Show the journal entry.

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

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

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

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

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

Compute the minimum rent.

1. Solution:

(i) Treatment of Excise Duty:

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

(ii)

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

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

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

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

So, his new ratio between be $\frac{3}{6}+\frac{2}{18}=\frac{11}{18}$

and his new ratio will be $=\frac{2}{6}+\frac{1}{18}=\frac{7}{18}$.

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

(iv) The actual return is computed as follows:

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

(v) The bill drawn was to accommodate only A , so the proceeds were fully used by A. Hence on the due date, the whole amount should be remitted by A to B. So the right journal entry is

In the books of A

Particulars	Debit (₹)	Credit (₹)
B's A/c Dr.	5,000	
To, Cash A/c		5,000

(vi) Computation of value of closing stock

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

(vii)

Computation of Cash Price

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

(vii) In the books of Oscar Ltd.
Journal Entry

Particulars	Debit (₹)	Credit(₹)
Creditors Ledger Adjustment A/c Dr. To, Debtors Ledger Adjustment A/c (Debtors ledger includes ₹10,000 due form Das & Co. whereas Creditors Ledger include ₹6,000 due to Das & Co. ,adjusted)	6,000	 6,000

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

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

(ix) Minimum rent = Actual royalty – Shortworkings recovered
= ₹30,000 - ₹12,000 = ₹18,000.

2. (a) Mr. Bose sold goods on credit to various customers. Details related to one of the customer, Mr. Sen is as under:

(i) Goods sold on credit ₹7,00,000.
(ii) Goods returned by the customer ₹60,000 due to defective quality, credit note raised but not recorded.
(iii) Payment received from customer in cash ₹1,50,000 and by cheques ₹1,80,000. Out of cheques received, a cheque of ₹28,000 was dishonoured by bank.
(iv) Customer accepted two Bills of ₹21,000 and ₹64,000 for 2 months and 3 months respectively.
(v) Credit note raised against the customer ₹4,400 for excess payment charged against one of the consignment.

Mr. Sen the customer is in need to ascertain the actual balance due to Mr. Bose . Prepare a Reconciliation Statement.

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

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

Items of Account	Correct Figure (as it would be)	Figures as it appear in the Trial Balance
Opening Stock	₹15,900	₹15,600
Maintenance	₹61,780	₹61,780

Rent & Taxes	**₹4,640**	**₹4,400**
Sundry Creditors	**₹6,270**	**₹5,900**
Sundry Debtors	**₹7,060**	**₹7,310**

Ascertain the correct total of the Trial Balance.

2. Solution:

(a) Receivable from Mr. Sen – Reconciliation Statement

Particulars	Amount (₹)
Credit sales during the period	7,00,000
Less: Goods returned by the Customer, adjustment of credit note	60,000
Less: Payment received in cash	1,50,000
Less: Payment received by cheque **less** dishonoured cheque (1,80,000 – 28,000)	1,52,000
Less: Bills receivable accepted by Customer, yet to be matured (21,000 + 64,000)	85,000
Less: Adjustment of Credit Note raised	4,400
Net Receivable from Customer	2,48,600

(b) Cost of the plant ₹20,00,000

Estimated realisable value ₹60,000

Depreciable amount ₹19,40,000

Depreciation per year ₹1,94,000

Written down value at the end of 7th Year = ₹20,00,000 – (1,94,000 × 7)= ₹6,42,000

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

(c)

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

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

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

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

- On October 31,2012 there was bank overdraft of ₹14,000 as per Cash Book and cash in hand of ₹7,500.
  Bank Statement as on that date showed cheques deposited but not yet realized of ₹40,000 while cheques issued but not presented for payment amounted to ₹60,000.
- During the month, customers paid ₹4,50,000 which were deposited into bank. Of these, cheques of ₹50,000 were deposited on 30th November 2012, and realized subsequently. The bank realized all the other cheques and charged ₹300 as collection expenses. These charges are to be entered in the Cash Book and not kept as reconciliation item.
- Cheques issued during the month totaled to ₹4,20,000. Bank statement showed that cheques presented for payment totaled to ₹4,50,000 only of which one cheque of ₹7,000 issued in October,2012 was returned on 5.11.2012 for want of Mayank's signature on the cheque. Mayank paid cash to the payee of the cheque and cancelled the cheque. The bank charged ₹25 for cheque return.
- Cheque presented for payment during the month included cash withdrawal from bank ₹15,000. 40% of this cash is handed over on various dates to the petty cashier while 50% is taken by Mayank for his personal use.
- Bank Charged ₹200 for cheque book issued.

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

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

The details of such stocks were:

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

(c) A Company purchased following machines on different dates as follows;-

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

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

Prepare Machinery account for 3 years.

3. Solution:

(a)

Cash Book

Dr. **Cr.**

Date	Particulars	Cash ₹	Bank ₹	Date	Particulars	Cash ₹	Bank ₹
2012 Nov. 30	To, Balance b/d	7,500	-	2012 Nov. 30	By, Balance b/d	-	14,000
	To, Customers A/c	-	4,50,000		By, Bank Charges	-	300
	To, Suppliers A/c	-	7,000		By, Cash A/c	-	15,000
	To, Bank A/c	15,000	-		By, Suppliers A/c	7,000	4,05,000[1]
					By, Petty cash A/c	6,000	-
					By, Drawings A/c	7,500	-
					By, Bank Charges A/c - Cheque return -Cheque book	- -	25 200
					By, Balance c/d	2,000	22,475
		22,500	**4,57,000**			**22,500**	**4,57,000**

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

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

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

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

Working Note:

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

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

(b) Valuation of Stock as per AS 2

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

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

(c)

Machinery Account

Dr. **Cr.**

Dateate	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009			2010		
Jan 1	To, Bank A/c (I)	90,000	March 31	By, Depreciation A/c	9,000
				By, Balance c/d	81,000
		90,000			90,000
2010			2011		
April 1	To, Balance b/d	81,000	March 31	By, Depreciation A/c	
				I-9,000	
Oct.1	To, Bank (II)	60,000		II-3,000	12,000
				By, Balance c/d	
				I-72,000	
				II-57,000	1,29,000
		1,41,000			1,41,000
2011			2012		
April 1	To, Balance b/d		Feb 1	By, Deprecation	2,500
	I-72,000			By, Bank A/c (Sales)	9,000
	II-57,000	1,29,000		By, P&L A/c(Loss)	12,500
July 1	To, Bank A/c	30,000	March 31		
March 31	To, P&L A/c	2,500		By, Depreciation	3,000
				(On half of Machine-II)	
				By, Bank (Sale)	28,000
			March 31	By, Depreciation	
				I- (⅔ of Machine –I)	6,000
				II- (½ of Machine –II)	3,000
				Machine-III	2,250
				By, Balance c/d	
				I-42,000	
				II-25,500	
				III-27,750	95,250
		1,61,500			**1,61,500**

Working Notes:

Statement Showing Computation of Depreciation:

Date	Particulars	Machine I ₹ 90,000		Machine II ₹60,000		Machine III ₹30,000	Total ₹
		2/3rd (Retained)	1/3rd (sold)	½ (retained)	½ (sold)	(retained)	
1.4.2009	Purchase of Machine-I	60,000	30,000				90,000
31.3.2010	Less: Depreciation for 2009-10	6,000	3,000				9,000
1.4.2010	WDV of Machine	54,000	27,000				81,000
1.10.2010	Purchase of Machine-II			30,000	30,000		60,000
							1,41,000
31.3.2011	Less: Depreciation for 2010-11 (in case of Machine-II depreciation will be calculated for 6 months i.e. from 1.10.2010 to 31.3.2011)	6,000	3,000	1,500	1,500		12,000
1.4.2011	WDV of Machines	48,000	24,000	28,500	28,500		1,29,000
1.7.2011	Purchase of Machine-III					30,000	30,000
							1,59,000
1.2.2012	Less: Depreciation on 1/3 of Machine-I till date (1/3 of Machine-I is sold for ₹9,000 on 1.2.2012)		2,500				
1.2.2012	WDV of 1/3 of Machine-I on 1.2.2012		21,500				
1.2.2012	Less: Sale proceed received for 1/3 of Machine-I		9,000				
1.2.2012	Loss on sale of 1/3 of Machine-I (to be transferred to P& L A/c)		12,500				
	WDV after sale of machine	48,000	NIL	28,500	28,500	30,000	1,35,000
31.3.2012	Less: Depreciation for 2011-12(depreciation on Machine –III will be for 9 months from1.7. 2011 to 31.3.2012)	6,000	NIL	3,000	3,000	2,250	14,250
31.3.2012	WDV after depreciation	42,000	NIL	25,500	25,500	27,750	1,20,750
31.3.2012	Less: Sale proceed received for 1/2 of Machine-II(Sale proceed is ₹28,000)				28,000		
31.3.2012	Gain on sale of ½ of Machine II (to be transferred to P& L A/c)				2,500		
31.3.2012	WDV of Machines(after sale of ½ of Machine–II)	42,000	NIL	25,500	NIL	27,750	95,250

4. (a) Mr. Chintamani maintains his accounts on Mercantile basis. The following Trial Balance has been prepared from his books as at 31st March, 2013 after making necessary adjustments for outstanding and accrued items as well as depreciation:

Trial Balance
as at 31st March, 2013

Particulars	Dr. (₹)	Cr. (₹)
Plant and Machinery	2,12,500	
Sundry Creditors		2,64,000
Sales		6,50,000

Purchases	4,20,000	
Salaries	40,000	
Prepaid Insurance	370	
Advance Rent	2,000	
Outstanding Salary		6,000
Advance Salary	2,500	
Electricity Charges	2,650	
Furniture and Fixtures	72,000	
Opening Stock	50,000	
Outstanding Electricity Charges		450
Insurance	1,200	
Rent	10,000	
Miscellaneous Expenses	14,000	
Cash in hand	3,000	
Investments	80,000	
Drawings	24,000	
Dividend from Investments		8,000
Accrued Dividend from Investments	1,500	
Depreciation on Plant and Machinery	37,500	
Depreciation on Furniture	8,000	
Capital Account		2,11,970
Telephone Charges	6,000	
Sundry Debtors	1,70,500	
Stationery and Printing	1,200	
Cash at Bank	65,000	
Interest on Loan	8,000	
Interest Due but not paid on loan		1,500
Loan Account		90,000
	12,31,920	12,31,920

Additional Information:

(i) Salaries include ₹ 10,000 towards renovation of Proprietor's residence.

(ii) Closing Stock amounted to ₹ 75,000.

Mr. Chintamani, however, request you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2013 and a Balance Sheet as on that date following cash basis of accounting.

(b)

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

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

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

Realisation are :

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

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

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

(c) Doll and Dolly are in partnership sharing profits and losses equally. They keep their books by Single Entry System. No ready figures are available for total sales but they maintain a steady gross profit rate of 25% on sales.

An abstract of their cash transactions for the year ended 30th June, 2012 is:

Receipts	₹	Payments	₹
Cash in hand	21,600	Salaries	44,000
Receipts from Customers	5,40,000	Rent	8,800
Cash Sales	64,000	Advertising	3,600
		Printing	3,200
		General expenses	38,200
		Payment to Trade Creditors	4,48,000
		Doll's Drawings	8,000
		Cash in hand	71,800
	6,25,600		6,25,600

The following balances are available from their books as on 30th June 2011 and 30th June 2012:

	As on 30.06.2011	As on 30.06.2012
	₹	₹
Stock-in-trade	88,000	1,00,000
Sundry Debtors	?	1,40,000
Sundry Creditors	93,600	74,000
Furniture	12,000	?

Other information:

i. **Discount allowed ₹5,600;**
ii. **Discount earned ₹4,800;**
iii. **Outstanding Printing ₹1,000;**
iv. **Capital of Doll as on 30th June 2011 was ₹8,000 more than Capital of Dolly;**
v. **Provide depreciation on Furniture @ 10% p.a.**

From the above , you are required to prepare:

- **The Trading and Profit and Loss Account for the year ended 30th June 2012, and,**
- **The balance Sheet as on that date, in the books of Doll and Dolly.**

4. Solution:

(a)

In the books of Mr. Chintamani

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

Dr. **Cr.**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To, Opening Stock		50,000	By, Sales		6,50,000
To, Purchase		4,20,000	By, Closing Stock		75,000
To, Profit & Loss A/c					
Gross Profit transferred		2,55,000			
		7,25,000			**7,25,000**
To, Salaries	40,000		By, Trading A/c		2,55,000
Less: Outstanding Salary	6,000		- Gross Profit transferred		
	34,000				
Add: Advance Salary	2,500		By, Dividend from Investment	8,000	
	36,500		Less: Accrued	1,500	6,500
Less: Renovation (Drawings)	10,000	26,500			
To, Insurance	1,200				
Add: Prepaid	370	1,570			
To, Rent	10,000				
Add: Advance Rent	2,000	12,000			
To, Electricity Charges	2,650				
Less: Outstanding	450	2,200			
To, Miscellaneous Expenses		14,000			
To, Stationery & Printing		1,200			
To, Interest on Loan	8,000				
Less: Outstanding	1,500	6,500			
To, Telephone Charges		6,000			

To, Depreciation: Plant & Machinery Furniture & Fixtures	 37,500 8,000	 45,500			
To, Capital Account Net Profit Transferred		1,46,030			
		2,61,500			**2,61,500**

Balance Sheet
As at 31st March 2013

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Account	2,11,970		Plant and Machinery		
Add: Net Profit			(at cost less depreciation)		2,12,500
(during the year)	1,46,030				
	3,58,000		Furniture & Fixture		
Less: Drawings			(at cost less depreciation)		72,000
(24,000+10,000)	34,000	3,24,000			
			Investments		80,000
Loan Account		90,000			
			Stock-in –trade		75,000
Sundry Creditors		2,64,000			
			Debtors		1,70,500
			Cash in hand		3,000
			Cash at Bank		65,000
		6,78,000			**6,78,000**

(b)

Computation of Absolute Surplus :

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

Statement showing the Distribution

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

Alternatively, applying Maximum possible loss method :

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

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

(c)

Sundry Creditors Account

Dr. **Cr.**

Particulars	**Amount** ₹	**Particulars**	**Amount** ₹
To, Cash	4,48,000	By Balance b/d	93,600
To, Discount Received	4,800	By, Purchases (Bal. fig)	4,33,200
To, Balance c/d	74,000		
	5,26,800		**5,26,800**

Sundry Debtors Account

Dr. **Cr.**

Particulars	**Amount** ₹	**Particulars**	**Amount** ₹
To, Balance b/d	1,88,000	By ,Cash	5,40,000
To, Sales	4,97,600	By, Discount Allowed	5,600
		By, Balance c/d	1,40,000
	6,85,600		**6,85,600**

Balance Sheet as at 30th June 2012

Liabilities	₹	₹	**Assets**	₹	₹
Sundry Creditors		93,600	Furniture		12,000
Capital (bal . fig)			Stock		88,000
Doll	1,12,000		Debtors		1,88,000
Dolly	1,04,000	2,16,000	Cash		21,600
		3,09,600			**3,09,600**

Trading and Profit & Loss Account
For the year ended 30th June 2012

Dr. **Cr.**

Particulars	**Amount ₹**	**Amount ₹**	**Particulars**	**Amount ₹**	**Amount ₹**
To, Opening Stock		88,000	By, Sales: Cash Credit	 64,000 4,97,600	 5,61,600
To, Purchase (Credit)		4,33,200	By, Closing Stock		1,00,000
To, Profit and Loss A/c Gross Profit transferred		1,40,400			
		6,61,600			6,61,600
To, Salaries		44,000	By, Trading A/c Gross Profit transferred		1,40,400
To, Rent		8,800	By, Discount Received		4,800
To, Advertising		3,600			
To, Discount Allowed		5,600			
To, General Expenses		38,200			
To, Printing	3,200				
Add: Outstanding	1,000	4,200			
To, Depreciation on Furniture @ 10% on ₹12,000		1,200			
To, Capital A/c – Net Profit Doll Dolly	 19,800 19,800	 39,600			
		1,45,200			**1,45,200**

Balance Sheet as at 30th June 2012

Liabilities	**₹**	**₹**	**Assets**	**₹**	**₹**
Capital: Doll Add: Net Profit	 1,12,000 19,800		Furniture Less: depreciation	12,000 1,200	10,800
	1,31,800		Closing Stock		1,00,000
Less: Drawings	8,000	1,23,800	Sundry Debtors		1,40,000
Dolly	1,04,000		Cash in Hand		71,800
Add: Net Profit	19,800	1,23,800			
Sundry Creditors		74,000			
Outstanding Printing		1,000			
		3,22,600			**3,22,600**

Workings:

A. Calculation of Cash and Credit Sales:

Particulars	**Amount ₹**
Opening Stock	88,000
Add: Purchase	4,33,200
	5,21,200

Less: Closing Stock	1,00,000
Cost of Goods Sold	4,21,200
Add: Gross Profit (@⅓ of Cost)	1,40,400
Total Sales	**5,61,600**

B. Capital Doll and Dolly:

Particulars	Amount ₹
Total Capital	2,16,000
Less: Differences	8,000
	2,08,000

∴ Doll- 2,08,000×½ = 1,04,000 + 8,000 = ₹1,12,000
Dolly – 2,08,000 × ½ = ₹1,04,000

5. (a) Beautiful Ltd. , with its Head Office in Kolkata invoiced goods to its Branch at Mumbai at 20% less than the catalogue price which is cost plus 50%, with instructions that cash salers were to be made at invoice price and credit sales at catalogue price less discount at 15% on prompt payment.

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

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

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

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

Liabilities	₹	₹	Assets	₹	₹

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

You are to ascertain the :

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

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

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

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

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

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

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

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

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

You are also required to prepare :

A. A Bank Reconciliation Statement as on 30.9.2012.

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

(c) On 1st January 2012 A owes B ₹ 10,000 for which B draws on A two bills for ₹ 4,000 and ₹ 6,000 payable after 3 months and 4 months, respectively. Both the bills were drawn on 1st January 2012. B discounts both the bills with his bankers on 3rd January, at 12% p.a. Before the due date of the 1st bill, A requests B to assist him by providing with ₹ 4,000 cash and drawing a 3rd bill on him (A) for the amount plus interest @ 12% p.a. for 3 months. B agrees to this proposal and pays the money after discounting the third bill with his banker @ 12% p.a. A week before the 2nd bill for S. 6,000 falls due, A again asks B to assist him by providing ₹ 5,000 B, however, is not in a position to pay any cash but he arranges with A to draw on him (B) two bills for ₹ 2,000 and ₹ 3,000 at 2 months and 3 months, respectively, from the due date of the 2nd bill (₹ 6,000). B accepts these two bills and A discounts them with his bankers at 12% p.a. and, assisted by the proceeds, duly meets the 2nd bill on the due date. B fails to meet his own acceptances. On 10th June 2012 A becomes bankrupt, before meeting his third bill. On 1st September 2012, a first and final dividend on 50 paise in a rupee is received from A's estate.

Pass Journal entries and the accounts of A in the books of B.

5. Solution:

(a)

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

Dr. **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹	Amount ₹
To, Opening Stock ($₹12,000 \times \frac{100}{120}$)	10,000	By, Sales -Cash - Credit	 46,000 1,00,000	 1,46,000
To, Goods sent to Branch ($₹1,32,000 \times \frac{100}{120}$)	1,10,000	By, Closing Stock: ($₹15,000 \times \frac{100}{120}$) Add: Stock Destroyed ($₹3,000^{B} \times \frac{100}{120}$)	12,500 2,500	 15,000
To, Gross Profit c/d	41,000			
	1,61,000			1,61,000
To, Expenses	6,000	By, Gross Profit b/d		41,000
To, Discount Allowed	13,365			
To, Stock destroyed by fire	2,500			
To, Provision For Discount	1,337C			
To, General P/L A/c	17,798			
	41,000			**41,000**

Workings :

A.

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

B. Stock destroyed by fire

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

C. Provision for Discount on Debtors

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

out of ₹1,10,000

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

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

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

∴ Provision to be made for Discount

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

(b)

In the books of Brotherhood Club

Bank Reconciliation Statement *as on 30th September, 2012*

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

Balance Sheet *as at 30th September, 2012*

Liabilities	₹	₹	Assets	₹
Capital	14,300		Fixtures & Fittings	9,600
Less : Loss for the year (*bal. fig.*)	2,140[4]	12,160	Advance for Typewriter	350
Subscriptions Received in Advance		680[A]	Stock	3,680[B]
Creditors		2,440[C]	Debtors	1,400
			Cash at bank	150
			Cash in hand (₹ 50 + ₹ 50)	100

		15,280		15,280

Workings:

A. Subscription Received in Advance

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

B. Closing Stock

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

C. Creditors

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

(c)

In the books of B
Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2012 Jan. 1	Bills Receivable A/c Dr. To A A/c (Bills drawn on A for ₹ 8,000 and 12,000 payable after 3 months and 4 months, respectively)		20,000[A]	 20,000
Jan. 3	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bills Discounted with the banker @ 12% p.a.)		19,280 720	 20,000
April 3	A A/c Dr. To Cash A/c (Cash paid to A)		8,000	 8,000
ʻʻ	A A/c Dr. To Interest A/c[2] (Interest on ₹ 8,000 @ 12% p.a. for 3 months debited to A)		240	 240

,,	Bills Receivable A/c To A A/c (A new bill drawn on A for ₹ 8,000 plus interest, payable after 3 months)		8,240	 8,240
,,	Bank A/c Dr. Discount A/c Dr. To Bills Receivable A/c (Bills Discounted with the banker @ 12% p.a.)		7,992 248	 8,240
May 4	A A/c Dr. To Bills Payable A/c (Bills accepted for financing A for ₹ 4,000 and 6,000 payable after 2 and 3 months, respectively)		10,000	 10,000
July 6	A A/c Dr. To Bank A/c (Dishonour of 3rd bill)		8,240	 8,240
July 7	Bills Payable A/c Dr. To A A/c (Dishonour of our acceptance given to A)		4,000	 4,000
Aug. 7	Bills Payable A/c Dr. To A A/c (Dishonour of our acceptance at maturity)		6,000	 6,000
Sept. 1	Bank A/c Dr. Bad Debts A/c Dr. ToA A/c (50 paise in a rupee received from the estate of A as final dividend)		4,120 4,120	 8,240

A Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2012			2012		
Jan. 1	To Balance b/d	20,000	Jan. 1	By Bills Receivable A/c	20,000
Apr. 3	To Cash A/c	8,000	Apr. 3	By Bills Receivable A/c	8,240
Apr. 3	To Interest A/c	240	July 7	By Bills Payable A/c	4,000
May 4	To Bills Payable A/c	10,000	Aug. 7	By Bills Payable A/c	6,000
July 6	To Bank A/c	8,240	Sep. 1	By Bank A/c 4,120	
			Sep. 1	By Bad Debts A/c 4,120	8,240
		46,480			46,480

Workings:

I. Calculation of Discount

				₹
1st bill	=	$₹\,8{,}000 \times \frac{12}{100} \times \frac{3}{12}$	=	240
2nd bill	=	$₹\,12{,}000 \times \frac{12}{100} \times \frac{4}{12}$	=	480
				720
3rd bill	=	$₹\,8{,}240 \times \frac{12}{100} \times \frac{3}{12}$	=	248

II. Calculation of Interest

Interest = $₹\ 8{,}000 \times \frac{12}{100} \times \frac{3}{12}$ = 240

6.

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

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

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

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

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

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

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

Short-working recovered :

2009-10 ₹ 4,000 (towards short-workings which arose in 2006-07)

2010-11 ₹ 8,000 (including ₹ 1,000 for short-working 2007-08)

2011-12 ₹ 2,000

Short-working lapsed :

2008-09 ₹ 3,000
2009-10 ₹ 3,600
2011-12 ₹ 2,000

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

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

6. Solution:

(a)

Departmental Trading and Profit & Loss Account

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

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

Working Notes :

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

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

Total Profit included in current cost of Dept. C (₹ 9,000 + ₹ 13,500)	22,500
Unrealised profit included in closing stock of ₹ 24,000 (₹ 22,500 × ₹ 24,000/₹ 99,000)	5,454
(iv) Total unrealised profit (₹ 6,300 + ₹ 5,454)	11,754

(b) Let P = the amount of instalment paid for capital sum at the end of each year;

= the rate of interest on each rupee of unpaid capital.

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

So, for First Instalment = P + 3 Pi = 5,200 ... ... (i)

" Second " = P + 2Pi = 4,800 ... ... (ii)

" Third " = P + Pi = 4,400 ... ... (iii)

By subtracting (ii) from (i) we get

₹

P + 3 Pi = 5,200 ... (i)

P + 2Pi = 4,800 ... (i)

– – –

Pi = 400

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

P + Pi = ₹ 4,400

∴ P + 400 = ₹ 4,400

∴ P = ₹4,400 – ₹ 400

P = ₹ 4,000

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

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

In the books of Mr. Yugal

Machinery Ltd. Account

(Prepared Under Sales Method)

Dr. **Cr.**

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

(c)

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

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

From the above statement it is quite clear that:

(i) Short –working lapsed in 2011-12 ₹1,000 which relates to 2008-09 as per terms, short-working should be recouped within three years i.e.,2011-12 is the last year for recoupment.

(ii) Short-working recovered in 2010-11 ₹4,000, (out of which ₹1,000 for 2007-08 and the balance ₹3,000 for the year 2008-09)

(iii) Short –working recovered in 2011-12 ₹1,000 which is also related to 2008-09 in which year actually is arose.

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

Now, we can prepare our usual statement as under:

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

Memorandum Royalty Statement

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

In the books …..

Royalty Account

Dr. **Cr.**

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

Royalty Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2008-09	To, Balance b/d	6,300[A]	2008-09	By, Profit and Loss A/c	1,500
	To, Landlord A/c	5,000		By, Balance c/d	9,800
		11,300			**11,300**
2009-10	To, Balance b/d	9,800	2009-10	By, Royalty A/c	2,000
				By, Profit and Loss A/c	1,800
				By, Balance c/d	6,000
		9,800			**9,800**
2010-11	To, Balance b/d	6,000	2010-11	By, Royalty A/c	4,000
				By, Balance c/d	2,000
		6,000			**6,000**
2011-12	To, Balance b/d	2,000	2011-12	By, Royalty A/c	1,000

				By, Balance c/d	1,000
		2,000			**2,000**

A. This includes: ₹

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

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

A. Delhi Branch:

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

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

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

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

B. Mumbai Branch (apart from the above):

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

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

C. Chennai Branch (apart from the above)

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

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

D. Kolkata Branch (apart from the above):

(ix) Sent goods to Chennai - ₹70,000

(x) Paid cash to Chennai - ₹70,000

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

(b) M and N enter 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 M and N who provide cash equally. The commission in cash is taken by partners in the ratio of 4 : 5.

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 M and N 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 M and N in the books of N and M, respectively, showing the adjustment of the final balance between M and N.

Ignore interest and income-tax.

(c) From the following particulars, show the entries in the books of Consignor:
Goods sent on Consignment 100 books @ ₹ 100.

Expenses incurred by consignor:		Expenses incurred by consignee:	
Particulars	**₹**	**Particulars**	**₹**
Freight	2,000	Clearing	2,000
Insurance	1,000	Storage	500

Consignee sold 82 books and he informed that a deficiency of 3 units disclosed by his actual physical stock taking.

7. Solution:

(a)

In the books of Head Office

Journal

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

Workings:

Inter-Branch Transactions

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

(b)

Memorandum Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To M (Cost of Shares)	60,000[1]	?	By M (Commission)	20,000[3]
	,, N (Cost of Shares)	60,000		N (Commission)	25,000
	,, Profit to Joint Venture			,, M (Sale Proceeds)	71,100[2]
				N (Sale Proceeds)	71,100
	M 32,640			,, M (Shares taken)	7,200[4]
	N 48,960	81,600		N (Shares taken)	7,200
		2,01,600			2,01,600

In the books of A

Joint Venture with B

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
?	To Bank – Cost of Shares	60,000	?	By Bank – Commission	20,000
	,, Share of Profit	32,640		,, Bank – Sale Proceeds	71,100
	,, Bank – final settlement	5,660		,, Shares taken	7,200
		98,300			98,300

In the books of N

Joint Venture with M

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011	To Bank – Cost of Shares	60,000	2011	By Bank – Commission	25,000
	,, Share of Profit	48,960		,, Bank – Sale Proceeds	71,100
				,, Shares taken	7,200
				,, Bank – Final settlement	5,600
		1,08,960			1,08,960

Workings:

A. Purchase of Shares

(1,00,000 – 88,000) = 12,000 @ ₹ 10 = ₹ 1,20,000 provided by M and N 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	₹
20% of 10,000 = 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 M and N each.

C. Commission in Cash

1,00,000 Shares @ ₹ 10 = ₹ 10,00,000 x 4½% = ₹ 45,000 to be taken by M and N in the ratio 4 : 5.

D. Unsold Shares taken equally by M and N

10% of 1,800 shares @ ₹ 8.00 = ₹ 14,400 x ½ = ₹ 7,200 each.

(c)

Value of Unsold Stock

	₹
Total Cost	10,000
Add: Consignor's Expenses	3,000
Add: Consignees non-recurring exp.	2,000
Cost Price of 100 books	15,000

$\therefore$ Value of Stock = ₹ 15,000 x $\frac{15}{100}$ = ₹ 2,250

Value of Deficiency of Stock = ₹ 15,000 x $\frac{3}{100}$ = ₹ 450

Journal

(without narration)

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Stock on Consignment A/c	Dr.		2,250	
	To Consignment A/c				2,250
	Stock Deficiency A/c	Dr.		450	
	To Consignment A/c				450
	Profit and Loss A/c	Dr.		450	
	To Stock Deficiency A/c				450

8. (a) Suresh keeps his ledger on self-balancing system. From the following particulars, you are required to write up the individual Debtors' Account and the General Ledger Adjustment Account (In sales Ledger during the month of January 2012):

(i) Individual Debtor's balances on 01.01.2012:
A ₹3,060; B₹3,240; C ₹3,780 and D₹2,340.

(ii) Transactions during the month:

Jan.
2. Sold goods to a ₹3,420;
9. Received from B on account ₹600;
11. Received from A₹3,000 in full settlement of his balance on 01.01.2012
12. Sold goods to B₹1,200
14. B returned goods which were damaged in-transit amounting to ₹360;
18. Received from C ₹3,600 and allowed him discount ₹180;

19. Received from A, a bill of exchange for ₹2,400 accepted by X payable on 25th Jan;
22. Received from B ₹1,800;
25. A's bill returned dishonoured;
28. D became insolvent and 30 paise in the rupee was received from his estate in full and final settlement;
30. Sold goods to C ₹2,040.

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

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

The additional information should be obtained:

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

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

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

(c) When do you recognize revenue in the following cases as per AS-9?

i. Installation Fee
ii. Advertisement Commission
iii. Revenue from Royalty
iv. Sales made in instalment.

8. Solution:

(a)

In the Books of Suresh
In Sales Ledger
General Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Jan. 31	To, Sales Ledger Adjustment A/c - Cash - Discount Allowed - Returns Inward - Bills Receivable To, balance c/d	 9,702[C] 240[D] 360[E] 1,638[F] 7,140	2012 Jan 1 Jan.31	 By, Balance b/d By, Sales Ledger Adjustment A/c - Sales - Bills Receivable Dishonoured	 12,420[A] 6,660[B] 2,400[G]
		21,480			**21,480**

A Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Jan. 1 " 2 " 3	 To, Balance b/d " Sales " Bills Receivable Dishonoured	 3,060 3,420 2,400	2012 Jan. 11 " 11 " 19 " 31	 By, Cash " Discount Allowed " Bills Receivable " Balance c/d	 3,000 60 2,400 3,420
		8,880			**8,880**

B Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Jan. 1 " 12	 To, Balance b/d " Sales	 3,240 1,200	2012 Jan. 9 " 14 " 22 " 31	 By, Balance b/d " Return Inward " Cash " Balance c/d	 600 360 1,800 1,680
		4,440			**4,440**

C Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Jan. 1 " 31	 To, Balance b/d " Sales	 3,780 2,040	2012 Jan. 18 " 18 " 31	 By, Cash " discount Allowed " Balance c/d	 3,600 180 2,040
		5,820			**5,820**

D Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 Jan. 1	To, Balance b/d	2,340	2012 Jan. 28	By, Cash “ Bad Debts	702 1,638
		2,340			**2,340**

Trial Balance
As at 31st Jan. 2012

Heads of Accounts	Dr. ₹	Cr. ₹
A Account	3,420	
B Account	1,680	
C Account	2,040	
General Ledger Adjustment Account		7,140
	7,140	7,140

Workings:

A. Total Debtor's balance as on 01.01.2012
= A+B+C+D = ₹(3,060+3,240+3,780+2,340)=₹12,420.
B. Total Sales = A+B+C = ₹(3,420+1,200+2,040) =₹6,660.
C. Total Cash Received = A+B+C+D= (600+3,000+3,600+1,800+702)=₹9,702.
D. Total Discount Allowed =A+C = ₹(60+180)= ₹240.
E. Return Inward =B ₹360
F. Bad Debts =D ₹1,638
G. Bills Receivable Dishonoured =A ₹2,400.
H. Total Debtor's balance as on 31st Jan. 2012 = A+B+C = ₹(3,420+1,680+2,040)= ₹7,140.

(b)

In the books of Citizens Club
Receipts and Payments Account for the year ended 31st October 2012.

Dr. Cr.

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

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

Dr. **Cr.**

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

Balance Sheet as at 31st October 2012

Dr. **Cr.**

Liabilities	₹	₹	Assets	₹	₹
Capital Fund as on 01.11.2011	65,130[3]		Premises at Cost	1,17,000	
Add: Surplus	43,490		Less: Depreciation	59,430	57,570
		1,08,620	Car at Cost	46,800	
Creditors (for bar purchase)		1,290	Less: Depreciation	9,360	37,440
Secretary's Honorarium			Bar Stock		2,610
outstanding		1,000	Outstanding Subscription		2,940
			Cash at Bank		
			(₹ 10,400 – ₹ 90)		10,350
		1,10,910			1,10,910

Bar Trading Account

Dr. **Cr.**

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

Workings:

1.

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

2. Profit on Sale of Old Car

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

3. Balance Sheet as at 01.01.2011

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

4. Subscription Received for 2012

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

(c)

i. If installation are other than incidental to the sale of products, they should be recognized as revenue after installation of equipment and acceptance by the customer.

ii. Media commission will normally be recognized by the advertising agencies when the related advertisement or commercials appears before the public.

iii. Revenue from royalty are should be recognized on accrual basis as per the terms of the agreement.

iv. Revenue of sale price excluding interest should be recognized on the date of sale and the interest should be recognized proportionately to the unpaid balance.

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

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

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

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

9. Solution :

(a)

In the books of ………

Bad Debts Account

Dr. **Cr.**

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

Provisions for Bad Debts Account

Dr. **Cr.**

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

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

Balance Sheet (Extracts)

As at 31st Dec.2013

Liabilities	Amount ₹	Assets	Amount ₹	Amount ₹
		Sundry Debtors	40,000	
		Less: Bad Debts	800	

			39,200	
		Less: Provision for Bad Debts @ 10%	3,920	
				35,280

Workings:

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

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

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

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

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

(b)

(i) Computation of ROCE and RONW

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

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

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

(ii) Computation of Ratios

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

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

Particulars	**₹ in Lakhs**
Total Contract Price	**2,000**

Works Certified	**1,000**
Works not Certified	**210**
Estimated further cost	**990**
Progress payment received	**800**
Progress payment to be received	**280**

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

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

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

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

10. Solution :

(a)

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

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

Anticipated or Foreseeable Loss

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

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

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

Recognition of Contract Revenue:

Total Contract Price x 55% = ₹ (2,000 x 55%) = ₹ 1,100 lakhs

Amount due from /to customers = Contract costs + Recognised profits-recognised losses – (progress payments received+ Progress payments to be received)

=[1,210+NIL – 200-(800+280)]₹in lakhs = [1,210-200-1,080]₹ in lakhs

Amount due to customers =₹70 lakhs . The amount of 70₹ lakhs will be shown in the balance sheet as liability.

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

Source	**Loan Amount ₹ in Lakhs**	**Interest Rate**	**Interest Amount ₹ in Lakhs**
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowing included in above	190.00		17.75

B. Weighted Average Capitalization Rate for General Borrowings:

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

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

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

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

11.

(a) The following is an extract from the Trial Balance of Utsav Bank Ltd. as on 31st March 2012:

	₹
Rebate on Bills Discounted on 01.04.2009	**68,259 (Cr.)**
Discount Received	**1,70,156 (Cr.)**

Analysis of the bills discounted reveals:

Amount (₹)	Due Date
2,80,000	June 1,2010
8,72,000	June 8,2010
5,64,000	June 21,2010
8,12,000	July 1,2010
6,00,000	July 5,2010

You are required to find out the amount of discount to be credited to Profit and Loss Account for the year ending 31st March 2010, and pass journal entries.
The rate of discount may be taken at 10% p.a.

(b) Lubrizols Ltd. Of Mumbai consigned 1,000 barrels of lubricant oil costing ₹ 800 per barrel to Central Oil Co. of Kolkata on 01.01.2011. Lubrizols Ltd. Paid ₹ 50,000 as freight and insurance. 25 barrels were destroyed on 07.01.2011 in-transit. The insurance claim was settled at ₹ 15,000 and was paid directly to the consignor.

Central Oil took delivery of the consignment on 19.01.2011 and accepted a bill drawn upon them by Lubrizols Ltd., for ₹ 5,00,000 for 3 months. On 31.03.2011, Central Oil reported as follows:

(i) 750 barrels were sold as ₹ 1,200 per barrel.
(ii) The other expenses were:

	₹
Clearing charges	11,250
Godown Rent	10,000
Wages	30,000
Printing, Stationery, Advertisement	20,000

(iii) 25 barrels of oil were lost due to leakage which is considered to be normal loss.

Central Oil Co. is entitled to a commission of 5% on all the sales effected by them. Central Oil Company paid the amount due in respect of the consignment on 31st March itself.

Show the Consignment Account, the account of Central Oil Co., and the Lost-in-Transit Account as they will appear in the books of Lubrizols Ltd.

11. Solution:

(a)

Rebate on bills discounted as on 31st March 2010 (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
On ₹ $6{,}00{,}000 \times \frac{96}{365} \times \frac{10}{100}$	15,781
	70,159

Thus, amount of discount to be credited to Profit and Loss A/c

Particulars	Amount (₹)
Rebate on Bill Discounted (01.04.2009)	68,259
Add: Discount Received	1,70,156
	2,38,415
Less: Rebate on Bills Discounted (31.03.2010)	70,159
	1,68,256

In the Books of Utsav bank Ltd.
Journal Entries

Date	Particulars	L.F	Debit (₹)	Credit(₹)
2010 March 31	Rebate on Bills Discounted A/c Dr. To, Interest and Discount A/c (Transfer of unexpired discount as on 31.03.2010)		68,259	68,259
	Interest and Discount A/c Dr. To, Rebate on Bills Discounted A/c (Unexpired discount considered as on 31.03.2010)		70,159	70,159
	Interest and Discount A/c Dr. To, Profit and Loss A/c (Interest and Discount transferred to P&L A/c.)		1,68,256	1,68,256

(b)

In the books of Lubrizols Ltd.
Consignment to Kolkata Account

Dr. Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Jan. 1	To Goods sent on Consignment A/c (1,000 x ₹ 800)	8,00,000	2011 Jan. 1	By Abnormal Loss A/c	21,250
Mar. 31	To Bank A/c - Expenses	50,000	Mar. 31	By Central Oil Co. - Sale Proceeds (750X ₹ 1,200)	9,00,000
	To Central Oil Co A/c Clearing Charge 11,250 Godown Rent 10,000 Wages 30,000 Printing etc. 20,000	71,250		By Stock on Consignment A/c	1,76,842
	To Central Oil Co. – - Commission @ 5%	45,000			
	To Profit and Loss A/c - Profit on consignment transferred	1,31,842			
		10,98,092			10,98,092

Central Oil Co. Ltd. Account

Dr. Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Mar. 31	To Consignment to Kolkata A/c - Sales Proceeds	9,00,000	2011 Jan. 19	By Bills Receivable A/c	5,00,000
			Mar. 31	By Consignment to Cal A/c - Expenses	71,250

				- Commission By Bank (amount due)	45,000 2,83,750
		9,00,000			9,00,000

Abnormal Loss Account

Dr. **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Jan. 7	To Consignment to Kolkata	21,250	2011 Jan. 7 Mar. 31	By Bank-Insurance claim By Profit and Loss A/c (bal. fig.)	15,000 6,250
		21,250			21,250

Workings:

Valuation of Goods Lost-in-Transit and Unsold Stock

Particulars	₹
Total Cost (1,000 x ₹ 800)	8,00,000
Add: Consignor's exp.	50,000
Value of 1,000 barrels	8,50,000
Less: Lost-in-transit (25 x $\frac{₹8,50,000}{1,000}$)	21,250
	8,28,750
Add: Non-recurring expenses of Consignee	11,250
Value of (1,000 – 25 – 25) = 920 kg	8,40,000

Therefore, Value of Stock = 200 x $\frac{₹8,50,000}{950}$ = ₹ 1,76,842 (app.)

12. (a) M. Mitra had the following transactions with S.Sen:

2011			**₹**
Jan.	**20**	**Sold goods to S.Sen**	**280**
March	**2**	**Bought goods from S.Sen**	**150**
	3	**Accepted S.Sen's draft at 1 month due**	**120**
April	**11**	**Cash paid to S.Sen due end of May**	**100**
	30	**Goods sold to S.Sen**	**80**
May	**11**	**Bought goods from S.Sen**	**200**
June	**12**	**M. Mitra drew a bill on S.Sen, this day, payable two months after date and this was duly accepted by S.Sen**	**210**

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

(b) ABCD Ltd. bought and sold 6% Stock as follows, interest being payable on March 31st and September 30th each year:

2012	**March**	**1**	**Bought ₹24,000 @ 90⅞%**
	June	**15**	**Sold ₹10,000 @ 92⅝% cum-interest**
	August	**1**	**Bought ₹6,000 @ 91⅜%**
	September	**1**	**Sold ₹4,000 @93⅛%**

December 1 Bought ₹12,000 @94⅛% cum-interest.

Prepare Investment A/c for the year ended 31.02.2012 assuming brokerage at ⅛% in each case. (Detailed workings are to be given).

12. Solution:

(a)

M.Mitra in Account Current with S.Sen

Dr. **Cr.**

Date	Due Date	Particulars	Amount ₹	Days	Products	Date	Due Date	Particulars	Amount ₹	Days	Products
2011 Jan. 20	2011 Jan. 20	To, Sales A/c	280.00	161	45,080	2011 Mar.2	2011 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 =₹ $47{,}130 \times \frac{10}{100} \times \frac{1}{365} = ₹12.91.$

I. Calculation of days is not shown.

(b)

In the Books of ABCD Ltd.
6% Stock account
(Interest payable : 31st May and 30th September)

Dr. **Cr.**

Date	Particulars	L.F.	Nominal	Interest	Principal	Date	Particulars	L.F.	Nominal	Interest	Principal
2012 Mar. 1	To, Bank A/c (Purchased at ex-interest)		24,000	600	21,840[A]	2012 Mar. 31	By, Bank A/c (Interest received for 6 months)		-	720	-
June 15	To, Profit and Loss A/c		-	-	25[H]	June 15	By, Bank A/c (sale at cum-interest)		10,000	125	9,125[B]
Aug. 1	To, Bank A/c (Purchase at ex-interest)		6,000	120	5,490[C]	Sept. 1	By, Bank A/c (Sale at ex-interest)		4,000	100	3,720[D]
Sept. 1	To, Profit and Loss A/c (Profit on sale)		-	-	74[H]	Sept. 1	By, Bank A/c (Interest received for 6		-	480[F]	-

							months)				
Dec. 1	To, Bank A/c		12,000	120	11,190[E]	Dec.31	By, Balance c/d		28,000	420	25,774[G]
Dec. 31	To, Profit and Loss A/c (Interest for the year transferred)		-	1,005	-						
			42,000	1,845	38,619				42,000	1,845	38,619
2013 Jan.1	To, Balance b/d	28,000	420	25,774							

Workings:

A. Purchase Price and Interest on 01.03.2012

Particulars	Amount(₹)
Purchase Price at ex-interest $(₹\,24{,}000 \times \frac{(90\frac{7}{8} + \frac{1}{8})}{100})$	21,840
Interest $(₹\,24{,}000 \times \frac{6}{100} \times \frac{5}{12})$	600

B. Sale Price and Interest on 15.06.2012

Particulars	Amount(₹)
Sale Price at cum-interest $(₹\,10{,}000 \times \frac{(92\frac{5}{8} + \frac{1}{8})}{100})$	9,250
Less: Interest $(₹\,10{,}000 \times \frac{6}{100} \times \frac{2\frac{1}{2}}{12})$	125

C. Purchase at Ex-interest on 01.01.2012

Particulars	Amount(₹)
Purchase Price at ex-interest $(₹\,6{,}000 \times \frac{(91\frac{3}{8} - \frac{1}{8})}{100})$	5,490
Interest $(₹\,6{,}000 \times \frac{6}{100} \times \frac{2}{12})$	120

D. Sale price and Interest on 01.01.2012

Particulars	Amount(₹)
Purchase Price at ex-interest	3,720

$(₹\,4{,}000 \times \frac{(93\frac{1}{8}-\frac{1}{8})}{100})$	
Interest $(₹\,4{,}000 \times \frac{6}{100} \times \frac{2}{12})$	100

E. Purchase Price and Interest on 01.12.2012

Particulars	Amount(₹)
Purchase Price at ex-interest $(₹12{,}000 \times \frac{(94\frac{1}{8}+\frac{1}{8})}{100})$	11,310
Less: Interest $(₹12{,}000 \times \frac{6}{100} \times \frac{2}{12})$	120
	11,190

F. Interest on 30.09.2012

$₹(28{,}000 \times \frac{6}{100} \times \frac{6}{12}) = 480$

G. Interest on 31.12.2012

$₹(28{,}000 \times \frac{6}{100} \times \frac{3}{12}) = 420$

VIII. Statement showing the Profit or Loss on Sale of Investment

Date		Nominal ₹	Principal ₹	Selling Price ₹	Profit ₹	Loss ₹
1.3.2012	Purchase	24,000	21,840	-	-	-
15.6.2012	Sale $(10{,}000 \times \frac{21{,}840}{24{,}000})$	10,000 -	9,100	9,125	25	-
		14,000	12,740	-	-	-
1.8.2012	Purchase	6,000	5,490	-	-	-
		20,000	18,230			
1.9.2012	Sale $(4{,}000 \times \frac{18{,}230}{20{,}000})$	-	3,646	3,740	74	-
		16,000	14,584	-	-	-
1.12.2012	Purchase	12,000	11,190	-	-	-
31.12.2012	Balance	28,000	25,774			

13. (a) Amit for mutual accommodation, draws a bill for ₹6,000 on Sumit. Amit discounted it for ₹ 5,850. He remits ₹1,950 to Sumit. On the due date, Amit is unable to remit his dues to Sumit to enable him to meet the bill. He, however, accepts a bill for ₹7,500 which Sumit discounts for

₹7,250. Sumit sends ₹350 to Amit after discounting the above bill. Amit becomes insolvent and a dividend of 80 paise in the rupee is received from his estate.
Pass journal entries in the books of both the parties.

(b) A and B, who are sharebrokers agree to enter into Joint Venture to underwrite 5,00,000 equity shares of ₹10 each of Tips and Toes Ltd. agrees to allot as fully paid 4,000 shares in the company in consideration of the underwriting arrangement. In connection with the venture, the following expenses are incurred :
A: Printing and Stationery (₹5,000) ; Postage (₹ 1,000) ; Advertisement (₹3,000)
B: Postage (₹750) ; Solicitor's fee (₹3,500); Entertainment expenses (₹4,000)
The public subscription was for 4,80,000 shares only and the underwriters were forced to take up the balance and pay for them. To enable them to do so, the two persons approached the bank which, on the security of the shares, advanced the required sum on 1st July, @ 15% interest p.a. The underwriters paid for the shares, on the same day and were also allotted the 4,000 shares by Tips and Toes Ltd. The underwriters through the Bank unloaded their lot of holdings in the market in equal lots and realized 90% of the face value of the first lot on 30th September and 85% for the second lot on 31st October. The sale proceeds were applied in full to discharge the bank loan and the relative interest on the same dates. Shares transfer fees of ₹1,006.25 was met from the Joint Venture Bank Account.
***Required :* Draw a Memorandum Joint Venture account, the account of A as appearing in B's Books and the account of B as appearing in A's Books and also the settlement of account between the parties.**

13. Solution:
(a)

In the books of Amit
Journal Enteries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bills Receivable A/c Dr. To, Sumit A/c (Bill drawn for mutual accommodation and accepted by Sumit)		6,000	 6,000
	Bank A/c Dr. Discount A/c To, Bills Receivable A/c (Bill discounted bt the bank)		5,850 150	 6,000
	Sumit A/c Dr. To, Bank A/c To, Discount A/c (⅓ Proceeds remitted to Sumit)		2,000	 1,950 50
	Sumit A/c Dr. To, Bills Payable A/c (Bill accepted)		7,500	 7,500
	Bank A/c Dr. Discount A/c Dr. To, Sumit A/c (Proceeds received from Sumit including discount charges)		350 150	 500
	Bills Payable A/c Dr.		7,500	

	To, Sumit A/c (Bill dishonored since he became insolvent)			7,500
	Sumit A/c Dr. To, Bank A/c To, Deficiency A/c (Cash paid to sumit @80 paise in the rupee and balance transferred to deficiency account)		4,500	 4,500

This amount can be ascertained by preparing Sumit's Account in Amit's book.

In the books of Sumit

Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Amit A/c Dr. To, Bills Payable A/c (Bill accepted for mutual accommodation)		6,000	 6,000
	Bank A/c Dr. Discount A/c Dr. To, Amit A/c (⅓ proceeds received from Amit including discount)		1,950 50	 2,000
	Bills Receivable A/c Dr. To, Amit A/c (Bill drawn and accepted by Amit)		7,500	 7,500
	Bank A/c Dr. Discount A/c Dr. To, Bills Receivable A/c (Bill Discounted)		7,250 250	 7,500
	Amit A/c Dr. To, Bank A/c To, Discount A/c (Proceeds remitted to Amit including discount)		350 150	 500
	Amit A/c Dr. To, Bank A/c (Bill honoured at maturity)		7,500	 7,500
	Bills Payable A/c Dr. To, Bank A/c (Bill honoured at maturity)		6,000	 6,000
	Bank A/c Dr. Bad Debt A/c Dr. To, Amit A/c (Amount realized from the official liquidator of Amit @ 80 paise in the rupee and the balance proved bad)		3,600 900	 4,500

Note:

Sharing discount:

After discounting of the bills, Amit received **₹4,000 (including discount)**

Add: Amount remitted by Sumit

(after discounting of the 2nd bill) **₹350**

Total benefit received by Amit **₹4,350**

Now,

After discounting of the 2nd bill Sumit received ₹7,250

$\therefore$ **Proportion of Amit to Sumit =** $\frac{4,350}{7,250} \times 125 =$ ₹150

$\therefore$ **Amit is to bear = ₹150 of discounting charges, and the balance by Sumit.**

(b) Dr. Memorandum Joint Venture Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To, A (Expenses):		By, Bank A/c:	
Printing and Stationary	5,000.00	(Sales proceeds of shares):	
Postage	1,000.00	Sept 30 ₹1,08,000	
Advertisement	3,000.00	Oct. 31 ₹1,02,000	2,10,000.00
To, B (Expenses):		By, Loss transferred to :	
Postage	750.00	A	8,500.00
Solicitor's fees	3,500.00	B	8,500.00
Entertainment	4,000.00		
To, Bank A/c (loan for purchase)	2,00,000.00		
To, Bank A/c (Interest on Bank Loan)	8,743.75		
To, Bank A/c (Shares Transfer Fees)	1,006.25		
	2,27,000.00		**2,27,000.00**

Working Notes:

		₹
(i) Sale proceeds: On 30th Sept. 12,000 shares at ₹9 per share		1,08,000
On 31st Oct. 12,000 shares at ₹8.50 per share		1,02,000
		2,10,000
(ii)Interest on Loan:		
On ₹ 2,00,000 for 3 months @ 15% p.a.		7,500.00
On ₹99,500, (i.e ₹ 2,07,500 – ₹ 1,08,000) for 1 month @ 15 % p.a.		1,243.75
		8,743.75
(iii) Joint venture Bank Account		
A. Sales proceeds of shares		2,10,000
B. Less: Loan	2,00,000	
Interest and share transfer fee	9,750	2,09,750
C. Balance given to A		250

Dr. Joint Venture with B Account in the books of A Cr.

Particulars	₹	Particulars	₹
To, Bank A/c (Expenses)	9,000	By, Profit & Loss a/c (Share of loss) By Joint Venture Bank A/c By Bank A/c(Balance received from B)	8,500 250 250
	9,000		9,000

Dr. Joint Venture with A Account in the books of B Cr.

Particulars	₹	Particulars	₹
To, Bank A/c (Expenses) To, Bank A/c (balance paid to A)	8,250 250	By, Profit & Loss a/c (Share of loss)	8,500
	8,500		8,500

14. (a) from the following particulars , prepare accounts in Goods on Approval Ledger and General Ledger

Particulars	Amount(₹)
Goods Sent out on approval	**2,00,000**
Goods Returned	**50,000**
Goods Accepted	**1,40,000**
Opening balance on approval	**20,000**
Cash received from customers	**90,000**
Opening dues from approved parties for goods already accepted	**10,000**

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

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

14. Solution:

(a)

Goods on Approval Ledger

Goods out on Approval Account
Or, Sale or Return Suspense Account

Dr. Cr.

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)

?	To, Approval Debtors Control A/c -Returns	50,000	?	By, Balance b/d	20,000
	To, Approval Debtors Control A/c -Sales	1,40,000		By, Approval Debtors Control A/c	2,00,000
	To, Balance c/d	30,000			
		2,20,000			**2,20,000**

Approval Debtors Control Account

Dr. **Cr.**

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
?	To, Balance b/d	20,000	?	By, Goods out on Approval A/c -Returns	50,000
	To, Goods on Approval A/c	2,00,000		By, Goods out on Approval A/c -Sales	1,40,000
				By, Balance c/d	30,000
		2,20,000			**2,20,000**

General Ledger

Sundry Debtors Account

Dr. **Cr.**

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
?	To, Balance b/d	10,000	?	By, Bank A/c	90,000
	To, Sales A/c	1,40,000		By, Balance c/d	60,000
		1,50,000			**1,50,000**

Sales Account

Dr. **Cr.**

Date	Particulars	Amount(₹)	Date	Particulars	Amount(₹)
?	To, Trading A/c	1,40,000	?	By, Sundry Debtors A/c	1,40,000
		1,40,000			**1,40,000**

(b)

Current Ratio = Current Assets / Current Liabilities =3

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

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

Or, 3 CL- CL = 6,00,000
Or, 2 CL = 6,00,000
Or, CL = 3,00,000
Thus, CA = 9,00,000

Liquid Ratio = (CA – Stock)/CL = 2.25
Or, (9,00,000 - Stock)/3,00,000 = 2.25
Or, Stock (Inventories)= 2,25,000

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

G/P Ratio = 25%
Cost of Sales/Sales = 75%
Sales = ₹ 30,37,500 / 75% = ₹ 40,50,000

Average Debt Collection period = 2 months = 6 times
Or, Sales/Debtors = 6
Or, Debtors (Trade receivables) = ₹ 40,50,000 / 6 = ₹ 6,75,000

Fixed Assets/Networth = 0.9
Or, Working Capital/ Net worth = 1 – 0.9 = 0.1
Or, Networth = ₹ 6,00,000 / 0.1 = ₹ 60,00,000
Fixed Asset (Tangible) = 0.9 × ₹ 60,00,000 = ₹ 54,00,000

Reserves & Surplus/Share Capital = 0.25/1
Reserves & Surplus + Share Capital = 1+0.25 = 1.25
Reserves & Surplus = ₹ 60,00,000 × 0.25/1.25 = ₹ 12,00,000
Share Capital = ₹ 12,00,000/0.25 = ₹ 48,00,000

Name of the Company Virat Ltd.
Balance Sheet as at 31st March, 2012 **[as per Revised Schedule VI]**

		₹ in lakhs	
	Note No.	**Figures as at the end of current reporting period**	**Figures as at the end of previous reporting period**
I EQUITY AND LIABILITIES			
(1) Shareholders' funds :			
(a) Share Capital		48,00,000	—
(b) Reserves and Surplus		12,00,000	—
(c) Money received against share warrants		—	—
(2) Share application money pending allotment		—	—
(3) Non-current liabilities :			
(a) Long-term borrowings			
(b) Deferred tax liabilities (Net)		—	—

(c) Other long term liabilities		—	—
(d) Long –term provisions		—	—
(4) Current Liabilities :			
(a) Short-term borrowings		—	—
(b) Trade Payables		—	—
(c) Other current liabilities		3,00,000	—
(d) Short term provisions		—	—
Total		**63,00,000**	**—**
II. ASSETS			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible assets		54,00,000	—
(ii) Intangible assets		—	—
(iii) Capital work-in progress		—	—
(iv)Intangible assets under development		—	—
(b) Non-current Investment		—	—
(c) Deferred tax assets (net)		—	—
(d) Long-term loans and advances		—	—
(e) Other non-current assets		—	—
(2) Current assets :			
(a) Current investments		—	—
(b) Inventories		2,25,000	—
(c) Trade receivables		6,75,000	—
(d) Cash and Cash equivalents		—	—
(e) Short-term loans and advances		—	—
(f) Other Current assets		—	—
Total		**63,00,000**	**—**

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

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

Particulars	₹ (in lakhs)
Balance of Life Assurance Fund as on 1.4.2011	**334.30**
Interim bonus paid in the valuation period	**50.00**

Balance of Revenue Amount for the year ended 31.3.2012	**480.00**
Net Liability as per valuer's Certificates as on 31.3.2012	**330.00**

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

15. Solution:

(a)

(i) Computation of Current Cost of Replacement

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

(ii) Computation of Capital Expenditure

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

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

(iv) Computation of Revenue Expenditure

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

In the books of Bijlee Electric Supply Ltd.
Journal Entries

Date	**Particulars**	**L.F.**	**Debit (₹)**	**Credit (₹)**
?	New Main A/c Dr.		31,42,500	
	Replacement A/c Dr.		28,57,500	
	To, Bank A/c			60,00,000
	(Current Cost Charged to Replacement A/c and Balance treated as Capital Expenditure)			

	New Main A/c Dr. To, Replacement A/c (Old materials sold)		3,00,000	3,00,000
	Bank A/c Dr. To, Replacement A/c (Old material sold)		1,05,000	1,05,000
	Revenue A/c Dr. To, Replacement A/c (Net Current Cost of replacement transferred to Revenue A/c)		24,52,500	24,52,500

(b)

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

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

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

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

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

Journal

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

Workings:

1. Bonus Payable in Cash
@ ₹ 105 per ₹ 1,000
On 7,20,00,000 (₹12,00,00,000 × $\frac{3}{5}$)
= ₹ $\frac{7{,}20{,}00{,}000}{1{,}000} \times 105$
= ₹75,60,000

2. Revisionary Bonus
@ ₹ 185 per ₹ 1,000
On 4,80,00,000 (₹12,00,00,000 × $\frac{2}{5}$)
= ₹ $\frac{4{,}80{,}00{,}000}{1{,}000} \times 185$
=₹88,80,00,000

16. (a) The following is a summarized analysis of the accounts of the outstanding debtors of a firm at the date of the annual closing as appearing on one of their ledgers:

Debtors	Goods sold during the year ₹	Goods returned during the year ₹	Cash and Cheque received during the year ₹	Discount allowed during the year ₹	Bills of exchange received during the year ₹
A	2,763	-	1,500	-	1,000
B	6,514	23	3,200	130	3,500
C	3,987	15	2,000	40	2,200
D	5,762	-	4,100	-	-
E	9,385	117	6,300	93	3,500
F	8,426	-	5,900	-	2,300
G	4,931	82	2,200	49	3,800

There was an outstanding balance of the debtors to the extent of ₹3,985 at the beginning of the year. Out of the abov e receipts , a bill for ₹700 given by B was dishonoured and the charges amounted to ₹5. Show how you would proceed to agree the Trial balance according to Self-Balancing System.

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

16. Solution:

(a)

In the General Ledger

Debtors Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount(₹)
?	To, Balance b/d	3,985	?	By, General Ledger Adjustment A/c Cash and Cheque Discount allowed Bills Receivable Returns Inward	 25,200 312 16,300 237
	To, General Ledger Adjustment A/c Sales Bills Dishonoured Charges	 41,768 700 5		By, Balance c/d	4,409
		46,458			46,458
	To, Balance b/d	4,409			

In the Debtors Ledger

General Ledger Adjustment Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount(₹)
?	To, Debtors Ledger Adjustment A/c Cash and Cheque Discount allowed Bills Receivable Returns Inward	 25,200 312 16,300 237	?	By, Balance b/d	3,985
	To, Balance c/d	4,409			
		46,458			46,458
			?	By, Balance b/d	4,409

Workings:

Debtors	Goods sold during the year	Goods returned during the year	Cash and Cheque received during the year	Discount allowed during the year	Bills of exchange received during the year
A	2,763	-	1,500	-	1,000

B	6,514	23	3,200	130	3,500
C	3,987	15	2,000	40	2,200
D	5,762	-	4,100	-	-
E	9,385	117	6,300	93	3,500
F	8,426	-	5,900	-	2,300
G	4,931	82	2,200	49	3,800
	41,768	237	25,200	312	16,300

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

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

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

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

(b) On 01.01.2011 , Moon Light Ltd. had 10,000 Equity Shares of ₹10 each in Agni Ltd. purchased for ₹1,25,000. The company , unlike Investment companies, does not make any apportionment of dividends (received or receivable) in-between capital and revenue.
On 15.05.2011 , the Agni Ltd. made a bonus issue of 1 fully paid share for 2 held on 15.05.2012. In addition, on the same day , right shares were issued at 3 for 5 held on thae date at a premium of ₹3, ₹7 to be paid in application and the balance in one call after a month. These shares are not to rank for dividend for the year ending 30th June 2013. 2,000 right shares were taken up by Moon Light Ltd., balance Right being sold at ₹2 each on 25.05.2011.
On 15.10.2011, the company declared a dividend of 20% for the year ended 30th June 2011.
Make – out the Investment Account in the books of Moon Light Ltd. ,ignore Income-Tax.

17. Solution:
(a)

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

Required Provision:

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

(b)

In the books of Moon Light Ltd.
Investment Account

Date	Particulars	Nominal ₹	Interest ₹	Principal ₹	Date	Particulars	Nominal ₹	Interest ₹	Principal ₹
2011 Jan. 1	To, Balance b/d	1,00,000	-	1,25,000	2011 May 25	By, Bank A/c (4,000 Right Shares sold @ ₹2)	-	-	8,000
May 15	To, Bonus Shares (10,000 ÷ 2= 5,000×₹10)	50,000	-	-	Oct. 15	By, Bank A/c (Dividend received @ 20% on ₹1,00,000)	-	20,000	-
	To , Bank A/c (Share Application money @ ₹7 on 2,000 shares)	20,000	-	14,000	Dec. 31	By, Balance c/d	1,70,000	-	1,43,000
June 15	To, Bank A/c (Share Call money @ ₹6 on 2,000 shares)	-	-	12,000					
Dec. 31	To, Profit and Loss A/c (dividend transferred) (bal.fig.)	-	20,000	-					
		1,70,000	20,000	1,51,000			1,70,000	20,000	1,51,000
2012 Jan 1	To, Balance b/d	1,70,000	-	1,43,000					

Note: A. Total Rights 10,000 × $\frac{3}{5}$ = 6,000 – Rights exercised 2,000= Rights Sold 4,000

18. (a) What is Project Accounting?

(b) A, B and C were partners sharing profits and losses in the ratio of 3 : 2 : 1. On 1.7.2008, they contributed ₹ 15,000, ₹ 12,000 and ₹ 9,000, respectively, as fixed capital carrying interest at 5% p.a. They draw on account ₹ 400, ₹ 300 and ₹ 250 each month.
On 30th June 2012, B died, and it was settled with his legal representatives that they would be entitled to receive the following sums now:
(i) B's Capital; (ii) any undrawn balance of his share of profits, and (iii) his share of goodwill which was to be valued at three years' purchase of the average profit of the last four years

It appears that final accounts had never been prepared during all these years The records revealed the following assets and liabilities as on 30th June 2012:
Assets: Bank ₹ 7,500; Stock ₹ 36,000; Debtors ₹ 26,000; Building ₹ 35,500; Furniture ₹ 3,000; Machinery ₹ 15,000.
Liabilities: Loans and Deposits ₹ 25,000; Creditors ₹ 38,000. A and C introduced further Capital to pay-off the legal representatives of B.

Show necessary accounts and the Balance Sheet of A and C on 1st July 2012.

18. Solution:
(a) Project accounting (sometimes referred to as **job cost accounting**) is the practice of creating financial reports specifically designed to track the financial progress of projects, which can then be used by managers to aid project management.
Project accounting differs from standard accounting in that it is designed to monitor the financial progress of a project rather than the overall progress of organizational elements. With Project Accounting, financial reports are specifically created to track the project process. Project Accounting provides Project Managers with the ability to accurately assess and monitor project budgets and ensure that the project is proceeding on budget. Project managers can quickly address any cost overruns and revise budgets if necessary.

Project accounting also differs from standard accounting in the time period that it is reported. Standard accounting reports financial progress for fixed periods of time, for example, quarterly or annually. Projects can last from a few days to a number of years. During this time, there may be numerous budget revisions. The project may also be part of a larger overall project. For example, if an organization were constructing a new building that would be the larger project, however telecommunications could be handled as its own project, and as such with a separate project budget.

Costs and revenues that are allocated to projects may be further subdivided into a work breakdown structure (WBS).

Project accounting allows companies to accurately assess the ROI of individual projects and enables true performance measurement. Project managers are able to calculate funding advances and actual versus budgeted cost variances using project accounting. As revenue, costs, activities and labors are accurately tracked and measured, project accounting provides future benefits to the organization. Future quotes and estimates can be fine-tuned based on past project performance. Project accounting can also have an impact on the investment decisions that companies make. As companies seek to invest in new projects with low upfront costs, less risk, and longer-term benefits, the costs and benefit information from a project accounting system provides crucial feedback that improves the quality of such important decisions.

(b)

In the books of the firm
Statement of Profit and Loss for the year ended 30th June 2006

Liabilities	₹	Assets	₹
Loans and Deposits	25,000	Bank	7,500
Creditors	38,000	Stock	36,000
Capital (bal. fig.) c/d	60,000	Debtors	26,000
		Building	35,500
		Furniture	3,000
		Machinery	15,000
	1,23,000		**1,23,000**

Particulars	Amount (₹)	Particulars	Amount (₹)
Capital (Opening): A 15,000 B 12,000 C 9,000	36,000	Capital b/d Drawings: A – (₹ 400 x 12 x 4) = ₹ 19,200 B – (₹ 300 x 12 x 4) = ₹ 14,400 C – (₹ 250 x 12 x 4) = ₹ 12,000	45,600
Gross Profit c/d	69,600		
	1,05,600		1,05,600
Net Profit c/d	69,600	Gross profit b/d	69,600
	69,600		69,600
Interest on Capital: A (₹ 750 x 4) 3,000 B (₹ 600 x 4) 2,400 C (₹ 450 x 4) 1,800	7,200	Net Profit b/d	69,600
Share of Profit: A 31,200 B 20,800 C 10,400	62,400		
	69,600		69,600

Current Account

Dr. **Cr.**

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Bank A/c-Drawings	19,200	14,400	12,000	By Interest on Capital	3,000	2,400	1,800
To Executors of B A/c - Transfer	---	26,200	---	By P & L App. Suspense A/c			
To Balance c/d	41,100	---	8,900	- Share of Profit	31,200	20,800	10,400
				By Goodwill	26,100	17,400	8,700[1]
	60,300	40,600	20,900		60,300	40,600	20,900

Capital Account

Dr. **Cr.**

Particulars	A ₹	B ₹	C ₹	Particulars	A ₹	B ₹	C ₹
To Executors B A/c - Transfer	---	12,000	---	By Balance b/dl By Bank	15,000 28,650	12,000 ---	9,000 9,550[3]
To Balance c/d	43,650	---	18,550				
	43,650	12,000	18,550		43,650	12,000	18,550

Executors of B Account

Dr. **Cr.**

Liabilities	₹	Assets	₹
To Bank A/c	38,200	By B's Capital A/c By B's Current A/c	12,000 26,200
	38,200		**38,200**

Balance Sheet as at 1st July 2012

Liabilities	₹	Assets	₹
Loans and Deposits	25,000	Bank	7,500
Creditors	38,000	Stock	36,000
Capital Account:		Debtors	26,000
A 43,650		Building	35,500
C 18,550	62,200	Furniture	3,000
		Machinery	15,000
Current Account:		Goodwill	52,200
A 41,100			
C 8,900	50,000		
	1,75,200		**1,75,200**

Notes:

1. Total profit for 4 years (before charging interest on capital) amounted to ₹ 69,600.

   ∴ Value of Goodwill $\frac{₹69,600}{4}$ = ₹ 17,400 x 3 = ₹ 52,200.

2. Total payment to the executor of B amounted to ₹ 38,200 which has been brought in by A and C in 3 : 1.

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

(b) Big owes Fast ₹12,000 for which the former accepts a three months' bill drawn by the latter. Fast immediately discounts the bill with his banker, Strong Bank, at 12% p.a. On the due date the bill is dishonoured and Strong Bank pays ₹40 as noting charges.
Big pays ₹2,360 including interest of ₹400 and gives another bill at three months' for the balance. Fast endorses the bill to his creditor Thin in full settlement of his debts for ₹10,200. Thin discounts the bill with his banker Strong Bank who charges ₹80 as discount. Before maturity Big becomes bankrupt and first and final dividend of 20 paise in a realised from his estate.
Show the journal entries in the books of Thin and Strong Bank and the ledger account of Big in the books of Fast.

19. Solution:

(a)

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

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

(b)

In the books of Thin

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
?	Bills Receivable A/c Dr. Discount Allowed A/c Dr. To, Fast A/c (Endorsed bill received from Fast in full settlement)		10,080 120	 10,200
?	Bank A/c Dr. Discount A/c Dr. To, Bills Receivable A/c (Bill discounted by the bank)		10,000 80	 10,080
?	Fast A/c Dr. To, Bank A/c To, Discounted Allowed A/c (Bills dishonoured at maturity)		10,200	 10,080 120

In the books of Strong Bank

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
?	Bills Discounted A/c Dr. To, Fast's Current A/c To, Discount A/c (Bill discounted which is due for three months)		12,000	 11,640 360
?	Noting Charges A/c Dr. To, Cash A/c (Noting charges incurred for dishonor of bill)		40	 40
?	Fast's Current A/c Dr. To, Bills Discounted A/c To, Noting Charges A/c (Bill dishonoured , noting charges being ₹40)		12,040	 12,000 40
?	Bill Discounted A/c Dr. To, Thin's Current A/c To, discount A/c (Bill discounted which is due for 3 months)		10,080	 10,000 80
?	Thin's Current A/c Dr. To, Bills Discounted A/c (Bill dishonoured at maturity)		10,080	 10,080

In the books of Fast

Big Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount	Amount

		(₹)			(₹)	(₹)
?	To, Balance b/d	12,000	?	By, Bills Receivbale A/c		12,000
	To,Strong Bank A/c	12,040		By, Cash A/c		2,360
	To, Interest A/c	400		By, Bills Receivable		10,080
	To, Thin A/c	10,080		By, Cash A/c (20%)	2,016	
				By, Bad Debt A/c	8,064	10,080
		34,520				**34,520**

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

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

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

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

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

E ₹ 3,900; F ₹ 2,040 and G ₹ 3,060.

The other debtors amounted to ₹ 7,80,000 and it was required to make the general provisions for doubtful debts equal to 5% of these debts. Show Bad Debts Account and Provision for Bad Debts Account.

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

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

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

20. Solution:

(a)

In the Books of ………..

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

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

Dr. Provision for Bad Debts Account Cr.

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

Workings:

A. Bad Debts

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

B. Opening Balance of provision for Bad Debts

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

C. Closing Balance of provision for Bad Debts

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

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

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

21. (a) A Loss of Profit Policy was taken for ₹ 80,000. Fire occurred on 15th March 2012. Indemnity period was for three months. Net profit for 2011 year ending on 31st December was ₹ 56,000 and standing charges (all insured) amounted to ₹ 49,600. Determine insurance claims from the following details available from quarterly sales tax returns:

Particulars	2009 ₹	2010 ₹	2011 ₹	2012 ₹
From 1st June to 31st March	1,20,000	1,30,000	1,42,000	1,30,000
From 1st April to 30th June	80,000	90,000	1,00,000	40,000
From 1st July to 30th September	1,00,000	1,10,000	1,20,000	1,00,000
From 1st October to 31st December	1,36,000	1,50,000	1,66,000	1,60,000

Sales from 16.03.2011 to 31.03.2011 were ₹ 28,000
Sales from 16.03.2012 to 31.03.2012 were ₹ Nil
Sales from 16.06.2011 to 30.06.2011 were ₹ 24,000 and
Sales from 16.06.2012 to 30.06.2012 were ₹ 6,000.

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

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

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

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

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

21. Solution:

(a) Short Sales = Standard Sales1 – Actual Sales during indemnity period

= 1,14,400 (i.e., ₹ 1,04,000 + 10%3) – ₹ 34,0002
= ₹ 80,400.

i. Standard Sales = Sales from 16.03.2011 to 31.03.2011 + Sales from 1.4.2011 to 15.6.2011 – Sales from 16.6.2011 to 30.6.2012

= ₹ 28,000 + ₹ 1,00,000 – ₹ 24,000

= ₹ 1,04,000.

ii. Actual Sales = Sales from 16.03.2012 to 15.6.2012 + Sales from 1.4.2012 to 30.6.2012 – Sales from 16.6.2012 to 30.6.2012
= ₹ Nil + ₹ 40,000 – ₹ 6,000

= ₹ 34,000

iii. Percentage of Increasing trend in Sales:

Total Sales for 2009 (₹ 1,20,000 + ₹ 80,000 + ₹ 1,00,000 + ₹ 1,36,000) = ₹ 4,36,000

Total Sales for 2010 (₹ 1,30,000 + ₹ 90,000 + ₹ 1,10,000 + ₹ 1,50,000) = ₹ 4,80,000
Total Sales for 2011 (₹ 1,42,000 + ₹ 1,00,000 + ₹ 1,20,000 + ₹ 1,66,000) = ₹ 5,28,000

Now, Percentage of Increase in Sales in 2010 over 2009 = $\frac{₹44,000}{₹4,36,000} \times 100 = 10\%$

Percentage of Increase in Sales in 2011 over 2010 = $\frac{₹48,000}{₹4,80,000} \times 100 = 10\%$

$\therefore$ Average Rate is $\frac{10\% + 10\%}{2} = 10\%$

Application of Average Clause = Amount of Claim x (Amount of Policy/G.P. on Annual Adjusted Turnover)

= $₹16,080 \times \frac{80,000}{1,19,680}$

= ₹ 10,749 (approx)

Particulars	Amount (₹)
Calculation of G.P. on Annual (Adjusted) Turnover	28,000
Sales from 16.03.2011 to 31.03.2011	1,00,000
Sales from 01.04.2011 to 30.06.2011	1,20,000
Sales from 01.07.2011 to 30.09.2011	1,66,000
Sales from 01.10.2011 to 31.12.2011	1,30,000
Add: 01.01.2012 to 15.03.2012	5,44,000
Add: 10% Increase	54,400
Adjusted Sales	**5,98,400**

$\therefore$ G.P. on Adjusted Sales = ₹ 5,98,400 x 20% = ₹ 1,19,680.

(b)

In the books of the firm
Capital Account

Dr. **Cr.**

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

Cash Account

Dr. **Cr.**

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

Balance Sheet as at 1st January, 1998

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

Working:

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

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

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

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

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

2. The entire Capital of Lakshmi is to be to gifted by her mother from her own share; the entry will be:
   Durgas' Capital A/c Dr. 7,500
   To Lakshmi's Capital A/c 37,215

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

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

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

22. (a) Mr. Sagar sends out the following goods to his customers on sale or return basis in the month of April 2012. You are requested to prepare Sale or Return Day Book for the month of April 2012 for the following transactions assuming that the transactions are in considerable numbers.

Date	Particulars	Amount (₹)	Date	Particulars
2012 April 1	**A Acharya**	**4,000**	**2012 April 5**	**Retained all**
5	**D Das**	**2,000**	**9**	**Returned all**
12	**T Talukdar**	**3,000**	**20**	**50% retained and 50% returned**
18	**M Mitra**	**1,000**	**25**	**Goods returned value ₹800 and no intimation was received for the balance**
30	**C Chanda**	**3,600**		**Neither intimation received nor goods returned**

(b) X has the following transactions with Y

Date	Particulars	₹
2012 Jan, 1	**Sold goods to Y**	**6,000**
Feb, 15	**Received cash form Y**	**2,400**
Mar, 5	**Bought goods from Y**	**16,000**
April,15	**Paid to Y**	**10,800**

Prepare an Account current to be recorded to be rendered by X to Y under backward Method for the period to 31st June,2013 reckoning interest @12% P.a.

22. Solution:

(a)

Sale or Return Day Book

Goods sent out			Goods sold			Goods returned		Balance
Date	**Particulars**	**Amount (₹)**	**Date**	**L.F.**	**Amount (₹)**	**Date**	**Amount (₹)**	**Amount (₹)**
2012 April 1	A Acharya	4,000	2012 April 5		4,000			
5	D Das	2,000				April 9	2,000	
12	T Talukdar	3,000	20		3,000	20	3,000	
18	M Mitra	1,000				25	800	200
30	C Chanda	3,600						3,600

Value of stock amounted to ₹3,800 and valuation should be made on the basis of cost price or market price whichever is lower.

(b)

Y is Account Current with X

(Interest to 30th June 2013 @ 12% P.a.)

Dr. **Cr.**

Date	Particulars	Amount	Days	oducts (₹)	Date	Particulars	Amount	Days	Products (₹)
2012 Jan1	To, Sales A/c	6,000	1	6,000	2012 Sept1	By,Cash	2,400	46	1,10,400
April 15	To, Cash	10,800	106	1144,000	March 1	By, Purchase	16,000	65	10,40,000
June 30	To, Balance (₹800)	-	182	2,91,200	June 30	By, balance of product			2,91,600
June 30	To, Balance c/d	1,695.86			June 30	By, Interest on the balance of Product	95.86[A]		
		18,495.86		11,42,000			18,495.86		11,42,000

Workings:

A. Protest on Balance of product =₹2,91,600×12/100×1/365=₹95.86

23. (a) A fire occurred on 1st July 2012 in the premises of Uttam Ltd. and business was practically disorganised up to 30th November,2012. From the books of account, the following informations was extracted.

(i)	**Actual turnover from 1st july 2012 to November 2012**	**₹60,000**
(ii)	**Turnover from 1st July to 30th November 2011 ₹2,00,000**	
(iii)	**Net profit for the last financial year**	**₹90,000**
(iv)	**Insured standing Charges for the last financial year**	**₹60,000**

(v)	**Turnover for the last financial year**	**₹5,00,000**
(vi)	**Turnover for the year ending 30th June 2012 ₹5,50,000**	
(vii)	**Total Standing Charges for the year**	**₹72,000**

The company incurred additional expenses amounting to ₹9,000 which reduced the loss in turnover. There was also a savings during the indemnity period of ₹2,486.
The company holds a 'Loss of profit' policy for ₹1,65,000 having an indemnity period for 6 months. There has been a considerable increase in trade and it has been agreed that an adjustment of 20% be made in respect of upward trend in turnover.
Compute claim under ' Loss of Profit Insurance'.

(b) Amal and Vimal are doing business separately as engineering contractors. They undertaken jointly to build and install new machinery for a company for a contract price of ₹2,68,000 - ₹ 1,68,000 payable in instalments in cash and the balance as fully paid shares in the new company. A bank account is opened in joint name, Amal paying ₹90,000 and Vimal 40,000. They agreed to share profits and losses in the proportion of 3/5 and 2/5,respectively. The transactions were:

Particulars	Amount (₹)
Amount advanced to suppliers for supply of materials	1,04,000
Value of materials supplied by suppliers	1,78,000
Balance amount paid to suppliers in full and final settlement	71,000
Paid Wages	72,000
Materials purchased in Cash	5,000
Materials supplied by Amal from stock	18,500
Engineering consultant's fees paid	6,500
Value of stock lost by fire and not covered by Insurance	7,000

The contract was completed and price was duly received. Amal took all the shares at an agreed value of ₹94,000 and Vimal took the balance stock of materials worth ₹7,000 at an agreed value of ₹5,500.
Show the necessary ledger accounts assuming that separate set of books is maintained.

23. Solution:
(a)

Short Sales	**Amount (₹)**
Standard Turnover (from 1.7.2011 to 30.11.2011)	2,00,000
Add: Increase @ 20%	40,000
	2,40,000
Less: Actual Sales during indemnity period (i.e. from 1.7.2012 to 30.11.2012)	1,80,000

∴ Gross Profit @ 30% 0n Short Sales ₹54,000

Additional Expenses:

Least of the following

(i) Actual Amount ₹9,000

(ii) Gross Profit on additional sales @ 30% ₹18,000

(₹60,000 $\times \frac{30}{100}$)

(iii) $\frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net Profit} + \text{All Standing Charges}} \times \text{Additional Expenses}$

₹($\frac{1,98,000}{2,10,000} \times 9,000$) = ₹8,486

₹62,486

Less: Saving in Expenses ₹2,486

₹60,000

Net Claim = Amount of Claim $\times \frac{\text{Amount of Policy}}{\text{G.P on Annual Adjusted Turnover}}$

= ₹60,000 $\times \frac{1,65,000}{1,98,000}$ =₹50,000

Note:

A. Rate of Gross Profit : $\frac{1,50,000}{5,00,000} \times 100$ =30%

B. 30% on ₹6,60,000(i.e. ₹5,50,000+20%)

(b)

In the books of Joint Venture
Joint Venture Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
?	To, Creditors A/c (Materials Supplied)	1,78,000	?	By, Creditors A/c (Discount Received) (₹1,78,000-₹1,04,000-₹71,000)	3,000
	To, Joint Venture A/c: Wages ₹72,000 Materials ₹5,000 Consultant's Fees ₹6,500	83,500		By, Joint Bank A/c (Part Contract Price Received)	1,68,000
	To, Amal's capital A/c (Materials Supplied)	18,500		By, Shares A/c (Balance)	1,00,000
	To, Shares A/c (Loss in value)	6,000		By, Vimal's Capital A/c (Materials taken)	5,500
				By, Loss on Value : Amal's Capital A/c (3/5) ₹5,700 Vimal's Capital A/c (2/5) ₹3,800	9,500
		2,86,000			**2,86,000**

Creditors Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
?	To, Joint Bank A/c (Payment)	1,04,000		By, Joint Venture A/c (Materials Supplied)	1,78,000
	To, Joint Bank A/c (Payament)	71,000			
	To, Joint Venture A/c (Discount)	3,000			
		1,78,000			**1,78,000**

Joint Bank Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
?	To, Amal's Capital A/c	90,000	?	By, Creditors' A/c	1,04,000
	To, Vimal's Capital A/c	40,000		By, Creditors' A/c	71,000
	To, Joint Bank A/c (Part Contract Price0	1,68,000		By, Joint Venture A/c : Wages ₹72,000 Materials ₹5,000 Consultants' Fees ₹6,500	83,500
				By, Amal's Capital A/c	8,800
				By, Vimal's Capital A/c	30,700
		2,98,000			**2,98,000**

Capital account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Amount (₹)	Date	Particulars	Amount (₹)	Amount (₹)
	To, Joint Venture A/c (Materials taken)	-	5,500	?	By, Joint Bank A/c	90,000	40,000
	To, Shares A/c (shares taken)	94,000	-		By, Joint Venture A/c (materials supplied)	18,500	-
	To, Joint Venture A/c (loss on venture)	5,700	3,800				
	To, Joint Bank A/c (Final payment) (Bal . fig)	8,800	30,700				
		1,08,500	**40,000**			**1,08,500**	**40,000**

Shares Account

Dr. **Cr.**

Date	Particulars	Amount	Date	Particulars	Amount
?	To, Joint Venture A/c (Part Contract Price)	1,00,000	?	By, Amal's Capital A/c (Share taken)	94,000
				By, Joint Venture A/c (Loss in value)	6,000
		1,00,000			**1,00,000**

24. (a) From the following details , prepare Bills for collection (Assets) account and Bills for Collection (Liability) Account:

Particulars	Amount (₹)
On 01.04.2012: Bills for collection were	1,02,00,000
During the year 2012-13, Bills received for collection	1,50,00,000
Bills collected during the year 2012-13	1,96,94,000
Bills dishonoured and returned during the year	54,20,000

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

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

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

24. Solution:

(a)

In the books of ……….

Bills for Collection (Asset) Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012 April 1	To, Balance b/d	1,02,00,000	2012-13	By, Bills for Collection (Liability) A/c	1,96,94,000
2012-13	To, Bills for Collection A/c	1,50,00,000		By, Bills for Collection (Liability) A/c	54,20,000
			2013 March 31	By, Balance c/d	86,000
		2,52,00,000			**2,52,00,000**
2013 April 1	To, balance b/d	86,000			

Bills for Collection (Liability) Account

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2012-	To, Bills for Collection	1,96,94,000	2012	By, balance b/d	1,02,00,000

13	(Asset) A/c		April 1		
	To, Bills for Collection (Asset) A/c	54,20,000		By, Bills for Collection (Asset)	1,50,00,000
2013 March 31	To, Balance c/d	86,000			
		2,52,00,000			**2,52,00,000**
			2013 April 1	By, Balance b/d	86,000

(b) Computation of Capital Base

Particulars	Amount (₹)	Amount(₹)
Fixed Assets at Cost	2,50,00,000	
Preliminary Expenses	5,00,000	
Monthly Average of Current Assets	36,00,000	
Contingency Reserve Investment	10,00,000	3,01,00,000
Less:		
Total Depreciation written-off	77,00,000	
Loan from Electricity Board	50,00,000	
Debentures $\frac{45,000 \times 100}{7\frac{1}{2}}$	6,00,000	
Security Deposit of Customers	5,00,000	
Tariff and Dividend Control Reserve	2,00,000	
Development Reserve	5,00,000	1,45,00,000
Capital Base		1,56,00,000

Computation of Reasonable Return

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

Computation of Disposal of Surplus

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

Disposal

A. Least of the following;

(i) $\frac{1}{3}$ of surplus or 5% of Reasonable Return whichever is less i.e. $\frac{1}{3}$ of ₹3,03,100 = ₹1,01,033

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

Least of the above is ₹75,775

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

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

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

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

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

₹3,03,100

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

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

Particulars	31st March 2011 Amount (₹)	31st March 2012 Amount(₹)
Equity Share Capital	6,00,000	10,00,000
Preference Share Capital	4,00,000	2,00,000
Debentures	4,00,000	4,50,000

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

25. Solution:

(a) Ascertainment of Cash Price

Particulars	Amount(₹)
Last Instalment	6,300
Less: Interest @ $\frac{1}{21}$	300
Principal	6,000
Add: Instalment	7,440
	13,440
Less: Interest @ $\frac{1}{21}$	640
	12,800
Add: Instalment	8,200

	21,000
Less: Interest @ $\frac{1}{21}$	1,000
Principal	20,000
Add: Down payment	10,000
Cash Price	**30,000**

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

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

Working Notes:

A.

Debenture Account

Dr. **Cr.**

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

B. Analysis of other Non-Current Liabilities

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

26. (a) On December 31,2012 , my Cash Book showed a Bank Overdraft of ₹49,350 . On going through the bank Pass Book for reconciling the balance , I find the following:
Out of the cheques drawn on December 2012, those for ₹3,700 were cashed by the bankers on January 2,2012,and a crossed cheque for ₹750 was given to judy, was returned by her and a bearer one was issued to her in lieu on January 1,2012.
Cash and cheques amounting to ₹3,400 were deposited in bank on December 29,2012 but cheques worth ₹1,300 were cleared by the bank on January 1,2013, and one cheque for ₹250 was returned by them as dishonoured on the latter date.

According to my standing order , the bankers have, on December ,31,2013, paid ₹320 as interest to my creditors, paid quarterly premium on my policy amount to ₹160 and have paid a second call for ₹600 on shares held by me and lodged with the bankers for safe custody. They have also received ₹150 as dividend on my shares and recovered an insurance claim on ₹800 , their charges and commission on the above being ₹15 . On receipt on information of the above transaction , I have passed necessary entriy on my cash book on January 1, 2013.
My bankers seem to have given me awrong credit for ₹500 paid in by me in No. 2 Account, and a wrong debt in respect of a cheque for ₹300 drawn against my No. 2 Account.
Prepare a Reconciliation Statement as on December 2012.

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

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

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

26. Solution:

(a)

Bank Reconciliation Statement
As at 31st December 2012

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

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

Particulars	Amount(₹)	Amount(₹)
Fair Value as on 01.01.2012		15,000
Contribution during the period	4,000	
Payment towards employee benefits	(2,000)	2,000
Total (a)		17,000

Fair value as on 31.12.2012 (b)		18,500
Actual Return on Plan Assets (c)=(b-a)		1,500
Expected Return on Plan assets (d)	0.10×15,000=1,500	
	0.10/2×2,000=100	**1,600**
		100

27. (a) Write a note on accounting Life Cycle.

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

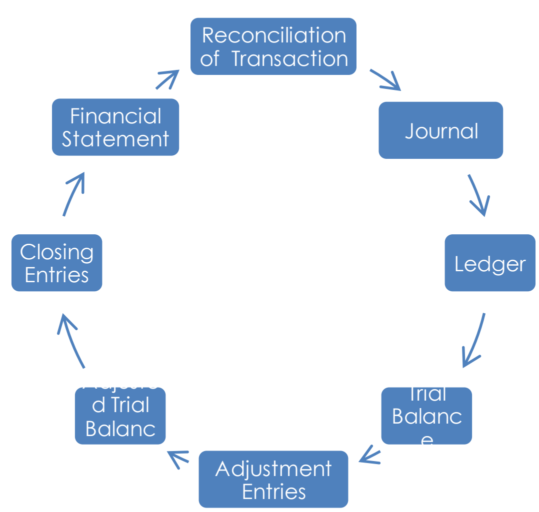
Particulars	**Amount (₹)**
Opening stock	**20,000**
Purchases	**1,00,000**
Wages	**10,000**
Returns outward	**10,000**
Sales	**2,00,000**
Returns inward	**20,000**
Salaries	**16,000**
Insurance	**2,000**
Bad debts	**6,000**
Interest received	**6,000**
Discount allowed	**8,000**
Discount received	**6,000**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

27. Solution:

(a) When complete sequence of accounting procedure is done which happens frequently and repeated in same directions during an accounting period, the same is called an accounting cycle.

Steps/Phases of Accounting Cycle

The steps or phases of accounting cycle can be developed as under:



ACCOUNTING CYCLE

i. **Recording of Transaction:** As soon as a transaction happens it is at first recorded in subsidiary book.

ii. **Journal :** The transactions are recorded in Journal chronologically.

iii. **Ledger:** All journals are posted into ledger chronologically and in a classified manner.

iv. **Trial Balance:** After taking all the ledger account's closing balances, a Trial Balance is prepared at the end of the period for the preparations of financial statements.

v. **Adjustment Entries :** All the adjustments entries are to be recorded properly and adjusted accordingly before preparing financial statements.

vi. **Adjusted Trial Balance:** An adjusted Trail Balance may also be prepared.

vii. **Closing Entries:** All the nominal accounts are to be closed by the transferring to Trading Account and Profit and Loss Account.

viii. **Financial Statements:** Financial statement can now be easily prepared which will exhibit the true financial position and operating results.

(b) In the Books of Ding-Dong Ltd.
Journal Entries

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

28. (a) Pass Journal entries :

(i) Purchased a plant for ₹1,50,000, paid by a cheque , and installation expenses being ₹3,000 and cost of carriage ₹1,500 , paid by cash.
(ii) Purchased Furniture from Mishra and Co. for ₹36,000, carriage paid ₹1,500.
(iii) Bought goods from Manish for cash ₹24,000, carriage paid ₹300.

(b) Plant and Machinery of a company was ₹6,000 lakhs as on 01.04.2012. It provided depreciation at 15% per annum under Written Down Value Method. However it noticed that about ₹1,000 lakhs worth of imported assets, which is component of above plant and machinery acquired on 01.04.2012, would be obsolete in 2 years. Company wants to write off asset over 2 years. Can Company do so? Give comments.

28. Solution:

(a)

Journal Entries

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

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

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

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

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

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

(b) On 1st july 2012, Chinu of Chennai consigned goods of the value of ₹50,000 to Pavan of Patna. This was made by adding 25% on the cost. Chinu paid thereon ₹2,500 freight and ₹1,500 insurance. During transit one-tenth of the goods were totally destroyed by fire and a sum of ₹2,400 was realized from the insurance company.
On arrival of goods, Pavan paid ₹1,800 as carriage to godown. During the year ended 30th June 2013, Pavan paid ₹3,600 for godown rent and ₹1,900 for selling expenses.
One-ninth of the remaining goods was again destroyed by fire in godown and nothing wae recovered from Insurance Company.
On 1st June 2013, Pavan sold half the original goods for ₹30,000 and charged a commission of 5% on sale. On 30th June 2013, Pavan sent a Bank Draft to Chinu for the amount so far due from him.
You are required to compute the value of Goods Destroyed by Fire and the value of Unsold Stock.

29. Solution:
(a)

Value of Physical Stock as on 31.03.2012

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

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

(b) A. Computation of the value of Goods Destroyed by Fire:

Particulars	**Amount(₹)**
Total Invoice Price	50,000
Add: Consignor Expenses(₹2,500+₹1,500)	4,000
	54,000
Less: Lost-in-transit($\frac{1}{10}$th)	5,400
Goods Landed $(1-\frac{1}{10})=\frac{9}{10}$th	48,600
Add: Consignee's Non-recurring Expenses	1,800
	50,400
Less: Value of goods destroyed by fire in godown ($\frac{1}{9}$ of ₹50,400)	5,600
Value of $\frac{8}{10}$ th	44,800

Loading = ₹50,000 $\times\frac{25}{125}$ =₹10,000

B. Value of unsold Stock

$\frac{9}{10}-(\frac{1}{9}\text{of}\frac{9}{10})=\frac{9}{10}-\frac{1}{10}=\frac{8}{10}\text{th};$

Goods Sold $\frac{1}{2}$ i.e. remained in stock $\frac{8}{10}-\frac{1}{2}=\frac{3}{10}$th

$\therefore$ Value of unsold stock = ₹ $44,800\times\frac{3}{10}\times\frac{10}{8}$ =₹16,800

Loading on goods destroyed and Lost-in-transit =₹$10,000\times\frac{1}{10}$ =₹1,000

- Consignee's Godown = ₹$10,000\times\frac{1}{10}$ =₹1,000

Loading on Closing Stock =₹$10,000\times\frac{3}{10}$ =₹3,000

30. (a) M retired from a company and started a business in Chennai. On retirement he got ₹ 1,00,000 from his employer which he invested in his business on 1.4.2012. He got from Life Insurance Corporation ₹ 20,000 on the maturity of his policy which he also invested in his business. He draws ₹ 1,000 for his personal expenses every month from 30th April 2012.
The following figures are extracted from his books on 31st December 2012:

	₹		₹

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

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

i. **Purchases include ₹ 10,000 representing the value of furniture purchased.**
ii. **₹ 4,000 representing erection wages on plant and machinery are debited to salaries and wages.**
iii. **Electricity charges include ₹2,500 paid as deposits to Electric Supply Company. There are bills outstanding to the extent of ₹ 500.**
iv. **Advertisement includes ₹ 4,000 representing the cost of a neon sign.**
v. **A dishonoured bill of ₹ 5,000 stands debited to the debtor. 50% thereof considered doubtful and has to be provided for accordingly.**
vi. **A debtor for ₹ 1,000 was declared insolvent on 30th December 2011, and it is expected that nothing would be recovered from his estate.**
vii. **Provide 5% discount on net realisable debtors.**
viii. **M received ₹ 25,000 in respect of a business with R. The sum received stood credited to Sundry Creditors. It is noted that a sum of ₹ 5,000 was due to M as his share of profit from that business.**
ix. **During the period there was a fire damaging stock costing ₹ 50,000. The damaged goods were sold for ₹ 20,000. This sum of ₹ 20,000 is included in sales. The insurance company paid ₹ 25,000 towards the loss of stock. The godown containing the stock was also damaged to the extent of ₹ 15,000, which has also been paid by the insurance company. The total amount received from the insurance company was credited to Building Account.**
x. **The bank overdraft was given on the hypothecation of stock-in-trade. You are informed that the bank had a margin of 3% and the overdraft balance on 31st December 2011 was the maximum which could have been drawn on the basis of this margin.**
xi. **The manager of the business is entitled to a commission of 5% on the gross profit.**
xii. **Provide 10% depreciation on plant and machinery and on furniture and fittings and 5% on building. Depreciation to be provided on closing balance.**

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

From the following particulars, you are required to ascertain the total cost of goods manufactured in department X and Y :

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

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

30. Solution:

(a) In the books of Sri M

Dr. Trading and Profit & Loss Account for the year ended 31st December 2012 Cr.

Particulars	**Amount**	**Amount**	**Particulars**	**Amount**	**Amount**
	₹	₹		₹	₹
To Purchases	3,10,000		By Sales	3,00,000	
Less : Purchase of Furniture	10,000	3,00,000	Less : Sales of damaged goods1	20,000	2,80,000
			" Closing Stock2		1,20,000
" Cartage		5,000	" Goods damaged by Fire1		50,000
" Profit and Loss A/c -Gross Profit Transferred		1,45,000			
		4,50,000			4,50,000
To Goods damaged by Fire[1]	24,000	5,000	By Trading A/c (Gross Profit)		1,45,000
" Salaries & Wages			" Share of profit from business with B		5,000
Less: Wages for erection of machinery	4,000	20,000			
" Electric Charges	4,500				
Less : Deposit with E. S. Co.	2,500				
	2,000				
Add : Outstanding	500	2,500			
" Travelling		8,900			
" Telephones		4,300			
" Advertisement	10,000				
Less: Cost of Neon Sign	4,000	6,000			
" Repairs and Renewals		3,303			
" Bad Debts	2,000				
Add: Further Bad Debts written-off	1,000	3,000			
" Provision for Bad Debts[3]		2,500[3]			
" Provision for Discount on Debtors[4]		2,075[4]			
" Depreciation :					
On Plant & Machinery @ 10% on ₹ 1,54,000	11,550				
" On Furniture & Fixture @ 10% on ₹ 14,000	1,050				
"On Building @ 5% on ₹ 15,000[5]	563	13,163			
" Manager's Commission Capital A/c		7,250			
" Net Profit transferred		72,009			
		1,50,000			1,50,000

Balance Sheet

as on 31st December 2012

Liabilities	₹	₹	Assets	₹	₹
Current Liabilities			Current Assets		
Sundry Creditors		80,000[6]	Cash in hand		8,997
Outstanding Expenses :			Bills Receivable		30,000
Electricity Charges	500		Sundry Debtors	45,000	
Commission to Manager	7,250	7,750	Less : Bad Debts Written-off	1,000	
Secured Loan		80,000		44,000	
Bank Overdraft			Less : Provision for		
(Secured by hypothecation of			Bad Debts	2,500	
Stock-in-trade)				41,500	
Capital Account	1,20,000		Less : Prov. for Discount	2,075	39,425
Introduced on 1.3.2012			Deposit with Electric Supply Co.		2,500
Add : Income from	20,000		Stock-in-trade		1,20,000
Personal investment	1,40,000		Fixed Assets		
Balance on 1.3.2012	72,009		Furniture & Fixture	10,000	
Add : Net Profit	2,12,009		Add : Cost of Neon Sign	4,000	
Less : Drawings	9,000	2,30,009	Less : Depreciation	14,000	
			Plant & Machinery	1,050	12,950
			Add : Cost of Erection	1,50,000	
				4,000	
				1,54,000	
			Less : Depreciation	11,550	1,42,450
			Buildings	15,000[5]	
			Less : Depreciation	563	14,437
		3,70,759			3,70,759

Workings :

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

Dr. **Goods Destroyed by Fire A/c** **Cr.**

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

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

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

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

D. Provision should be made on debtors as usual.

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

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

(b)

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

$$\textbf{a} = ₹\textbf{10,000} + \frac{1}{5}a$$

$$\textbf{b} = ₹\textbf{5,000} + \frac{1}{4}b$$

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

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

$$= ₹11{,}000 + \frac{1}{20}a$$

Or, 20 a = ₹2,20,000+a

Or, 19a = ₹2,20,000

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

= ₹11,579

$$\text{Now, } b = ₹5{,}000 + \frac{1}{4}a$$

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

=₹5,000 + ₹2,895

=₹7,895

Total Cost goods manufactured

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