Paper-5 : FINANCIAL ACCOUNTING

Q. 1. State whether following statements are True/False.

(i) Expenses + Loss+ Assets = Income+ Gains+ Liabilities.
(ii) Bank Overdraft is a Real Account.
(iii) Short workings is the amount by which the minimum rent falls short of the actual royalty.
(iv) Hire purchase stock represents the installments from buyers not yet due.
(v) Life Membership fee is an item of liability in case of a club.
(vi) The inventory under AS 2 is valued on the basis of cost price or current replacement cost whichever is lower.
(vii) Goodwill is a fictitious asset.
(viii) Debit balance in the Profit and Loss A/c is treated as surplus.
(ix) A and B divide profit in the ratio of 5:3. Z is admitted for 1/5 share in the business. The new profit sharing ratio is 5:3:2.
(x) Gaining Ratio is applicable at the time of retirement of a partner.
(xi) The contract of insurance is a contract of guarantee.
(xii) Issue of Sweat Equity shares is a non-cash transaction.
(xiii) Stock Turnover ratio is Average Stock/Net Sales.
(xiv) High Capital Gearing ratio means high return to equity shareholders even in case of low profit.
(xv) AS 4 deals with prior period adjustments.
(xvi) The amortization of the amount of software commences from the date when it is available for use.
(xvii) Changing of rings and pistons of an engine to increase efficiency is in the nature of revenue expenditure.
(xviii) Preference shares may be redeemed from the General Reserve.
(xix) In case of a Branch situated in New York, Balance in 'Head Office Account' in the Branch Books is to be taken at Dollars.
(xx) Buy back is permitted only in respect of fully paid-up shares.

Answer 1.

(i) The Statement is True.
(ii) False – Bank O/D is a personal account.
(iii) False – Short workings is the amount by which the minimum rent exceeds the actual royalty.
(iv) The Statement is True.
(v) The Statement is True.
(vi) False – As per AS 2 on valuation of inventories, inventory is valued at the lower of historical cost and net realizable value.
(vii) False – Goodwill is an intangible asset.
(viii) False – Debit balance in the Profit and Loss A/c is treated as deficit or loss as expenses are more than income.

(ix) True – A's new share is 5/8 x 4/5=1/2. B's new share is 3/8 x 4/5=3/10. Multiplying the ratio of A's share with 5/5, and 2/2 of Z's share. The new ratio is 5:3:2.

(x) The Statement is True.

(xi) False – The contract of insurance is a contract of indemnity.

(xii) The Statement is True.

(xiii)False: Stock Turnover ratio Cost of Goods Sold/ Average Stock.

(xiv) False – High Capital Gearing ratio means high return to equity shareholders in case of high profit.

(xv) False – AS 4 deals with Contingencies and Events occurring after the Balance Sheet Date.

(xvi) The Statement is True.

(xvii) The Statement is True.

(xviii) False – According to Section 80 of the Companies Act Preference Shares can be redeemed out of profits or out of fresh proceeds of a fresh issue of shares made for the purpose of redemption.

(xix) False – It should be taken at Indian Rupees.

(xx) The Statement is True.

Q. 2. (a) Choose the correct alternative :

(i) Bank Reconciliation Statement is prepared to :

(a) rectify the mistakes in pass book.

(b) to rectify the mistakes in cash book.

(c) to arrive at balance as per bank statement.

(d) to find the reasons of differences in balance as per Cash Book and Bank Statement.

(ii) Which of the following is a Revenue Expenditure?

(a) Construction of Factory shed.

(b) Sales Tax paid in connection with purchase of Office Equipment.

(c) Legal Expenses in connection with defending a title to firm's property.

(d) License fees.

(iii) Capital is shown on the liability side because of :

(a) Business Entity Concept.

(b) Conservatism Concept.

(c) Accrual Concept.

(d) Duality Concept.

(iv) Depreciation is a process of:

(a) apportionment

(b) valuation

(c) allocation

(d) appropriation

(v) For Sales Return at Branch, in case of dependent branches, entry to be passed in HO books,

(a) Debit Branch Debtors Account, Credit Branch Stock Account.

(b) Debit Branch Stock Account, Credit Branch Debtors Account.

(c) Debit Sales Account, Credit Branch Debtors Account.
(d) Debit Sales Account, Credit Branch Stock Account.

(vi) Which of the following is treated as contingent liability as per AS 4?
(a) Obligations under retirement benefit plan.
(b) Commitments arising from long term lease contract.
(c) Arrears of fixed cumulative dividends.
(d) Liabilities of Life and General Insurance out of policies issued by enterprise.

(vii) Which of the following is not a unsecured loan in Balance sheet of a Company?
(a) Acceptance of Fixed Deposits.
(b) Creation of Sinking Funds.
(c) Loans and advances from others.
(d) Short term loans from Banks.

(viii) Any profit prior to incorporation may be:
(a) Credited to Capital Reserve Account.
(b) Debited to Goodwill Account.
(c) Debited to Suspense Account.
(d) None of the above.

(ix) Which of the following terms is related to Accounts of Electricity Companies?
(a) Clear profit
(b) Work uncertified
(c) NPA
(d) Claims outstanding.

(x) Current Ratio is a :
(a) Solvency Ratio
(b) Profitability Ratio
(c) Liquidity Ratio
(d) Activity Ratio.

Answer 2A.

(i) (d) to find the reasons of differences in balance as per Cash Book and Bank Statement.
(ii) (c) Legal Expenses in connection with defending a title to firm's property.
(iii) (a) Business Entity Concept.
(iv) (c) allocation
(v) (b) Debit Branch Stock A/c, Credit Branch Debtors A/c.
(vi) (c) Arrears of fixed cumulative dividends.
(vii) (b) Creation of Sinking Funds.
(viii) (a) Credited to Capital Reserve A/c.
(ix) (a) Clear profit.
(x) (c) Solvency Ratio.

Q. 2. (b) Fill up the blanks:

(i) Recording of fixed assets at cost ensures adherence of ______ concept.

(ii) Conversion of debt into equity shares is _______ transaction.

(iii) Amount received on account of Legacies is generally taken to _________ .

(iv) Errors in Principle _________ affect Balance Sheet.

(v) Average Clause is intended to discourage ____________ .

(vi) Premium brought in by a new partner is shared among old partners in their________ ratios.

(vii) As per AS 28 recoverable amount of an asset is higher of_________ and Value in use.

(viii) Yield method of valuing shares is also known as ___________ method.

(ix) Cost of incorporating a Company should be debited to__________ Account.

(x) Velocity Ratios are also known as ____________ ratios.

(xi) The Double Account System is a method of presenting Annual Financial statements of_______________.

Answer 2. (b)

(i) cost

(ii) non-cash

(iii) Balance Sheet

(iv) does not

(v) under-insurance

(vi) sacrificing

(vii) Net selling price

(viii) Earning Capacity

(ix) Preliminary Expenses

(x) Turnover

(xi) Public Utility Concerns

Q. 3. (a) Provision for Unrealised Profit, Reconciliation Statement to be prepared, statement of Income etc.

The following information is available:

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

The Branch receives all its supplies from the H.O. which are invoiced to it at 25% profit over cost. During the year 2012, the H.O. sent bills to the branch for ₹ 9,500. The H.O. credits its Sales Account with the invoice price of goods supplied to the Branch.

The stock of goods at the H.O. on 1st Jan. 2012 was ₹ 2,500 and that at the Branch was ₹ 600.

The H.O. has billed the branch for ₹ 1,200 on 31.12.2012 representing the branch's share of expenses incurred by the H.O. The said expenses has not been recorded in the books of the Branch.
All cash collections made by the Branch are deposited in a local bank to the account of the H.O. Deposits of this nature included :

Amount ₹	Date of deposit by Branch ₹	Date of receipt by H. O. ₹
800	24.12.2012	30.12.2012
700	25.12.2012	31.12.2012
500	29.12.2012	03.01.2013
300	31.12.2012	04.01.2013

The expenses of the branch are met by the H.O. from time to time for which amounts are sent in advance to the branch. A sum of ₹ 300 sent to the branch by the H.O. on 29th Dec. 2012, towards meeting the expenses was received by the branch on 2.1.2013. You are required to prepare : (1) A reconciliation of Head Office Account in the Branch books and that of Branch Account in the Head Office books. (2) A Statement of Income for the year for the H.O. and the Branch.

(b) From Department A sells goods to Department B at a profit of 25% on cost and to Department C at 10% profit on cost. Department B sells goods to A and C at a profit of 15% and 20% on sales, respectively. Department C charges 20% and 25% profit on cost to Department A and B, respectively.
Department Managers are entitled to 10% commission on net profit subject to unrealized profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealized profit are as under:

	₹
Department A	72,000
Department B	54,000
Department C	36,000

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

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

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

Answer 3. (a)

(1) In the books of head office
Reconciliation of Branch Account and Head Office Account
As at 31st Dec. 2012

	₹	₹
Balance of Branch Account in H. O. books		3,200
Less:		
Share of expenses incurred by H. O. and not recorded in Branch books	1,200	
Remittance by H. O. but not received by the branch within 31.12.2012	300	
Remittance by Branch but not received by H. O. within 31.12.12 (500 + 300)	800	2,300
Balance of H. O. Account in Branch Books		900

Statements of Income for the year ended 31st Dec. 2012

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

Answer 3. (b)

Calculation of correct Profit

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

Working Note :

Unrealised Profit on Stock

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

Q. 4. (a) Briefly indicate the items, which are included in the expression "borrowing cost" as explained in AS 16.

(b) Write short note on Effect of Uncertainties on Revenue Recognition.

Answer 4. (a)

Borrowing costs are defined interest and other costs incurred by an enterprise in connection with the borrowing of funds.

As per Para 4 of AS 16 on Borrowing Costs, borrowing costs may include :

(i) Interest and commitment charges on bank borrowings and other short-term and long-term borrowings;

(ii) Amortization of discounts or premiums relating to borrowings ;

(iii) Amortization of ancillary costs incurred in connection with the arrangement of borrower;

(iv) Finance charges in respect of assets acquired under finance leases or under other similar arrangements; and

(v) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Answer 4. (b)

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

1. Recognition of revenue requires that revenue is measurable and at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.
2. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc.

revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognize, revenue only when it is reasonably certain that the ultimate collection will be made. When there is uncertainty as to ultimate collection, revenue is recognized at the, time of sale or rendering of service even, though payments are made by installments.

3. When the uncertainty relating to collectability arises subsequent to the time of sale or rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.
4. An essential criterion for the recognition of revenue is that the consideration receivable for the sale of goods, the rendering of services or from the use by others of enterprise resources is reasonably determinable. When such consideration is not determinable within reasonable limits; the recognition of revenue is postponed.
5. When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognized.

Q. 5. (a) BX Ltd., has a factory with two manufacturing Departments 'X' and 'Y'. Part of the output of Department X is transferred to Department Y for further procesing and the balance is directly transferred to selling Department. The entire production of Department Y is directly transferred to the selling Department. Inter departmental stock transfers are made as follows:

X Department to Y Department at $33\frac{1}{3}$% over Departmental Cost.

X Department to selling department at 50% over Departmental Cost.

Y Department to selling department at 25% over Departmental Cost.

The following information is given for the year ended 31st March, 2008

Particulars	Detp. X		Dept. Y		Selling Dept.	
	Units	₹	Units	₹	Units	₹
Opening Stock of Finished Goods	60	60,000	20	40,000	50	1,28,000
Opening Stock of Raw Materials	—	—	—	—	—	
Raw material Consumed	—	1,82,000	—	20,000	—	—
Labour Charges	—	70,000	—	32,000	—	—
Sales	—	—	—	—	120	4,80,000
Closing Stock of Finished Goods	40	—	50	—	60	—

Out of the total transfer by *X* Department, 30 units were transferred to selling department, while the reamining to Department *Y*. The per unit material and labour consumption in *X* Department on production to be transferred directly to selling department is 300 per cent of the labour and material consumption on units transferred to *Y* Department. General Administration expenses ₹ 80,000.

Required : Prepare Departmental Profit and Loss Account and General Profit and Loss Account for the year ended 31.3.2013.

(b) H Ltd. sold machinery having WDV of ₹ 400 Lakhs to B Ltd. for ₹ 500 Lakhs and the same

machinery was leased back by B Ltd. to H Ltd. The Lease back is operating lease. Comment if –

(i) Sale price of ₹ 500 lakhs is equal to fair value

(ii) Fair value is ₹ 600 lakhs

(iii) Fair value is ₹ 450 lakhs and sale price is ₹ 380 lakhs

(iv) Fair value is ₹ 400 lakhs and sale price is ₹ 500 lakhs

(v) Fair value is ₹ 460 lakhs and sale price is ₹ 500 lakhs

(vi) Fair value is ₹ 350 lakhs and sale price is ₹ 390 lakhs

Answer 5. (a)

Departmental Profit and Loss Account

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

	X Dept.		Y Dept.		Selling Dept.			X Dept.		Y Dept.		Sell Dept.	
Particulars	**Qty.**	**₹**	**Qty.**	**₹**	**Qty.**	**₹**	**Particulars**	**Qty.**	**₹**	**Qty.**	**₹**	**Qty.**	**₹**
To Opening stock	60	60,000	20	40,000	50	1,28,000	By TRanfer	160	3,70,000	100	2,50,000	—	—
To Raw Material consumed		1,82,000	—	20,000	—	—							
To Units produced	140	—	—	—	—	—	By Sales	—	—	—	—	120	4,80,000
To Labour Charges		70,000	—	32,000	—	—	By Closing Stock	40	48,000	50	1,00,000	60	1,80,000
To Stock Transferred From X Dept.			130	2,08,000	30	1,62,000							
To Stock Transferred From Y Dept.					100	2,50,000							
To Departmental Profit t/f to General P & L A/C		1,06,000	—	50,000	—	1,20,000							
	200	4,18,000	150	3,50,000	180	6,60,000		200	4,18,000	150	3,50,000	180	6,60,000

General Profit and Loss Account

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

Particulars	₹	Particulars	₹
To General Adm. Expenses	80,000	By Profit transferrd	
To Stock Reserve for Closing Stock		X Dept.	1,06,000
on Dept. Y	12,000	Y Dept.	50,000
on Selling Dept.	18,175		
To Net profit	1,65,825	Selling Dept.	1,20,000
	2,76,000		2,76,000

Working Notes:

(i) Selling Dept.

Dr. *Cr.*

Particulars	Units	Particulars	Units
To Opening Stock	50	By Sales	120
To T/f from X Dept.	30	By Closing Stock	60
To T/f from Y Dept. (Balancing figure)	100		
	180		180

(ii) Y Dept.

Dr. Cr.

Particulars	Units	Particulars	Units
To Opening Stock	20	By T/f to Selling Dept.	100
To T/f from X Dept.	130	By Closing Stock	50
	150		150

(iii) X Dept.

Dr. Cr.

Particulars	Units	Particulars	Units
To Opening Stock	60	By T/f to Selling Dept.	30
To Production (Balancing figure)	140	By T/f to Y Dept.	130
		By Closing Stock	40
	200		200

(iv) Total Equivalent units produced in *X* Dept. in terms of those t/f to *Y* Dept.
= Equivalent units of those t/f to Sell Dept. + t/f to Y Dept. + Closing Stock. =
(30 × 300/100) + 130 + 40 = 260.

(v) Calculation of Transfer Prices and Closing Stock.

		X Dept. ₹	*Y Dept.* ₹	*Selling Dept.* ₹
A	Cost of Opening Stock	60,000	40,000	1,28,000
B	*Add:* Cost of Raw Materials Consumed	1,82,000	20,000	—
C	*Add:* Labour Charges	70,000	32,000	—
D	*Add:* T/f from X Dept.	—	2,08,000	1,62,000
E	*Add:* T/f form Y Dept.	—	—	2,50,000
F	Total Cost (A+B+C+D+E)	3,12,000	3,00,000	5,40,000
G	Equivalant Units	260	150	180
H	Average Cost per Equivalent Unit (F/G)	1,200	2,000	3,000
I	Transfer Price of 130 Units t/f to Dept. Y (a) Cost of 130 Units (130×₹ 1,200)	1,56,000		
	(b) *Add:* Profit element @ 33-1/3%	52,000		
		2,08,000		
J	Transfer Price of Units t/f to Selling Dept. (a) Cost of Units t/f	1,08,000		

	(b) *Add :* Profit element	54,000	50,000	
		1,62,000	2,50,000	
K	Closing Stock	48,000	1,00,000	1,80,000
		(40×₹ 1,200)	(50×₹ 2,000)	(60×₹ 3,000)

(vi) Unrealised Profit on Increase in Closing Stock of Y Dept. (₹ 1,00,000 – ₹ 40,000)

A Current Cost incurred by Dept. Y

= ₹ 20,000 + ₹ 32,000 + ₹ 2,08,000 = ₹ 2,60,000

B Profit charged by Dept. *X* included in above (₹ 2,08,000 × 1/4) = ₹ 52,000

C Profit included in Increase in Closing Stock.

= (₹ 52,000 × ₹ 60,000/₹ 2,60,000) = ₹ 12,000

(vii)*Profit Included in output transferred by Y Deptt. to Selling Dept.*

A Transfer Price = ₹ 2,50,000

B Profit of Dept. *Y* included in Above (₹ 2,50,000 × 25/125) = ₹ 50,000

C Cost Element of Dept. *X* in Transfer Price (₹ 2,50,000 – ₹ 50,000) = ₹ 2,00,000

D Profit of Dept. *X* included in above

(₹ 2,00,000 × ₹ 52,000/₹ 2,60,000) = ₹ 40,000

E Total Profit Included in Transfer price (₹ 50,000 + ₹ 40,000) = ₹ 90,000

(viii) Profit Included in output transferred by *X* Dept. to Selling Dept.

= (₹ 1,62,000 × 50/150) = ₹ 54,000

(ix) Total Profit included in output transferred to Selling Dept.

= ₹ 90,000 + ₹ 54,000 = ₹ 1,44,000

(x) Total Transfer Price for the Transfer made by *X* Dept. and *Y* Dept.

= ₹ 1,62,000 + ₹ 2,50,000 = ₹ 4,12,000

Unrealised Profit included in increas in Closing Stock of Sell Dept. = ₹ 1,44,000 × ₹ 52,000/₹ 4,12,000 = ₹ 18,175

Answer 5. (b)

(i) H ltd. should immediately recognize the profit of ₹ 100 lakhs in its books.

(ii) Profit ₹ 100 lakhs should be immediately recognized by H Ltd.

(iii) Loss of ₹ 20 lakhs to be immediately recognized by H Ltd. in its books provided loss is not compensated by future lease payment.

(iv) Profit of ₹ 100 lakhs is to be amortized over the lease period.

(v) Profit of ₹ 60 lakhs (460-400) to be immediately recognized in its books and balance profit of ₹ 40 lakhs (500-460) is to be amortized / deferred over lease period.

(vi) Loss of ₹ 50 lakhs (400-350) to be immediately recognized by H Ltd. in its books and profit of ₹ 40 lakhs (390-350) should be amortized / deferred over lease period.

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

(b) When are parties considered 'Related' as per AS 18?

Answer 6. (a)

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

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

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

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

(iv) selling and distribution cost.

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

Answer 6. (b)

Parties are considered 'Related' if at any time during the reporting period one party has ability:

(i) to control the other party,

(ii) to exercise significant influence over the other party in making financial and /or operating decisions, then by virtue of AS 18 both parties would be considered related.

Here the term control means :

(i) ownership directly or indirectly, of more than 50% of the voting power of an enterprise,

(ii) the composition of the board of directors (company) or the Governing Body (other enterprise)

(iii) a substantial interest in voting power and the power to direct by Statute or by agreement, the financial/operating policies of the enterprise (20% or more interest in voting power)

Significant influence :

(i) refers to participation in the financial and/or operating policy decisions of an enterprise but no control over those policies,

(ii) may be gained by ownership in share, statute or significance.

Q. 7. The following was the Balance Sheet of A, B and C who shared profits in the ratio of 1 : 2 : 2 as on 31st December, 2013.

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

C died on 31st March, 2014. His account is to be settled under the following terms :
Goodwill is to be calculated at the rate of 2 years purchase on the basis of the average of 5 years profit or loss. Profit for January to March' 14 is to be calculated proportionately on the average profit of 3 years. The profits were: 2009 ₹ 3,000, 2010 ₹ 7,000, 2011 ₹ 10,000, 2012₹ 14,000, 2013 loss ₹ 12,000. During 2013 a Moped costing ₹ 4,000 was purchased and debited to Travelling Expenses Account on which depreciation is to be calculated @ 25%. Other values agreed on assets are: Stock ₹ 12,000, Building ₹ 35,000, Machinery ₹ 25,000 and Investments ₹ 8,000. Debtors are considered good.

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

Answer 7.
Working Notes :

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

B. Valuation of Goodwill

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

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

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

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

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

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

Books of A, B & C

Journal Entries

Date	Particulars		Amount (₹)	Amount (₹)
31.03.14	Stock A/c Buildings A/c Machinery A/c Moped A/c [4,000 –Depr. 1,000] To Revaluation A/c [Values of assets increased on revaluation]	Dr. Dr. Dr. Dr.	2,000 5,000 5,000 3,000	 15,000
	General Reserve A/c Investment Fluctuation Fund A/c Bad Debts Reserve A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c [Transfer of Reserves etc. to Partners Capitals in	Dr. Dr. Dr.	5,000 3,000 2,000	 2,000 4,000 4,000
	Revaluation A/c To Investment A/c [Value of investments reduced]	Dr.	2,000	 2,000
	Revaluation A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being profit on revaluation shared in 1:2:2)	Dr.	13,000	 2,600 5,200 5,200
	A's Capital A/c B's Capital A/c C's Capital A/c To Goodwill A/c [Value of Goodwill reduced]	Dr. Dr. Dr.	1,000 2,000 2,000	 5,000
	Profit & Loss Suspense A/c To C's Capital A/c [Estimated share of Profit till his date of death	Dr.	500	 500
	C's Capital A/c	Dr.	27,700	

	To C's Executors A/c [Total dues to the deceased partner transferred to his Executor's A/c]			27,700	

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

Date	Particulars	A	B	C	Date	Particulars	A	B	C
		₹	₹	₹			₹	₹	₹
31.3.14	To Goodwill A/c	1,000	2,000	2,000	1.1.13	By Balance b/d	10,000	20,000	20,000
	To, Goodwill A/c	3,333	6,667	–	31.3	"Revaluation A/c	2,600	5,200	5,200
	To C's Executors A/c (Balance transferred)			27,700		" Sundry Reserves A/c	2,000	4,000	4,000
	To Balance c/d	10,267	20,533	–		" P/L Suspense A/c	–	–	500
		14,600	29,200	29,700			14,600	29,200	29,700

A and B
Balance Sheet as at 3 1.3.2014

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

Q. 8. The Accountant of City Club furnished the following information about the Receipts and Payments of the club for the year ended 31st March, 2013:

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

The following additional information could be obtained :

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

Annual Honorarium to Secretary is ₹ 12,000 Depreciation on Premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 3 1.3.13.

Answer 8.

Working Notes :

(1) Depreciation on New Car :

		₹
	Net Amount	37,800
Add :	Sale proceeds of Old Car	9,000
	Actual Cost	46,800
Less :	Depreciation @ 20%	9,360
		37,440

(2) Profit on sale of Old Car :

	Sale proceeds		9000
Less:	Written Down Value : Cost	- 36,570	
	Provision for Depreciation	- 30,870	
			5700
	Profit on Sale		3300

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

(4) Calculation of Bar Parchases

Dr. Creditors for Bar Purchases Account Cr.

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

(5)

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

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

City Club

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

Receipts	**Amount ₹**	**Payments**	**Amount ₹**
ToBalance b/d :		By Premises	30,000
" Cash in hand	450	" Rent	2,400
" Cash at Bank	24,420	" Rates & Taxes	3,780
" Subscriptions	62,130	" Printing & Stationery	1,410
		" Sundry Expenses	5,350
" Fair Receipts	7,200	" Wages	2,520
" Variety Show Receipts (Net)	12,810	" Fair Expenses	7,170

" Interest	690	" Honorarium to Secretary	11,000
" Bar Collections	22,350	" Payments for Bar Purchases	17,310
" Sale Proceeds of Old Car	9,000	" Repairs	960
		" Cost of New Car	46,800
		" Balance c/d : Cash at Bank	10,350
	1,39,050		13,9050

City Club

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

Dr. **Cr.**

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

Q. 9. The firm of M/s LMS was dissolved on 31.3.2008, at which date its Balance Sheet stood as follows:

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

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

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

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

Answer 9.

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

Particulars	Amount Available	Creditors	Bank Loan	L's Loan	L	M	S
Balance due		2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000
1st Installment (including Cash & Bal.)	5,00,000	-	-	-			
Less: Liquidator's Exps & Fees	(1,00,000)	-	-	-			
Balance	4,00,000	2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000
Less: Crs & Bank Loan paid in ratio of balance o/s, i.e. 2: 5	(4,00,000)	(1,14,286)	(2,85,714)	-	-	-	-
Balance	-	85,714	214,286	10,00,000	15,00,000	10,00,000	5,00,000
2nd Installment	15,00,000						
Less: Creditors & BK Loan fully paid	(3,00,000)	(85,714)	(2,14,286)	-	-	-	-
Balance	12,00,000	NIL	NIL	10,00,000	15,00,000	10,00,000	5,00,000
Less: Repayment of L's Loan	(10,00,000)	-	-	(10,00,000)			
Balance	2,00,000	NIL	NIL	NIL	15,00,000	10,00,000	5,00,000
Less: Paid to L towards Higher Relative Capital	(2,00,000)	-	-	-	(2,00,000)	-	-
Balance	-	-	-	-	13,00,000	10,00,000	5,00,000
3rd Instalment	15,00,000						

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

Working Notes:

(i) Statement showing the computation of Highest Relative Capital

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

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

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

Q. 10. (a) The following was the balance sheet of Diamond Ltd. as at 31st March, 2013.

Liabilities	₹ in lakhs
10% Redeemable Preference Shares of ₹ 10 each, fully paid up	2,500
Equity Shares of ₹ 10 each fully paid up	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit and Loss Account	300
9% Debentures	5,000
Sundry creditors	2,300
Sundry Provisions	1,000
	26,900

Assets	₹ in lakhs
Fixed assets	14,000
Investments	3,000
Cash at Bank	1,650
Other Current assets	8,250
	26,900

On 1st April, 2013 the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ ₹ 20 per share. In order to make cash available, the company sold all the investments for ₹3, 150 lakh and raised a bank loan amounting to ₹ 2,000 lakhs on the security of the company's plant.

Pass journal entries for all the above mentioned transactions including cash transactions The amount of securities premium has been utilized to the maximum extent allowed by law.

(b) Give the necessary journal entries both at the time of Issue and Redemption of Debentures in each of the following alternative cases :

(i) P Ltd. issued 1,000, 10% Debentures of ₹ 100 each at par and redeemeable at par at the end of 4 years. The board of directors decided to transfer the minimum required amount to DRR at the time of Redeem.

(ii) S Ltd. issued ₹ 1,00,000, 12% Debentures at a discount of 5% repayable at par at the end of 4 years. The board of directors decided to transfer the minimum required amount to DRR at the time of Redeem.

(iii) Z Ltd. issued 10% Debentures of the total face value of ₹ 1,00,000 at a premium of 5% to be redeemed at par at the end of 4 years. The board of directors decided to transfer the minimum required amount to DRR at the time of Redeem.

(iv) K Ltd. issued 1,000, 14% Debentures of ₹ 100 each at par but redeemable at 5% premium at the end of 4 years. The board of directors decided to transfer the minimum required amount to DRR at the time of Redeem.

(v) D Ltd. issued ₹ 1,00,000, 18% Debentures at a discount of 5% but redeemable at a premium of 5% at the end of 4 years. The board of directors decided to transfer the minimum required amount to DRR at the time of Redeem.

Answer 10. (a)

Journal Entries

	Particulars		Debit ₹	Credit ₹
1.	Bank A/c To Investment A/c To Profit and Loss A/c (Being sale of investments and profit thereon)	Dr.	3,150	 3,000 150
2.	Bank A/c To Bank Loan A/c (Being loan taken from bank)	Dr.	2,000	 2,000
3.	10% Redeemable preference Share capital A/c Premium on redemption of preference shareholder A/c To Preference shareholder A/c (Being redemption of preference shares)	Dr. Dr.	2,500 250	 2,750
4	Preference shareholders A/c To Bank A/c (Being payment of amount due to preference shareholders)	Dr.	2,750	 2,750
5.	Securities premium A/c To Premium on redemption of preference share A/c (Being use of securities premium to provide premium on redemption of preference shares)	Dr. Dr.	250	 250
6.	Equity Share capital A/c Securities premium A/c [800 - 250] General reserves A/c [(200×20) - 2000 - 550] To Equity shareholders A/c (being buy back of equity shares) Note : Balance of General Reserve [6000 - 1450] = ₹ 4550.	Dr. Dr. Dr.	2,000 550 1,450	 4,000
7.	General Reserves A/ c To Capital redemption reserve A/c (2000 + 2500) (Being creation of capital redemption reserve to the extent of the face value of preference share redeemed and equity shares bought back). Note: Balance in General reserve as on 01.04.03 (4550 - 4500) = ₹ 50.	Dr.	4,500	 4,500
8.	Equity shareholders A/c To Bank A/c (Being payment of amount due to equity shareholders). Note : Cash at Bank [1650+3150+2000-2750-4000] = ₹ 50	Dr.	4,000	 4,000

Answer 10. (b)

Case (i) **Journal of *P* Ltd.**

Particulars	*L.F.*	*Dr. (₹)*	*Cr. (₹)*
On Issue			
Bank A/c	Dr.	1,00,000	
To 10% Debenture A/c			1,00,000
(Being the issue of Debentures at par)			
On Redemption			
Profit & Loss Appropriation A/c	Dr.	50,000	
To Debentures Redemption Reserve A/c			50,000
(Being the transfers of an amount equivalent to the nominal value of Debentures redeemed to Debenture Redemption Reserve A/c out of profits as per Sec 117 (c) (I) & SEBI)			
10% Debentures A/c	Dr.	1,00,000	
To Debentureholders' A/c			1,00,000
(Bening the the amount due on redemption)			
Debentureholders A/c	Dr.	1,00,000	
To Bank A/c			1,00,000
(Being the payment made to Debentureholders)			
Debenture Redemption Reserve A/c	Dr.	50,000	
To, General Reserve A/c			50,000
(Transfer to DRR to GR)			

Case (ii) **Journal of *S* Ltd.**

Particulars	*L.F.*	*Dr. (₹)*	*Cr. (₹)*
On Issue			
Bank A/c	Dr.	95,000	
Discount on issue of Debentures A/c	Dr.	5,000	
To 12% Debentures A/c			1,00,000
(Being the issue of Debentures at 5% discount)			
On Redemption			
Profit & Loss Appropriation A/c	Dr.	50,000	
To Debenture Redemption Reserve A/c			50,000
(Being the transfer of an amount equivalent to the nomial value of Debentures redeemed to Debenture Redemption Reserve A/c out of profits as per Sec 117 (c) (I) & SEBI)			
12% Debentures A/c	Dr.	1,00,000	
To Debentureholders' A/c			1,00,000
(Being the amount due on redemption)			
Debentureholders A/c	Dr.	1,00,000	
To Bank A/c			1,00,000
(Being the payment made to Debentureholders)			

Debenture Redemption Reserve A/c To, General Reserve A/c (Transfer DRR to GR)	Dr.	50,000	 50,000

Case (iii) **Journal of** ***Z*** **Ltd.**

Particulars	*L.F.*	*Dr. (₹)*	*Cr. (₹)*
On Issue			
Bank A/c	Dr.	1,05,000	
To 10% Debentures A/c			1,00,000
To Securities Premium A/c			5,000
(Being the issue of Debentures at 5% discount)			
On Redemption			
Profit & Loss Appropriation A/c	Dr.	50,000	
To Debenture Redemption Reserve A/c			50,000
(Being the transfer of an amount equivalent to the nominal value of Debentures redeemed to Debenture Redemption Reserve A/c out of profits as per Sec 117 (c) (I) & SEBI)			
10% Debentures A/c	Dr.	1,00,000	
To Debenture holders A/c			1,00,000
(Being the amount due on redemption)			
Debentureholders A/c	Dr.	1,00,000	
To Bank A/c			1,00,000
(Being the payment made to Debenture holders)			
Debenture Redemption Reserve A/c	Dr.	50,000	
To, General Reserve A/c			50,000
(Transfer DRR to GR)			

Case (Iv) **Journal of** ***K*** **Ltd.**

Particulars	*L.F.*	*Dr. (₹)*	*Cr. (₹)*
On Issue			
Bank A/c	Dr.	1,00,000	
Loss on Issue of Debentures A/c	Dr.	5,000	
To 14% Debentures A/c			1,00,000
To Premium on Redemption of Debentures A/c			5,000
(Being the issue of Debentures at par and redeemable at 5% premium)			
On Redemption			
Profit & Loss Appropriation A/c	Dr.	50,000	

To Debenture Redemption Reserve A/c			50,000
(Being the transfer on an amount equivalent to the nominal value of Debentures redeemed to Debenture Redemption Reserve A/c out of profits as per Sec 117 (c) (I) & SEBI)			
14% Debentures A/c	Dr.	1,00,000	
Premium on Redemption of Debentures A/c	Dr.	5,000	
To Debentureholder's A/c			1,05,000
(Being the amount due on redemption)			
Debentureholders' A/c	Dr.	1,05,000	
To Bank A/c			1,05,000
(Being the payment made to Debentureholders)			
Debenture Redemption Reserve A/c	Dr.	50,000	
To, General Reserve A/c			50,000

Case (V) **Journal of *D* Ltd.**

Particulars	L.F.	Dr. (₹)	Cr. (₹)
On Issue			
Bank A/c	Dr.	95,000	
Loss on Issue of Debentures A/c	Dr.	10,000	
To 18% Debentures A/c			1,00,000
To Premium on Redemption of Debentures A/c			5,000
(Being the issue of Debentures at 5%discount & redeemable at 5% premium)			
On Redemption			
Profit & Loss Appropriation A/c	Dr.	50,000	
To Debenture Redemption Reserve A/c			50,000
(Being the transfer of an amount equivalent to the nominal value of Debenures redeemed to Debenture Redemption Reserve A/c out of profits as per Sec 117 (c) (I) & SEBI)			
18% Debentures A/c	Dr.	1,00,000	
Premium on Redemption of Debentures A/c	Dr.	5,000	
To Debentureholders' A/c			1,05,000
(Being the amount due on redemption)			
Debentureholders' A/c	Dr.	1,05,000	
To Bank A/c			1,05,000
(Being the payment made to Debentureholders)			
Debenture Redemption Reserve A/c	Dr.	50,000	
To, General Reserve A/c			50,000
(Transfer DRR to GR)			

Q. 11. The promoters of proposed Horizon Ltd. purchased a running business on 1st January, 2013 from Mr. Ultra Modern. Horizon Ltd was incorporated on 1st May, 2013. The combined Profit and Loss Account of the company prior to and after the date of incorporation is as under:

Profit & Loss Account for the year ended on 31.12.2013

	₹		₹
To Rent, rates, insurance, electricity & salaries	1,20,000	By Gross profit	15,00,000
To Directors' sitting fees	36,000	By Discount received from from creditors	60,000
To Preliminary expenses	49,000		
To Carriage outwards and selling expenses	55,000		
To Interest paid to Vendors	1,00,000		
To Profit	12,00,000		
	15,60,000		15,60,000

Following further information is available:

(1) Sales up to 30.4.2013 were ₹ 30,00,000 out of total sales of ₹ 1,50,00,000 of the year.

(2) Purchases up to 30.4.2013 were ₹ 30,00,000 out of total purchases of ₹ 90,00,000 of the year.

(3) Interest paid to Vendors on 1.11.2013 @ 12% p.a on ₹ 10,00,000 being purchase consideration.

From the above information, prepare Profit and Loss Account for the year ended 31st December, 2013, showing the profit earned prior to and after incorporation and also show the transfer of the same to the appropriate accounts.

Answer 11.

Horizon Ltd.

Dr. Profit and Loss Account for the year ended 31st December, 2009 Cr.

Particulars	Note	Total ₹	Pre-incor-poration	Post-incor-poration	Particulars	Note	Total ₹	Pre-incor-poration	Post-incor-poration
To Rent, Rates Insurance, Electricity & Salaries	2	1,20,000	40,000	80,000	By Gross Profit	1	15,00,000	3,00,000	12,00,000
					By Discount received	7	60,000	20,000	40,000
To Directors' sitting fees	3	36,000	—	36,000					
To Preliminary Expenses	4	49,000	—	49,000					
To Carriage Outward	5	55,000	11,000	44,000					
To Interest to Vendor	6	1,00,000	40,000	60,000					
To Net Profit — Transferred to :		12,00,000	—	—					
— Capital Reserve		—	2,29,000	—					
— P&L Appropriation		—	—	9,71,000					
		15,60,000	3,20,000	12,40,000			15,60,000	3,20,000	12,40,000

Working Notes:

(1) For 4 months to 30th April, sales amounted to ₹ 30,00,000 and for the remaining 8 months, sales were (₹ 1,50,00,000 - ₹ 30,00,000) ₹ 1,20,00,000. Gross profit is apportioned in the ratio of 3 : 12 or 1 : 4 assuming the gross rate was uniform throughout the year). Therefore, the gross profit is apportioned as:

Pre: $\frac{15,00,000}{5} \times 1$ = ₹ 3,00,000 Post: $\frac{15,00,000}{5} \times 4$ = ₹ 12,00,000.

(2) These expenses generally accrue evenly throughout the year and are therefore divided on the time basis, pre : post 4 months : 8 months or 1 : 2.

(3) Directors' sitting fees and preliminary expenses are generally found in case companies. These must naturally be shown in post- incorporation period.

(4) Carriage outward has been apportioned in the ratio of sales, i.e.

Pre: $\frac{55,000}{5} \times 1$ = ₹ 11,000 Post: $\frac{55,000}{5} \times 4$ = ₹ 44,000.

(5) Interest accrues on the basis of time. Therefore it is divided on the time basis. Interest has been paid for a total of 10 months (January to October). 4 months related to pre-incorporation period and 6 months to post-incorporation period. Therefore, it is split as:

Pre: $\frac{1,00,000}{10} \times 4$ = ₹ 40,000 Post: $\frac{1,00,000}{10} \times 6$ = ₹ 60,000.

(6) For 4 months to 30th April, purchases amounted to ₹ 3,00,000 and for the remaining 8 months, purchases were : (₹ 90,00,000 – 30,00,000) = ₹ 60,00,000.

Discount received is apportioned in the ratio of 3 : 6 or 1 : 2. Therefore, discount received is apportioned as:

Pre: $\frac{60,000}{3} \times 1$ = ₹ 20,000 Post: $\frac{60,000}{3} \times 2$ = ₹ 40,000.

Q. 12. Kalyani and Ranu commenced business on 1st July, 2005 as partners with capitals of ₹ 1,80,000 and ₹ 1,20,000 respectively. The capitals would remain fixed and carry interest at 10% p.a. profit and losses were to be shared in proportion to their capitals.

They appointed Anita as their Manager on 1st July, 2005 at a salary of ₹ 9,600 per annum plus a bonus of 5% of the net profits after charging such bonus and interest on Capital She had to deposit ₹ 80,000 as security, carrying an interest @ 12%p.a.

In July, 2013, it was settled that Anita should be treated as a Partner from 1st July,2010. It was agreed that she would be entitled to one-fifth share of the profits and her security deposit would be treated as her capital carrying interest @ 10% p.a. It was further agreed that this new arrangement should not result in Anita's share for any of these years being less than what she had already received under the original agreement and terms of her appointment.

The profits before charging Anita's bonus and interest on Capital of the partners or giving effect to the new arrangement were – (a) for the year 2010-11 - ₹ 60,000; (b) for the year 2011–12 – ₹ 1,20,000; (c) for the year 2012-13 – ₹ 1,60,000

Show by a single journal entry to give effect to the new arrangement with explanatory computation.

Answer 12.

Points to be noted:

1. As a Manager, Anita received (a) bonus @ 5% on Net Profits after charging such bonus and interest on capital at 10% p.a. to Kalyani and Ranu (b) Salary ₹ 9,600 p.a. (c) Interest on security deposit at 12% p.a.
2. As a Partner Anita is entitled to (a) Interest on Capital at 10% p.a. (b) 1/5th of profit after providing interest on capital at 10% p.a. to all partners including herself.
3. If total dues of Anita under (2) above is more than that under (1) above, she should get the difference. But if such dues under (1) above is more, she would not refund the excess already received.

Workings

(1) – Calculation of Anita's Dues as Manager

	2010-11 ₹	2011-12 ₹	2012-13 ₹
Salary	9,600	9,600	9,600
Interest on Security Deposit : 12% of 80,000	9,600	9,600	9,600
Bonus 5/105 of profit after charging interest on capitals of Kalyani and Ranu			
2010-11 = 5/105 of (60,000 - 10% of 3,00,000)	1,429		
2011-12 = 5/105 of (1,20,000 – 10% of 3,00,000)		4,286	
2012-13 = 5/105 of (1,60,000 – 10% of 3,00,000)			6,190
	20,629	23,486	25,390

(2) Calculation of Distributable profit under the new arrangement

	2010-11 ₹	2011-12 ₹	2012-13 ₹
Net profits given (after charging interest on security deposit and Anita's salary but before charging interest on capitals)	60,000	1,20,000	1,60,000
Add : Anita's Salary and Interest on Deposit [9,600 +9,600]	19,200	19,200	19,200
	79,200	1,39,200	1,79,200
Less : Interest on Capitals to all partners @ 10% of [1,80,000 + 1,20,000 + 80,000]	38,000	38,000	38,000
Distributable Profits	41,200	1,01,200	1,41,200
Anita's Share of Profit = 1/5th of Distributable Profit	8,240	20,240	28,240

(3) – Difference in Payments to Anita

	2010-11 ₹	2011-12 ₹	2012-13 ₹
A. Anita 's Dues as Partner : Interest on Capital @ 10% of 80,000	8,000	8,000	8,000
Share of Profit [as per workings 2]	8,240	20,240	28,240
	16,240	28,240	36,240
B. Anita's Dues as manager [as per workings 1]	20,629	23,486	25,390
Difference Payable to Anita	-	4,754	10,850
Total			15,604

Journal

Date	Particulars	L.F	Dr. Amount ₹	Cr. Amount ₹
	Kalyani's Current A/c [3/5 of 15,604]………………Dr.		9,362	
	Ranu's Current A/c [2/5 of 15,604]…………………Dr.		6,242	
	To Anita 's Current A/c			15,604
	[Adjustments made through Partners' Current A/cs to the to new arrangement regarding profits]			

Q. 13. (a) Journalise the following transactions in the books of Head Office. Delhi Branch and Agra Branch:

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

(b) State the Conditions of buy-back.

Answer 13. (a)

Journal of Head Office

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

Branch to Delhi Branch)			
(e) Agra Branch A/c Dr.		20,000	
To Delhi Branch A/c			20,000
(Being the Cash collected by Agra Branch from a customer of Delhi Branch			

Journal of Delhi Branch

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

Journal of Agra Branch

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

Answer 13. (b)

As per Section 77A(2) of the Companies Act,1956 the conditions for buy-back are:

The company's articles should authorize the buy-back. If not, the same has to be amended to include a provision to that effect;

(i) A special resolution should be passed in the general meeting authorizing the buy-back;

(ii) The buy-back should be less than 25% of the total paid-up capital and free reserves of the company;

(iii) The buy-back of equity shares in any financial year should not exceed 25% of its total paid-up equity capital in that financial year;

(iv) The Companies (Amendment) Act, 2001 has authorized the buy-back by means of a resolution at the company's Board provided the buy-back does not exceed 10% of the total paid-up equity capital and free reserves of the company. But, there cannot be more than one such buy-back in a period of 365 days.

(v) Debt-equity ratio shall not exceed 2:1 after such buy-back. The Central Government may however, prescribe a higher ratio for a class or classes of companies;

(vi) All the shares or other specified securities are fully paid up;

(vii) The buy-back of the shares or other securities listed on any recognized stock exchange is in accordance with the regulations made by the Securities and Exchange Board of India in this behalf;

(viii) The buy-back of shares or other securities not listed on any recognized stock exchange is in accordance with the guidelines as may be prescribed.

Q.14. (a) State with reasons whether the following are Capital Expenditure or Revenue Expenditure:

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

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

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

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

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

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

(b) River Traders sells Goods on hire purchase basis at cost *plus* 50%. The following information is provided for the year:

	Opening ₹	Closing ₹

Stock out with Hire Purchase Customers	**90,000**	**?**
Stock at shop	**1,80,000**	**2,00.00**
Instalment Due (Customers still Paying)	**50,000**	**90,000**

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

Answer 14. (a)

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

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

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

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

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

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

Answer 14. (b)

Dr. 1. SHOP STOCK ACCOUNT Cr.

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

Dr. 2. GOODS SOLD ON HIRE PURCHASE ACCOUNT Cr.

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

Dr. **3. HIRE PURCHASE STOCK ACCOUNT** **Cr.**

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

Dr. **4. HIRE PURCHASE DEBTORS ACCOUNT** ***Cr.***

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

Dr. **5. HIRE PURCHASE ADJUSTMENT ACCOUNT** ***Cr.***

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

Q. 15. 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 readily available.

Show the Short – working Account and the Royalty Account in the books of lessee.

Answer 15:
Working Notes:

Analysis of payments

Year	Minimum Rent ₹	Royalty ₹	Actual Payment ₹	Shortworking ₹			
				Occurred	Recouped	Lapsed	Carried Forward
2007-08	-	-	-	-	-	-	11,600
2008-09	50,000	39,000	50,000	11,000	-	3,000	19,600**(C)**
2009-10	50,000	54,000	50,000	-	4,000	3,600	12,000**(B)**
2010-11	50,000	58,000	50,000	-	8,000	-	4,000**(A)**
2011-12	50,000	52,000	50,000	-	2,000	2,000	-

Analysis of Royalty Payable:

		₹	₹
Royalty in 2008-09	Minimum Rent – Shortworking	50,000 - 11,000	39,000
Royalty in 2009-10	Minimum Rent + Recoupment	50,000 + 4,000	54,000
Royalty in 2010-11	Minimum Rent + Recoupment	50,000 + 8,000	58,000
Royalty in 2011-12	Minimum Rent + Recoupment	50,000 + 2,000	52,000

Explanation of the above mentioned Analysis:

(i) 2008-09 ₹50,000 was paid but there was no recoupment. ∴ ₹50,000 was the payment for Minimum Rent. This has been posted in the minimum rent column, every year.

(ii) In 2011-12 Short working recouped + Short working lapsed = ₹2,000 + ₹2,000 = ₹4,000. This has been posted as the amount carried forward in 2010-11. **(A)**

(iii) In 2010-11 ₹8,000 has been recouped. So, the closing balance of its preceding year 2009-10 was = ₹(4,000+8,000)=₹12,000. **(B)**

(iv) In 2009-10 Short workings adjusted = amount recouped + amount lapsed =₹(4,000+3,600)=₹7,600. In its preceding year 2008-09, the closing balance was ₹(12,000+7,600) =₹19,600. **(C)**

(v) No Short working occurred in 2009-10, 2010-11,2011-12. ∴All Short workings occurred in 2008-09 or before.

(vi) Short working can be recovered within next 3 years.

(vii) Total Shortworking adjusted in 2011-12 ₹4,000 must be related to 2008-09.

(viii) Again out of ₹8,000 recouped in 2010-11. ₹1,000 is related to 2007-08.

(ix) Balance ₹7,000 was related to 2008-09.

(x) Total Shortworking of 2008-09 = ₹4,000 + ₹7,000 = ₹11,000.

(xi) Opening Balance of Short working in 2007-08 = Closing balance + Amount recouped + Amount Lapsed – Amount of Shortworking occurred i.e.₹(19,600+3,000-11,000)=₹11,600

In the books of ….

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

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2008-09	To, Landlord A/c	39,000	2008-09	By, Profit and Loss A/c	39,000
		39,000			39,000
2009-10	To, Landlord A/c	54,000	2009-10	By, Profit and Loss A/c	54,000
		54,000			54,000
2010-11	To, Landlord A/c	58,000	2010-11	By, Profit and Loss A/c	58,000
		58,000			58,000
2011-12	To, Landlord A/c	52,000	2011-12	BY, Profit and Loss A/	52,000
		52,000			52,000

Dr. **Shortworkings Account** **Cr.**

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2008-09	To, Balance b/d	11,600	2008-09	By, Profit and Loss A/c	3,000
	To, Landlord A/c	11,000		By, Balance c/d	19,600
		22,600			22,600
2009-10	To, Balance b/d	19,600	2009-10	By, Landlord A/c	4,000
				By, Profit and Loss A/c	3,600
				By, Balance c/d	12,000
		19,600			19,600
2010-11	To, Balance b/d	12,000	2010-11	By, Landlord A/c	8,000
				By, Balance c/d	4,000
		12,000			12,000
2011-12	To, Balance b/d	4,000	2011-12	By, Landlord A/c	2,000

				By, Profit and Loss A/c	2,000
		4,000			4,000

Q. 16 (a) On 1.1.2010 X purchase a plant from Y on hire purchase system. The hire purchase rate was settled at ₹ 60,000, payable as to ₹ 15,000 on 1.1.2010 and ₹ 15,000 at the end of three successive year. Interest was charged @5% p.a. The asset was to be depreciated in the books of the purchaser at 10% p.a. on Reducing Balance Method. Given the present value of an annuity of Re. 1 p.a. @5% interest is ₹ 2.7232.
Ascertain the cash price.

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

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

Answer 16. (a)

Amount of Interest	Present value
₹ 1	₹ 2.7232
₹ 15,000	= ₹ 40,848

∴ Cash Price = ₹ 40,848 + ₹ 15,000 (down) = ₹ 55,848.

(b) Workings:

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

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

2013	8,000	+	800	-	500	=	8,300

In the books of A. Ltd.
Memorandum Royalty Statement

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

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

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

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

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2009	To B. S. Ltd. A/c (Landlord)	40,500	2009	By Balance c/d	40,500

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

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

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

Q. 17. (a) The Secretary of The Systematic Club has prepared the following draft Balance Sheet of the Club as on 30.9.2013:

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

You ascertain the following:

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

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

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

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

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

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

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

You are required to prepare:

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

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

(b) (i) What is meant by Sweat Equity Shares?

(ii) State the cases where the creation of Debenture Redemption Reserve is not mandatory as per SEBI guidelines.

Answer 17. (a)

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

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

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

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

Working Notes :

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

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

(3) Ascertainment of correct balance of creditors.

Creditors Account

Dr. **Cr.**

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

Answer 17. (b)

(i) The Companies (Amendment) Act, 1999 introduced through section 79A a new type of equity shares called 'Sweat Equity Shares. The expression 'sweat equity shares' means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions by whatever name called. However , specified guidelines in this respect must be followed.

(ii) The following are the cases where Debenture Redemption Reserve is not mandatory as per SEBI guidelines:

- Infrastructure Company
- A company issuing debenture with a maturity period of not more than 18 months.

Q. 18. (a) The Manager of Slow and Steady Ltd. is entitled to get a salary of ₹ 2,500 p.m. plus 1% commission on the net profits of the company after such salary and commission. Determine the remuneration payable to the manager from the following information:

Net Profit for the year	**3,04,000**
Net profit is calculated after considering the following:	
(1) Salaries, wages and bonus	**1,92,000**
(2) General Expenses	**74,000**
(3) Depreciation	**82,000**
(4) Experiment and scientific research (cost of an apparatus)	**14,000**
(5) Manager's Salary	**30,000**
(6) Commission to manager (on account)	**6,000**
(7) Provision for bad and doubtful debts	**17,500**
(8) Provision for Income Tax	**2,40,000**
(9) Proposed Dividend	**1,00,000**
(10) Subsidy from Government	**60,000**
(11)Profit on sale of assets (Cost price ₹2,50,000 and written down value ₹1,80,000)	**1,00,000**

Depreciation as per income tax rules amounted to ₹ 81,000.

(b) Explain the Payment of Managerial Remuneration as per Companies Act.

Answer 18. (a)

Statement Showing the Adjusted Profit for the year ended …………………

Particulars	**Amount (₹)**	**Amount (₹)**
Profit as per Profit and Loss Account		3,04,000
Add: Depreciation in excess of amount admissible (82,000 – 81,000)	1,000	
Expenditure on scientific research (cost of apparatus being a capital expenditure)	14,000	

Manager's Salary	30,000	
Commission to manager	6,000	
Prov. for bad doubtful debts	17,500	
Prov. for income tax	2,40,000	
Proposed dividend	1,00,000	4,08,500
		7,12,500
Less: Profit on sale of assets(in excess of original cost):		
Sale Proceeds: ₹ (1,80,000 + 1,00,000)	2,80,000	
Less: Original cost	2,50,000	
		30,000
Adjusted profit under section 349 for calculating managerial remuneration		6,82,500

Computation of Manager's Remuneration

Particulars	Amount (₹)
Salary	30,000
Commission [1/101 x ₹ (6,82,500 – 30,000)]	6,460
	36,460

The amount, however, should not exceed 5% of ₹ 6,82,500 or ₹ 34,125 as provided in section 387 of the companies Act. For payment in excess of this amount approval of the Central Government is required.

Answer 18. (b)

The term 'managerial remuneration' is used to mean remuneration payable to manager, managing director(s), whole –time director(s) and part – time director(s). Managerial remuneration is calculated as a percentage on profits.

(1) For companies having adequate profits:

When a company has adequate profits, the maximum limits of its managerial remuneration are as follows:

(i) Overall (excluding fees for attending meetings)	11% of net profit
(ii) If there is one managerial person (Manager/managing director/whole-time director)	5% of net profit
(iii) If there is more than one managerial person	10% of net profit
(iv) Part-time directors: (a) If there is no managing or whole-time director (b) If there is a managing or whole-time director	3% of net profit 1% of net profit

Managerial remuneration, however, includes the following expenditure incurred by the company:

(i) Expenditure for providing rent-free accommodation or for providing any other benefit or amenity in respect of accommodation free of cost.

(ii) Expenditure for providing any other benefit or amenity free of cost or at concessional rate.

(iii) Expenditure involving payment in respect of any obligation or service which otherwise would have been borne by the person (i.e., managerial personnel) concerned.

(iv) Expenditure to affect any life insurance of, or to provide any pension, annuity or gratuity for, the person concerned or his spouse or child.

The following perquisites available to the managerial personnel shall not be included in the ceiling of 11% of net profit:

(i) Contribution to provident fund, annuity fund or superannuation funds to the extent these items either singly or put together are not taxable under the Income Tax Act, 1961.

(ii) Gratuity payable at a rate not exceeding half a month's salary for each completed year of service.

(iii) Encashment of leave at the end of the tenure of service.

(2) For companies having no profits or inadequate profits:

If in any financial year a company has no profits or inadequate profits, the company can pay managerial remuneration according to Schedule XIII, Part II, and Section II as amended by Notification No. GSR 215(E), dated 25.3.2000.

The above Schedule limits the total remuneration (in case of loss or inadequate profit) to ₹24,00,000 per annum or ₹ 2,00,000 per month calculated on the following scale:

Sl. No.	Effective Capital	Limits of Monthly Remuneration
(i)	Less than ₹ 1 crore	₹ 75,000
(ii)	₹ 1 crore or above , but below ₹ 5 crore	₹ 1,00,000
(iii)	₹ 5 crore or above , but below ₹ 25 crore	₹ 1,25,000
(iv)	₹25 crore or above, but below ₹ 100 crore	₹ 1,50,000
(v)	₹ 100 crore or more	₹ 2,00,000

Calculating the Effective capital, it includes : paid-up share capital + securities premium (if any) + reserves and surplus (excluding revaluation reserve)+ long-term loans and deposits repayable after one year - aggregate of investments (not being in case of investment companies) - accumulated losses and preliminary expenses not written off.

Q. 19. Utkal Ltd. makes an issue of 15,000 Equity Shares of ₹100 each at a premium of ₹12.50 per share payable as follows :

(i) ₹ 12.50 on Application

(ii) ₹ 25.00 on Allotment (including Premium)

(iii) ₹ 50.00 on First Call

(iv) ₹ 15.00 on Second Call

(v) ₹ 10.00 on Final Call

The application and allotment money is duly received and, in addition, holders of 7,500 shares paid in full on allotment. Holders of 300 shares fail to pay the first call and, after due notice, their shares are forfeited. The amounts payable on second call (made after the forfeiture) are paid in full except that a holder of 150 shares fails to pay. 225 of the 300 shares forfeited are reissued, credited with ₹ 90 paid for ₹ 65 per share. The new holder pays for these shares in full. The balance of ₹ 10 per shares is being treated as call-in-advance. The final call is met in full invluding the arrear of the second call.

Show the necessary journal entries including cash in the books of Utkal Ltd.

Answer 19.

In the books of Utkal Ltd.

Date	Particulars	L.F	Debit ₹	Credit ₹
?	Bank A/c Dr.		1,87,500	
	To Equity Share Application A/c			1,87,500
	(Application money of 15,000 shares @ ₹ 12.50 received)			
	Equity Share Application A/c Dr.		1,87,500	
	To Equity Share Capital A/c			1,87,500
	(Application money of 15,000 shares @ ₹ 12.50 transferred to Share Capital A/c as per Board's Resolution dated ….)			
	Equity Share Allotment A/c Dr.		3,75,000	
	To Equity Share Capital A/c			1,87,500
	To, Securities Premium A/c			1,87,500
	(Application money of 15,000 shares @ ₹ 12.50 transferred to Share Capital A/c and the premium money transferred to Securities Premium A/c as per Board's Resolution dated ….)			
	Bank A/c Dr.		9,37,500	
	To Equity Share Allotment A/c			3,75,000
	To Calls-in-Advance A/c			5,62,500

(Application money together with premium of 15,000 shares @ ₹ 25.00 and advance payment of call money on 7500 shares @ ₹ 75 received)			
Equity Share First Call A/c	Dr.	7,50,000	
To Equity Share Capital A/c			7,50,000
(Share First Call money of 15,000 shares @ ₹ 50 shares transferred to Share Capital A/c as per Board's Resolution dated ….)			
Bank A/c	Dr.	3,60,000	
Calls-in-Advance A/c	Dr.	3,75,000	
Calls-in-Arrear A/c	Dr.	15,000	
To Equity Share First Call A/c			7,50,000
(Shares First Call money received, except on 300 shares)			
Equity Share Capital A/c (300 × 75)	Dr.	22,500	
To Calls-in-Arrear A/c			15,000
To Share Forfeiture A/c			7,500
(300 shares were forfeited for non-payment of share first call money of ₹ 50 per share as per Board's Resolution dated ….)			
Equity Share Second Call A/c (14,700 × ₹15)	Dr.	2,20,500	
To Equity Share Capital A/c			2,20,500
(Share Second Call money of 14,700 shares @ ₹ 15 per share transferred to Share Capital A/c as per Board's Resolution dated ….)			
Bank A/c	Dr.	1,05,750	
Calls-in-Advance A/c (7,500 × ₹ 15)	Dr.	1,12,500	
Calls-in-Arrear A/c (150 × ₹ 15)	Dr.	2,250	
To Equity Share Second Call A/c			2,20,500
(Share Second Call money received except on)			
Bank A/c (225 × ₹ 65)	Dr.	14,625	
Share Forfeiture A/c	Dr.	5,625	
To Equity Share Capital A/c (225 × ₹ 90)			20,250
[225 (out of 300 forfeited shares) shares were reissued at ₹ 65 each, credited to ₹ 90 per share as per Board's Resolution dated…..)			
Bank A/c (225 × ₹ 10)	Dr.	2,250	
To Calls-in-Advance A/c			2,250
(New holders paid in full, i.e. ₹ 10 per share in advance)			
Equity Share Final Call A/c	Dr.	1,49,250	
To Equity Share Capital A/c			1,49,250
(Share Final call money of 14,925 shares @ ₹ 10 transferred to Share Capital A/c as per Board's			

	Resolution dated…..)			
	Bank A/c Dr.		74,250	
	Calls-in Advance A/c Dr.		77,250	
	To Equity Share Final Call A/c			1,49,250
	To Calls-in-Arrear A/c			2,250
	(Share final fall money received on 14,700 shares @ ₹ 10 together with the arrears of share second call money)			

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

Show entries.

(b) **Bhagavati Ltd. has the following capital structure on 31st March 2013.**

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

The shareholders have on recommendation of Board of Directors approved vide special resolution at their meeting on 12th April, 2013 a proposal to buy back maximum permissible equity shares considering the huge cash surplus following sale of one of its divisions.

The market price was hovering in the range of ₹ 25/- and in order to induce existing shareholders to offer their shares for buy back, it was decided to offer a price of 20% above market.

Advice the company on maximum number shares that can be bought back and record journal entries for the same assuming the buyback has been completed in full within the next three months.

If borrowed funds were ₹ 1200 Lakhs, and ₹ 1500 Lakhs respectively would your answer change?

Answer 20. (a)

In the books of Autumn Ltd.

Date	Particulars	L.F	Debit ₹	Credit ₹
?	Bank A/c (2,000 × ₹ 100) Dr.		2,00,000	
	To 6% Preference Share Capital A/c			2,00,000
	(2,000, 6% Preference Shares of ₹ 100 each issued at par as per special resolution dated....)			
	Equity Share Capital A/c (20,000 × ₹ 10) Dr.		2,00,000	

	To Equity Shareholders A/c (20,000 equity shares are bought back at par as per special resolution dated….)			2,00,000
	Equity Shareholders A/c Dr. To Bank A/c (Amount paid to equity shareholders)		2,00,000	 2,00,000
	Buy-back Expenses A/c Dr. To Bank A/c (Buy-back expenses paid)		18,000	 18,000
	Profit and Loss A/c Dr. To Buy-back Expenses A/c (Buy-back expenses transferred to Profit and Loss A/c)		18,000	 18,000

Answer 20. (b)

Maximum Shares that can be bought back:

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

Particulars	Situation I		Situation II	
	Debit ₹ (in Croes)	Credit ₹ (in Croes)	Debit ₹ (in Croes)	Credit ₹ (in Croes)
a. Shares bought back A/c Dr.	180		120	
To Bank A/c		180		120
(Being purchase of shares from public)				
b. Share Capital A/c Dr.	60		40	
Security Premium A/c Dr.	100		80	
General Reserve A/c Dr.	20		-	
(Balancing figure)				
To Shares Bought back A/c		180		120
(Being cancellation of shares bought on buy back)				
c. General Reserve A/c Dr.	60		40	
To, Capital Redemption Reserve A/c		60		40
(being transfer reserves to capital redemption reserve to the capital is redeemed)				

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

Working Notes:

WN# 1 : Shares outstanding test

	Particulars	**Amount**
a.	No. of shares outstanding	30 crores
b.	25% of shares outstanding	7.5 crores

WN# 2 : Resource test (₹ in crores)

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

WN# 3 : Debt/Equity Ratio test (₹ in crores)

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

Q. 21. (a) A Company purchased following machines on different dates as follows;-

- **On April 1,2011 for ₹ 90,000**
- **On October 1,2012 for ₹ 60,000**
- **On July 1,2013 for ₹ 30,000**

The depreciation is to be charged @ 10% p.a. on original cost. On February 1, 2014 it sold one third of first machine which was bought on April 1, 2011 for ₹ 9,000 and one-half of the second machine bought on October 1,2012, on 31st March 2014 for ₹29,000 because it had become obsolete.

Prepare Machinery account for 3 years.

(b) The Profit and Loss Account of Mayavi showed a net profit of ₹ 36,000,after considering the closing stock of ₹ 22,500 on 31st March,2013. Subsequently the following information

was obtained from scrutiny of the books:

(i) Purchases for the year included ₹ 900 paid for new electric fittings for the shop;

(ii) Mayavi gave away goods valued at ₹ 2,400 as free samples for which no entry was made in the books of accounts;

(iii) Invoices for goods amounting to ₹ 15,000 have been entered on 27th March, 2013, but the goods were not included in stock;

(iv) In March, 2013 goods of ₹ 12,000 sold and delivered were taken in the Sales for April, 2013; and

(v) Goods costing of ₹ 4,500 were sent on sale or return in March, 2013 at a margin of Profit of $33\frac{1}{3}$ % on cost. Though approval was given in April, 2013 these were taken as sales for March, 2013.

Calculate the value of stock on 31st March, 2013 and the adjusted Net Profit for the year ended on that date.

Answer 21. (a)

Machinery Account

Dr. Cr.

Dateate	Particulars	Amount ₹	Date	Particulars	Amount ₹
2011 Apr 1	To, Bank A/c (I)	90,000	2012 March 31	By, Depreciation A/c By, Balance c/d	9,000 81,000
		90,000			90,000
2012 April 1 Oct.1	To, Balance b/d To, Bank (II)	81,000 60,000	2013 March 31	By, Depreciation A/c I-9,000 II-3,000 By, Balance c/d I-72,000 II-57,000	 12,000 1,29,000
		1,41,000			1,41,000
2013 April 1 July 1 March 31	To, Balance b/d I-72,000 II-57,000 To, Bank A/c To, P&L A/c	 1,29,000 30,000 3,500	2014 Feb 1 March 31 March 31	By, Deprecation By, Bank A/c (Sales) By, P&L A/c(Loss) By, Depreciation (On half of Machine-II) By, Bank (Sale) By, Depreciation I- (⅔ of Machine –I) II- (½ of Machine –II) Machine-III By, Balance c/d I-42,000 II-25,500 III-27,750	2,500 9,000 12,500 3,000 29,000 6,000 3,000 2,250 95,250
		1,62,500			**1,62,500**

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)	
1.4.2011	Purchase of Machine-I	60,000	30,000				90,000
31.3.2012	Less: Depreciation for 2009-10	6,000	3,000				9,000
1.4.2012	WDV of Machine	54,000	27,000				81,000
1.10.2012	Purchase of Machine-II			30,000	30,000		60,000
							1,41,000
31.3.2013	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
1.4.2013	WDV of Machines	48,000	24,000	28,500	28,500		1,29,000
1.7.2013	Purchase of Machine-III					30,000	30,000
							1,59,000
1.2.2014	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				
1.2.2014	WDV of 1/3 of Machine-I on 1.2.2012		21,500				
1.2.2014	Less: Sale proceed received for 1/3 of Machine-I		9,000				
1.2.2014	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
31.3.2014	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
31.3.2014	WDV after depreciation	42,000	NIL	25,500	25,500	27,750	1,20,750
31.3.2014	Less: Sale proceed received for 1/2 of Machine-II(Sale proceed is ₹28,000)				29,000		
31.3.2014	Gain on sale of ½ of Machine II (to be transferred to P& L A/c)				3,500		
31.3.2014	WDV of Machines(after sale of ½ of Machine–II)	42,000	NIL	25,500	NIL	27,750	95,250

Answer 21. (b)

Dr. Profit and Loss Adjustment Account Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Advertisement (samples)	2,400	By Net Profit	36,000
To Sales (Goods approved in	6,000	By Electric Fittings(Wrongly Included)	900
April to be taken as April		By Advertisement (Samples)	2,400
sales : 4,500+1,500)		By Stock (Purchases of March,	15,000
To Adjusted Net Profit	62,400	not included in stock)	

		By Sales (goods sold in March wrongly taken as April sales)	12,000
		By Stock (goods sent on approval basis not included in stock)	4,500
	70,800		70,800

Calculation of value of stock on 31st March, 2013

Stock on 31st March, 2013 (given)	₹ 22,500
Add: Purchases of March, 2013 not included in stock	₹ 15,000
Goods lying with customers on approval basis	₹ 4,500
	₹ 42,000

Q. 22. (a) Information relating to five segments of VLD Ltd. is as under: (₹ in lakhs)

Segment	A	B	C	D	E	Total
Segment Revenue	**150**	**200**	**200**	**50**	**300**	**900**
Segment Result	**50**	**(70)**	**80**	**10**	**(25)**	**45**
Segment Assets	**40**	**65**	**140**	**20**	**35**	**300**

The company wishes to know which of the segments need to be reported. Advise

(b) M, J and P were partners sharing Profit and Losses in the ratio of M - 40%, J- 35% and P - 25%. The Balance Sheet of the Partnership as on 31st December was as follows:

Capital		₹	Assets		₹
Current Accounts:			**Non-Current Assets:**		
- M	**12,000**		**Premises (at Cost)**		**75,000**
- J	**8,000**		**Plant & Machinery (Cost)**	**80,000**	
- P	**6,000**	**26,000**	**Less: Depreciation**	**(28,000)**	**52,000**
Capital Accounts:			**Current Assets:**		
- M	**90,000**		**Sundry Debtors**	**34,000**	
- J	**50,000**		**Less: Prov for Doubtful debt**	**6,000**	**28,000**
- P	**30,000**	**1,70,000**	**Stock**		**42,000**
Non-Current Liabilities:			**Cash on Hand and at Bank**		**67,000**
Loan from J		**30,000**			
Current Liabilities:					
Sundry Creditors		**30,000**			
Bills Payable		**8,000**			
		2,64,000			**2,64,000**

J retired from the Firm on 31st December. M and P continued in Partnership, sharing Profits and Losses in the ratio of M - 60% and P - 40%. 50% of J Loan was repaid on 1st January (immediately

on retirement) and it was agreed that, of the amount then remaining due to her, a sum of ₹ 80,000 should remain as Loan to Partnership, and the balance to be carried forward as ordinary trading liability.
The following adjustments were agreed to be made to the above-mentioned Balance Sheet.
(i) ₹ 10,000 should be written off from the Premises.
(ii) Plant and Machinery was revalued at ₹ 58,000.
(iii) Provision for Doubtful Debts to be increased by ₹ 1,200.
(iv) ₹ 5,000 due to Creditors for Expenses had been omitted from the Books of Account.
(v) ₹ 4,000 to be written off on Stocks.
(vi) Provide ₹ 1,200 for Professional Charges in connection with revaluation.

As per the Deed of Partnership, in the event of the retirement of a Partner, Goodwill is to be valued at an amount equal to one year's purchase of the Average Profits of the preceding three years on the date of retirement. Before determining the said Average Profits, a Notional Amount of ₹ 80,000 should be charged for Remuneration to Partners. The necessary Profits before charging such Remuneration were: ₹ 1,44,000, ₹ 1,68,000, and ₹ 1,88,200 for the past three years (as per Draft Accounts).

It was agreed that, for the purpose of valuing Goodwill, the amount of profit for the last year be re-computed after charging the loss on revaluation in respect of Premises and Stock, the Unprovided Expenses (except Professional Expenses) and increase in the Provision for Doubtful Debts. The Continuing Partners decided to eliminate Goodwill Account from their books.
Prepare: (1) Revaluation A/c, (2) Capital A/c (merging Current Accounts therein), (3) J A/c showing Balance due to her, and (4) Balance Sheet of M and P as at 1st January.

Answer 22. (a)

Particulars	**A (₹ in lakhs)**	**B (₹ in lakhs)**	**C (₹ in lakhs)**	**D (₹ in lakhs)**	**E (₹ in lakhs)**	**Total (₹ in lakhs)**
1. Segment Revenue	150	200	200	50	300	900
2. % of segment Revenue	17%	22%	22%	6%	33%	100%
3. Segment Result: Profit (loss)	50	(70)	80	10	(25)	140 (95)
4.% of Segment Result, absolute amount of profit / loss whichever is higher,i.e. as a % of 140	36%	50%	57%	7%	18%	
5. Segment Assets	40	65	140	20	35	300
6. % of segment assets	13%	22%	47%	7%	11%	100%
7. Reportable Segment	Yes	Yes	Yes	No	Yes	

8. Criteria Satisfied	Revenue, Result and Assets	Revenue, Result and Assets	Revenue, Result and Assets	Nil	Revenue, Result and Assets	

Answer 22. (b)

1. Computation of Adjusted Profit for the year ending 31st December

Particulars	₹	₹
Profit as per Draft Accounts		1,88,200
Less: Premises - amount written off	10,000	
Provision for Doubtful debts	1,200	
Outstanding Expenses provided	5,000	
Stock - reduction in value	4,000	20,200
Adjusted Profit for the Year		1,68,000

Note: Professional Charges, being retirement-related one-time expenses, is not considered above.

2. Valuation of Goodwill

Particulars	₹
Total Profits for last three years (1,44,000 + 1,68,000 + 1,68,000) after adjustment	4,80,000
Average Profits before Partners' Remuneration (Total Profits ₹ 4,80,000 ÷ 3 Years)	1,60,000
Less: Partners' Salaries (Notional)	(80,000)
Super Profit and Goodwill (one year's purchase)	80,000

Dr. 3. Revaluation Account Cr.

Particulars	₹	Particulars	₹
To Premises - amount written off	10,000	By Plant and Machinery	6,000
To Provision for Doubtful Debts	1,200	By Capital Accounts - Loss Transferred (old PSR)	
To Outstanding Expenses	5,000	- M (40% x ₹ 15,400) = 6,160	
To Stocks - reduction in value	4,000	- J (35% x ₹ 15,400) = 5,390	
To Provision for Professional charges	1,200	- P (25% x ₹ 15,400) = 3,850	15,400
	21,400		21,400

Dr. **4. Partners' Capital Account** **Cr.**

Particulars	M	J	P	Particulars	M	J	P
To Revaluation Loss	6,160	5,390	3,850	By Balance b/d	90,000	50,000	30,000
To G/w (New PSR 60:40)	48,000	-	32,000	By Current A/c	12,000	8,000	6,000
To J A/c - Tfrd.	-	80,610	-	By G/w (40:35:25)	32,000	28,000	20,000
To balance c/d	79,840		20,150				
	1,34,000	86,000	56,000		1,34,000	86,000	56,000

Dr. **5. J's Account (Personal)** **Cr.**

Particulars	₹	Particulars	₹
To Bank (50% of Old Loan)-settlement	15,000	By Capital A/c-transfer of amount due	80,610
To Loan A/c (Transferred)-New Loan	80,000		
To balance c/d – Trading Liability	15,610	By Loan A/c (Old Loan) – transfer	30,000
	1,10,610		1,10,610

6. Balance Sheet of M and P as at 1st January (after J's retirement)

Capital	₹	Assets	₹
Capital Accounts:		**Non-Current Assets:**	
- M 79,840		Plant and Machinery 86,000	
- P 20,150	99,990	Less: Depreciation (28,000)	58,000
Non-Current Liabilities: J Loan A/c	80,000	Premises 75,000	
Current Liabilities:		Less: Written off (10,000)	65,000
Creditors (30,000+5,000) 35,000		**Current Assets:**	
J (Creditors) A/c 15,610		Stock in Trade	38,000
Bills Payable 8,000		Sundry Debtors 34,000	
Professional Charges Payable 1,200	59,810	Less: Provision for Doubtful Debts (7,200)	26,800
		Cash & Bank (67,000 - 15,000)	52,000
	2,39,800		2,39,800

Q. 23. (a) M Ltd. sold its building for ₹ 100 to N Ltd. and has also given the possession to N Ltd. The book value of the building is ₹ 60 Lakhs. As on 31st March 2012, the documentation and legal formalities are pending. The company has not recorded the sale and has shown amount received as advance. Do you agree with this treatment?

(b) A major fire has damaged the assets in a factory of a limited company on 2nd April-two days after the year end closure of account. The loss is estimated at ₹ 10 crores out of which ₹ 6 crores will be recoverable from the insurers. Explain briefly how the loss should be treated in the final accounts for the previous year.

(c) Some long term investment no longer considered for holding purpose, to be reclassified as current investment. The original cost of these was ₹ 32 lakhs but had been written down to ₹ 14 lakhs to recognise permanent decline, as per AS-13.

Answer 23. (a)

The economic reality and substance of the transaction is that the right and beneficial interest in the property has been transferred although legal title has not been transferred. M Ltd. should record the sale and recognize the profit of ₹ 40 lakhs in its Profit and loss Account. The building should be eliminated from the Balance Sheet.

Answer 23. (b)

Disclosure of the event should be made in the report of the approving authority. If it is considered that loss will effect going concern then accounts have to be prepared by not following going concern assumption.

Answer 23. (c)

The transfer should be made at carrying amount (being lower of ₹ 32 lakhs and ₹ 14 lakhs) and hence these reclassified current investments should be carried at ₹ 14 lakhs.

Q. 24. (a) Calculate the diluted earnings per share from the following information:

	₹
Net Profit for the current year	**85,50,000**
No. of equity shares outstanding	**20,00,000**
No. of 8% convertible debentures of ₹100 each	**1,00,000**
Each debenture is convertible into ₹ 10 equity shares	
Interest expenses for the current year	**6,00,000**
Tax relating to interest expenses (say)	**30%**

(b) As on 1st April, 2011 the Fair Value of Plan Assets was ₹ 1,00,000 in respect of a pension plan of X Ltd. On 30th September, 2011 the plan paid out benefits of ₹ 20,000 and received inward contributions of ₹ 50,000. On 31st March, 2012 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,48,000. Actuarial losses on the obligations for the year 2011-12 were ₹ 1,000. On 1 st April, 2011 the company made the following estimates, based on its market studies, understanding and prevailing prices :

Interest & Dividend Income, after tax payable by the fund	**9.50%**
Realized and unrealized gains on Plan Assets (after tax)	**2.00%**
Fund Administrative Costs	**(1.25%)**
Expected Rate of Return	**10.25%**

Required: Find the Expected & Actual Returns on Plan Assets for the year 2011-12.

Answer 24. (a)

"In calculating diluted earnings per share, effect is given to all dilutive potential equity shares that were outstanding during the period." As per para 26 of AS 20 'Earnings per Share', the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding* during the period should be adjusted for the effects of all dilutive potential equity shares for the purpose of calculation of diluted earnings per share.

$$\text{Diluted EPS} = \frac{\text{Adjusted Net Profit for the current year}}{\text{Weighted Average Number of Equity Shares}}$$

Adjusted Net Profit for the current year

Particulars	₹
Net Profit for the current year (assumed to be after tax)	85,50,000
Add: Interest expense for the current year	6,00,000
Less: Tax relating to interest expense (30% of ₹ 6,00,000)	1,80,000
Adjusted net profit for the current year	89,70,000

Weighted Average Number of Equity Share

Number of equity shares resulting from conversion of debentures

$$= \frac{1,00,000 \times 100}{10} = 10,00,000 \text{ Equity shares}$$

Weighted Average Number of Equity Shares used to compute diluted earnings per share = [(20,00,000 x 12) + (10,00,000 x 9**)]/12 = 27,50,000 shares

Diluted earnings per share $= \frac{89,70,000}{27,50,000 \text{ shares}} =$ ₹3.26 per share

****Note:** Interest on debentures for full year amounts to ₹8,00,000 (i.e. 8% of ₹1,00,00,000). However, interest expense amounting ₹6,00,000 has been given in the question. It may be concluded that debentures have been issued during the year and interest has been provided for 9 months.

Answer 24. (b)

A. Closing Balance of Fair Value of Plan Assets	₹ 1,50,000
B. Add : Benefit Paid	₹ 20,000
C. Less : Contributions Received	(₹ 50,000)
D. Less : Opening Balance of Fair Value of Plan Assets	(₹1,00,000)
E : Actual Return on Plan Assets	**₹ 20,000**

A. Return on Opening Balance of Fair Value of Plan Assets [₹ 1,00,000 × 10.25% × 12/12]	₹ 10,250
B. Return on Net Contributions Received [(₹ 50,000 - ₹ 20,000) × 5%]	₹ 1,500
C : Expected Return on Plan Assets	**₹ 11,750**

Note : Equivalent Half Yearly Compounding Interest Rate

$$= \sqrt{1+\text{Expected Rate of Return}} - 1 = \sqrt{(1+0.1025)} - 1 = 0.05 \text{ or } 5\%$$

Q. 25. (a) Kumud Corporation is engaged in research on a new process design for its product. It had incurred an expenditure of ₹530 lakhs on research upto 31st March, 2012.

The development of the process began on 1st April, 2012 and Development phase expenditure was ₹ 360 lakhs upto 31st March, 2013 which meets assets recognition criteria.

From 1st April, 2013, the company will implement the new process design which will result in after tax saving of ₹ 80 lakhs per annum for the next five years.

The cost of capital of company is 10%

Explain:

(i) Accounting treatment for research expenses.

(ii) The cost of internally generated intangible asset as per AS 26.

(iii) The amout of amortization of the assets. (The present value of annuity factor of ? 1 for 5 years @ 10% = 3.7908)

(b) G Ltd. acquired a Machine on 1st April 2007 for ₹ 7 Crore that had an estimated useful life of 7 years. The Machine is depreciated on straight Line basis and does not carry any residual value. On 1st April 2011, the carrying value of the Machine was reassessed at ₹ 5.10 Crore and the surplus arising out of the revaluation being credited to Revaluation Reserve. For the year ending March 2013, conditions indicating an impairment of the Machine existed and the amount recoverable ascertained to be only ₹79 Lakhs. You are required to calculate the Loss on Impairment of the Machine and show how this loss is to be treated in the books of G Ltd. G Ltd. had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

Answer 25. (a)

(i) **Research Expenditure**— As per AS 26 the expenditure on research of new process design for its product 530 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. It is presumed that the entire expenditure is incurred in the financial year. Hence, it should be written off as an expense in that year itself.

(ii) **Cost of internally generated intangible asset**—The question states that the development phase expenditure amounting ₹ 360 lakhs incurred upto 31st March, 2013 meets asset recognization criteria. As per AS 26 for measurement of such internally generated intangible asset, fair value can be estimated by discounting estimated future net cash flows.

	₹
Savings (after tax) from implementation of new design for next 5 years	80 lakhs p.a
Company's cost of capital	10%
Annuity factor® 10% for 5 years	3.7908
Present value of net cash flows (₹ 80 lakhs x 3.7908)	303.26 lakhs

The cost of an internally generated intangible asset would be lower of cost value 360 lakhs or present value of future net cash flows ₹ 303.26 lakhs.

Hence, cost of an internally generated intangible asset will be ₹303.26 lakhs.

The difference of ₹56.74 lakhs (i.e. ₹ 360 lakhs – ₹ 303.26 lakhs) will be amortized by the enterprise for the financial year 2011 -2012.

(iii) **Amortization:** The company can amortize ₹303.26 lakhs over a period of five years by charging ₹60.65 lakhs per annum from the financial year 2013-2014 onwards.

Answer 25. (b)

1. Computation of Depreciation Per Annum (before Revaluation)

Value of Machine as on 01.04.2007	₹ 7.00 crore
Useful Life	7 years
Residual Value	Nil
Depreciation per annum (7.00 crores / 7 years)	₹1.00 crore
Therefore, Depreciation for 4 years (F Y 2007-08 to 2010 -11)	₹ 4 crore
Therefore, WDV on 01.04.2011 i.e. date of revaluation (Original Cost ₹ 7crores Less Depn. ₹ 4 crore)	₹ 3 crore

2. Computation of Revaluation Gain and Revised Depreciation

Carrying amount of Machine as on 01.04.2011	₹ 3.00 crore
Revalued Amount of the machine as on 01.04.2011	₹ 5.10 crore
Gain on Revaluation credited to Revaluation Reserve	₹ 2.10 crore
Remaining Useful Life	3 year
Revised Depreciation = Revalued Amount ₹ 5.10 crores / 3 years	₹ 1.70 crore
Excess Depreciation (Revised Depreciation ₹ 1.70 crores Less Original Depreciation ₹ 1.00 crore)	₹ 0.70 crore

3. Computation of Impairment Loss

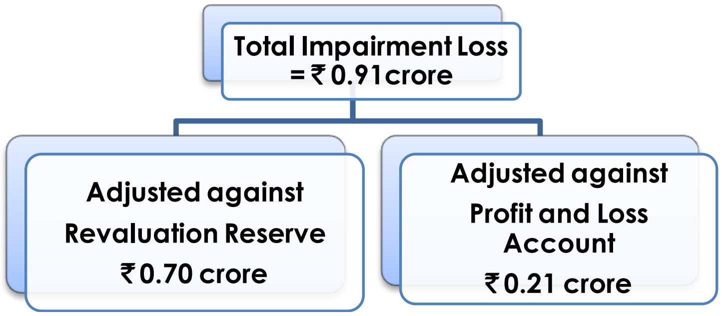
Revalued of the Machine as on 01.04.2011	₹5.10 crore
Less: Depreciation for FY 2011 – 12 and FY 2012 -13 (₹1.70 crore x 2 years)	₹ 3.40 crore
Carrying Amount on date of Impairment Loss	₹ 1.70 crore
Less: Recoverable Amount Remaining Useful life	₹0.79 crore
Impairment Loss	₹ 0.91 crore

4. Balance in Revaluation Reserve as on 31.03.13

Revaluation Reserve as on 01.04.2011	₹2.10 crore

Less: Excess Depreciation for FY 2011 – 12 and FY 2012 -13 (₹0.70 crore x 2 years)	₹ 1.40 crore
Balance in Revaluation Reserve on the date of Impairment Loss	₹ 0.70 crore

5. Adjustment of Impairment Loss



Q. 26. From the following information and details relating to the year ended 31 st March, 2005 and bearing in mind the provisions of the Electricity (Supply) Act, 1948, indicate the disposal of profits of Electricity Company :

Particulars	₹	Particulars	₹
Net profit before charging debenture interest	35,00,100	Security deposits of Customers	4,64,000
Fixed Assets	4,20,00,000	Customers Contribution to Main lines	3,20,000
Depreciation written-off on fixed assets	98,00,000	Preliminary expenses	1,40,000
Loan from Electricity Board	1,20,00,000	Average of current assets excluding customers' balances of ₹ 6,20,000	23,70,000
6% Investments of the Reserve fund (F.v. ₹ 90,00,000)	90,00,000	Development Reserve	4,40,000
6% Investments of the Contingencies Reserve	76,00,000	10% Debenture interest paid in the year	7,50,000
Tariffs and Dividends Control Reserve	8,40,000		

The Reserve Bank of India rate of the relevant date was 8%.

Answer 26.

Calculation of Capital Base

Particulars	₹	₹
(i) Original cost of fixed assets	4,20,00,000	
Less: Amount contributed by the customers' for main lines	3,20 000	4,16,80,000
(ii) Preliminary expenses		1,40,000

(iii) Investment against contingency reserve		76,00,000
(iv) Average of current assets (excluding customers' balance ₹ 6,20,000)		23,70,000
		5,17,90,000
Deduct		
(i) Depreciation written-off on Fixed assets	98,00,000	
(ii) Loan from SEB	1,20,00,000	
(iii) 10% Debentures (Note 1)	75,00,000	
(iv) Security deposits of customers	4,84,000	
(v) Balance of Tariff and Dividend Control Reserve	8,40,000	
(vi) Balance of Development Reserve	4,40,000	3,10,64,000
Total		2,07,26,000

Reasonable Return

	₹
(i) Yield at standard rate, i.e., 8% + 2% on capital base	20,72,600
(ii) Income from Reserve Fund Investments (6% of ₹ 90,00,000)	5,40,000
(iii) 1/2% on Loans from SEB	60,000
(iv) 1/2% on Debentures	37,500
(v) 1/2% on Development Reserve	2,200
	27,12,300
Final Distribution	
(i) Refunded to customers	12,600
(ii) Transferred to Tariff and Dividend Control Reserve	12,600
(iii) At the disposal of the Co. (₹ 27,12,300 + 12,600)	27,24,900
	27,50,100

Disposal of Surplus

	₹
Profit before debenture interest	35,00,100
Less: Debenture interest	7,50,000
	27,50,100
Less: Reasonable return	27,12,300
Surplus	37 800
Allocation of Surplus	
(i) 1/3 (being less than 5% of Reasonable return at the	12,600
(ii) Of the bal., 1/2 to Tariff and Dividend Control Reserve	12,600
(iii) 1/2 to be credited to Customers Rebate	12,600
	37,800

Working : (I) Face value of Debentures ₹ 7,50,000/10 × 100 = ₹ 75,00,000

Q. 27. (a) When closing the books of a bank on 31.12.2012 you find in the loan ledger an unsecured balance of ₹ 2,00,000 in the account of a merchant whose financial condition is reported to you as bad and doubtful. Interest on the same account amounted to ₹ 20,000 during the year.
How would you deal with this item of interest in 2012 account?
During the year 2013, the bank accepts 75 paise in the rupee on account of the total debt due up to 31.12.2012.
Show the entries and the necessary accounts showing the ultimate effect of the transactions in 2013 books of account under Interest Suspense Method.

(b) From the following information relating to ST Ltd., prepare a Balance Sheet as on 31.3.2013.

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

Answer 27 (a)

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

In the Books of Bank Journal

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

In the Books of the Bank

Dr. Merchant's Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Dec. 31	To Balance b/d Int. Suspense A/c	2,00,000 20,000	2012 Dec. 31	By Balance c/d	2,20,000
		2,20,000			2,20,000
2013 Jan. 1	To Balance b/d	2,20,000	2013 Dec. 31	By Cash (Dividend @ 75p in the rupee) " Int. Suspense A/c (amount of Int. not covered) " Bad Debts	1,65,000 5,000 50,000
		2,20,000			2,20,000

Interest Suspense Account

Dr. *Cr.*

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

Notes:

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

Answer 27. (b)

(i) Current Ratio = CA/CL=3
Or, CA = 3 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

(ii) Liquid Ratio = (CA – Stock)/CL = 2.25
Or, (9,00,000-Stock)/3,00,000 = 2.25 Or,
Stock = 225000

(iii) Cost of Sales/Closing Stock = 13.5 Cost Of
Sales=225000×13.5 = ₹ 30,37,500

(iv) G/P Ratio = 25%
Cost of Sales/Sales = 75%
Sales = 3037500/75% = ₹ 40,50,000

(v) Average Debt Collection period = 3 months = 4
times Or, Sales/Debtors = 4
Or, Debtors = 40,50,000/4 = ₹ 10,12,500

(vi) 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
Assets = 0.9 × 60,00,000 = ₹ 54,00,000

(vii) 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.

Balance Sheet as on 31.3.2010

Liabilities	₹	Assets	₹
Share Capital	48,00,000	Fixed Assets	54,00,000
Reserves & Surplus	12,00,000	Current Assets	9,00,000
Current Liabilities	3,00,000		
	63,00,000		63,00,000

Q. 28. (a) Prudence Life Insurance Co. furnishes you the following information:

	₹
Life Insurance fund on 31.3.2013	**1,30,00,000**
Net liability on 31.3.2013 as per actuarial valuation	**1,00,00,000**
Interim bonus paid to policyholders during inter valuation period	**7,50,000**

You are required to prepare:

(i) Valuation Balance Sheet;

(ii) Statement of Net Profit for the valuation period; and

(iii) Amount due to the policyholders.

(b) ESC Ltd. a power generation company, laid down a main at a cost of ₹ 25,00,000. Some years later, the company laid down an auxiliary main for one-fifth of the length of the old main at a cost of ₹ 7,50,000. At the same time, it also replaced the rest of the length of the old main at a cost of ₹ 30,00,000 using in addition the materials of the old main amounting to ₹ 50,000. The cost of materials and labour having gone up by 15%. Sale of old materials realized ₹ 40,000. Materials of the old main valued at ₹ 25,000 were used in the construction of the auxiliary main.

Give journal entries for recording the above transactions and also draw up the Replacement A/c.

Answer 28. (a)

(i)

Prudence Life Insurance Co.
Valuation Balance Sheet as at 31st March, 2013

	₹		₹
To Net Liability as per actuarial valuation	100,00,000	By Life Assurance Fund	130,00,000
To Surplus	30,00,000		
	130,00,000		130,00,000

(ii) **Statement showing Net Profit for the valuation period**

	₹
Surplus as per Balance Sheet (i.e., Valuation Balance Sheet)	30,00,000
Add: Interim bonus paid	7,50,000
	37,50,000

(iii) **Amount due to policyholders**

	₹
95% of net profit due to policyholders (95% of ₹ 37,50,000)	35,62,500
Less: Interim bonus already paid	7,50,000
Amount due to policyholders	28,12,500

Answer 28. (b)

Journal Entries (Without Narration)

	Particulars		Debit (₹)	Credit(₹)
1	Bank A/c	Dr.	40,000	
	To, Replacement A/c			40,000
2	Auxiliary Main A/c	Dr.	7,50,000	
	To, Bank A/c			7,25,000
	To, Replacement A/c			25,000
3	Replacement A/c	Dr.	22,50,000	
	New Main A/c	Dr.	7,50,000	
	To, Bank A/c			30,00,000
4	Revenue A/c	Dr.	21,85,000	
	To, Replacement A/c			21,85,000

A. Increased Cost of New Main:

25,00,000 × (4/5)	₹20,00,000
Add: Increase in Cost of 15%	₹3,00,000
	₹23,00,000
Cash Cost	₹30,00,000
Add: old materials used in renewals	₹50,000
Actual Cost	₹30,50,000

B. Auxiliary Main:

Total Cost	₹7,50,000
Less: Old Material used	₹25,000
Cash Cost	₹7,25,000

Replacement Account

Dr. Cr.

Particulars	Amount (₹)	Particulars	Amount(₹)
To, Bank A/c	22,50,000	By, Bank A/c	40,000
		By, Auxiliary Main A/c	25,000
		By, Revenue A/c	21,85,000
	22,50,000		**22,50,000**

Q. 29. A, R and M were carrying on business in partnership sharing profits and losses in the ratio of 5 : 4 : 3 respectively. The Trial Balance of the firm as on 31st March, 2013 was the following:

Particulars	Dr. (₹)	Cr. (₹)
Plant and Machinery at cost	1,05,000	—
Stock	60,200	—
Sundry Debtors	85,000	—
Sundry Creditors	—	1,05,200
Capital A/c:		
A	—	70,000
R	—	50,000
M	—	30,000
Drawings A/c:		
A	30,000	—
R	25,000	—
M	20,000	—
Depreciation on Plant and Machinery	—	35,000
Trading Profit for the year	—	1,29,800
Cash at Bank	94,800	—
	4,20,000	4,20,000

Additional Information:

(a) Interest on Capital Accounts at 10% on the amount standing to the credit of Partners' Capital Accounts at the beginning of the year was not provided before preparing the above Trial Balance.

(b) On 31st March, 2013 they formed a Private Limited Company Anagha (P) Ltd. to take over the partnership business.

(c) You are further informed as under :

(i) Plant and Machinery is to be transferred at ₹ 80,000.

(ii) Equity Shares of ₹ 10 each of the company are to be issued to the partners at par in such numbers to ensure that by reason of their share holdings alone, they will have the same rights of sharing profits and losses as they had in the partnership. Balance, if any in their Capital Accounts, will be settled by giving 7.5% Preference Shares at par.

(iii) Before transferring the business, the partners withdrew by cash from partnership the following amounts over and above the drawings as shown in the Trial Balance : (a) A — ₹ 20,000; (b) R — ₹ 10,600; (c) M — ₹ 14,200.

(iv) All assets and liabilities except Plant and Machinery and the Bank Balance are to be transferred at their value in the books of the partnership as at 31st March, 2013.

You are required to prepare:

- Profit and Loss Adjustment Account for the year ending 31st March, 2013.
- Capital Accounts showing all the adjustments required to dissolve the partnership.
- A statement showing the number of shares of each class to be issued by the company to each of the partners to settle their accounts.
- Balance Sheet of the company Anagha (P) Ltd. as on 31.03.2013 after takeover of the business.

Answer 29.

In the book of the Firm

(a) Profit and Loss Adjustment Account for the year ended 31st March, 2013

Particulars	₹	Particulars	₹
To Interest on Capital:		By Net Profit b/d	1,29,800
A	7,000	By Profit on sale of Plant and Machinery	10,000
R	5,000	[80,000 – (1,05,000 – 35,000)]	
M	3,000		
To Partners' Capital A/c: (profit transferred)			
A	52,000		
R	41,600		
M	31,200		
	1,39,800		1,39,800

(b) Partners' Capital Accounts

Dr. **Cr.**

Particulars	A	R	M	Particulars	A	R	M
To Drawings (as per Trial Balance)	30,000	25,000	20,000	By Balance b/d	70,000	50,000	30,000
To Drawings (after Trial Balance)*	20,000	10,600	14,200	By P&L Adjustment A/c	52,000	41,600	31,200
By Balance c/d	79,000	61,000	30,000	By Interest on Capital	7,000	5,000	3,000
	1,29,000	96,600	64,200		1,29,000	96,600	64,200
To Equity Shares	50,000	40,000	30,000	By Balance b/d	79,000	61,000	30,000
To 7.5% Preference Shares	29,000	21,000					
	79,000	61,000	30,000		79,000	61,000	30,000

(c) Statement Showing the Number and Classes of Shares Issued to the Partners

	A	R	M
Capital balance after adjustment	79,000	61,000	30,000
Taking Madwesh's Capital as base for ensuring same rights of sharing profits and losses			
—Equity Shares allotted	50,000	40,000	30,000
7.5% Preference Shares issued	29,000	21,000	—

Anagha (P) Ltd

Balance Sheet as at 31st March, 2013

Particulars	Note No.	Figures as at the end of current reporting period
(1)	(2)	(3)

I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds:		
(a) Share Capital	(1)	1,70,000
(b) Reserves and Surplus		—
(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		1,05,200
(d) Short-term Provisions		—
TOTAL		**2,75,000**
II. ASSETS		
(1) Non-current Assets:		
(a) Fixed Assets		
(i) Tangible Assets	(2)	80,000
(ii) Intangible Assets		—
(iii) Capital Work-in-progress		—
(iv) Intangible Assets under Development		—
(b) Non-current Investments		—
(c) Deferred Tax Assets (Net)		—
(d) Long-term Loans and Advances		—
(e) Other Non-current Assets		—
		—
(2) Current Assets:		
(a) Current Investments		—
(b) Inventories		60,200
(c) Trade Receivables		85,000
(d) Cash and Cash Equivalents		50,000
(e) Short-term Loans and Advances		—
(f) Other Current Assets		—
TOTAL		**2,75,000**

Notes to Accounts

(1) Share Capital

Particulars	₹
Authorised Share Capital: ... Equity Shares of ₹... each	***
Issued and Subscribed Capital: 12,000 Equity Shares of ₹ 10 each fully paid	1,20,000
7.5% Preference Shares	50,000
	1,70,000

(All the shares have been issued for consideration other than cash)

(2) Fixed Assets

Particulars	₹

Tangible Assets: Plant & Machinery	80,000

Working Notes

(1) Calculation of Purchase Consideration

Particulars	₹
Plant and Machinery	80,000
Stock	60,200
Debtors	85,000
Cash at Bank (₹ 94,800 – ₹ 44,800*)	50,000
	2,75,200
Less: Sundry Creditors	1,05,200
	1,70,000

* Drawings ₹ 20,000 of A+ ₹ 10,600 of R+ ₹ 14.200 of M.

Q. 30. Write short note on:

- **(a) Classification of investments by a banking company.**
- **(b) Valuation Balance Sheet.**
- **(c) Double Accounts System.**
- **(d) Votable and non-votable items.**

Answer 30. (a)

The investment portfolio of a bank would normally consist of both approved securities (predominantly government securities) and other securities (shares, debentures, bonds etc.). Banks are required to classify their entire investment portfolio into three categories:

(i) **Held-to-maturity:** Securities acquired by banks with the intention to hold them up to maturity should be classified as 'held-to-maturity'

(ii) **Held-for-maturity:** Securities acquired by banks with the intention to trade by taking advantage of short–term price interest rate movements should be classified as held-for trading/maturity.

(iii) **Available-for-sale:** Securities which do not fall within the above two categories should be classified as available-for-sale'.

Answer 30. (b)

For the purpose of ascertaining, the insurance company calculates its net liability on all outstanding policies. For calculating net liability the actuaries calculate the present value of future liability on all the policies in future as present value of future premium to be received on all policies in future. The excess of the present values of future liability over the present value premium is called the net liability.

It is by comparing the life insurance fund and net liability in respect of policies, that profit of life insurance business can be as estimated. If the fund is more than net liability, the difference represents profit. On the other hand, excess of net liability over the life assurance fund represents loss for inter-valuation period.

The profit or loss in life insurance business is ascertained by preparing a statement called Valuation Balance Sheet which is given below :

Valuation Balance Sheet as on

To Net liability as per actuary's valuations		By Life Assurance Fund as per Balance Sheet	
To Surplus (net profit)		By Deficiency (net loss)	

Answer 30. (c)

Double Accounts system is the name given to the system of preparing the final accounts of certain statutory companies formed by special Acts of Parliament, usually public utility undertakings (for example Electricity Companies). The double accounts system is not a special method of keeping accounts, rather a special method of presenting accounts which are kept under the normal double entry system. Under this system, separate accounts in respect of capital and revenue are prepared in order to show clearly the capital receipts and the manner in which the amounts thereof have been invested. The final accounts prepared under the double accounts system normally consist of:

(i) Revenue Account

(ii) Net Revenue Account

(iii) Capital Account (Receipts and Expenditure on capital account)

(iv) General Balance Sheet.

The Revenue account is analogous to the Profit & Loss Account of a company with some exceptions. The Net Revenue Account resembles with appropriation portion of the Profit & Loss Account of a company. The Balance Sheet is presented in two parts namely Capital Account and General Balance Sheet. The Capital Account shows the total amount of capital raised and its sources and also the manner and extent to which this capital has been applied in the acquisition of fixed assets for the purpose of carrying on the business. The General balance sheet includes the other items.

The Double Accounts System in its pure form does no longer exist but the statements submitted to State Governments by electricity companies generally follow the principle of Double Accounts System. It may be noted that for presenting accounts to the shareholders, electricity companies normally follow Schedule VI of the Companies Act, 1956.

Answer 30. (d)

Certain items of expenditure are charged to the consolidated fund or public fund account. They are incurred regardless of legislative approval. These are called non-votable items.

Other items are votable and expenditure thereon can be made only after the sanction of Parliament. The Govt. makes the demand for grants for these items of expenditure. These demand may be reduced or even rejected but in case of non-votable items, it can at best be debated and nothing more than that.