INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2014

Paper- 5 : FINANCIAL ACCOUNTING

Time Allowed : 3 Hours **Full Marks : 100**

The figures in the margin on the right side indicate full marks.
Answer Question No. 1, which is compulsory and any five questions from the rest.

1. (a) From the four alternative answers given against each of the following cases, indicate the correct answer (just state A, B, C or D): 1×6=6

(i) Excess of hire purchase price over cash price is known as
(A) Installment
(B) Cash down payment
(C) Interest
(D) Capital value of asset

(ii) For the year ended 31.03.2014 accounting income of DNP Ltd. is ₹ 30 lakhs. However its Taxable income was ₹ 20 lakhs only due to timing difference. Tax rate is 30%. The Deferred tax liability will be
(A) ₹ 10 Lakhs
(B) ₹ 3 Lakhs
(C) ₹ 9 Lakhs
(D) ₹ 6 Lakhs

(iii) Accounting Standards in India are issued by
(A) Comptroller and Auditor General of India
(B) Reserve Bank of India
(C) The Institute of Accounting Standards of India
(D) The Institute of Chartered Accountants of India

(iv) An amount spent for replacement of worn out part of machine is
(A) Capital Expenditure
(B) Revenue Expenditure
(C) Deferred Revenue
(D) Capital Loss

(v) Receipts and Payments Account records
(A) Only revenue nature receipts
(B) Only capital nature receipts and payment

(C) Only revenue nature receipts and payments
(D) Both the revenue and capital nature receipts and payments

(vi) A distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of products or services which is subject to risk and return as distinctly different from those of other business components are reportable under
(A) Related Party Disclosure
(B) Contingency Approach
(C) Segment Reporting
(D) Intangible Asset Classification

(b) State whether the following statements are True (T) or False (F) 1x5=5
(i) Inventory valuation affects only the income statement.
(ii) Preference shares are redeemed out of the proceeds of a fresh issue of debentures made for the purpose of redemption.
(iii) At the time of preparation of departmental profit and loss account discount received is allocated among various departments on the basis of departmental sales.
(iv) In the case of marine insurance the provision for unexpired risk should be 100% of the net premium.
(v) Securities Premium Account is shown in the liability side of Balance Sheet under head Reserves and Surplus.

(c) Fill in the blanks in the following sentences using appropriate word from the alternatives indicated: 1x5=5
(i) At the preliminary project stage the internally generated software should __________ recognized as an asset. (be / not be)
(ii) Life membership fee is a _____________ nature receipt. (Revenue/Capital)
(iii) Goods in transit is recorded in the books of __________. (H.O./Both H.O. & Branch)
(iv) The profit prior to incorporation can be transferred to _________. (General reserve/ Capital reserve)
(v) If the proposed dividend on paid up equity share capital is more than 12.5% but not more than 15% then ____________ of current year's profit should be transferred to general reserve. (5% / 7.5%)

(d) Match the following in Column I with the appropriate item in Column II: 1x5=5

Column I		Column II	
(i)	Excess workings	(A)	Branch Accounts
(ii)	Report of Board of Directors	(B)	Intangible Assets
(iii)	Debtors Method of Accounting	(C)	Balance Sheet of Company
(iv)	Suspense Account	(D)	Royalty Accounts
(v)	AS 26	(E)	Trial Balance
		(F)	No matching statement found

(e) In the following cases, one out of four answers given is correct. Indicate the correct answer (=1 mark) and give brief workings in support of your answer (= 1 mark): 2x2=4
(i) Sukku Limited purchased a machine on 1st July, 2013 for ₹ 8,90,000 and freight and transit insurance premium paid ₹ 25,000 and ₹ 15,000 respectively. Installation expenses were ₹ 40,000 and salvage value after 5 year will be ₹ 50,000. Under straight line method for the year ended 31st March, 2014 the amount of depreciation will be
(A) ₹ 1,35,750
(B) ₹ 1,81,000

(C) ₹ 1,84,000
(D) ₹ 1,38,000

(ii) The Income and expenditure Account and the Receipts and Payments Account of a Local Club at the end of a particular year show the following amounts:

	As per Income Expenditure A/c (₹)	As per Receipts and Payments A/c (₹)
Printing Charges	7,500	6,900
Rent Paid	12,000	11,000

When there were no outstanding of Rent and Printing charges at the beginning of that year, the difference of ₹ 1,600 will be shown in the Balance Sheet at the end of the year as:
(A) Asset
(B) Liabilities
(C) Ignored
(D) Capital Fund

Answer:

1. (a) (i) C
(ii) B
(iii) D
(iv) B
(v) D
(vi) C

(b) (i) False
(ii) False
(iii) False
(iv) True
(v) True

(c) (i) Not be;
(ii) Capital;
(iii) H.O.;
(iv) Capital Reserve;
(v) 5%.

(d) (i) (D) Royalty Accounts
(ii) (C) Balance Sheet
(iii) (A) Branch Accounts
(iv) (E) Trial Balance
(v) (B) Intangible Assets

(e) (i) (D) ₹ 1,38,000
Annual Depreciation = (8,90,000+25,000+15,000+40,000 – 50,000)/5 = 184000
Depreciation from 1.7.13 to 31.03.14 = 1,84,000 x (9/12) = ₹ 1,38,000.

(ii) (B) There being no outstanding at the beginning of the year, the amount paid as reflected in Income and Expenditure A/c is the amount actually paid as against what is payable for the year as reflected in Income and Expenditure

A/c.
Hence, the difference of ₹ 1,600 to be treated as Liability.

2. (a) The following details are given by Babu Limited for the year ended 31st March, 2014:

Gross Profit Ratio	**30%**
Debtors Collection Period	**43.8 days**
Creditors Turnover Ratio	**7 times**
Inventory Turnover Ratio	**9 times**
Total Purchases	**₹ 63 Lakhs**
Cash Purchases	**₹ 7 Lakhs**
Cash Sales	**₹ 15 Lakhs**
Cash and bank balance	**₹ 5 Lakhs**
Current Liabilities other than Creditors	**₹ 2 Lakhs**

The company is in the business of retail sales and only purchase articles and resell them. You are required to calculate:
(i) Creditors
(ii) Debtors
(iii) Inventory
(iv) Current Ratio
(v) Quick Ratio **1+2+1+2+2=8**

(b) A firm has two departments, Cloth and Readymade Garments. The Readymade Garments were generally made by the firm itself out of cloth supplied by the cloth department at its usual selling price. The stock in the Readymade Garments Department may be considered as consisting of 65% cloth and 35% of other expenses. The opening rate of gross profit of the Cloth Department is 25% and the closing Rate of gross profit is 30%. The opening stock was ₹2,40,000 and the closing stock was ₹2,85,000 in the Readymade Garments Department.

You are required to ascertain the amount of provision to be made for unrealized profit. **3**

(c) A and B were partners sharing profit or loss in the ratio of 5:4. C entered as partner for 1/4th shares in profits and he brought ₹ 2,50,000 for goodwill. C acquired 1/6th share from B and remaining from A. You are required to:
(i) Calculate sacrifice ratio and new profit sharing ratio.
(ii) Pass journal entries in the books of the firm for the distribution of goodwill. **2+2=4**

Answer:

2. (a) (i) Creditors = Credit Purchases/Creditors Turnovers Ratio= $\frac{₹63 \text{ Lakhs} - ₹7 \text{ Lakhs}}{7}$ = ₹ 8 lakhs

(ii) Debtors = $\frac{\text{Credit Sales x Debtors Collection Period}}{365 \text{ days}} = \frac{₹75 \text{ Lakhs} - 43.8}{365}$ = ₹ 9 Lakhs

Total Sales = [Cost of Goods Sold or Total Purchases / (100 – 30)] x 100

$= \frac{(₹63 \text{ Lakhs x } 100)}{(100 - 30)} = \frac{6300}{70}$ = ₹ 90 Lakhs

Credit Sales = Total Sales – Cash Sales = ₹ 90 Lakhs – ₹ 15 Lakhs = ₹ 75 Lakhs

(iii) Inventory = $\frac{\text{Cost of Goods Sold}}{\text{Inventory Turnover}} = \frac{₹63 \text{ Lakhs}}{9}$ = ₹ 7 Lakhs

(iv) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹21 \text{Lakhs}}{₹10 \text{Lakhs}}$ = 2.1 : 1

Current Assets = Inventory + Debtors + Cash & Bank Balance
= ₹ 7 Lakhs + ₹ 9 Lakhs + ₹ 5 Lakhs = ₹ 21 Lakhs

Current Liabilities = Creditors + Other = ₹ 8 Lakhs + ₹ 2 Lakhs = ₹ 10 Lakhs

(vi) Quick Ratio = $\frac{\text{Quick Assets}}{\text{Current Liabilities}}$ or $\frac{\text{Current Assets - Inventory}}{\text{Current Liabilities - Bank Overdraft}}$

= ₹ (21 Lakhs – 7 Lakhs) / 10 Lakhs = ₹ 14 Lakhs / 10 Lakhs = 1.4 : 1.

(b) Amount of provision for unrealized profit already made on opening stock of Readymade Garments = ₹ 240000 x 65% x 25% = ₹39000.

Amount of provision required for closing stock of Readymade Garments = ₹ 285000 x 65% x 30% = ₹ 55575.

Additional provision for unrealized profit to be made at the end of the year = ₹ 55575 – 39000 = ₹ 16575.

(c) (i) B's Sacrifice = 1/6 and A's sacrifice = ¼ - 1/6 = (3 – 2)/12 = 1/12
Hence, Sacrifice ratio of A & B = 1/12 : 1/6 or 1 : 2
New Profit Sharing Ratio :
New share of A = 5/9 – 1/12 = (20 – 3)/36 = 17/36
New shares of B = 4/9 – 1/6 = (8 – 3)/18 = 5/18 = 10/36
Share of C = ¼ or 9/36
Share of C = ¼ or 9/36
Hence, New Ratio of A, B & C = 17 : 10 : 9

(ii)

Journal Entries

Particulars	Dr. (₹)	Cr.(₹)
Bank A/c To Goodwill A/c (Amount of goodwill brought by C)	250000	 250000
Goodwill A/c To A's Capital A/c To B's Capital A/c (Amount of goodwill shared by A&B in sacrifice ratio 1 : 2)	250000	 83333 166667

3. (a) The Income and Expenditure Account of the Bhartia Club for the year ended 31st march, 2014 is as follows:

Dr. **Cr.**

Expenditure	₹	Income	₹
To Salaries	**95,000**	**By Subscription**	**1,50,000**

To General Exp.	20,000	By Entrance Fee	5,000
To Audit Fee	5,000	By Collection for Annual Sports Meet	65,000
To Stationery and Printing	9,000		
To Secretary's Honorarium	20,000		
To Interest	2,000		
To Bank Charges	1,000		
To Depreciation	6,000		
To Expenditure on Annual Sports Meet	50,000		
To surplus	12,000		
	2,20,000		2,20,000

Other Information:

	₹
Subscription outstanding on 31.03.2013	12,000
Subscription received in advance on 31.03.2013	9,000
Subscription outstanding on 31.03.2014	15,000
Subscription received in advance on 31.03.2014	5,400
Salaries outstanding on 31.03.2013	8,000
Salaries outstanding on 31.03.2014	9,000
Audit fee outstanding on 31.03.2013	4,000
Audit fee outstanding on 31.03.2014	5,000
General expenses prepaid on 31.03.2014	1,200
Sports equipments as on 31.03.2013	52,000
Sport equipments after depreciation on 31.03.2014	54,000
Other balances as on 31.03.2014:	
Freehold Ground	2,00,000
Bank loan	40,000
Cash & Bank	32,000

You are required to prepare the Receipts and Payments Account for the year ended 31st March, 2014 and Balance sheet as at 31st March, 2014. 6+4=10

(b) From the following Cash Account find out Cash from operating activities in accordance with AS-3 (revised) using direct method: 5

Summary of Cash account for the year ended 31.03.2014

	₹		₹
Balance as on 1-4-2013	50,000	Payment of supplier	75,000
Issue of Equity Share	1,50,000	Purchase of Fixed Assets	2,25,000
Receipt from customer	2,00,000	Selling and Distribution exps. paid	25,000
Sale of Fixed Asset	1,50,000	Rent paid	20,000
		Dividend paid	45,000
		Repayment of Bank loan	1,20,000
		Income tax paid	15,000
		Balance as on 31.03.2014	25,000
	5,50,000		5,50,000

Answer:

3. (a)

The Bhartia Club

Receipts & Payments A/c for the year ended 31st March, 2014

Particulars	₹	Particulars	₹
To Balance b/d (B/f)	27,800	By Salaries	94,000
To Subscription	1,43,400	By General Expense (20000 + Prepaid 1200)	21,200
To Entrance fee	5,000	By Audit fee (5000 – 5000 + 4000)	4,000
To Collection for Annual Sports Meet	65,000	By Stationery & Printing	9,000
		By Secretary's Honorarium	20,000
		By Interest	2,000
		By Bank Charges	1,000
		By Expenditure on Annual Sports Meet	50,000
		By Sports Equipments	8,000
		By Balance c/d	32,000
	2,41,200		2,41,200

Working Note:-

1. Subscription received during 2013 – 14:

		₹
Subscription as per Income & Expenditure A/c		1,50,000
Add: Outstanding on 31-03-2013		12,000
Received in advance on 31-03-2014		5,400
		1,67,400
Less: Received in advance on 31-03-2013	₹ 9,000	
Outstanding on 31-03-2014	₹ 15,000	24,000
		1,43,400

2. Salaries paid during the year 2013-14:
₹ 95,000 + ₹ 8,000 – ₹ 9,000 = ₹ 94,000

3. Purchase of Sports Equipments:

	₹
Closing balance of equipments on 31.03.2014	54,000
Less: Equipments on 31.03.2013 (₹ 52,000 – Dep. ₹ 6,000)	46,000
Purchase of equipments	8,000

Balance Sheet as at 31st March, 2014

Liabilities		₹	Assets	₹
Salaries Outstanding		9,000	Cash & Bank	32,000
Subscription received in advance		5,400	Prepaid Gen. Expenses	1.200
Audit fee Outstanding		5,000	Subscription Outstanding	15,000
Bank Loan		40,000	Sports Equipments	54,000
Capital Fun as on 1-4-2013(B/F)	2,30,800		Freehold Ground	2,00,000
Add: Surplus	12,000	2,42,800		
		3,02,200		3,02,200

(b) Statement of Cash Flow from Operating activities

Receipt from Customers		2,00,000
Less: Payment to suppliers	75,000	
Selling and Distribution expenses	25,000	
Rent paid	20,000	
Income Tax paid	15,000	1,35,000
Cash flow from Operating activities		65,000

4. (a) On 1st April, 2012 Gauru & Co. purchased a machinery on hire purchases system from Machinery Mart for a cash price of ₹ 7,50,000 to be paid as ₹ 1,18,050 cash down and the balance by three equal annual installments of ₹ 3,00,000 each. Interest is charged @ 20% per annum. Gauru & Co. has decided to write off depreciation on machinery @ 15% per annum on diminishing balance method. Gauru & Co. paid the installment due at the end of the first year but could not pay the next installments. On 31st March, 2014 the Machinery Mart took the possession of the machinery. On 15th April, 2014 the Machinery Mart spent ₹ 30,000 on the repairs of the machinery and sold it for ₹ 1,80,000 on 20th April, 2014. Installment due on 31.03.2014 was paid by Gauru & Co. on 10th April.

You are required to prepare:

(i) Gauru & Co.'s Account and Returned Stock Account in the books of Machinery Mart.

(ii) Machinery Account and Machinery Mart's Account in the books of Gauru & Co. 4+4=8

(b) Jaggu & Co., (Delhi) operates a branch at Jaipur to which goods are invoiced at wholesale price which is cost plus 25%. The branch sell the goods at the retail price which is wholesale price plus 20%.

The following information provided for the year ended 31.03.2014:

	₹
Stock at the branch on 01.04.2013	**1,65,000**
Goods invoiced to the branch during the year	**17,82,000**
Expenses of the branch for the year	**1,10,000**
Gross profit made by the branch	**3,30,000**
Stock at the branch on 31.03.2014	**1,98,000**

Some goods were destroyed by the fire during the year.

You are required to prepare, Branch Stock Account, Branch Profit & Loss Account and Branch Stock Reserve Account in the books of Head Office for the year ended 31st March, 2014. 7

Answer:

4. (a) Calculation of Interest included in each installment.

Installment	Opening Cash Price (₹)	Amount of Installment (₹)	Interest (₹)	Payment of Cash Price (₹)	Closing Cash Price (₹)
1	2	3	4	(3-4)=5	(2-5)=6
Cash down on 1-4-2012	7,50,000	1,18,050	---	1,18,050	6,31,950
(i) 31-3-13	6,31,950	3,00,000	6,31,950 x (20/100) = 1,26,390	1,73,610	4,58,340
(ii) 31-3-14	4,58,340	3,00,000	4,58,340 x (20/100)	2,08,332	2,50,008

			= 91,668		
(iii) 31-3-15	2,50,008	3,00,000	49,992	2,50,008	

(i) Books of Machinery Mart

Gauru & Co's Account

Date	Particulars	₹	Date	Particulars	₹
1-4-12	To Hire Sales A/c	7,50,000	1-4-12	By Bank A/c	1,18,050
31-3-13	To Interest A/c	1,26,390	31-3-13	By Bank A/c	3,00,000
			``	By Balance A/c	4,58,340
		8,76,390			8,76,390
1-4-13	To Balance b/d	4,58,340	31-3-14	By Returned Stock A/c	2,50,008
31-3-14	To Interest A/c	91,668	``	By Balance c/d	3,00,000
		5,50,008			5,50,008
1-4-14	To Balance b/d	3,00,000	10-4-14	By Bank A/c	3,00,000

Returned Stock A/c

Date	Particulars	₹	Date	Particulars	₹
31-3-14	To Gauru & Co.	2,50,008	31-3-14	By Balance c/d	2,50,008
1-4-14	To Balance b/d	2,50,008	20-4-14	By Bank A/c	1,80,000
15-4-14	To Bank A/c	30,000	31-3-15	By P&L A/c	1,00,008
		2,80,008			2,80,008

(ii)

Books of Gauru & Co.

Machinery Account

Date	Particulars	₹	Date	Particulars	₹
1-4-12	To machinery mart	7,50,000	31.3.13	By Depreciation A/c	1,12,500
			31.3.13	By Balance c/d	6,37,500
		7,50,000			7,50,000
1,4.13	To Balance b/d	6,37,500	31.3.14	By Depreciation A/c	95,625
			31.3.14	By Machinery Mart A/c	2,50,008
			31.3.14	By Profit & Loss A/c	2,91,867
		6,37,500			6,37,500

Machinery Mart Account

Date	Particulars	₹	Date	Particulars	₹
1.4.12	To Bank A/c	1,18,050	1.4.12	By Machinery A/c	7,50,000
31.3.13	To Bank A/c	3,00,000	31.3.13	By Interest A/c	1,26,390
31.3.13	To Balance c/d	4,58,340			
		8,76,390			8,76,390
31.3.14	To Machinery A/c	2,50,008	1.4.13	To Balance b/d	4,58,340
31.3.14	To Balance c/d	3,00,000	31.3.14	By Interest A/c	91,668
		5,50,008			5,50,008
10.4.14	To Bank A/c	3,00,000	1.4.14	To Balance b/d	3,00,000

(b)

Books of Jaggu & Co. (H.O.)

Branch Stock Account

Particulars	₹	Particulars	₹
To balance b/d	1,65,000	By Sales (Working Note 1)	19,80,000
To Goods sent to Branch	17,82,000	By Goods lost by fire	99,000

To Gross Profit c/d	3,30,000	By balance c/d	1,98,000
	22,77,000		22,77,000

Branch Profit & Loss Account

Particulars	₹	Particulars	₹
To Expenses	1,10,000	By Gross Profit b/d	3,30,000
To Goods lost by fire (W.N. 2)	99,000		
To Profit transferred	1,21,000		
	3,30,000		3,30,000

Branch Stock Reserve A/c

Particulars	₹	Particulars	₹
To H.O. P & L A/c – Transfer	33,000	By Balance b/d	33,000
To Balance c/d (Stock Res. Required)	39,600	By H.O. P & L A/c (W.N. 3)	39,600
	72,600		72,600

Working Notes:

1. Wholesale Price 100 + 25 = 125
   Retail price 125 + 20% = 150
   Gross Profit at the Branch
   Wholesale Price – Retail Price (150 – 125) 25
   Retail Sales Value = 3,30,000 x (150/25) = ₹ 19,80,000

2. Goods Lost by fire
   Opening Stock + Goods Sent + Gross profit - Sales – Closing Stock
   1,65,000 + 17,82,000 + 3,30,000 – 19,80,000 – 1,98,000 = 99,000.

3. Stock Reserve
   Opening Stock = 1,65,000 x 25/125 = 33,000
   Closing Stock = 1,98,000 x 25/125 = 39,600

5. (a) Shyama Limited purchased a second-hand plant for ₹ 7,50,000 on 1st July, 2011 and immediately spent ₹ 2,50,000 in overhauling. On 1st January, 2012 an additional machinery at a cost of ₹ 6,50,000 was purchased. On 1st October, 2013 the plant purchased on 1st July, 2011 became obsolete and it was sold for ₹ 2,50,000. On that date a new machinery was purchased at a cost of ₹ 15,00,000. Depreciation was provided @ 15% per annum on diminishing balance method. Books are closed on 31st March in every year.

You are required to prepare Plant and Machinery Account upto 31st March, 2014. 6

(b) A, B and C were carrying on business as equal partners. On 01.04.2012, A retires from partnership and his capital account showed a credit balance of ₹ 2,25,000 after all the adjustments. Show the relevant Ledger accounts in the books of the firm after A's retirement, if:

(i) Full payment to A is made in cash immediately after retirement.

(ii) The payment is made to A in two equal yearly installments plus interest @ 15% per annum.

(iii) The life annuity of ₹ 50,000 per annum with 12% interest per annum is payable assuming that the annuitant passes away immediately after payment of the second annuity. 5

(c) State which of the following items are (i) Capital Expenditure; (ii) Revenue expenditure;

(iii) Deferred Revenue Expenditure: **4**

- **(i) Legal charges of ₹ 15,000 incurred for raising loan.**
- **(ii) An amount of ₹ 7,500 spent as legal charges for abuse of Trade-Mark.**
- **(iii) Carriage paid on a new machine purchased for ₹ 18,000.**
- **(iv) ₹ 25,000 spent on construction of animal-huts.**

Answer:

5. (a)

Books of Shyama Limited
Plant & Machinery Account

Date	Particulars	₹	Date	Particulars	₹
1.7.11	To Bank A/c (7,50,000 + 2,50,000)	10,00,000	31.3.12	By Depreciation A/c	1,36,875
1.1.12	To Bank A/c	6,50,000	31.3.12	By Balance c/d	15,13,125
		16,50,000			16,50,000
1.4.12	To Balance b/d	15,13,125	31.3.13	By Depreciation @ 15% on ₹ 15,13,125	2,26,969
				By Balance c/d	12,86,156
		15,13,125			15,13,125
1.4.13	To Balance b/d	12,86,156	1.10.13	By Bank A/c (Sale)	2,50,000
1.10.13	To Bank A/c	15,00,000	31.3.14	By P&L A/c (Loss on Sale)	4,47,797
			31.3.14	By Depreciation A/c	2,48,845
			31.3.14	By Balance c/d	18,39,514
		27,86,156			27,86,156

Working Notes:
Written down value of Machinery which is purchased on 01.07.2011.

On 01.07.2011	10,00,000
Less: Depreciation for 2011-12 of 9 months (10,00,000 x 15% x $^{9}/_{12}$)	1,12,500
W.D.V. for 2012-13	8,87,500
Less: Depreciation for 2012-13	1,33,125
W.D.V. for 2013-14	7,54,375
Less: Depreciation for 6 months on (7,54,375 x 15% x $^{6}/_{12}$)	56,578
W.D.V.	6,97,797
Less: Selling Price	2,50,000
Less on Sale of Machinery	4,47,797

Total Depreciation
(a) Machinery Purchased on 01.01.2012

On 01.01.2012	6,50,000
Less: Depreciation for 3 months of 2011-12	24,375
W.D.V.	6,25,625
Less: Depreciation for 2012-13 (6,25,625 x 15%)	93,844
W.D.V.	5,31,781
Less: Depreciation for 2013-14	79,767
W.D.V.	4,52,014

(b)

Machinery Purchased on 01.10.2013	15,00,000
Less: Depreciation for 6 months (15,00,000 x 15% x $^{6}/_{12}$)	1,12,500
	13,87,500

∴ Total Depreciation ₹ (1,12,500 + 79,767 + 56,578)
= ₹ 2,48,845

(b) (i)

A's Capital A/c

Date	Particulars	₹	Date	Particulars	₹
1.4.12	To Bank A/c	2,25,000	1.4.12	By Balance b/d	2,25,000

(ii)

A's Loan A/c

Date	Particulars	₹	Date	Particulars	₹
31.3.13	To Bank A/c (1,12,500+33,750)	1,46,250	1.4.12	By A's Capital A/c	2,25,000
31.3.13	To Balance c/d	1,12,500	31.3.13	By Interest A/c	33,750
		2,58,750			2,58,750
31.3.14	To Bank A/c (1,12,500+16,875)	1,29,375	1.4.13	By Balance b/d	1,12,500
			31.3.14	By Interest A/c	16,875
		1,29,375			1,29,375

(iii)

A's Annuity Suspense A/c

Date	Particulars	₹	Date	Particulars	₹
31.3.13	To Bank A/c	50,000	1.4.12	By A's Capital A/c	2,25,000
31.3.13	To Balance c/d	2,02,000	31.3.13	By Interest A/c	27,000
		2,52,000			2,52,000
31.3.14	To Bank A/c	50,000	1.4.13	By Balance b/d	2,02,000
	To Balance c/d	1,76,240	31.3.14	By Interest A/c	24,240
		2,26,240			2,26,240
	To Profit & Loss A/c	1,76,240	1.4.14	By Balance b/d	1,76,240

(c) (i) Capital Expenditure
(ii) Revenue Expenditure
(iii) Capital Expenditure
(iv) Capital Expenditure

6. (a) The following is the Profit and Loss Account of Guddu Limited, for the year ended 31st March, 2014:

	₹		₹
To Administrative, Selling & Distribution Expenses	**10,15,600**	**By Balance b/d**	**9,80,000**
To Directors fees	**1,25,000**	**By G. P. from Trading A/c**	**55,63,500**
To Managerial Remuneration	**3,32,000**	**By Subsidies received from State Govt.**	**3,50,000**
To Depreciation	**7,65,380**		
To Interest on Debentures	**3,34,620**		
To Provision for taxation	**13,45,000**		

To General reserve	**8,00,000**		
To Dividend Equalisation Reserve	**5,50,000**		
To Balance c/d	**16,25,900**		
	68,93,500		**68,93,500**

Depreciation as per Schedule II of the Companies Act, 2013 was ₹ 8,32,600.

You are required to calculate the maximum limit of the managerial remuneration as per Companies Act, 2013. 5

(b) Patta Limited forfeited 720 equity shares of ₹ 100 each, which were issued at a discount of 5% for non-payment of allotment money of ₹ 40 per share. First and final call on these shares @ ₹ 20 per share was not made. 500 out of forfeited shares were re-issued at ₹ 90 per share as fully paid. Pass necessary journal entries in the books of the company. 5

(c) The following balances were shown in the Balance Sheet of Priya Limited as at 31st March, 2014:

	₹
2,00,000 12% Preference shares of ₹ 10 each fully paid	**20,00,000**
15,00,000 Equity shares of ₹ 10 each fully paid	**1,50,00,000**
5,00,000 Equity shares of ₹ 10 each, ₹ 7 paid up	**35,00,000**
General Reserve	**18,50,000**
Securities Premium	**40,00,000**
Profit and Loss Account	**72,00,000**
10% Debentures of ₹ 100 each	**45,00,000**

On 1st April, 2014 the company has made final call @ ₹ 3 per share on partly paid up equity shares. The call money was received by 20th April, 2014. Thereafter the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held.
You are required to show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the Company has passed necessary resolution at its general body meeting for increasing the share capital (Notes/Schedules are not required). 5

Answer:

6. (a) Calculation of Net Profit A/s 198 of the companies Act, 2013

Particulars	₹	₹
Gross Profit from Trading A/c		55,63,500
Add: Subsidies received from the state govt.		3,50,000
		59,13,500
Less: Administrative, Selling & Dist. Exp.	10,15,600	
Directors Fees.	1,25,000	
Interest on Debentures	3,34,620	
Depreciation as per Schedule II	8,32,600	23,07,820
Net Profit U/s 198		36,05,680

Maximum Managerial remuneration under companies Act, 2013 = 11% of ₹ 36,05,680 = 3,96,625.

(b)

Journal o Patta Limited

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Date of Forfeiture	Equity Share Capital A/c Dr. To Discount on issue of Shares A/c To Equity share allotments A/c To Share Forfeiture A/c (720 Equity shares forfeited due to non-payments of allotment)		57,600	 3,600 28,800 25,200
Date of Reissue	Bank A/c Dr. Discount on issue of Shares A/c Dr. Share Forfeiture A/c Dr. To Equity Share Capital A/c (Forfeited 500 shares were re-issued at ₹ 90 shares credited as fully paid up)		45,000 2,500 2,500	 50,000
Date of Transfer	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance of forfeiture amount on 500 re-issued, shares credited to capital reserve Account)		15,000	 15,000

Working Note:

Calculation of amount transferred to capital reserve:

	₹
Amount forfeited on 500 shares [(25,200 x 500) / 720]	17,500
Less: Forfeited A/c debited on re-issue	2,500
Transferred to capital reserve A/c	15,000

(c)

Priya Limited
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2014 April 1	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Final call of ₹ 3 per share on 5,00,000 equity share due as per boards resolution dated……..)		15,00,000	 15,00,000
April 20	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on 90,000 equity shares received)		15,00,000	 15,00,000
	Security Premium A/c Dr. General Reserve A/c Dr. Profit and Loss A/c Dr. To Bonus to shareholders A/c (Bonus issue @ two shares for every five shares held by utilizing various reserve as per board's Resolution dated …)		40,00,000 18,50,000 21,50,000	 80,00,000
April 20	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalisation of Profits)		80,00,000	 80,00,000

Balance Sheet (Extract) as on 20th April, 2014 (after bonus issue)

	Particulars	(₹)
	Equity Liabilities	
1.	Shareholder's Fund	
(a)	Share Capital (20,00,000 + 1,50,00,000 + 50,00,000 + 80,00,000)	3,00,00,000
(b)	Reserves and Surplus (72,00,000 – 21,50,000)	50,50,000
2.	Non-Current Liabilities	
(a)	Long-term borrowings (10% Debentures)	45,00,000

7. (a) Toli Limited has 9% Redeemable Preference Share Capital of ₹ 15,00,000 consisting of ₹ 10 shares fully paid up. The company wants to redeem these shares at 20% premium. The ledger accounts show the following balances:

	₹
General Reserve	**3,50,000**
Securities Premium	**1,00,000**
Capital Reserve	**6,50,000**
Profit & Loss A/c (Cr.)	**6,00,000**

The directors desire to make a minimum fresh issue of equity shares of ₹ 10 each at 25% premium for redemption of the preference shares. You are required to ascertain the requisite amount of equity shares of new issue necessarily to be made by the directors of the company and pass the necessary journal entries to record new issue of equity shares and redemption of preference shares. **7**

(b) On 1st April, 2010 Rukmani Limited leased a coal mine at a minimum rent of ₹ 36,000 for the first year, ₹ 60,000 for second year and there after ₹ 1,20,000 per annum merging into a royalty of ₹ 3 per tonne with right to recoup short workings over two years after occurring short workings. The output for first year years are as follows:

Year	**1**	**2**	**3**	**4**
Coal output (in tones)	**6000**	**17200**	**44000**	**100000**

You are required to prepare Royalty Account, Short workings Account and Landlord's Account in the books of Rukmani Ltd.

(c) Chandu Udyog borrowed ₹ 2 crores for purchase of machinery on 1st July, 2013. Interest payable on loan is 15% per annum. The machinery was put to use from 1st January, 2014. Pass journal entries for the year ended 31st March, 2014 to record the borrowing cost of Loan, as per AS – 16. **3**

Answer:

7. (a) Calculation of Minimum amount of New Issue of Equity Shares

Arrangement of Required Amount = Preference share Capital to be redeemed + Premium on Redemption = ₹ 15,00,000 + ₹ 3,00,000 = 18,00,000

Let the new issue be of ₹ x, therefore, arrangement of required amount = General Reserve + Securities Premium (Balance) + Profit and Loss Account (Cr. Balance) + Proceeds by way of capital from New issue + Securities Premium Proceeds on New Issue.

Or ₹ 18,00,000 = 3,50,000 + 1,00,000 + 6,00,000 + ₹ x + 25% of ₹ x

Or ₹ 18,00,000 = 10,50,000 + ₹ 5/4x

Or ₹ 7,50,000 = 5/4x
Or x = 7,50,000 x 4/5 = ₹ 6,00,000
Thus Amount of New Equity Share Capital = ₹ 6,00,000; and Amount of Securities Premium on New Issue = 25% on ₹ 6,00,000 = ₹ 1,50,000.

No. of New Equity Shares to be issued = 60,000 of ₹ 10 each @ 12.50 per share

Journal of Toli Limited

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Date of receipt	Bank A/c Dr. To Equity Share Application & allotment A/c (Share application money received)		7,50,000	 7,50,000
Date of Allotment	Equity Share Application & Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Application money transferred to E.S. capital A/c and Securities Premium A/c)		7,50,000	 6,00,000 1,50,000
Date of Transfer	Securities Premium A/c Dr. Profit & Loss A/c Dr. To Premium on Red. Of Pre. Shares A/c (Premium on redemption provided)		2,50,000 50,000	 3,00,000
Date of Transfer	General Reserve A/c Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve A/c (Necessary amount credited to Capital Redemption Reserve because of not covered by fresh issue of Shares)		3,50,000 5,50,000	 9,00,000
Date of Redemp-tion	9% Redeemable Preference Shares Capital A/c Dr. Premium on Red. Of Preference shares A/c Dr. To Bank A/c (Preference Shares Redeemed at 20% Premium)		15,00,000 3,00,000	 18,00,000

(b)

Analytical Table

Year	Minimum Rent	Actual Royalty	Shortworkings (-) or Excess workings (+)	Shortworkings		Actual Payment	Closing Balance of Short-workings
				Recou-pied	Transferred to P&L A/c		
	₹	₹	₹	₹	₹	₹	₹
2010-11	36,000	18,000	-18,000			36,000	18,000
2011-12	60,000	51,600	-8,400			60,000	26,400
2012-13	1,20,000	1,32,000	+12,000	12,000	6,000	1,20,000	8,400
2013-14	1,20,000	3,00,000	+1,80,000	8,400		2,91,600	Nil

Royalty A/c

Date	Particulars	₹	Date	Particulars	₹
31.3.11	To Landlord	18,000	31.3.11	By P&L A/c	18,000
31.3.12	To Landlord	51,600	31.3.12	By P&L A/c	51,600
31.3.13	To Landlord	1,32,000	31.3.13	By P&L A/c	1,32,000
31.3.14	To Landlord	3,00,000	31.3.14	By P&L A/c	3,00,000

Shortworkings A/c

Date	Particulars	₹	Date	Particulars	₹
31.3.11	To Landlord	18,000	31.3.11	By Balance c/d	18,000
1.4.11	To Balance b/d	18,000			
31.3.12	To Landlord	8,400	31.3.12	By Balance c/d	26,400
		26,400			26,400
1.4.12	To Balance b/d	26,400	31.3.13	By Landlord	12,000
				By P&L A/c	6,000
				By Balance c/d	8,400
		26,400			26,400
1.4.13	To Balance b/d	8,400	31.3.14	By Landlord	8,400

Landlord's A/c

Date	Particulars	₹	Date	Particulars	₹
31.3.11	To Bank A/c	36,000	31.3.11	By Royalty A/c	18,000
				By Short Workings A/c	18,000
		36,000			36,000
31.3.12	To Bank A/c	60,000	31.3.12	By Royalty A/c	51,600
				By Short Workings A/c	8,400
		60,000			60,000
31.3.13	To Short Workings A/c	12,000	31.3.13	By Royalty A/c	1,32,000
	To Bank A/c	1,20,000			
		1,32,000			1,32,000
31.3.14	To Short workings A/c	8,400	31.3.14	By Royalty A/c	3,00,000
	To Bank A/c	2,91,600			
		3,00,000			3,00,000

(c)

Particulars	₹
Interest upto 31.3.2014 [2,00,00,000 x (15/100) x (9/12)]	22,50,000
Less: Interest relating to pre-operative period (22,50,000 x 6/9)	(15,00,000)
Amount to be charged to P&L A/c	7,50,000
Pre-operative interest to be capitalized	15,00,000

Journal Entries

Particulars	L.F.	Dr. (₹)	Cr. (₹)
Machinery A/c Dr. To Loan A/c (Being interest on loan for pre-operative period capitalized)		15,00,000	 15,00,000
Interest on Loan A/c Dr. To Loan A/c (Being the interest on loan for the post-operative period)		7,50,000	 7,50,000
Profit & Loss A/c Dr. To Interest on Loan A/c (Being interest on loan transferred to P&L A/c)		7,50,000	 7,50,000

8. Answer any three from the following: 5x3=15

(a) Guidelines followed in the absence of partnership deed.

(b) Commission on re-insurance ceded/accepted.

(c) Rebate on Bills discounted.

(d) The disclosure requirements under AS-7 (Revised).
(e) Limitations of Financial Ratios.

Answer:

8. (a) In the absence of partnership deed the following guidelines should be followed:

(i) Every Partner should share profit equally [Section 13 (b)].
(ii) No interest is to be allowed on Partners' capitals [Section 13(C)].
(iii) No interest is to be charged on the drawings of the Partners.
(iv) No salary is to be allowed to any partner.
(v) Interest on advances made by partners should be provided @ 6% per annum. [Section 13 (d)].
(vi) Every partner should be to have equal share in the property of the Partnership as per Section 14.

(b) Commission on re-insurance ceded / accepted.
The business of the company is fetched through its agents who are paid commission according to the amount of business they are getting for the company. When company gets re-insurance business it has to pay commission to some other company. This commission is called 'Commission on re-insurance accepted' and is shown as an expense in the revenue account.
When a company passes on a part of business to some other company then this company (which gives business) gets commission from the company to whom such business is given. This commission is called 'Commission on re-insurance ceded' and is a gain to the company surrendering the business. It appears on the credit side of revenue account.

(c) Rebate on Bills Discounted:
When a bank discount a bill, Bills Discounted and Purchased Account is debited with the full value of the bill and current account (customer's) is credited with the net proceeds and interest and discount account is credited with the total discount of the bill. Discount represent the interest on the interest on bill value for the unexpired period of the bill (differences between the date of maturity and date of discounting). It sometimes happen that on the closing day of the accounting year, the bill in question has not matured. At the time of preparing Final Accounts, the interest relating to next accounting period must be carried forward by means of the following entry:

Interest and Discount Account Dr.
To Rebate on Bills Discounted Account.

Rebate on Bill Discounted appears in the Balance Sheet under Equities and Liabilities and is shown under the head 'Other Liabilities and Provisions (Schedule 5).

At the commencement of the next accounting year, it is transferred to Interest and Discount Account by means of a reverse entry.

(d) According to paragraphs 38, 39 and 41 of AS – 7, an enterprise should disclose:
(i) The amount of contract revenue recognized as revenue in the period;
(ii) The methods used to determine the contract revenue recognized in the period; and
(iii) The methods used to determine the stage of completion of contracts in progress.

In case of contract still in progress the following disclosures are required at the reporting date:

(i) The aggregate amount of costs incurred and recognized profits (less recognized losses) upto the reporting date;
(ii) The amount of advances received; and
(iii) The amount of retentions.

An enterprise should also present:

(i) The gross amount due from customers for contract work as an asset; and
(ii) The gross amount due to customers for contract work as a liability.

(e) Limitations of Financial Ratios:

The limitation of financial ratios are listed below:

(i) Diversified product lines: Many businesses operate a large number of division in quite different industries. In such cases, ratios calculated on the basis of aggregate data cannot be used for inter-firm comparisons.
(ii) Financial data are badly distorted by inflation: Historical cost values may be substantially different from true values. Such distortions of financial data are also carried in the financial ratios.
(iii) Seasonal factors may be also influence financial data.
(iv) To five a good shape to the popularly used financial ratios (like current ratio, debt-equity ratio, etc.): The business may make some year-end adjustments. Such window dressing can change the character of financial ratios which would be different had there been no such change.
(v) Differences in accounting policies and accounting period: It can make the accounting data of two firms non-comparable as also the accounting ratios.
(vi) There is no standard set of ratios against which a firm's ratio can be compared: Sometimes a firm's ratios are compared with the industry average. But if a firm desires to be above the average, then industry average becomes a low standard. On the other hand, for a below average firm, industry averages become too high a standard to achieve.