INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2012

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 are compulsory and* **any five** *questions from the rest.*

Q. 1. (a) From the four alternative answers given against each of the following cases, indicate the correct answer : [1×10=10]

(i) The situation when the number of shares applied for is less than the number of shares offered is termed as

(A) Minimum subscription

(B) Under subscription

(C) Over subscription

(D) None of the above

(ii) Realisation account is opened at the time of

(A) Admission of a new partner

(B) Retirement of a partner

(C) Dissolution of the Firm

(D) In all the above situations

(iii) In the hire purchase system interest charged by vendor is calculated on the basis of

(A) Outstanding Cash Price

(B) Hire Purchase Price

(C) Instalment amount

(D) None of the above

(iv) Bad debts are apportioned among departments in the proportion of

(A) Sales of each department

(B) Number of units sold by each department

(C) Cost of sales of each department

(D) None of the above

(v) The following account has a credit balance

(A) Plant and Equipment A/c

(B) Purchase Returns A/c

(C) Purchase A/c

(D) None of the above

(vi) Actuarial valuation relates to

(A) Banking Company

(B) Electric Supply Company

(C) Insurance Company

(D) None of the above

(vii) The amortisation of amount of software commences from the date when it is

(A) Available for use

(B) Put to use

(C) Developed upto 75%

(D) None of the above

(viii) A non-performing asset is

(A) Money at call and short notices

(B) An asset that ceases to generate income

(C) Cash balance with Bank

(D) None of the above

(ix) When prior period expenditure is paid subsequently and for which no provision was made earlier, the accounting entry would be

(A) Debit expenditure

(B) Debit prior period expenditure

(C) Debit deferred reveneu expenditure

(D) None of the above

(x) In the case of non-profit organisation donations received by the organisation are reflected in

(A) Income and Expenditure Account

(B) Capital Account

(C) Receipts and Payments Account

(D) None of the above

(b) State whether the following statements are TRUE (T) or FALSE (F) : [1×5=5]

(i) When the shareholder cannot pay call moneys for the shares allotted he can return the shares which is called as surrender of shares.

(ii) Reserve for unexpired risk is applicable for Banking companies.

(iii) Rebate on bills discounted is disclosed in the balance sheet of a Banking company in the assets side as representing the rebate not yet matured.

(iv) Double account system is applicable for electricity companies.

(v) Liquid assets plus stock in trade is called current assets.

(c) Fill in the blanks in the following sentences using appropriate word from the alternatives indicated : [1×5=5]

(i) Net worth ratio means share holders funds divided by total assets excluding _________ (fictitious assets/prepaid expenses).

(ii) When the cost of byproduct cannot be ascertained separately it should be valued at _________ (sale price/net realisable value).

(iii) Errors in principle _________ affect tallying Balance Sheet (does/does not).

(iv) In case of instalment sale ownership passes at the time of _________ (sale/payment of last instalment).

(v) Solvency ratio means total liabilities divided by _________ (total assets/shareholders funds).

(d) Match the following : [1×5=5]

(i) AS-3	(A) Depreciation Accounting
(ii) AS-6	(B) Cash flow statement
(iii) AS-9	(C) Borrowing cost
(iv) AS-16	(D) Revenue recognition
(v) AS-22	(E) Accounting for tax on income
	(F) No matching statement found

Answer 1. (a)

(i) (B) — The numbers of shares applied by the public is less than the number of shares offered. This is a case of under subscription. In majority of such cases full allotment is made in case of under subscription.

(ii) (C) — Realisation Account is opened when the firm is fully dissloved, to ascertain the profit or loss from Realisation of assets & payment of liabilities. Books of accounts can be closed only if all the Assets are realised and all the liabilities are paid off except cash. Whereas Revaluation means modifying the value, when the partnership ratio changes, or admission of new partner or retirement of existing partner or death of partners, or any other change in the constitution of the firm.

(iii) (A) — Total payment under Hire-Purchase System is more than cash price. In fact this excess payment over the cash price is interest. It is very essential to calculate interest because the amount paid for interest is charged to revenue and the asset is capitalized at cash price. Thus, normally all instalments will include a part of cash price and a part of interest on the outstanding balance.

(iv) (A) — Bad debts is considered to be a part of Selling and Distribution expenses where, they are arise in the normal course of trading. So, it is apportioned on the sales value.

(v) (B) — When we return goods the stock will decrease, as well as the liability towards suppliers decreases. The journal entry is

Suppliers A/c Dr.

To Purchase Returns A/c

(vi) (C) — It is ascertained the fair market value of the product in future.

(vii) (A) — AS-26 refers that amortisation of intangible assets should commence when the asset is available for use.

(viii) (B) — An asset becomes non performing when it ceases to generate income for the bank. Here assets include, Leased Assets, Loans and Advances. Banks should classify an account as NPA only if the interest due and changed during any querter is not serviced fully within 90 days from the end of the quarter.

(ix) (B) — Say, salary paid in April 2013 ₹ 2,00,000 including ₹ 70,000 for the month of March 2013. The accounting entry would be :-

Slary A/c	Dr.	1,30,000	
Prior Period Expenses (Salary) A/c	Dr.	70,000	
To Bank A/c			2,00,000

(x) (C) — Donation received is a capital nature transaction. So, it is shown in the Receipt & Payments Account only, if any other not mention of the problems.

Answer 1. (b)

(i) **True** — Surender of shares is a voluntary return of shares for the purposes of cancellation by shareholder. Surrender of shares is at the instances of shareholders.

(ii) **False** — Reserve for unexpired risk is applicable to Insurance Company.

(iii) **False** — It is shown in the liabilities side included in 'Other Liabilities & Provisions' in Schedule-5 appeneded to the Balance Sheet.

(iv) **True** — It is applicable to the Electricity Company. There are following reasons:

(a) It has different components for presenting the final accounts.

(b) A Revenue Account is prepared in lieu of the Profit & Loss A/c. A net Revenue Account is prepared in place of the Profit & Loss Appropriation A/c.

(c) The conventional system of preparing a Balance Sheet is not followed. Balance Sheet split up into —

(1) Receipt and Expenditure on Capital Account

(2) General Balance Sheet

(d) Interest on Loan or Debenture is treated as an appropriation of Profit and charged to Net Revenue Account.

(e) Depreciation is charged to Revenue Account.

(v) **True** — Liquid assets means which is converted cash quickly. The component of liquid assets are Cash, Debtors, B/R etc. and added Stock with the Liquid assets the value which is derived is called Current Assets.

Answer 1. (c)

(i) Fictitious assets
(ii) Net realizable value
(iii) Does not
(iv) Sale
(v) Total assets

Answer 1. (d)

(i) AS-3	—	(B)	Cash Flow statement
(ii) AS-6	—	(A)	Depreciation Accounting
(iii) AS-9	—	(D)	Revenue recognition
(iv) AS-16	—	(C)	Borrowing cost
(v) AS-22	—	(E)	Accounting for tax on income

Q. 2. (a) Priya Sales Corporation of Jaipur has a Branch at Kota to which goods are sent @ $33\frac{1}{3}$% above cost. The Branch makes sales both for cash and on credit. Branch expenses are paid direct from Head Office and the Branch has to remit all cash received into the Head Office Bank Account at Kota.

Following further details are given for the year ended 31st March, 2012:

	(₹)
Goods sent to Branch (at invoice price)	18,00,000
Goods returned by Branch (at invoice price)	20,000
Stock at Branch on 1.4.2011 (at invoice price)	2,40,000
aranch Debtors on 1.4.2011	2,15,000
Sales during the year:	
– Cash	5,80,000
– Credit	11,40,000
Cash received from Branch debtors	10,45,000
Discount allowed to by Branch to debtors	14,800
Bad debts	9,200
Sales return at Kota Branch	25,000
Salaries and wages at Branch	1,80,000
Rent, Rates and Taxes at Branch	42,000
Sundry expenses at Branch	15,000
Stock at Branch on 31.3.2012 (at invoice price)	3,60,000

You are required to show Branch Stock Account, Branch Adjustment Account, Branch Expenses Account, Branch Debtors Account, Branch Goods sent to Branch Account and Branch Profit & Loss Account in the books of the Head Office. [8]

(b) State the criteria which should be fulfilled by a depreciable asset as per AS-6. [3]

(c) Toly Enterprise ordered 10,000 units of material X at ₹ 135 per unit. The purchase price includes excise duty @ ₹ 8 per unit, in respect of which full CENVAT Credit is admissible. Freight incurred amounted to ₹ 88,500. Normal transit loss is 5%. The enterprise actually received 9,400 units and consumed 8,500 units.

You are required to ascertain the value of inventory as per AS-2. [4]

Answer 2. (a)

Books of Priya Sales Corporation

Dr. **Branch Stock Account** ***Cr.***

Particuars	Amount ₹	Particuars	Amount ₹
To Balance b/d	2,40,000	By Goods sent to Branch A/c (Return)	20,000
To Goods sent to Branch A/c	1,80,000	By Bank A/c (Cash Sales)	5,80,000
To Branch Debtors A/c (Returns)	25,000	By Branch Debtors A/c (Credit Sales)	11,40,000
To Branch Adjustment A/c (Excess of sales over invoice price)	35,000	By Balance c/d	3,60,000
	21,00,000		21,00,000

Dr. **Branch Adjustment Account** ***Cr.***

Particuars	Amount ₹	Particuars	Amount ₹
To Stock Reserve A/c (Closing stock - 25% on 3,60,000)	90,000	By Stock Reserve A/c (Opening stock) (25% on 2,40,000)	60,000
To Branch P/L A/c	4,50,000	By Goods sent to Branch A/c (18,00,000-20,000=17,80,000×25%)	4,45,000
		By Branch Stock A/c	35,000
	5,40,000		5,40,000

Dr. **Branch Expenses Account** ***Cr.***

Particuars	Amount ₹	Particuars	Amount ₹
To Bank A/c (Salaries & Wages)	1,80,000	By Branch Profit & Loss A/c (transfer)	2,37,000
To Bank A/c (Rent, rates & taxes)	42,000		
To Bank A/c (Sundry exp.)	15,000		
	2,37,000		2,37,000

Dr. **Branch Debtors Account** **Cr.**

Particuars	Amount ₹	Particuars	Amount ₹
To Balance b/d	2,15,000	By Bank A/c	10,45,000
To Branch Stock A/c	11,40,000	By Branch Stock A/c (Sales return)	25,000
		By Branch P/L A/c (Discount ₹ 14,800 & Bad debts ₹ 9,200)	24,000
		By Balance c/d	2,61,000
	13,55,000		13,55,000

Dr. **Goods sent to Branch Account** **Cr.**

Particuars	Amount ₹	Particuars	Amount ₹
To Branch Stock A/c (Return)	20,000	By Branch Stock A/c	18,00,000
To Branch Adjustment A/c	4,45,000		
To Purchases A/c (Trading A/c)	13,35,000		
	18,00,000		18,00,000

Dr. **Branch Profit & Loss Account** **Cr.**

Particuars	Amount ₹	Particuars	Amount ₹
To Branch Exp. A/c	2,37,000	By Branch Adjustment A/c	4,50,000
To Branch Debtors A/c (Discount & Bad debts)	24,000		
To Profit & Loss A/c (Branch Net profit)	1,89,000		
	4,50,000		4,50,000

Answer 2. (b)

As per As-6, a depreciable asset must fulfill the following criteria :

(i) Expected to be used for more than one accounting period.

(ii) Have a Limited useful life.

(iii) Are held for use in the production or supply of goods and services, for rental, for administrative purpose, and not for sale in the ordinary course of business.

Answer 2. (c)

(i) Calculation of normal cost per unit :	₹
Purchase price- 10000 units@ ₹ 135	13,50,000
Less : CENVAT credit - 10,000 units @ ₹ 8	80,000
	12,70,000
Add : Freight	88,500
Total Material Cost	13,58,500

No. of units normally received : 100 – 5 = 95% of 10,000 = 9,500 units
Normal Cost per unit = ₹ 13,58,500 ÷ 9,500 = ₹ 143

(ii) Valuation of lnventory: units = 9400 – 8500 = 900 units
Value of inventory = 900 units@ ₹ 143 = ₹ 1,28,700

Q. 3. (a) Income and Expenditure Account and the Balance Sheet of Nav Bharat Club are as under :

Income and Expenditure Account for the year ending 31st March, 2012

Dr. *Cr.*

Expenditure		Amount ₹	Income	Amount ₹
To Upkeep of Ground		21,000	By Subscription	56,640
To Printing & Stationery		2,800	By Sale of old newspapers	530
To Salaries		28,000	By Lectures	8,000
To Depreciation:			By Entrance Fee	2,900
Ground & Building	9,000		By Misc. Incomes	1,200
Furniture	1,000	10,000		
To Repairs		3,500		
To Surplus		3,970		
		69,270		69,270

Balance Sheet as at 31st March, 2012

Liabilities	Amount (₹)	Amount (₹)	Assets	Amount (₹)	Amount (₹)
Capital Fund:			Ground & Building		1,43,200
Opening Balance	1,56,430		Furniture		9,000
Add: Entrance Fee	2,900		Sports Prize Fund:		
Add: Surplus	3,970	1,63,300	Investment	43,000	
Sports Prize Fund:			Subscription	2,600	
Opening Balance	51,000		Cash and Bank	19,400	65,000
Add: Interest	4,500				
	55,500				
Less: Prizes	6,500	49,000			
Outstanding Salary		4,200			
Subscription in Advance		700			
		2,17,200			2,17,200

The following adjustments have been made in the above accounts:

(i) Upkeep of ground ₹ 1,500 and printing and stationery ₹ 510 relating to 2010-2011 were paid in 2011-12.

(ii) One-half of entrance fee has been capitalised.

(iii) Subscription outstanding in 2010-11 was ₹ 3,100 and for 2011-12 ₹ 2,600.

(iv) Subscription received in advance in 2010-11 was ₹ 1,100 and in 2011-12 for 2012-13 ₹ 700.

(v) Outstanding salary on 31.3.2011 was ₹ 3,600.

Prepare Receipts and Payments Account for the year ended on 31st March, 2012. [8]

(b) Chiou and Co. sells goods on hire purchase at cost plus 60 percent. Prepare Hire Purchase Trading Account from the following information for the year ending 31st March, 2012: [4]

		₹
1.4.2011	Stock with customers at hire purchase price	96,000
31.3.2012	Sale of hire purchase goods during the year at hire purchase price	5,68,000
31.3.2012	Cash received from hire purchase customers	2,65,000
31.3.2012	Stock with customers' at hire purchase price	3,64,000

[3]

(c) Cochin Coals Ltd. holds a lease of coal mine for 20 years. It sub-leased a part of the coal mine to Dhanbad Coals Ltd. The details of output in tons are given below : [3]

Year	Cochin Coals. (Tons)	Dhanbad Coals (Tons)
2009-10	10,000	4,000
2010-11	12,000	7,000
2011-12	14,000	8,000

As per lease, Cochin Coals has to pay100 per ton and· a minimum rent being15,00,000. Dhanbad Coals had to pay120 per ton to Cochin Coals by way of royalty.

Show Royalty Account in the books of Cochin Coals Ltd. for the said 3 years reflecting both Royalty receivable from Dhanbad Coals and Royalty payable to the Landlord.

Answer 3. (a)

Receipts and Payments Account

Dr. *for the year ended 31st March 2012* ***Cr.***

Receipts	Amount ₹	Payments	Amount ₹
To Balance b/d (Balance figure)	5,840	By Upkeep of Ground	22,500
		By Printing & Stationery	3,310
To Subscription (*)	56,740	By Salaries	27,400
To Entrance fee (2,900+29,000)	5,800	By Sports Prizes	6,500
		By Repairs	3,500
To Lectures (fee)	8,000	By Balance c/d	19,400
To Interest of prize fund investment	4,500		
To Sale of Newspapers	530		
To Misc. incomes	1,200		
	82,610		82,610

Working Notes :

(i) Amount of subscription received during the year 2011 -12:

	₹	₹
Subscription debited in Income & Exp. A/c		56,640
Add : outstanding in 2010-11		3,100
Add : Advance received in 2011-12 for 2012-13		700
		60,440
Less : Received in advance in 2010-11	1100	
Less: Outstanding in 2011-12	2600	3700
Amounts received during 2011-12 (*)		56,740

(ii) Upkeep of ground: ₹ 21,000+outstanding in 2010-11 ₹ 1,500 = ₹ 22,500

(iii) Printing & stationery : ₹ 2800 + outstanding in 2010-11 ₹ 510 = ₹ 3310

(iv) Salaries : ₹ 28,000+outstanding on 31.3.11 ₹ 3,600-outstanding on 31.3.2012 ₹ 4,200 = ₹ 27,400.

Answer 3. (b)

Hire Purchase Trading Account for the year ending 31st March, 2012.

Dr. ***Cr.***

Date	Particulars	₹	Date	Particulars	₹
1.4.11	To Stock with customer at cost (96,000$\times\frac{100}{160}$)	60,000	31.3.12	By Cash Received	2,65,500
31.3.12	To Goods sold on hire purchase at cost (5,68,000$\times\frac{100}{160}$)	3,55,000	31.3.12	By Installments Overdue	35,000
31.3.12	To Profit & Loss A/c (profit)	1,12,500	31.3.12	By Stock with customer at cost (3,64,000$\times\frac{100}{160}$)	2,27,500
		5,27,500			5,27,500

Working Notes :

Dr. **Memorandum Hire Purchase Customers Account** ***Cr.***

Particulars	Amount ₹	Particulars	Amount ₹
To Stock with customers	96,000	By Cash Received	2,65,000
To Goods sold at H. P. price	5,68,000	By Installment Overdue (Balancing figure)	35,000
		By Stock with Customers	3,64,000
	6,64,000		6,64,000

Answer 3. (c)

In the books of Cochin Coals Ltd.

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

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
31.3.2010				By Royalty Receivable A/c	4,80,000
	To Landlord A/c	15,00,000		By Profit & Loss A/c	10,20,000
		15,00,000			15,00,000
31.3.2011				By Royalty Receivable A/c	8,40,000
	To Landlord A/c	19,00,000		By Profit & Loss A/c	10,60,000
		19,00,000			19,00,000
31.3.2012				By Royalty Receivable A/c	9,60,000
	To Landlord A/c	22,00,000		By Profit & Loss A/c	12,40,000
		22,00,000			22,00,000

Q. 4. (a) Ashok & BaJa who where in partnership sharing 7/12 and 5/12 respectively admitted Chand as a partner giving him 1/5th share from 01.04.2011. The new profit sharing ratio is 7 : 5: 3. Chand brought ₹ 96,000 towards goodwill to be shared by Ashok & BaJa in their sacrificing ratio. The amount so brought was however credited to Chand's capital account by mistake.

The Trial Balance of the firm as on 31st March, 2012 is given below:

	Dr. (₹)	Cr. (₹)
Ashok's capital		3,36,000
Bala's capital		2,40,000
Chand's capital		2,24,000
Sundry Creditors		48,000
Current year profit		2,20,000
Other Assets	7,70,000	
Ashok's drawing	1,45,600	
Bala's drawing	1,04,000	
Chand's drawing	20,400	
Cash in hand	28,000	
Total:	10,68,000	10,68,000

Interest on drawings is to be ignored but interest on capital is to be charged at 5% per annum which was not made so far. Prepare new Balance Sheet as at 31.03.2012 giving effect to above adjustments/omissions. [8]

(b) Sachin & Ganguly are partners of a firm SG & Co. From the following information calculate the value of goodwill by super profit method and capitalization method: [5]

(i) Average capital employed in the business ₹ 5,00,000.

(ii) Net trading profit of the firm for the last three years ₹ 1,50,000; ₹ 1,70,000 and ₹ 1,90,000.

(iii) Rate of return expected from capital having regard to risk involved @ 15% per annum.

(iv) Goodwill to be valued at 2 years' purchase. [10]

(c) Mr. X is owner of a Cinema Hall. He spent a heavy amount for complete renovation of the hall, for installation of air-condition machines and for sitting arrangement with cushion seats. As a result the revenue has been doubled. He also spent for few more doors for emergency exit.

State your opinion about the treatment of the entire expenditure. [10]

Answer 4. (a)

Computation of Correct Capital of Partners

	Ashok (₹)	**Bala** (₹)	**Chand** (₹)
Capital as per Trial Balance	3,36,000	2,40,000	2,24,000
Adjustment for goodwill in sacrificing ratio 7:5*	56,000	40,000	(96,000)
	3,92,000	2,80,000	1,28,000
Interest on capital @ 5%	4,11,600	2,94,000	1,34,400

Share of profit ₹ 2,20,000 minus interest on capital of ₹ 40,000 = ₹ 1 ,80,000 in 7:5:3 ratio	84,000	60,000	36,000
	4,95,600	3,54,000	1,70,400
Less : Drawings	1,45,600	1,04,000	20,400
Closing capital	3,50,000	2,50,000	1,50,000
Sacrificing ratio *			
Old ratio	7/12	5/12	
New ratio	7/15	5/15	3/15
Sacrificing ratio = Old ratio minus new ratio	7/60	5/60	
i.e.	7:5 ratio		

Balance Sheet as at 31.03.2012 (after adjustments)

Liabilities	₹	*Assets*	₹
Capital Accounts		Assets	7,70,000
Ashok	3,50,000	Cash on hand	28,000
Bala	2,50,000		
Chand	1,50,000		
Creditors	48,000		
	7,98,000		7,98,000

Answer 4. (b)

Calculation of Goodwill under Super Profit Method

	₹
First year	1 ,50,000
Second year	1 ,70,000
Third year Total	1,90,000
	5,10,000

Average profit ₹ 5,10,000 / 3	=	₹ 1 ,70,000
Less: Normal return 15% of capital employed i.e. ₹ 5,00,000 × 15%	=	₹ 75,000
Super profit	=	₹ 95,000
Two years purchase of super profit = ₹ 95,000 × 2	=	1,90,000

Calculation of Goodwill under Capitalization Method

Average profit = ₹ 1,70,000

Capitalization of business = $\frac{₹\,1{,}70{,}000 \times 100}{15}$ = ₹ 11,33,333

Less Average capital employed ₹ 5,00,000

Value of goodwill ₹ 6,33,333

Answer 4. (c)

The size of the expenditure is not the criteria to decide whether subsequent expenditure should be capitalized. The important question is whether the expenditure increases the future benefits from the asset beyond its pre-assessed standard of performance as per AS-10. Only then it should capitalized.

In the instant case, the first part of expenditure i.e., Renovation etc. should be capitalized because it has enhanced the revenue earning capacity of the hall. The second part of expenditure for making more emergency exit doest not enhance the revenue of the asset. So it should be charged to revenue.

Q. 5. (a) Khelaram commenced a contract on 01.07.2011. The price agreed for the contract was ₹ 8,00,000. At the end of the year on 30.06.2012, the contract was in advance stage of completion and it was decided to arrive at the notional profit on the basis of the total contract. The contract is expected to be completed by the end of December, 2012. Actual expenditure for the years 2011-12 and 2012-13 till December, 12 are as under:

Expenditure	Actual till 30.06.2012 (₹)	Estimated for 2012-13 (upto Dec., 2012) (₹)
Materials	2,00,000	70,000
Labour	90,000	25,000
Plant purchased (at original cost)	60,000	
Miscellaneous expenses	30,000	6,000
Plant returned to store on 30.06.2012 (original cost)	12,000	—
Plant returned to store on 31.12.2012 (original cost)	—	24,000
Materials at site	8,000	Nil
Work certified	6,00,000	8,00,000
Work uncertified	20,000	Nil
Cash received	5,80,000	8,00,000

Charge depreciation at 20% p.a. on plant on straight line basis.

You are asked to prepare the Contract Account for the year ended 30.06.2012. [10]

(b) The Revenue Account of a Life Insurance Company shows the Life Assurance Fund on 31.03.2012 at ₹ 75,00,000 before taking into account the following items:

A. Claims covered Under Re-insurance	₹ 3,15,000
B. Income Tax on the above	₹ 35,000
C. Bonus in reduction of Premium	₹ 4,25,000
D. Dividend from Investment	₹ 3,20,000
E. Claims intimated but not yet admitted	₹ 8,15,000
F. Outstanding Premium	₹ 25,000

Compute the Life Insurance Fund on 31.03.2012 after taking into account the above omission. [5]

Answer 5. (a)

In the books of Khelaram

Dr. **Contract Account for the year ended 30.06.2012** ***Cr.***

Particulars	₹	Particulars		₹
To Materials	2,00,000	By Plant Returned to stores		9,600
To Labour	90,000	By Plant at site		38,400
To Plant	60,000	By Material at site		8,000
To Misc. Expenses	30,000	By W-I-P		
To Notional Profit c/d	2,96,000	- Certified	6,00,000	
		- Uncertified	20,000	6,20,000
	6,76,000			6,76,000
To P & L A/c	2,62,595	By Notional Profit b/d		2,96,000
To Work-in-progress A/c (Profit-in-Reserve)	33,405			
	2,96,000			2,96,000

Working Note :

(1) **Contract Account for the year ended 31.12.2012**

(*for determining the Estimated Profit*)

Dr. ***Cr.***

Particulars	₹	Particulars	₹
To Materials (2,00,000+70,000)	2,70,000	By Plant Returned to store (9,600+16,800)	26,400
To Labour (90,000+25,000)	1,15,000	By Plant at site	16,800
		By Contractee A/c	8,00,000
To Plant	60,000		
To Misc. Expenses	36,000		
To Estimated Profit	3,62,200		
	8,43,200		8,43,200

(2) **Profit on contract to be taken to P & L A/c for the year ended 30.6.12**

Contract likely to be completed on December, 2012

So, Estimated Profit $\times \dfrac{\text{Work Certified}}{\text{Total Contract Price}} \times \dfrac{\text{Cash Received}}{\text{Work Certified}}$

$$\frac{3{,}62{,}200 \times 5{,}80{,}000 \times 6{,}00{,}000}{6{,}00{,}000 \times 8{,}00{,}000}$$

= ₹ 2,62,595.

	₹
(3) Plant returned to store on 30.6.12	12,000
Less : Depreciation 20% for one year -	2,400
	9,600
(4) Plant at site on 30.6.12	60,000
Less retruned to store -	12,000
Balance at site at original cost-	48,000
Less : Depreciation on 48,000 @ 20%	9,600
	38,400
(5) Plant returned to store on 31.12.12 at original cost	24,000
Less : Depreciation for 18 months	7,200
	16,800
(6) Plant at site 31.12.2012	24,000
Less : Depreciation for 18 months	7,200
	16,800

Answer 5. (b)

Statement showing Life Insurance Fund as on 31.03.2012

Particulars		**Amount (₹)**	**Amount (₹)**
Balance of Fund on 31.032012			75,00,000
Add : Bonus Utilised in reduction on Premium		4,25,000	
Dividend from Investment		3,20,000	
Premium Outstanding		25,000	7,70,000
Less : Claims Intimated but not admitted	8,15,000		82,70,000
Claims covered under Re-insurance	3,15,000	5,00,000	
Income Gax		35,000	
Bonus Utilised in reduction on Premium		4,25,000	9,60,000
Balance of Life Insurance Fund			73,10,000

Q. 6. (a) The following was the Balance Sheet of Wonder World Ltd. as at 31.03.2012 :

(₹ in lakhs)

Liabilities		Assets	
1 lakh Equity Shares of ₹ 10 each fully paid	10.00	Plant & Machinery	13.50
Securities Premium	3.50	Furniture	2.40
General Reserves	3.10	Investments	1.80
Profit & Loss Account	1.10	Stock	7.20
14% Debentures	7.50	Sundry debtors	2.30
Sundry creditors	5.00	Bank	3.00
	30.20		30.20

On 01.04.2012, the company decided to buy-back 20% of its equity shares at a premium of ₹ 10 per share. For this purpose, the company sold its entire investments for ₹ 2.30 akhs and issued 1500, 12% Preference shares of ₹ 100 each at par. The amount payable was ₹ 60 on application and ₹ 40 on allotment. The issue was fully subscribed. Thereafter the company issued bonus shares of ₹ 10 at the rate of one bonus share for every five equity shares held by the equity shareholders.

Show Journal entries and Balance Sheet after the above transactions were completed. [10]

(b) The total of debit side of the Trial Balance of Lotus Stores as at 31.03.2012 is ₹ 3,65,000 and that of the credit side is ₹ 2,26,000.

After checking, the following mistakes were discovered:

Items of account	Correct figures (as it should be) (₹)	Figures as it appears in the Trial Balance (₹)
Opening stock	15,000	10,000
Rent and rates	36,000	63,000
Sundry creditors	81,000	18,000
Sundry debtors	1,04,000	1,58,000

Ascertain the correct total of the Trial Balance. [5]

Answer 6. (a)

Funds Required for buy-back	(₹ in lakh)
For buy-back of equity shares (10×20%)	2.00
Less : Proceeds from Issue of 12% Pref. shares (1500 × ₹ 100)	1.50
	0.50

In the books of Wonder World

₹ in lakhs

Journals

Sl. No.	Particulars		Dr. (₹)	Cr. (₹)
1	Bank A/c	Dr.	2.30	
	To Investment A/c			1.80
	To Profit & Loss A/c			0.50
	(Being the investment sold at a profit)			
2.	Bank A/c	Dr.	0.90	
	To 12% Pref. Share Application A/c			0.90
	(Being the application money of 1500 shares, 12% Pref. share of ₹ 60 each received)			
3.	12% Pref. Share Application A/c	Dr.	0.90	
	To 12% Pref. Share Capital A/c			0.90
	(Being the application money of 1500 shares, 12% Pref. shares of ₹ 60 each due, as per Board's Resolution No.... dated...)			
4.	12% Preference Share Allotment A/c	Dr.	0.60	
	To 12% Preference Share Capital A/c			0.60
	(Being the allotement money of 1500 shares 12% Pref. Shares of ₹ 40 each due as per Board's Resolution No.... dated....)			
5.	Bank A/c	Dr.	0.60	
	To 12% Preference Share Allotment A/c			0.60
	(Being the allotment money of 1500 shares, 12% Pref. share of ₹ 40 each received)			
6.	Equity Share Capital A/c [20% of 1,00,000 shares× ₹ 10 per share]	Dr.	2.00	
	Securities Premium A/c [20,000 shares × ₹ 10 per share]	Dr.	2.00	
	To Equity Shareholders A/c			4.00
	(Being the 20% of shares were bought back at a premium of ₹ 20 each per Board's Resolution No..... dated....)			
7.	Equity Shareholders A/c	Dr.	4.00	
	To Bank A/c			4.00
	(Being the amount paid to equity shareholders against buy-back)			
8.	General Reserve A/c	Dr.	0.50	
	To Capital Redemption Reserve A/c			0.50
	(Being a sum equal to the nominal value of buy-back of shares transferred to C.R.R. out of General Reserve)			

9.	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. To Bonus to Shareholders A/c (Being the Fund transferred for bonus shares issued in the ratio of 1:5)	0.50 1.10	 1.60
10.	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Being the shares issued in the ratio of 1:5 as per Board's Resolution No..... dated.....)	1.60	 1.60

Workings :

No. of Bonus Shares issued after buy-back:

$80{,}000 \times \frac{1}{5} = 16{,}000$

∴ Fund Required = 16,000 × ₹ 10 = ₹ 1,60,000.

Balance Sheet of Wonder World Ltd.

as at ..... (after buy-back & Bonus Share)

Liabilities	***Amount* ₹**	***Assets***	***Amount* ₹**
96,000 Equity Shares @ ₹ 10 each	9.60	Plant & Machinery	13.50
(including 16,000 fully paid Equity Shares issued as Bonus issued otherwise than for cash)		Furniture Stock	2.40 7.20
1,500 12% Pref. Shares @ ₹ 100 each	1.50	Sundry Debtors	2.30
Securities Premium	0.40		
(3.50 – 2.00 –1.10)		Bank	2.80
General Reserve	2.60	(3.00+2.30+1.5–4)	
(3.10 – 0.50)			
Profit & Loss	1.60		
(1.10 + 0.50)			
14% Debentures	7.50		
Sundry Creditors	5.00		
	28.20		28.20

This may be represented in Revised Schedule VI

Name of the Company: Wonder World Ltd.
Balance Sheet as at (After Buy- Back and Bonus shares)

Ref No.		Note No.	₹ in Lakh As at 31st March, 2012 ₹	As at 31st March, 2011 ₹
	EQUITY AND LIABILITIES			
	Shareholders' funds			
	(a) Share capital @ Rs.10 each	1	11.10	-
	(b) Reserves and surplus	2	4.60	-
	(c) Money received against share warrants		-	-
			15.70	-
	Share application money pending allotment		-	-
	Non-current liabilities			
	(a) Long-term borrowings		-	-
	(b) Deferred tax liabilities (net)		-	-
	(c) Other long-term liabilities		-	-
	(d) Long-term provisions		-	-
			-	-
	Current liabilities			
	(a) Short-term borrowings	3	7.50	-
	(b) Trade payables		5.00	-
	(c) Other current liabilities		-	-
	(d) Short-term provisions		-	-
			12.50	-
	TOTAL (1+2+3+4)		28.20	-
	ASSETS			
	Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets	4	15.90	-
	(ii) Intangible assets			-
	(iii) Capital work-in-progress		-	-
	(iv) Intangible assets under development		-	-
	(v) Fixed assets held for sale		-	-
			15.90	-
	(b) Non-current investments		-	
	Shares in S Ltd 800 shares			
	(c) Deferred tax assets (net)		-	-
	(d) Long-term loans and advances		-	-
	(e) Other non-current assets		-	-
			15.90	-
	Current assets			
	(a) Current investments		-	-
	(b) Inventories		7.20	-
	(c) Trade receivables		2.30	-
	(d) Cash and cash equivalents		2.80	-
	(e) Short-term loans and advances		-	-
	(f) Other current assets		-	-
			12.30	-
	TOTAL (1+2)		28.20	-

ANNEXURE

1. Share Capital :-	**Current Year**	**Previous Year**
96,000 equity shares @ ₹ 10	960,000.00	-
(including 16,000 fully paid equity shares issued as Bonus)		-
1,500, 12% Preference Shares	150,000.00	-
	1,110,000.00	-

2. Reserve and Surplus :-	**Current Year**	**Previous Year**
Securities Premium	40,000.00	-
General Reserve	260,000.00	-
Profit and Loss	160,000.00	-
	460,000.00	-

3. Short Term Borrowings :-	**Current Year**	**Previous Year**
14% Debentures	750,000.00	
	750,000.00	-

4.Tangible Assets :-	**Current Year**	**Previous Year**
Plant and Machinery	1,350,000.00	-
Furniture	240,000.00	-
	1,590,000.00	-

Answer 6. (b)

In the books of Lotus
Assertainment of correct trial Balance
as at 31.3.2012

	Dr. ₹	***Cr.*** ₹
Total as per Trial Balance	3,65,000	2,26,000
Add : Opening stock understated	5,000	
	3,70,000	2,26,000
Less/Add : Adjustments Rent and rates overstated	(27,000)	
Sundry Creditors - understated		63,000
Sundry Debtors - Overstated	(54,000)	
Correct Total	2,89,000	2,89,000

Q. 7. (a) You are provided with the following information for a company for the year ending on a certain date :

Annual Sales (all credit)	₹ 36,00,000
Sales to Net worth	2.5 times
Total Debts to Net worth	80%
Current liabilities to Net worth	25%
Current Ratio	3 : 1
Inventory Turnover Ratio (based on sales)	6 times
Average collection period	40 days in a year of 360 days
Fixed Assets to Net worth	1.05 : 1
Share Capital to Reserves and Surplus	1 : 0.8

Preare the Balance Sheet as on that date based on above information. [10]

(b) Due to inadequacy of profit during the year 2011-12, Jatin Limited proposes to declare dividend out of general reserve. Following particulars are given to you:

	(₹ in lakhs)
9%, Preference Shares of ₹ 100 each fully paid	1,100
Equity Shares of. ₹ 10 each fully paid	5,000
General Reserve	1,605
Capital Reserve on revaluation of assets	185
Securities Premium	210
Profit and Loss Account (out of which current year net profit is ₹ 255 lakhs)	280

Average rate of dividend during the last five years is 16%.

You are required to ascertain the amount that can be drawn for dividend applying the Companies (Declaration of Dividend out of Reserves) Rules, 1975. [5]

Answer 7. (a)

Working Notes :

(i) Inventory = $\dfrac{\text{Sales}}{\text{Inventory Turnover}} = \dfrac{₹\,36{,}00{,}000}{6} = ₹\,6{,}00{,}000$

(ii) Debtors = $\dfrac{\text{Sales}}{360} \times \text{Average collection period}$

$= \dfrac{36{,}00{,}000}{360} = ₹\,4{,}00{,}000$

(iii) Net worth = $\dfrac{\text{Sales}}{\text{Sales to net worth}} = \dfrac{36{,}00{,}000}{2.5} = ₹\,14{,}40{,}000$

(iv) Total Debts = 80% of Net worth = 14,40,000 × 80% = ₹ 11,52,000

(v) Current Liabilities = 25% of Net worth = 14,44,000 × 25%
= ₹ 3,60,000.

(vi) Current Asset = Current Liabilities × Current Ratio
= ₹ 3,60,000 × 3 = ₹ 10,80,000

(vii) Long term loans = Total Debts – Current Liabilities
= ₹ 11,52,000 – 3,60,000
= ₹ 7,92,000

(viii) Share Capital to Reserves and surplus = 1 : 0.8

Share Capital = $\dfrac{\text{Networth}}{1:8} = \dfrac{14{,}40{,}000}{1:8} = ₹\,8{,}00{,}000$

Reserve and surplus = 14,40,000 – 8,00,000 = ₹ 6,40,000

(ix) Fixed Assets = Net worth × 1.05 = 14,40,000 × 1.05
= ₹ 15,12,000

(x) Cash and Bank = Current Assets – Inventory – Debtors
= 10,80,000 – 6,00,000 – 4,00,000
= ₹ 80,000

Balance Sheet as on ....

Liabilites	*Amount* ₹	*Assets*	*Amount* ₹
Share Capital	8,00,000	Fixed Assets	15,12,000
Reserves & Surplus	6,40,000	Current Assets	
Long term loans	7,92,000	Inventory	6,00,000
Current Liabilities	3,60,000	Debtors	4,00,000
		Cash and Bank	80,000
	25,92,000		25,92,000

Answer 7. (b)

Calculation of amount to be drawn from reserves for dividend:

(i) **First condition:** Rate of dividend must be 10% or average rate of dividend for last 5 years, i.e. 16%, whichever is less. So, 10% is declared.

Requirement of transfer from reserves for 10% dividend (₹ In lakhs)

10% of ₹ 5,000 lakhs		500
Less : Profit available	280	
Less: Preference Dividend	99	181
Balance to be drawn from Reserve		319

(ii) **Second Condition:** Maximum amount that can be drawn should not exceed 10% of paid up capital plus free reserves = ₹ (1,100 + 5,000 + 1,605) = ₹ 7,705 lakhs.

So, 10% of ₹ 7,705 lakhs = ₹ 770.05 lakhs

(iii) **Third Condition :** After drawing from reserves, the residual amount of reserve should not fall below 15% of paid up capital :

Let Dividend 'd', Free Reserves 'r' and paid up capital 'c'

As per this condition,

r – d = 15% of c

or, d = r – 15% of c

or, d = 1,605 – 15% of 6,100

= 1,605 – 915 = 690.

As per third condition, maximum amount of dividend is ₹ 690 lakhs.

Since ₹ 319 lakhs is less than the amount available as per condition 2 and 3. Hence, the 10% dividend can be paid.

Q. 8. Write short notes on *any three* : [3×5=15]

(a) Sources for payment of Dividend;

(b) Shortworkings and recoupment of shortworkings;

(c) Accounting convention of consistency;

(d) Contingent liability;

(e) Classification of Branches for Branch accounting purpose.

Answer 8. (a)

Sec.205 deals with sources for payment of dividend and other conditions. The sources for payment of dividend are:

(i) Out of current years profit

(ii) Out of previous year

(iii) Out of the aggregate of profit mentioned in (i) and (ii) above, in all the above cases proper provision for depreciation has to be made

(iv) Out of state subsidies

Apart from above sources, dividends can be paid out of profits made on sale of assets subject to the fulfillment of certain conditions.

Answer 8. (b)

Short working and recoupment of short working:

Short working is the amount by which the minimum rent exceeds the actual royalty. It is the difference between actual rent and minimum rent.

Generally the royalty agreement contains a provision for carrying forward of short workings with a view to adjust it in the future. In the subsequent years, such short working is adjusted against the surplus royalty. This process of adjustment is called recoupment of short Workings.

The right of recoupment of short workings enables the lessee to recover the excess payment, made in the earlier years to meet the condition of payment of minimum rent. A time is usually agreed upon the number ofyears for which such short workings can be recouped . This time limit for recoupment of short workings may be fixed or fluctuating. If the short workings cannot be recouped within the specified time, they lapse and are charged to Profit and Loss Account in the year when that specified time limit for recoupment ends.

Answer 8. (c)

In order to enable the management to draw important conclusions regarding the working of a company over a number it is essential that accounting practices and methods remain unchanged from one accounting period to another. According to AS-1 consistency is a fundamental assumption and it is assumed that accounting policies are consistent from one period to another. Where this assumption is not followed, the fact should be disclosed with proper reasons.

Kohler has talked about three types of consistencies :

(i) Vertical consistency- consistency maintained within the interrelated financial statements ofthe same date.

(ii) Horizontal consistency- this enables the comparison of performance of the organization in one year with its performance of previous/ next year.

(iii) Third dimensional consistency- Performance of one organization can be compared with that of another organization in the same industry.

Answer 8. (d)

Contingent liability can be termed as an obligation relating to an exi sting condition or situation which may arise in future depending on the occurance or non- occurrence of one or more uncertain future events- For example, a company may have certain pending litigation, assessments made by tax authorities which are being contested etc, Which might result in company incurring financial liability in future and in all such cases, the amounts involved are shown as contingent liability.

Contingent liabilities are classified under the following head:-

(i) Claims against the company not acknowledged as debts

(ii) Uncalled liability on shares partly paid

(iii) Areas of fixed cumulative dividend

(iv) Estimated amount of contracts remaining unexecuted
On capital account not provided for, and

(v) Other money for which the company is liable contingently

Answer 8. (e)

Branches are classified as two way, (i) Inland Branch, (ii) Foreign Branch

(i) Inland Branches :

(a) Dependent Branches: Branches in respect of which the whole ofthe accounting records are kept at head office.

(b) Independent Branches: As the name indicates such branches maintain independent accounting records.

(ii) Foreign Branches: Branches which are located in a foreign country other then in which the company is incorporated they maintain independent and complete record of business.

Methods of accounting are :

(i) Final Accounts method

(a) At wholesale price

(b) At Cost Price/At Invoice Price

(ii) Debtors method;

(iii) Stock and Debtors method; and

(iv) Cash Basis System.