PAPER – I : ADVANCED ACCOUNTING

Answer **all** questions.

Wherever applicable, appropriate suitable assumptions should be made by the candidate.

Working notes should form part of the answer.

Question 1

The Balance Sheet of R Ltd., at March, 2008 was as follows:

	Rs.		Rs.
Share capital authorised	14,00,000	Intangibles	68,000
Issued: 64,000, 8% cumulative preference shares of Rs. 10 each, fully paid	6,40,000	Freehold premises at cost	1,40,000
		Plant and equipment at cost less depreciation	2,40,000
64,000 Equity shares of Rs. 10 each, Rs. 7.5 paid	4,80,000	Investments in shares in Q Ltd. at cost	3,24,000
Loans from directors	60,000	Stocks	2,48,000
Sundry creditors	4,40,000	Debtors	3,20,000
Bank overdraft	2,08,000	Deferred revenue expenditure	48,000
		Profit and loss account	4,40,000
	18,28,000		18,28,000

Note: The arrears of preference dividends amount to Rs. 51,200.

A scheme of reconstruction was duly approved with effect from 1st April, 2008 under the conditions stated below:

(a) The unpaid amount on the equity shares would be called up.

(b) The preference shareholders would forego their arrear dividends. In addition, they would accept a reduction of Rs. 2.5 per share. The dividend rate would be enhanced to 10%.

(c) The equity shareholders would accept a reduction of Rs. 7.5 per share.

(d) R Ltd. holds 21,600 shares in Q Ltd. This represents 15% of the share capital of that company. Q Ltd. is not a quoted company. The average net profit (after tax) of the company is Rs. 2,50,000. The shares would be valued based on 12% capitalization rate.

(e) A bad debt provision at 2% would be created.

(f) The other assets would be valued as under:

	Rs.
Intangibles	48,000
Plant	1,40,000
Freehold premises	3,80,000
Stocks	2,50,000

(g) The profit and loss account debit balance and the balance standing to the debit of the deferred revenue expenditure account would be eliminated.

(h) The directors would have to take equity shares at the new face value of Rs. 2.5 per share in settlement of their loan.

(i) The equity shareholders, including the directors, who would receive equity shares in settlement of their loans, would take up two new equity shares for every one held.

(j) The preference shareholders would take up one new preference share for every four held.

(k) The authorised share capital would be restated to Rs. 14,00,000.

(l) The new face values of the shares-preference and equity will be maintained at their reduced levels.

You are required to prepare:

(i) Necessary ledger accounts to effect the above; and

(ii) The Balance Sheet of the company after reconstruction. (16 Marks)

Answer

In the books of R Ltd.
Ledger Accounts
Capital Reduction Account

		Rs.			Rs.
To	Intangibles (68,000 – 48,000)	20,000	By	8% Cumulative preference shares capital account	1,60,000
To	Plant and equipment account (2,40,000 – 1,40,000)	1,00,000	By	Equity share capital account	4,80,000
To	Deferred revenue expenditure account	48,000	By	Freehold premises account (3,80,000 – 1,40,000)	2,40,000
To	Profit and loss account	4,40,000	By	Stock account (2,50,000 –2,48,000)	2,000
To	Investment account (W.N. 2)	11,500			
To	Provision for doubtful debts	6,400			
To	Capital reserve account (Balance Transferred)	2,56,100			
		8,82,000			8,82,000

Equity Share Capital Account

		Rs.			Rs.
To	Capital reduction account	4,80,000	By	Balance b/d	4,80,000
To	Balance c/d	6,60,000	By	Bank account - final call (64,000 × Rs.2.5)	1,60,000
			By	Loan from Directors account	60,000
			By	Bank account [(64,000+24,000) ×2 × Rs.2.5]	4,40,000
		11,40,000			11,40,000
			By	Balance b/d	6,60,000

8% Cumulative Preference Share Capital Account

		Rs.			Rs.
To	10% Cumulative preference share capital account	4,80,000	By	Balance b/d	6,40,000
To	Capital reduction account	1,60,000			
		6,40,000			6,40,000

Bank Account

		Rs.			Rs.
To	Equity share capitall account	1,60,000	By	Balance b/d (overdraft)	2,08,000
To	Equity share capital account	4,40,000	By	Balance c/d	5,12,000
To	10% Cumulative preference share capital account	1,20,000			
		7,20,000			7,20,000
To	Balance b/d	5,12,000			

10% Cumulative Preferences Share Capital Account

		Rs.			Rs.
To	Balance c/d	6,00,000	By	8% Cumulative preference share capital account	4,80,000
			By	Bank (16,000 x Rs. 7.5)	1,20,000
		6,00,000			6,00,000
			By	Balance b/d	6,00,000

Balance Sheet of R. Ltd. (and Reduced)

as at 1 April, 2008

	Rs.		Rs.
Authorised: Share capital	14,00,000	Intangibles	48,000
Issued: 80,000 10% Cumulative preference shares of Rs.7.5 each	6,00,000	Freehold premises	3,80,000
2,64,000 equity shares of Rs.2.5 each	6,60,000	Plant and equipment	1,40,000
Capital reserve	2,56,100	Investment in Q Ltd. (W.N.1)	3,12,500
Sundry creditors	4,40,000	Stock	2,50,000
		Debtors less provision for doubtful debts (Rs.3,20,000 – Rs.6,400)	3,13,600
		Bank	5,12,000
	19,56,100		19,56,100

Working Notes:

1. Valuation of investments in shares of Q Ltd. = $\frac{\text{Rs.}2,50,000}{.12} \times \frac{15}{100} = \text{Rs.}3,12,500$

2. Reduction in the value of investment in shares of Q Ltd.

   Rs.3,24,000 – Rs.3,12,500 = Rs.11,500.

Question 2

(a) The books of Mr. Z showed the following information:

	1.1.2007 (Rs.)	31.12.2007 (Rs.)
Bank balance	---	50,000
Debtors	---	87,500
Creditors	---	46,000
Stock	50,000	62,500
Fixed assets	7,500	9,000

The following are the details of the bank transactions:

	Rs.
Receipt from customers	3,40,000
Payments to creditors	2,80,000
Capital brought in	5,000
Sale of fixed assets	1,750
Expenses paid	49,250

Drawings	25,000
Purchase of fixed assets	5,000

Other informations:

(i) Cost of goods sold Rs.2,60,000

(ii) Gross profit 25% on cost of goods sold

(iii) Book value of assets sold Rs.2,500

Prepare Trading, Profit and Loss account for the year ended 31.12.2007 and Balance Sheet as at 31.12.2007. (8 Marks)

(b) Prepare Revenue Account in proper form for the year ended 31st March, 2008, from the following particulars related to Krishna General Insurance Co. for the year ended 2007 – 2008:

	Related to Direct business (Rs.)	Related to Reinsurance (Rs.)
Premiums:		
Amount received	30,00,000	2,40,000
Receivable at the beginning	1,80,000	24,000
Receivable at the end	2,40,000	36,000
Amount paid	--	3,60,000
Payable at the beginning	--	30,000
Payable at the end	--	42,000
Claims:		
Amount paid	18,00,000	1,80,000
Payable at the beginning	60,000	12,000
Payable at the end	1,20,000	18,000
Amount recovered	--	1,20,000
Receivable at the beginning	--	18,000
Receivable at the end	--	12,000
Commission:		
Amount paid	72,000	10,800
Amount received	--	14,400

Additional information:

(i)	Interest, dividend and rent received	30,000
	Income-tax in respect of above	6,000

(ii) Management expenses including Rs. 12,000 related to legal expenses regarding claims 1,32,000

(iii) Provision for income tax existing at the beginning of the year was Rs. 1,95,000, the income-tax actually paid during the year Rs. 1,68,000 and the provision necessary at the year end Rs. 2,07,000.

(iv) The net premium income of the company during the year 2006 – 2007 was Rs. 24,00,000 on which reserve for unexpired risk @ 50% and additional reserve @ 7 ½% was created. This year, the balance to be carried forward is 50% of net premium on reserve for unexpired risk and 5% on additional reserve. (8 Marks)

Answer

(a) Trading and Profit & Loss Account

for the year ended 31.12.2007

Dr.					Cr.
		Rs.			Rs.
To	Opening stock	50,000	By	Sales (W.N.8)	3,25,000
To	Purchases (W.N.7)	2,72,500	By	Closing stock	62,500
To	Gross profit (W.N.6)	65,000			
		3,87,500			3,87,500
To	Expenses	49,250	By	Gross profit	65,000
To	Loss on sale of fixed asset	750			
To	Depreciation on fixed assets	1,000			
To	Net Profit	14,000			
		65,000			65,000

Balance Sheet as at 31.12.2007

Liabilities		Rs.	Rs..	Assets	Rs.
Capital as on 1.1.2007		1,69,000		Fixed Assets	9,000
Add:	Net profit	14,000		Debtors	87,500
	Additional capital	5,000		Stock	62,500
		1,88,000		Bank	50,000
Less:	Drawings	25,000	1,63,000		
Creditors			46,000		
			2,09,000		2,09,000

Working Notes:

1. **Balance Sheet as at 1.1.2007**

Liabilities	Rs.	Assets	Rs.
Capital (Bal. Fig.)	1,69,000	Fixed Assets	7,500
Creditors	53,500	Debtors	1,02,500
		Stock	50,000
		Bank Balance	62,500
	2,22,500		2,22,500

2. **Bank account**

Dr.		Rs.		Cr.	Rs.
To	Balance b/d (Bal. Fig.)	62,500	By	Creditors	2,80,000
To	Debtors	3,40,000	By	Expenses	49,250
To	Capital	5,000	By	Drawings	25,000
To	Fixed Assets	1,750	By	Fixed Assets (purchased)	5,000
			By	Balance c/d	50,000
		4,09,250			4,09,250

3. **Debtors account**

Dr.		Rs.		Cr.	Rs.
To	Balance b/d (Bal. Fig.)	1,02,500	By	Bank	3,40,000
To	Sales (W.N.8)	3,25,000	By	Balance c/d	87,500
		4,27,500			4,27,500

4. **Creditors account**

Dr.		Rs.		Cr.	Rs.
To	Bank	2,80,000	By	Balance b/d (Bal. Fig.)	53,500
To	Balance c/d	46,000	By	Purchases (W.N.7)	2,72,500
		3,26,000			3,26,000

5. **Fixed Assets account**

Dr.					Cr.
		Rs.			Rs.
To	Balance b/d	7,500	By	Bank (Sale)	1,750
To	Bank	5,000	By	Profit and Loss A/c (loss on sale)	750
			By	Depreciation (Bal. Fig.)	1,000
			By	Balance c/d	9,000
		12,500			12,500

6. **Gross Profit**

   Rs.2,60,000 x 25% = Rs. 65,000.

7. **Cost of goods sold**

   Cost of goods sold = Opening stock + Purchases – Closing stock

   Rs.2,60,000 = Rs.50,000 + Purchases - Rs.62,500

   Purchases = Rs. 2,72,500.

8. **Sales**

   Sales = Cost of goods sold + gross profit

   = Rs.2,60,000 + Rs.65,000

   = Rs.3,25,000.

(b) FORM B – RA

Name of the Insurer : Krishna General Insurance Company

Registration no. and date of registration with IRDA : ………………..

Revenue Account for the year ended 31.3.2008

	Particulars	Schedule	Amount (Rs.)
1.	Premium earned (Net)	1	27,03,000
2.	Profit/Loss on sales/Redemption of investment	-	-
3.	Other	-	-
4.	Interest, dividend & rent (Gross)	-	30,000
	Total (A)		27,33,000
1.	Claims incurred (Net)	2	19,44,000
2.	Commission	3	68,400
3.	Operating expenses related to insurance business	4	1,20,000
	Total (B)		21,32,400

Operating profit/Loss from insurance business (C) = (A-B)	6,00,600
Appropriation:	
Transfer to Shareholders account	-
Transfer to Catastrophe Reserve	-
Transfer to other reserves	-
Total (D)	-

Schedule – 1 Premium Earned (Net)

Particulars	Rs.
Premium received from direct business (W.N.1)	30,60,000
Add: Premium on reinsurance accepted (2,40,000 + 36,000 – 24,000)	2,52,000
	33,12,000
Less: Premium on reinsurance ceded (3,60,000 + 42,000 – 30,000)	3,72,000
Net Premium	29,40,000
Adjustment for change in reserve for unexpired risk (W.N.2)	2,37,000
Total premium earned (Net)	27,03,000

Schedule – 2 Claims Incurred (Net)

Particulars	Rs.
Claims paid (Direct)	18,00,000
Add: Legal expenses regarding claims	12,000
	18,12,000
Add: Reinsurance Accepted	1,80,000
	19,92,000
Less: Reinsurance ceded (1,20,000 + 12,000 –18,000)	1,14,000
	18,78,000
Add: Claims outstanding at the end (1,20,000 + 18,000)	1,38,000
	20,16,000
Less: Claims outstanding at the beginning (60,000 + 12,000)	72,000
Total claim incurred	19,44,000

Schedule –3 Commission

Particulars	Rs.
Commission paid Direct	72,000
Add: Re-insurance accepted	10,800
	82,800
Less: Re-insurance ceded	14,400
Net commission	68,400

Schedule – 4 Operating Expenses related to Insurance Business

Particulars	Rs.
Expenses of management (1,32,000 – 12,000)	1,20,000
	1,20,000

Working Notes:

1. Calculation of premium received from direct business

		Rs.
Premium on direct business		30,00,000
Add:	Premium outstanding at the end	2,40,000
		32,40,000
Less:	Premium outstanding at the beginning	1,80,000
		30,60,000

2. Computation of change in reserve for unexpired risk

		Rs.
Reserve for unexpired risk for the year 2007-08 (29,40,000 x 50%)		14,70,000
Add:	Additional reserve for unexpired risk for the year 2007-08 (29,40,000 x 5%)	1,47,000
		16,17,000
Less:	Reserve for unexpired risk for the year 2006-07 (24,00,000 x 50%)	12,00,000
	Additional reserve for unexpired risk for the year (24,00,000 x 7.5%)	1,80,000
		2,37,000

Question 3

(a) The Articles of Association of S Ltd. provide the following:

(i) That 20% of the net profit of each year shall be transferred to reserve fund.

(ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus.

(iii) That the balance available for distribution shall be applied:

(a) in paying 14% on cumulative preference shares.

(b) in paying 20% dividend on equity shares.

(c) one-third of the balance available as additional dividend on preference shares and 2/3 as additional equity dividend.

A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 12% on preference shares after making provisions (i), (ii) and (iii) mentioned above. The company has issued 13,000, 14% cumulative participating preference shares of Rs. 100 each fully paid and 70,000 equity shares of Rs. 10 each fully paid up.

The profit for the year ended 31st March, 2008 was Rs.10,00,000 and balance brought from previous year Rs. 80,000. Provide Rs. 31,200 for depreciation and Rs. 80,000 for taxation before making other appropriations. Prepare Profit and Loss Account.

(8 Marks)

(b) Wye sells goods on Hire-purchase at cost plus 50%. Prepare Hire Purchase Trading Account from the information given below:

	Rs.
Stock with customers on hire-purchase price (opening)	1,62,000
Stock in hand at shop (opening)	3,24,000
Instalments overdue (opening)	1,35,000
Purchases during the year	10,80,000
Goods repossessed (instalments not due Rs. 36,000)	9,000
Stock at shop excluding repossessed goods (closing)	3,60,000
Cash received during the year	10,35,000
Installments overdue (closing)	1,62,000

The vendor spent Rs.2,000 on goods repossessed and then sold it for Rs. 15,000.

(8 Marks)

Answer

(a) Profit and Loss Account

for the year ended 31st March, 2008

		Rs.			Rs.
To	Depreciation	31,200	By	Profit	10,00,000
To	Provision for income tax	80,000			
To	Net profit c/d	8,88,800			
		10,00,000			10,00,000
To	Reserve fund	1,77,760	By	Balance b/d	80,000
To	Proposed preference dividend (1,82,000 + 93,450)	2,75,450	By	Net profit b/d	8,88,800
To	Proposed equity dividend (1,40,000 + 1,86,900)	3,26,900			
To	Bonus to employees (14,000 + 18,690)	32,690			
To	Balance c/d	1,56,000			
		9,68,800			9,68,800

Working Note:

		Rs.
Balance of amount available for Preference and Equity shareholders and Bonus for Employees		
Credit side total		9,68,800
Less:	Dr. side [1,77,760 + 1,82,000+1,40,000+14,000 + 1,56,000]	6,69,760
		2,99,040

Suppose remaining balance after staff bonus is x

Preference shareholders will get share from remaining balance = $x \times \frac{1}{3} = \frac{1}{3}x$

Equity shareholders will get share from remaining balance = $x \times \frac{2}{3} = \frac{2}{3}x$

Bonus to Employees = $\frac{2}{3}x \times \frac{10}{100} = \frac{2}{30}x$

$$\frac{2}{3}x + \frac{1}{3}x + \frac{2}{30}x = 2{,}99{,}040$$

$32x = 89{,}71{,}200$

$x = 89{,}71{,}200/32 = \text{Rs.}2{,}80{,}350$

Share of preference shareholders = Rs. 2,80,350 $\times \frac{1}{3}$ = Rs.93,450

Share of equity shareholders = Rs.2,80,350 $\times \frac{2}{3}$ = Rs.1,86,900

Bonus to employees = Rs.2,80,350 $\times \frac{2}{30}$ = Rs.18,690

(b) **Hire Purchase Trading Account**

		Rs.			Rs.
To	Opening balance		By	Cash received (on Instalments)	10,35,000
	Hire Purchase Debtors	1,35,000	By	Stock reserve (Opening) (W.N.2)	54,000
	Hire Purchase Stock (Instalments overdue)	1,62,000	By	Goods sold on hire purchase (loading) (W.N.1)	5,22,000
To	Goods sold on hire purchase (W.N.1)	15,66,000	By	Cash received (on sale of re-possessed goods)	15,000
To	Cash (Expenses)	2,000	By	Closing balance	
To	Stock reserve (closing) (W.N.5)	2,10,000		Hire Purchase Stock (Inst. Overdue) (W.N.4)	6,30,000
To	Profit and loss account	3,43,000		Hire Purchase Debtors	1,62,000
		24,18,000			24,18,000

Working Notes:

1. Memorandum Stock at Shop Account

	Particulars	Rs.		Particulars	Rs.
To	Balance b/d	3,24,000	By	Goods sold on hire purchase account (at cost)	10,44,000
To	Purchases (at cost)	10,80,000	By	Balance c/d	3,60,000
		14,04,000			14,04,000

Goods sold on hire purchase account at invoice price (10,44,000 x 150%) Rs.15,66,000

Loading Rs.15,66,000 – Rs.10,44,000 Rs.5,22,000

2. Opening Stock reserve

$$\frac{1,62,000}{150} \times 50 = \text{Rs.}54,000$$

3. Hire Purchase Debtors Account

	Particulars	Rs.		Particulars	Rs.
To	Balance b/d	1,35,000	By	Cash received	10,35,000
To	Goods sold on hire purchase	15,66,000	By	Hire purchase stock account (Bal. Fig.)	5,04,000
			By	Balance c/d	1,62,000
		17,01,000			17,01,000

4. Hire Purchase Stock Account

	Particulars	Rs.		Particulars	Rs.
To	Balance b/d	1,62,000	By	Goods repossessed (instalments not due)	36,000
To	Hire Purchase Debtors A/c (W.N.3)	5,04,000	By	Balance c/d (Bal. fig.)	6,30,000
		6,66,000			6,66,000

5. Closing stock reserve

$$\frac{6,30,000}{150} \times 50 = \text{Rs.}2,10,000.$$

Question 4

(a) 'S' and 'T' were carrying on business as equal partners. Their Balance Sheet as on 31st March, 2008 stood as follows:

Liabilities		Rs.	Assets	Rs.
Capital accounts:			Stock	2,70,000
S	6,40,000		Debtors	3,65,000
T	6,60,000	13,00,000	Furniture	75,000
Creditors		3,27,500	Joint life policy	47,500
Bank overdraft		1,50,000	Plant	1,72,500
Bills payable		62,500	Building	9,10,000
		18,40,000		18,40,000

The operations of the business were carried on till 30th September, 2008. S and T both withdrew in equal amounts, half the amount of profits made during the current period of 6 months after 10% per annum had been written off on building and plant and 5% per annum written off on furniture. During the current period of 6 months, creditors were reduced by Rs. 50,000, Bills payable by Rs. 11,500 and Bank overdraft by Rs. 75,000. The Joint Life policy was surrendered for Rs. 47,500 on 30th September, 2008. Stock was valued at Rs. 3,17,000 and debtors at Rs. 3,25,000 on 30th September, 2008. The other items remained the same as on 31st March, 2008.

On 30th September, 2008 the firm sold its business to ST Ltd. The value of goodwill was estimated at Rs.5,40,000 and the remaining assets were valued on the basis of the Balance Sheet as on 30th September, 2008. The ST Ltd. paid the purchase consideration in equity shares of Rs.10 each. You are required to prepare a Realization Account and Capital accounts of the partners. (8 Marks)

(b) From the following details, calculate consequential loss claim:

1. Date of fire: 1st September;;
2. Indemnity period: 6 months;
3. Period of disruption : 1st September to 1st February;
4. Sum insured: Rs. 1,08,900;
5. Sales were Rs. 6,00,000 for preceding financial year ended on 31st March;
6. Net profit for preceding financial year Rs. 36,000 plus insured standing charges Rs. 72,000;
7. Rate of Gross profit 18%;
8. Uninsured standing charges Rs. 6,000;
9. Turnover during the disruption period Rs. 67,500;

10. Annual turnover for 12 months immediately preceding the date of fire Rs. 6,60,000;
11. Standard turnover i.e. for corresponding months (1st September to 1st February) in the year preceding the date of fire Rs. 2,25,000;
12. Increase in the cost of working capital Rs. 12,000 with a saving of insured standing charges Rs. 4,500 during the disruption period;
13. Reduced turnover avoided through increase in working capital Rs. 30,000;
14. Special clause stipulated:
    (a) Increase in rate of G.P. 2%.
    (b) Increase in turnover (standard and annual) 10%. (8 Marks)

Answer

(a) Realisation Account

Particulars				Rs.	Particulars		Rs.
To	Sundry assets:				By	Creditors	2,77,500
	Stock			3,17,000	By	Bills payables	51,000
	Debtors			3,25,000	By	Bank overdraft	75,000
	Plant			1,63,875	By	Shares in ST Ltd. (W.N. 3)	18,80,000
	Building			8,64,500			
	Furniture			73,125			
To	Profit:						
		S	2,70,000				
		T	2,70,000	5,40,000			
				22,83,500			22,83,500

Partners' Capital Accounts

Date	Particulars		S	T	Date	Particulars		S	T
2008					2008				
April 1	To	Cash – Drawings (W.N. 2)	20,000	20,000	April 1	By	Balance b/d	6,40,000	6,60,000
Sept. 30	To	Shares in ST Ltd.	9,30,000	9,50,000	Sept. 30	By	Profit (W.N.2)	40,000	40,000
						By	Realisation A/c (Profit)	2,70,000	2,70,000
			9,50,000	9,70,000				9,50,000	9,70,000

Working Notes:

1. **Ascertainment of capital as on 30th September, 2008**

Balance Sheet as at 30th September, 2008

Liabilities	Rs.	Assets		Rs.
Sundry creditors	2,77,500	Building	9,10,000	
Bills payable	51,000	Less: Depreciation	45,500	8,64,500
Bank overdraft	75,000	Plant	1,72,500	
Total capital (bal. fig.)	13,40,000	Less: Depreciation	8,625	1,63,875
		Furniture	75,000	
		Less: Depreciation	1,875	73,125
		Stock		3,17,000
		Debtors		3,25,000
	17,43,500			17,43,500

2. **Profit earned during six months ended 30 September, 2008**

		Rs.
Total capital (of S and T) on 30th September, 2008 (W.N.1)		13,40,000
Capital on 1st April, 2008		
S	6,40,000	
T	6,60,000	13,00,000
Net increase (after drawings)		40,000

Since drawings are half of profits therefore, actual profit earned is Rs.40,000 x 2 = Rs.80,000 (shared equally by partners S and T).
Half of the profits, has been withdrawn by both the partners equally i.e. drawings Rs. 40,000 (Rs.80,000 x ½) withdrawn by S and T in 1:1 (i.e. Rs.20,000 each).

3. **Purchase consideration**

	Rs.
Total assets (W.N.1)	17,43,500
Add: Goodwill	5,40,000
	22,83,500
Less: Liabilities (2,77,500 + 51,000 + 75,000)	4,03,500
Purchase consideration	18,80,000

Note: The above solution is given on the basis that reduction in bank overdraft is after surrender of Joint life policy. Alternatively, the reduction in bank overdraft may be taken as before surrender of joint life policy. Accordingly, the solution will change.

(b) Computation of the amount of claim for consequential loss

(i) Calculation of short sales

		Rs.
Standard turnover for the period 1st September to 1st October (preceding year)		2,25,000
Add:	Increase of 10% due to upward trend	22,500
Adjusted turnover		2,47,500
Less:	Actual turnover during disruption period i.e. 1st September to 1st October (following year)	67,500
		1,80,000

(ii) Increased rate of G.P. = 18% + 2% = 20% on sales.

(iii) Loss of profit on short sales = 20% of Rs.1,80,000 = Rs.36,000.

(iv) Calculation of claim for increased cost of working capital

		Rs.
Increased cost of working will be lower of		
(i)	Actual expenses	12,000
(ii)	$\text{Additional expenses} \times \dfrac{\text{G.P. on Annual turnover}}{\text{G.P. on Annual turnover} + \text{Uninsured standing charges}}$	
	$12{,}000 \times \dfrac{1{,}45{,}200}{1{,}45{,}200 + 6{,}000}$	11,523
(iii)	G.P. on additional sales = 30,000 x 20%	6,000

Rs. 6,000 is lower of above three, so additional expenses would be Rs. 6,000.

Net claim for increased cost of working capital = Rs.6,000 minus savings in insured standing charges

= Rs.6,000 – Rs.4,500 = Rs.1,500

(v) Calculation of adjusted annual sales

		Rs.
Sales for 12 months preceding the date of fire		6,60,000
Add:	10% of increase in trend	66,000
Adjusted Annual Sales		7,26,000

(vi) Insurable Amount i.e gross profit on adjusted annual sales

	Rs.
Adjusted annual sales	7,26,000
Rate of Gross Profit	20%
Insurable amount (Rs.7,26,000 x 20%)	1,45,200

(vii) Amount of Insurance Claim

$$= \frac{\text{Insured Amount}}{\text{Insurable Amount}} \times \text{Total Loss (Loss of profit + Claim for increased cost)}$$

$$= \frac{1{,}08{,}900}{1{,}45{,}200} \times (36{,}000 + 1{,}500)$$

= Rs.28,125.

Question 5

Answer the following:

(i) The company finds that the stock sheets of 31.3.2007 did not include two pages containing details of inventory worth Rs. 20 lakhs. State, how will you deal with this matter in the accounts of A Ltd. for the year ended 31st March, 2008 with reference to AS 5.

(ii) Mention four assets, in respect of which AS 6 (revised) is not applicable.

(iii) Y Ltd. used certain resources of X Ltd. In return X Ltd. receives Rs. 10 lakhs and Rs. 15 lakhs as interest and royalties respectively, from Y Ltd. during the year 2007 –2008. State on what basis X Ltd. should recognize their revenue, as per AS 9.

(iv) Mention two categories of investments defined by AS 13 and also state their valuation principles.

(v) X Ltd. sold goods to its associate company for the 1st quarter ending 30.6.2007. After that, the related party relationship ceased to exist. However, goods were supplied as was supplied to any other ordinary customer. Decide whether transactions of the entire year has to be disclosed as related party transaction.

(vi) Consider the following data pertaining to three underwriters, Ajay, Samay and Vijay:

Particulars	Ajay	Samay	Vijay
Shares underwritten	8,000	16,000	24,000
Marked application	6,000	8,000	11,000

If total applications received are for 44,800 shares, compute the final liability of Vijay.

(vii) P, Q and R share profit and losses in the ratio of 4:3:2 respectively. Q retires and P and R decide to share future profits and losses in the ratio of 5:3. Then immediately H is admitted for 3/10 share of profits half of which was gifted by P and the remaining share was taken by H equally from P and R. Calculate the new profit sharing ratio after H's admission and gaining ratio of P and R after Q's retirement.

(viii) What is "Fund Based Accounting" under not-for-profit organisations?

(ix) In X Bank Ltd., the doubtful asset (more than 3 years) as on 31.3.2008 is Rs.1,000 lakhs. The value of security (including DICGC 100% cover of Rs.100 lakhs) is ascertained at Rs.500 lakhs. How much provision must be made in the books of the Bank towards doubtful assets?

(x) Give the four qualitative characteristics which the financial statements should observe.

(xi) On 1st April, 'X' purchased 12% debentures in 'M' Ltd. for Rs.6,50,000. The face value of these debentures were Rs.6,00,000. Interest on debentures falls due on 30th June and 31st December. Compute the cost of acquisition of debentures.

(xii) Goods worth Rs.50,000 sent by head office but the branch has received till the closing date goods worth Rs.40,000 only. Give journal entry in the books of H.O. and branch for goods in transit. (12 x 2 = 24 Marks)

Answer

(i) As per para 16 of AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies', omission of two pages containing details of inventory worth Rs.20 lakhs in 31.3.2007 is a prior period item.

As per para 19 of the standard, prior period items are normally included in the determination of net profit or loss for the current period. Accordingly, Rs.20 lakhs must be added to opening stock of 1.4.2007. An alternative approach is to show such items in the statement of profit and loss after determination of current net profit or loss. In either case, the objective is to indicate the effect of such items on the current profit or loss.

(ii) AS 6 on 'Depreciation Accounting', is not applicable in respect of following assets:

(a) Forest, plantations and similar regenerative natural resources.

(b) Goodwill.

(c) Livestock.

(d) Wasting assets including expenditure on the exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources.

(iii) As per AS 9 on 'Revenue Recognition', interest of Rs.10 lakhs received in the year 2007-2008 should be recognized on the time proportion basis taking into account the amount outstanding and the rate applicable; whereas royalty of Rs.15 lakhs received in the same year should be recognized on accrual basis as per the terms of relevant agreement.

(iv) As per para 7 and 8 of AS 13 'Accounting for Investments', there are two categories of investments, viz., Current Investments and Long Term Investments.

According to para 14 of the standard, the carrying amount for current investments is the lower of cost and fair value whereas para 17 states that Long Term Investments are valued at cost less permanent diminutions in value of investment. For current investments, para 16 of the standard states that, any reduction to fair value and any reversals of such reductions are included in the profit and loss statement.

(v) As per para 23 of AS 18 'Related Party Disclosures', transactions of X Ltd., with its associate company for the first quarter ending 30.6.2007 only are required to be disclosed as related party transactions. The transactions for the period in which related party relationship did not exist need not to be disclosed as related party transaction.

(vi) (in shares)

Particulars		Ajay	Samay	Vijay	Total
Shares underwritten		8,000	16,000	24,000	48,000
Less:	19,800* Unmarked applications (in the ratio 1:2:3)	3,300	6,600	9,900	19,800
		4,700	9,400	14,100	28,200
Less:	Marked applications	6,000	8,000	11,000	25,000
		(1,300)	1,400	3,100	3,200
Less:	Surplus of Ajay's share (in the ratio 2:3)	1,300	520	780	Nil
Final liability		Nil	880	2,320	3,200

(vii) (a) **Calculation of new profit sharing ratio after H's admission**

$$P = \frac{5}{8} - \left[\frac{3}{10} \times \frac{1}{2}\right] - \left[\frac{3}{10} \times \frac{1}{4}\right]$$

$$= \frac{5}{8} - \frac{3}{20} - \frac{3}{40}$$

$$= \frac{25 - 6 - 3}{40} = \frac{16}{40}$$

$$R = \frac{3}{8} - \left[\frac{3}{10} \times \frac{1}{4}\right]$$

$$= \frac{3}{8} - \frac{3}{40} = \frac{15 - 3}{40} = \frac{12}{40}$$

$$H = \frac{3}{10} \text{ or } \frac{3}{10} \times \frac{4}{4} = \frac{12}{40}$$

---

* Total Unmarked applications = Total applications received – Total marked applications i.e. 44,800 – 25,000 = 19,800 unmarked applications.

Hence,

New Ratio of P : R : H

16:12:12

Or 4 : 3 : 3

(b) **Calculation of gaining ratio of P and R after Q's retirement**

$$P = \frac{5}{8} - \frac{4}{9} = \frac{45-32}{72} = \frac{13}{72}$$

$$R = \frac{3}{8} - \frac{2}{9} = \frac{27-16}{72} = \frac{11}{72}$$

Hence, gaining ratio is 13:11.

(viii) Fund based accounting essentially involves preparation of financial statements fund-wise. Not-for-profit organisations, particularly educational institutions, sometimes maintain separate account or fund for specific activities of the organisation such as sports prizes, refreshments, and presentation of information in financial statements is made fund wise. In such cases, contribution and donations for income from and expenses on those activities are not recorded in income and expenditure account but are directly adjusted in specific fund account.

(ix)

	(Rs. in lakhs)
Doubtful Assets (more than 3 years)	1,000
Less: Value of security (excluding DICGC cover)	400
	600
Less: 100% DICGC cover of Rs.100 lakhs	100
Unsecured portion	500
Provision thereon:	
for unsecured portion @ 100%	500 lakhs
for secured portion @ 100% w.e.f 31.3.2007	400 lakhs
Total provision to be made	900 lakhs

(x) The financial statements should observe the following qualitative characteristics:

(a) Understandability

(b) Relevance

(c) Reliability

(d) Comparability.

(xi) Computation of cost of acquisition of debentures

		Rs.
Cum- interest purchase price of debentures		6,50,000
Less:	Interest from the last date of payment of interest to the date of purchase i.e. for 3 months $6,00,000 \times \frac{3}{12} \times \frac{12}{100}$	18,000
Cost of debentures at the time of acquisition		6,32,000

(xii) Journal entry in the books of Head Office

No entry

Journal entry in the books of Branch

		Rs.	Rs.
Goods-in-transit account	Dr.	10,000	
To Head Office account			10,000
(Being goods sent by head office is still in transit)			

Question 6.

Answer any **three** of the following:

(a) From the following information of Great Bank Limited, compute the provisions to be made in the Profit and Loss account:

	Rs. in lakhs
Assets	
Standard	20,000
Substandard	16,000
Doubtful	
For one year (secured)	6,000
For two years and three years (secured)	4,000
For more than three years (secured by mortgage of plant and machinery Rs.600 lakhs)	2,000
Non-recoverable Assets	1,500

(b) R had the following bills receivable and bills payable against S. Calculate average due date when the payment can be made or received without any loss or gain of interest to either party.

Bills Receivable			Bills Payable		
Date of the Bill	Amount (Rs.)	Tenure in months	Date of bill	Amount (Rs.)	Tenure in months
1.6.08	9,000	3	29.5.08	6,000	2
5.6.08	7,500	3	3.6.08	9,000	3
9.6.08	10,000	1	10.6.08	10,000	2
12.6.08	8,000	2	13.6.08	7,000	2
20.6.08	12,000	3	27.6.08	11,000	1

Holiday intervening in the period 15th August, 2008, 16th August, 2008, and 6th September, 2008.

(c)

	Exchange Rate per $
Goods purchased on 1.1.2007 of US $ 10,000	Rs.45
Exchange rate on 31.3.2007	Rs.44
Date of actual payment 7.7.2007	Rs.43

Ascertain the loss/gain for financial years 2006-07 and 2007-08, also give their treatment as per AS 11.

(d) What are the advantages of customised accounting packages?

(e) What is B list contributory? (3 x 4 = 12 Marks)

Answer

(a) Calculation of amount of provision to be made in the Profit and Loss Account

Classification of Assets	Amount of advances (Rs. in lakhs)	% age of provision	Amount of provision (Rs. in lakhs)
Standard assets	20,000	0.40	80
Sub-standard assets	16,000	10*	1,600
Doubtful assets:			
For one year (secured)	6,000	20	1,200
For two to three years (secured)	4,000	30	1,200
For more than three years (unsecured)	1,400	100	1,400
(secured)	600	100	600
Non-recoverable assets (Loss assets)	1,500	100	1,500
Total provision required			7,580

* Sub-standards assets have been assumed as fully secured.

(b) Calculation of Average Due Date (taking base date as 12th July, 2008)

Date	Due date including days of grace	Amount (Rs.)	No. of Days from July 12	Products (Rs.)	Remarks
1.6.08	4.9.08	9,000	54	4,86,000	Bills Receivable
5.6.08	8.9.08	7,500	58	4,35,000	
9.6.08	12.7.08	10,000	0	0	
12.6.08	14.8.08	8,000	33	2,64,000	
20.6.08	23.9.08	12,000	73	8,76,000	
		46,500		20,61,000	
29.5.08	1.8.08	6,000	20	1,20,000	Bills Payable
3.6.08	5.9.08	9,000	55	4,95,000	
10.6.08	13.8.08	10,000	32	3,20,000	
13.6.08	14.8.08	7,000	33	2,31,000	
27.6.08	30.7.08	11,000	18	1,98,000	
		43,000		13,64,000	

Difference of Products = Rs. 20,61,000 – Rs. 13,64,000 = Rs. 6,97,000

Difference of Amount = Rs. 46,500 – Rs. 43,000 = Rs. 3,500

$$\text{Average Due Date} = \text{Base Date} + \frac{\text{Difference of Products}}{\text{Difference of Amount}}$$

$$= \text{July } 12 + \frac{6{,}97{,}000}{3{,}500}$$

= July 12 + 199.14 or 199 days

= 27th January, 2009

Note:

(i) B/R of 12.6.08 Due date changed due to holidays

(ii) B/P of 3.6.08 Due date changed due to holidays

(iii) B/P of 13.6.08 Due date changed due to holidays

(c) As per AS 11 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2007 and corresponding creditor would be recorded at Rs.4,50,000 (i.e. \$10,000 × Rs. 45)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditor of US \$10,000 on 31.3.2007 will be reported at Rs.4,40,000 (i.e. $10,000 × Rs.44) and exchange profit of Rs.10,000 (i.e. 4,50,000 – 4,40,000) should be credited to Profit and Loss account in the year 2006-07.

On 7.7.2007, creditor of $10,000 is paid at the rate of Rs.43. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, Rs.10,000 (i.e. 4,40,000 – 4,30,000) will be credited to Profit and Loss account in the year 2007-08.

(d) Following are the advantages of the customised accounting packages:

1. The functional areas that would otherwise have not been covered get computerised.
2. The input screens can be tailor made to match the input documents for ease of data entry.
3. The reports can be as per the specification of the organisation. Many additional MIS reports can be included in the list of reports.
4. Bar-code scanners can be used as input devices suitable for the specific needs of an individual organisation.
5. The system can suitably match with the organisational structure of the company.

(e) B list contributories are the shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up. They may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to pay off such creditors, as existed on the date of transfer of shares and cannot be paid out of the funds otherwise available with the liquidator, provided also that the existing shareholders have failed to pay the amount due on the shares.