PAPER – 1 : ADVANCED ACCOUNTING

Answers **all** questions

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

Working notes should form part of the answer.

Question 1

Following is the Receipts and Payments Account of Nanoo Club for the year ended 31st March, 2009:

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Opening balance:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationery	70,000
Subscription received	2,02,750	Postage	40,000
Entrance donation	1,00,000	Telephone and fax	52,000
Interest received	58,000	Repairs and maintenance	48,000
Sale of fixed assets	8,000	Glass and table linen	12,000
Miscellaneous income	9,000	Crockery and cutlery	14,000
Receipts at coffee room	10,70,000	Garden upkeep	8,000
Wines and spirits	5,10,000	Membership fees	4,000
Swimming pool	80,000	Insurance	5,000
Tennis court	1,02,000	Electricity	28,000
		Closing balance:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		21,53,600

Following additional information is provided to you:

(i) Assets and liabilities as on 31.3.2008 were as follows:

	Rs.
Fixed assets	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Gratuity fund	1,50,000

Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000

(ii) Subscription received in advance as on 31.3.09 was Rs.18,000.

(iii) Outstanding subscription as on 31.3.09 was Rs.7,000.

(iv) Outstanding expenses as on 31.3.09 are:

Salaries : Rs.8,000

Electricity : Rs.15,000

(v) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31.3.09.

(vi) The cost of assets sold as on 1.4.08 was Rs.10,000.

(vii) Depreciation was provided @ 10% p.a. on fixed assets on written down value basis.

(viii) A sum of Rs.20,000 received in October, 2008 as entrance donation from an applicant was to be refunded, as he has not fulfilled the requisite membership qualification. The refund was made on 3.6.09.

(ix) Purchases made during the year 2008-09 amounted to Rs.15,00,000.

(x) The value of closing stock as on 31.3.09 was Rs.2,10,000.

(xi) The Club as a matter of policy charges off to Income and Expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare:

(i) Income and Expenditure account for the year ended 31st March, 2009.

(ii) Balance Sheet as on 31st March, 2009. (20 Marks)

Answer

Income and Expenditure Account of Nanoo club
for the year ended 31st March, 2009

	Expenditure	Amount (Rs.)		Income	Amount (Rs.)
To	Salaries (W.N.8)	1,28,000	By	Subscriptions (W.N.2)	1,94,750
To	Printing and stationery	70,000	By	Entrance donation (W.N.3)	90,000
To	Postage	40,000	By	Interest (W.N.4)	60,000
To	Telephone & fax	52,000	By	Miscellaneous income	9,000
To	Repairs and maintenance	48,000	By	Profit from operations (W.N.6)	92,000

To	Glass and table linen	12,000	By	Excess of expenditure over income transferred to capital fund (deficit)	30,250
	Crockery and cutlery	14,000			
To	Garden upkeep	8,000			
To	Membership fees	4,000			
To	Insurance (W.N.5)	6,000			
To	Electricity charges (W.N.8)	43,000			
To	Loss on sale of assets (10,000 – 8,000)	2,000			
To	Depreciation (W.N.9)	49,000			
		4,76,000			4,76,000

Balance Sheet of Nanoo Club

as on 31st March, 2009

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital fund(W.N.10)	10,89,600	Fixed assets (W.N.9)	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors (W.N.7)	92,000	Investments in 12% Government securities	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued (W.N.4)	2,000
Outstanding salary	8,000	Bank	2,24,600
Outstanding electricity charges	15,000	Cash	8,000
	13,92,600		13,92,600

Working Notes:

(1) **Opening Balance Sheet**

as on 1st April, 2008

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital fund (Bal.Fig.)	10,29,850	Fixed assets	5,00,000
Sundry creditors	1,12,000	Stock	3,80,000
Subscription received in advance	15,000	Investment in 12% Government securities	5,00,000

Entrance donation received in advance (pending membership)	1,00,000	Subscription outstanding	12,000
		Prepaid insurance	1,000
Gratuity fund	1,50,000	Cash	10,000
		Bank	3,850
	14,06,850		14,06,850

(2) **Subscription**

		Rs.
Subscription received during the year		2,02,750
Add:	Outstanding subscription on 31.3.2009	7,000
Add:	Received in advance as on 1.4.2008	15,000
		2,24,750
Less:	Outstanding subscription as on 1.4.2008	(12,000)
Less:	Received in advance as on 31.3.2009	(18,000)
		1,94,750

(3) **Entrance Donation**

		Rs.
Entrance Donation received during the year		1,00,000
Add:	Received in Advance as on 1.4.2008	1,00,000
		2,00,000
Less:	Refundable to Ineligible Member	20,000
		1,80,000
Less:	50% Capitalized	90,000
		90,000

(4) **Interest received**

		Rs.
Interest on Rs.5,00,000 @ 12% p.a.		60,000
Less:	Interest received during the year	58,000
Interest accrued as on 31.3.2009		2,000
Interest credited to Income and Expenditure A/c		60,000

(5) **Insurance**

		Rs.
Insurance paid during the year		5,000
Add:	Prepaid Insurance as on 1.4.2008	1,000
		6,000

(6) **Profit from Operations**

			Rs.
Cost of Goods sold			
Opening Stock as on 1.4.2008			3,80,000
Add:	Purchases		15,00,000
			18,80,000
Less:	Closing Stock		2,10,000
Cost of Goods Sold (A)			16,70,000
Receipts from operations			
Receipts from Coffee Room			10,70,000
Receipts from Wines & Sprits			5,10,000
Receipts from Swimming Pool			80,000
Receipts from Tennis Court			1,02,000
Total of Receipts (B)			17,62,000
Profit from Operations (B-A)			92,000

(7) **Sundry Creditors**

Opening Balance as on 1.4.2008			1,12,000
Add:	Purchases made during the year		15,00,000
			16,12,000
Less:	Payment made during the year		15,20,000
Closing Balance as on 31.3.2009			92,000

(8)

(a) **Salary**			
Salary paid as on 31.3.2009		1,20,000	
Add:	Outstanding Salary as on 31.3.2009	8,000	1,28,000
(b) Electricity charges		28,000	
Add:	Outstanding Electricity charges as on 31.3.2009	15,000	43,000

(9) **Fixed Assets**

Fixed Assets as per Trial Balance			5,00,000
Less:	W.D.V. of Assets sold		10,000
			4,90,000
Less:	Depreciation @ 10% on Rs.4,90,000		49,000
Fixed Assets as on 31.3.2009			4,41,000

(10) **Capital fund**

		Rs.
Capital fund as on 31.3.2008		10,29,850
Add:	Entrance donation capitalized	90,000
		11,19,850
Less:	Deficit	30,250
		10,89,600

Question 2

(a) Following is the Balance Sheet of Mr. Ram, a small trader, as on 31st March, 2008:

Liabilities	Rs.	Assets	Rs.
Creditors	1,00,000	Cash	10,000
Capital	4,00,000	Bank	20,000
		Stock	80,000
		Debtors	1,00,000
		Fixed Assets	2,90,000
	5,00,000		5,00,000

A fire occurred on the night of 31st March, 2009, destroying the accounting records as well as the closing cash of the trader. However, the following information was available:

(i) Debtors and creditors as on 31st March, 2009 showed an increase of 20% as compared to 31st March, 2008.

(ii) Credit period:

Debtors : 1 month

Creditors : 2 months

(iii) Stock was maintained at the same level throughout the year.

(iv) Cash sales constituted at 20% of the total sales.

(v) All purchases were on credit basis only.

(vi) Current ratio on 31st March, 2009 was exactly 2.

(vii) Total expenses excluding depreciation for the year amounted to Rs.5,00,000.

(viii) Depreciation was provided @ 10% on the closing book value of fixed assets.

(ix) Bank and cash transactions for the financial year 2008-09 were as under:

(a) Payment to creditors included Rs.1,00,000 by cash.

(b) Received from debtors included Rs.11,80,000 by way of cheques.

(c) Cash deposited into the Bank Rs.2,40,000.

(d) Personal drawings from Bank Rs.1,00,000.

(e) Fixed assets purchased and paid by cheques Rs.4,50,000.

(f) Assume that cash destroyed by fire is written off in the Profit and Loss account.

You are required to prepare:

(i) Trading and Profit and Loss account of Shri Ram for the year ended 31st March, 2009.

(ii) A Balance Sheet as at that date. (8 Marks)

(b) From the following summarised Cash account of S Ltd., prepare cash flow statement for the year ended 31st March, 2009 in accordance with AS 3 (revised) using direct method.

Summarised Cash Account

	(Rs.000)		(Rs.000)
Opening balance	50	Payment to suppliers	2,000
Issue of share capital	300	Purchase of fixed assets	200
Received from customers	2,800	Overhead expenses	200
Sale of fixed assets	100	Wages and salaries	100
		Tax paid	250
		Dividend paid	50
		Bank loan	300
		Closing balance	150
	3,250		3,250

(8 Marks)

Answer

(a) Trading and Profit and Loss Account

for the year ended 31.3.2009

	Particulars	Rs.		Particulars		Rs.
To	Opening stock	80,000	By	Sales (W.N.2)		
To	Purchases (W.N.1)	7,20,000		Cash	3,60,000	
To	Gross profit	10,80,000		Credit	14,40,000	18,00,000
			By	Closing stock		80,000
		18,80,000				18,80,000
To	Expenses	5,00,000	By	Gross profit		10,80,000
To	Loss of cash by fire	20,000				

To	Depreciation	74,000		
To	Net profit transfered to Capital A/c	4,86,000		
		10,80,000		10,80,000

Balance Sheet as on 31.3.2009

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Creditors		1,20,000	Cash at bank (W.N.3)		40,000
Capital	4,00,000		Debtors		1,20,000
Add: Net profit during the year	4,86,000		Stock		80,000
	8,86,000		Fixed assets	2,90,000	
Less: Drawings	1,00,000	7,86,000	During the year	4,50,000	
				7,40,000	
			Less: Depreciation	74,000	6,66,000
		9,06,000			9,06,000

Working Notes:

(1) **Calculation of creditors as on 31.3.2009 and credit purchase for 2008-2009**

Creditors = Previous year creditors + 20% increase

= 1,00,000 + 20,000

= Rs.1,20,000

Credit purchases = Creditors at the end $\times \frac{12}{2}$

$= 1{,}20{,}000 \times \frac{12}{2} = \text{Rs.}7{,}20{,}000$

(2) **Calculation of Debtors as 31.3.2009 and Cash and Credit Sales for 2008-2009**

Debtors on 31.3.2009 = Debtors on 31.3.2008 + 20% Increase

= 1,00,000 + 20,000

= Rs.1,20,000

Credit sales for 2008-2009 = Debtors at the end (i.e. one month credit) x 12

= Rs. 1,20,000 x 12 = Rs.14,40,000

Total sales $= \text{Rs.}14{,}40{,}000 \times \frac{100}{80} = \text{Rs.}18{,}00{,}000$

Cash sales = Total sales – Credit sales
= Rs. 18,00,000 – Rs.14,40,000
= Rs. 3,60,000

(3) **Cash and Bank Balance as on 31.3.2009**

Current ratio = 2

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2}{1}$$

Current assets = Current liabilities x 2

Current assets = 1,20,000 x 2 = 2,40,000

Cash and bank balance = Current assets – (Debtors + Stock)

Cash and bank balance = 2,40,000 – (1,20,000 + 80,000)

Cash and bank balance = 2,40,000 – 2,00,000 = Rs.40,000

(4) **Cash Account**

		Rs.			Rs.
To	Balance b/d	10,000	By	Creditors A/c	1,00,000
To	Sales A/c	3,60,000	By	Bank A/c	2,40,000
To	Debtors A/c (W.N.6)	2,40,000	By	Expenses A/c (5,00,000 – 2,50,000)	2,50,000
			By	Loss by fire (Bal.fig.)	20,000
		6,10,000			6,10,000

(5) **Bank Account**

		Rs.			Rs.
To	Balance b/d	20,000	By	Creditors A/c (W.N.7)	6,00,000
To	Debtors A/c	11,80,000	By	Fixed assets A/c	4,50,000
To	Cash A/c	2,40,000	By	Drawings	1,00,000
			By	Expenses (Bal. fig.)	2,50,000
			By	Balance c/d	40,000
		14,40,000			14,40,000

(6) **Debtors Account**

		Rs.			Rs.
To	Balance b/d	1,00,000	By	Bank	11,80,000
To	Sales	14,40,000	By	Cash (Bal. Fig.)	2,40,000
			By	Balance c/d	1,20,000[1]
		15,40,000			15,40,000

(7) **Creditors Account**

		Rs.			Rs.
To	Cash A/c	1,00,000	By	Balance b/d	1,00,000
To	Bank (Bal. fig.)	6,00,000	By	Purchases A/c	7,20,000
To	Balance c/d	1,20,000[2]			
		8,20,000			8,20,000

(b) Cash Flow Statement for the year ended 31.3.2009

			Rs. in '000
Cash flow from Operating Activities			
Cash received from customers		2,800	
Less: Cash paid to suppliers	2,000		
Cash paid for overhead expenses	200		
Cash paid for wages and salaries	100	2,300	
		500	
Less: Income tax paid		250	
Net cash generated from Operating Activities			250
Cash flow from Investing Activities			
Sale of fixed assets	100		
Less: Purchase of fixed assets	200		
Net cash used in Investing Activities			(100)

[1] Debtors on 31.3.2009 = Debtors on 31.3.2008 x 120% i.e. 1,00,000 x 120% = Rs. 1,20,000
[2] Creditors on 31.3.2009 = Creditors on 31.3.2008 x 120% i.e. 1,00,000 x 120% = Rs. 1,20,000

Cash flow from Financing Activities

Received from issue of share capital			300	
Less:	Payment of bank loan	300		
	Payment of dividend	50	350	
Net cash used in Financing Activities				(50)
Net increase in cash and equivalents				100
Add:	Cash and equivalents at the beginning of the year			50
Cash and equivalents at the end of the year				150

Question 3

(a) The partnership of Sakshi Agencies decided to convert the partnership into Private Limited Company named Rameshwar Company Pvt. Ltd. with effect from 1st January, 2008. The consideration was agreed at Rs.2,34,00,000 based on firm's Balance Sheet as on 31st December, 2007. However, due to some procedural difficulties, the company could be incorporated only on 1st April, 2008. Meanwhile, the business was continued on behalf of the company and the consideration was settled on that day with interest at 12% p.a. The same books of accounts were continued by the company, which closed its accounts for the first time on 31st March, 2009 and prepared the following summarized Profit and Loss account:

		Rs.		Rs.
To	Cost of goods sold	3,27,60,000	By Sales	4,68,00,000
To	Salaries	23,40,000		
To	Depreciation	3,60,000		
To	Advertisement	14,04,000		
To	Discount	23,40,000		
To	Managing Director's remuneration	1,80,000		
To	Miscellaneous office expenses	2,40,000		
To	Office cum showroom rent	14,40,000		
To	Interest	19,02,000		
To	Profit	38,34,000		
		4,68,00,000		4,68,00,000

The company's only borrowing was a loan of Rs.1,00,00,000 at 12% p.a. to pay the purchase consideration due to the firm and for working capital requirements. The company was able to double the monthly average sales of the firm from 1st April, 2008, but the salaries trebled from the date. It had to occupy additional space from 1st July, 2008 for which rent was Rs.60,000 per month.

Prepare a Profit and Loss account in columnar form apportioning costs and revenue between pre-incorporation and post-incorporation periods. (8 Marks)

(b) On 1st April, 2008, Mr. Neel purchased 5,000 equity shares of Rs.100 each in X Ltd. @ Rs.120 each from a Broker, who charged 2% brokerage. He incurred ½% as cost of shares transfer stamps. On 31st January, 2009, Bonus was declared in the ratio of 1:2. Before and after the record date of bonus shares, the shares were quoted at Rs.175 per share and Rs.90 per share respectively. On 31st March, 2009, Mr. Neel sold bonus shares to a broker, who charged 2% brokerage.

Show the Investment Account in the books of Mr. Neel, who held the shares as current assets and closing value of investments shall be made at cost or Market value, whichever is lower. (8 Marks)

Answer

(a) Profit and Loss Account for the year ended 31.3.09

		Total (Rs.)	Ratio	Pre (Rs.)	Post (Rs.)			Total (Rs.)	Ratio	Pre (Rs.)	Post (Rs.)
To	Salaries	23,40,000	1:12	1,80,000	21,60,000	By	Gross profit	1,40,40,000	1:8	15,60,000	1,24,80,000
To	Depreciation	3,60,000	1:4	72,000	2,88,000	By	Goodwill (bal. fig.)			38,000	
To	Advertisement	14,04,000	1:8	1,56,000	12,48,000						
To	Discount	23,40,000	1:8	2,60,000	20,80,000						
To	Managing director's remuneration	1,80,000	Post	-	1,80,000						
To	Office cum showroom rent	14,40,000	Actual	1,80,000	12,60,000						
To	Miscellaneous office expenses	2,40,000	1:4	48,000	1,92,000						
To	Interest	19,02,000	Actual	7,02,000	12,00,000						
To	Net profit (Bal. fig.)			-	38,72,000						
				15,98,000	124,80,000					15,98,000	124,80,000

Note: Since the profits prior to incorporation are in the negative, they would:

(a) either be considered as a reduction from any capital reserve accruing in relation to the transaction, or

(b) be treated as goodwill.

Working Notes:

(1) **Calculation of Time Ratio**

Pre-Incorporation Period	Post-Incorporation Period
1st January, 2008 to 31st March, 2008	1st April, 2008 to 31st March, 2009
(3 Months)	(12 Months)
3:	12
1:	4

(2) **Calculation of Sales Ratio**

Pre-Incorporation Period	Post-Incorporation Period
3 Months	12 Months
3 x 1	12 x 2
3:	24
1:	8

(3) **Calculation of Staff Salary Ratio**

Pre-Incorporation Period	Post-Incorporation Period
3 Months	12 Months
3 x 1	12 x 3
3:	36
1:	12

(4) **Calculation of Interest**

Pre-Incorporation Period	Post-Incorporation Period
2,34,00,000 x 3/12 x 12/100	1,00,00,000 x 12/100
= Rs.7,02,000	= Rs.12,00,000

(5) **Calculation of Rent**

1 July 2008 to 31st March, 2009	=	9 Months		
Total additional rent	=	60,000 x 9 = Rs.5,40,000		
Remaining rent	=	14,40,000 – 5,40,000 = Rs.9,00,000		
Rent per month	=	$\frac{9,00,000}{15}$	=	Rs.60,000 per month
Pre-Incorporation Period rent	=	60,000 x 3	=	1,80,000
Post-Incorporation Period rent	=	60,000 x 12	=	7,20,000
		Additional rent	=	5,40,000
				12,60,000

(6) **Calculation of Gross Profit**

Trading Account

		Rs.			Rs.
To	Cost of goods sold	3,27,60,000	By	Sales	4,68,00,000
To	Gross profit (Bal. fig.)	1,40,40,000			
		4,68,00,000			4,68,00,000

(b) **Investment Account in the books of Mr. Neel**

For the year ended 31st March, 2009

(Scrip: Equity Shares of X Ltd.)

Dr. Cr.

Date		Particulars	Nominal Value (Rs.)	Cost (Rs.)	Date		Particulars	Nominal Value (Rs.)	Cost (Rs.)
1.4.08	To	Bank A/c (W.N.1)	5,00,000	6,15,000	31.3.09	By	Bank A/c (W.N.2)	2,50,000	2,20,500
31.01.09	To	Bonus Shares	2,50,000	-	31.3.09	By	Balance c/d (W.N.4)	5,00,000	4,10,000
31.03.09	To	Profit and Loss A/c (W.N.3)	-	15,500					
			7,50,000	6,30,500				7,50,000	6,30,500

Working Notes:

1. **Calculation of cost of equity shares purchased on 1.4.08**

$$= 5,000 \times \text{Rs.}120 + 2\% \text{ of Rs.}6,00,000 + \frac{1}{2}\% \text{ of Rs.}6,00,000 = \text{Rs.}6,15,000$$

2. **Calculation of profit proceeds of equity shares sold on 31.3.09**

$$= 2,500 \times \text{Rs.}90 - 2\% \text{ of Rs.}2,25,000 = \text{Rs.}2,20,500$$

3. **Calculation of profit on sale of bonus shares on 31.3.09**

= Sale proceeds – Average cost

$$= 2,20,500 - 2,05,000 \text{ i.e.} \left(6,15,000 \times \frac{2,50,000}{7,50,000}\right) = \text{Rs.}15,500$$

4. **Valuation of equity shares on 31.3.09**

$$\text{Cost} = 6,15,000 \times \frac{5,00,000}{7,50,000} = \text{Rs.}4,10,000$$

Market value = 5,000 shares $\times$ Rs.90 = Rs.4,50,000

Closing Balance has been valued at Rs.4,10,000 i.e. at cost which is lower than the market value.

Question 4

(a) An electricity company decided to replace some parts of its plant by an improved plant. The plant to be replaced was built in 1995 for Rs.35,00,000. It is estimated that it would cost Rs.65,00,000 to build a new plant of the same size and capacity. The cost of the new plant as per the improved design was Rs.1,05,00,000 and in addition, material belonging to the old plant valued at Rs.3,80,000 was used in the construction of the new plant. The balance of the plant was sold for Rs.3,00,000.

Compute the amount to be written off to revenue and the amount to be capitalized. Also prepare Plant account and Replacement account. (8 Marks)

(b) From the data relating to a company which went into voluntary liquidation, you are required to prepare the liquidator's Final Statement of Account.

(i) Cash with liquidators (after all assets are realised and secured creditors and debentureholders are paid) is Rs.7,50,000.

(ii) Preferential creditors to be paid Rs.35,000.

(iii) Other unsecured creditors Rs.2,30,000.

(iv) 5,000, 10% preference shares of Rs.100 each fully paid.

(v) 3,000 equity shares of Rs.100 each, Rs.75 per share paid up.

(vi) 7,000 equity shares of Rs.100 each, Rs.60 per share paid up.

(vii) Liquidator's remuneration is 2% on payments to preferential and other unsecured creditors (8 Marks)

Answer

(a) (i) Calculation of amount chargeable to revenue

		Rs.	Rs.
Estimated current cost of replacing old plant			65,00,000
Less:	Value of replacing old plant	3,00,000	
	Value of materials belonging to the old Plant used in the construction of new plant	3,80,000	6,80,000
Total			58,20,000

(ii) Calculation of amount to be capitalized

Cost of building new plant (cash)		1,05,00,000	
Add:	Value of materials belonging to the old plant used in the construction of the new plant	3,80,000	1,08,80,000
Less:	Estimated current cost of replacing old plant		65,00,000
Total			43,80,000

(iii) Plant Account

		Rs.			Rs.
To	Balance b/d	35,00,000	By	Balanced c/d	78,80,000
To	Cost of construction:				
	Cash (1,05,00,000-65,00,000)	40,00,000			
	Cost of old material used	3,80,000			
		78,80,000			78,80,000

(iv) Replacement Account

		Rs.			Rs.
To	Bank account (portion to be written off out of the replacement cost)	65,00,000	By	Bank account	3,00,000
			By	Plant account	3,80,000
			By	Revenue account	58,20,000
		65,00,000			65,00,000

(b) Liquidator's Final Statement of Account

		Rs.			Rs.
To	Cash in hand	7,50,000	By	Liquidator's remuneration (2% on 2,65,000*)	5,300
To	Cash / bank (Amount received on call for 7,000 equity shares @ Rs.6.53 per share)	45,710	By	Preferential creditors	35,000
			By	Unsecured creditors	2,30,000
			By	Preference shareholders	5,00,000
			By	Equity shareholders (Amount paid to holders of 3,000 equity shares @ Rs.8.47 per equity share)	25,410
		7,95,710			7,95,710

Working Note:

Calculation of amount receivable from equity shareholders or payable to equity shareholders

		Rs.	Rs.
Cash in hand (Assets realized)			7,50,000
Less:	Payments made:		
	Liquidator's remuneration	5,300	
	Preference creditors	35,000	

* 35,000 + 2,30,000 = 2,65,000

	Unsecured creditors	2,30,000	
	Preference shareholders	5,00,000	7,70,300
			20,300
Add:	Amount payable to equity shareholders (paid up):		
	3,000 equity share of Rs.100 each Rs.75 paid up	2,25,000	
	7,000 equity share of Rs.100 each Rs.60 paid up	4,20,000	6,45,000
Total loss to be borne by equity shareholders			6,65,300
No. of equity shares			10,000 shares

Loss per equity shares $\frac{6,65,300}{10,000} = \text{Rs.}66.53$

Amount receivable from 7,000 equity shareholders = 7,000 x 6.53 (i.e. 66.53 – 60) = Rs. 45,710

Amount payable to 3,000 equity shareholders = 3,000 $\times$ 8.47 (i.e. 75 – 66.53) = Rs. 25,410

Question 5

Answer any **eight** out of the following:

(i) Amount of Life Assurance Fund is Rs.5,000 lacs and net liabilities were Rs.4,800 lacs. Calculate profit under Valuation Balance Sheet.

(ii) What is "average clause" under insurance claim?

(iii) Give the journal entry to be passed for accounting unrealized profit on stock, under amalgamation.

(iv) A and M are partners, sharing profits and losses in the ratio of 3:2. G is admitted for 1/4th share. Thereafter, N enters the partnership for 20 Paise in a Rupee. Compute new profit sharing ratio.

(v) A company entered into an underwriting agreement with Mr. B for 60% of the issue of Rs.50,00,000, 15% debentures, with a firm underwriting of Rs.5,00,000. Marked applications were in respect of debentures worth Rs.35,00,000. Compute liability of Mr. B and commission payable to him.

(vi) Enumerate two points which the financial statements should disclose in respect of Borrowing Costs as per AS 16.

(vii) Mr. X purchased a machine on hire-purchase system, Rs.30,000 being paid on delivery and the balance in five instalments of Rs.60,000 each, payable annually on 31st December. The cash price of the machine was Rs.3,00,000. Compute the amount of interest for each year.

(viii) Mr. T purchased 1,000 nos. 10% debentures of Rs.100 each on 1st April, 2009 at Rs.96 cum-interest, the previous interest date being 31st December, 2008. Compute cost of investment.

(ix) Name two methods of accounting for amalgamations as contemplated by AS 14.

(x) The Managing Director of A Ltd. is entitled to 5% of the annual net profits, as his remuneration, subject to a minimum of Rs.25,000 per month. The net profits, for this purpose, are to be taken without charging income-tax and his remuneration itself. During the year, A Ltd. made net profit of Rs.43,00,000 before charging MD's remuneration, but after charging provision for taxation of Rs.17,20,000. Compute remuneration payable to the Managing Director. (8 x 2 = 16 Marks)

Answer

Valuation Balance Sheet•
as on..............

(i)

		Rs. in Lacs			Rs. in Lacs
To	Net liabilities	4,800	By	Life Assurance Fund	5,000
To	Profit b/d	200			
		5,000			5,000

(ii) When a businessman wants to reduce the burden of Insurance Premium and wants to take an insurance policy which is less than the value of average stock, it is known as under insurance. For discouraging the under-insurance, fire insurance policies contain an average clause. In such a case, the net claim is calculated by using following formula:

$$\text{Amount of claim} = \frac{\text{Amount of Policy}}{\text{Insurable Amount}} \times \text{Actual Loss}$$

(iii) Journal entry to be passed for accounting unrealized Profit on stock:

Under amalgamation in the nature of merger:

General Reserve/Profit and Loss A/c Dr.

To Stock A/c (Stock Reserve A/c)

(Being amount adjusted for unrealized profit on stock)

OR

If amalgamation is in nature of purchase, Journal entry would be:

Goodwill or Capital Reserve A/c Dr.

To Stock A/c (Stock Reserve A/c)

(Being adjustment for unrealized profit on stock)

(iv) Let the total share be = 1

Share of new partner G = $\frac{1}{4}$

• This question is not in accordance with Insurance Regulatory Development Authority Regulations, 2002.

Remaining share of profit = $1 - \frac{1}{4} = \frac{3}{4}$

New ratio of (A) $= \frac{3}{4} \times \frac{3}{5} = \frac{9}{20}$

New ratio of (M) $= \frac{3}{4} \times \frac{2}{5} = \frac{6}{20}$

New ratio of A:M:G

9: 6: 5

Again, let the total share at the time of admission of N = 1

Share of new partner N is 20% i.e. $\frac{1}{5}$

Remaining share $= 1 - \frac{1}{5} = \frac{4}{5}$

New ratio of A $= \frac{4}{5} \times \frac{9}{20} = \frac{9}{25}$

New ratio of M $= \frac{4}{5} \times \frac{6}{20} = \frac{6}{25}$

$\therefore$ New ratio of G $= \frac{4}{5} \times \frac{5}{20} = \frac{5}{25}$

New ratio of A:M:G:N = 9:6:5:5

		Rs.
(v)	Gross Liability (Rs.50,00,000 $\times 60\%$)	30,00,000
	Less: Marked applications Rs.35,00,000 which is more than the Liability but credit will not be given more than gross liability	30,00,000
	Net liability	NIL
	Add: Firm underwriting	5,00,000
	Total liability	5,00,000
	Calculation of underwriting commission = $30,00,000 \times \frac{2.5}{100} =$ Rs.75,000	
	Underwriting Commission payable @ 2.5%*	75,000

* Section 76 of the Companies Act provides that underwriting commission is provided only at a rate authorized by the articles of the company, not exceeding 2.5% of the issue price of debentures. Therefore, in the above solution, underwriting commission has been calculated at 2.5%.

(vi) As per AS 16, the Financial Statements should disclose the following:

(a) The accounting policy adopted for borrowing costs and

(b) The amount of borrowing costs capitalized during the period.

(vii)

1st year	=	Amount outstanding for interest after down payment	3,00,000
2nd year	=	Amount outstanding for interest after 1st Instalment	2,40,000
3rd year	=	Amount outstanding for interest after 2nd instalment	1,80,000
4th year	=	Amount outstanding for interest after 3rd instalment	1,20,000
5th year	=	Amount outstanding for interest after 4th instalment	60,000

Total interest = Hire Purchase price – Cash Price

= 3,30,000 – 3,00,000 = 30,000

Instalment outstanding ratio = 3,00,000 : 2,40,000 : 1,80,000 : 1,20,000 : 60,000

= 5:4:3:2:1

				Rs.
Interest for 1 year	=	$\frac{5}{15} \times 30,000$	=	10,000
Interest for II year	=	$\frac{4}{15} \times 30,000$	=	8,000
Interest for III year	=	$\frac{3}{15} \times 30,000$	=	6,000
Interest for IV year	=	$\frac{2}{15} \times 30,000$	=	4,000
Interest for V year	=	$\frac{1}{15} \times 30,000$	=	2,000
				30,000

(viii)

	Rs.
Total amount payable 1,000 $\times$ 96 =	96,000
Less: Interest included in the price for January, February and March i.e. 1,00,000 $\times \frac{10}{100} \times \frac{3}{12}$ =	2,500
Cost of the Investment	93,500

(ix) Two methods of accounting for amalgamation as contemplated by AS 14 are:

(a) The pooling of interests method and

(b) The purchase method

(x) Calculation of remuneration of the Managing Director

		Rs. in Lacs
Net profit as per books		43.00
Add:	Provision for taxation	17.20
Annual profit for the purpose of managerial remuneration		60.20
Managing Director's Remuneration @ 5% of above		3.01
Minimum remuneration to be paid to the Managing Director		
	= Rs.25,000 per month × 12	3.00

Hence, in this case,

remuneration to be paid to the Managing Director of A Ltd. = Rs.3,01,000.

Question 6

Answer any **four** of the following:

(a) Sony Pharma ordered 12,000 kg. of certain material at Rs.80 per unit. The purchase price includes excise duty Rs.4 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to Rs.77,400. Normal transit loss is 3%. The company actually received 11,600 kg. and consumed 10,100 kg. of material. Compute cost of inventory under AS 2 and abnormal loss.

(b) Explain the provisions of AS -5 regarding accounting treatment of prior period items.

(c) Mention, four advantages and four disadvantages of pre-packaged accounting software.

(d) From the following information relating to X Ltd., calculate Diluted Earnings Per Share as per AS 20:

Net Profit for the current year	Rs.2,00,00,000
Number of equity shares outstanding	40,00,000
Basic earnings per share	Rs.5.00
Number of 11% convertible debentures of Rs.100 each	50,000
Each debenture is convertible into 8 equity shares.	
Interest expense for the current year	Rs.5,50,000
Tax saving relating to interest expense (30%)	Rs.1,65,000

(e) The Revenue Account of a Life Insurance Company shows the Life Assurance Fund on 31st March, 2009 at Rs.62,21,310 before taking into account the following items:

(i) Claims recovered under re-insurance Rs.12,000.

(ii) Bonus utilized in reduction of Life Insurance premium of Rs.4,500.

(iii) Interest accrued on securities Rs.8,260.

(iv) Outstanding premium Rs.5,410.

(v) Claims intimated but not admitted Rs.26,500.

Compute the Life Assurance Fund on 31st March, 2009, after taking into account the above omission.

(f) What is the difference between the Sectional and Self-balancing system?

(4x4 = 16 Marks)

Answer

(a)

	Rs.
Purchase price (12,000 kg × Rs.80)	9,60,000
Less: CENVAT credit (12,000 kg. × Rs.4)	48,000
	9,12,000
Add: Freight	77,400
Total material cost	9,89,400
Number of units after normal loss = 97% of 12,000 kgs.	11,640 kgs.
Normal cost per kg. $\left(\frac{9,89,400}{11,640}\right)$	Rs.85

Value of closing stock under AS 2= (11,600 kgs. – 10,100 kgs.) × Rs.85 = Rs.1,27,500

Abnormal loss = (11,640 kgs. – 11,600 kgs.) × Rs.85 = Rs.3,400

(b) As per AS 5, prior period items are income or expenses, which arise, in the current period as a result of errors or omission in the preparation of financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period. Example: arrears payable to workers in current period as a result of retrospective revision of wages.

The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in manner that their impact on current profit or loss can be perceived.

As per para 19 of AS 5, prior period items are normally included in determination of net profit or loss for the current profit, they can be added (or deducted as the case may be) from the current profit. An alternative approach is to show such items in the statement of profit or 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.

(c) Advantages of Pre-packaged Accounting Software

1. Easy to install
2. Relatively inexpensive
3. Easy to use
4. Back-up procedure is simple.
5. Certain flexibility of report formats provided by some of the software
6. Very effective for small and medium size businesses.

Disadvantages of Pre-packaged Accounting Software

1. Does not cover peculiarities of specific business
2. Does not cover all functional area
3. Customization may not be possible in most such software
4. Reports generated are not sufficient or serve the purpose
5. Lack of security
6. Bugs in the software

(d) Adjusted Net profit for the current year

= 2,00,00,000+5,50,000 – 1,65,000 = Rs. 2,03,85,000

Number of equity shares resulting from conversion of debentures

= 50,000 × 8 = 4,00,000 equity shares

Total number of equity shares resulting from conversion of debentures

= 40,00,000 + 4,00,000 = 44,00,000 shares

$$\text{Diluted Earnings per share} = \frac{\text{Rs.}2{,}03{,}85{,}000}{44{,}00{,}000}$$

= Rs.4.63 (Approximately)

(e) Statement showing Correct Life Assurance Fund•

				Rs.
Balance of Life Assurance Fund				62,21,310
Add:	(i)	Bonus utilized in reduction of premium	4,500	
	(ii)	Interest on Securities	8,260	
	(iii)	Outstanding premium	5,410	18,170
				62,39,480
Less:	(i)	Claims intimated but not admitted	26,500	
		Less: Recovered under reinsurance	12,000	
			14,500	
	(ii)	Bonus in reduction of premium	4,500	19,000
Correct Balance of Life Assurance Fund				62,20,480

(f) (i) Under sectional balancing system only one trial balance is prepared in General Ledger while under self balancing system, separate trial balance is prepared in each ledger.

(ii) Under sectional balancing system, Total Debtors account and Total Creditors account are memorandum accounts and not the part of double entry system but under self balancing system adjustment accounts are the parts of double entry system.

(iii) Under sectional balancing system, arithmetical accuracy of Sales Ledger and Bought Ledger can be checked by preparing Total Debtors account and Total Creditors account while under self balancing arithmetical accuracy of each ledger can be checked by preparing trial balance of each ledger.

(iv) Under sectional balancing system, Total Debtors account and Total Creditors account are opened in General Ledger while under Self Balancing System, adjustment accounts are opened in General Ledger, Sales Ledger and bought ledger.

• This question is not in accordance with Insurance Regulatory Development Authority Regulations, 2002.