PAPER – 1 : ACCOUNTING

All questions are compulsory.

Wherever necessary, suitable assumption(s) should be made by the candidates.

Working notes should form part of the answer.

Question 1

(i) On 1st April, 2008, Chhotu started business with an initial Capital of Rs.70,000. On 1st October, 2008, he introduced additional capital of Rs.40,000. On 7th of every month, he withdraws Rs.5,000 for household expenses. On 31st March, 2009 his Assets and Liabilities were Rs.2,00,000 and Rs.70,000 respectively.

Ascertain the profit earned by Chhotu during the year ended 31st March, 2009.

(ii) Year to year results of a company were not found comparable on the basis of gross profit margin. List out the probable reasons.

(iii) MY Ltd. had acquired 200 equity shares of YZ Ltd. at Rs.105 per share on 01.01.2009 and paid Rs.200 towards brokerage, stamp duty and STT. On 31st March, 2009, shares of YZ Ltd. were traded at Rs.110 per share. At what value investment is to be shown in the Balance Sheet of MY Ltd. as at 31st March, 2009.

(iv) On 1st April, 2008, X, Y and Z enter into partnership introducing capital of Rs.80,000, Rs.50,000 and Rs.50,000 respectively. They agree to share Profits and Losses equally. At the end of the accounting year on 31st March, 2009, X claims that he be paid interest on his additional Capital of Rs.30,000 @ 10% per annum, while Z demands salary of Rs.600 per month for the extra hours devoted by him daily at the shop. The partnership deed is silent on these matters.

Decide the matters with reasons.

(v) What are the basic characteristics of a Private Ltd. Company?

(vi) Sumo Ltd. has a profit of Rs.25 lakhs before charging depreciation for financial year 2008-09. Depreciation in the books was Rs.11 lakhs and depreciation chargeable under Section 205 comes to Rs.17 lakhs. Compute divisible profit for the year.

(vii) From the following data, find out value of inventory as on 30.04.2009 using (a) LIFO method, and (b) FIFO method:

(1)	01.04.2009 Purchased	10 units @ Rs.70 per unit
(2)	06.04.2009 Sold	6 units @ Rs.90 per unit
(3)	09.04.2009 Purchased	20 units @ Rs.75 per unit
(4)	18.04.2009 Sold	14 units @ Rs.100 per unit

(viii) Explain contract costs as per Accounting Standard-7 related to 'Construction Contracts'.

(ix) Omshanti Club has 500 members with annual fee of Rs.1,000 per member. At the end of the accounting year, accountant noticed that 40 members have not paid annual fee and 70 members had paid fee in advance. Help the accountant to compute cash receipts of annual fee for the year.

(x) The Companies Act, 1956 limits the payment of managerial remuneration. What is the maximum managerial remuneration, which can be paid in case of a company consistently earning profits and has more than one managerial person? (10 x 2 = 20 Marks)

Answer (i)

	Rs.
Capital as on 31.3.2009 (Rs.2,00,000 – Rs.70,000)	1,30,000
Add: Drawings (Rs.5,000 × 12 months)	60,000
	1,90,000
Less: Additional capital introduced as on 1.10.2008	(40,000)
	1,50,000
Less: Capital on 01.04.2008	(70,000)
Profit for the year ended as on 31.3.2009	80,000

(ii) The probable reasons could be the change in the accounting policy viz.

(a) Change in method of recognition of sales revenue from cash basis to accrual basis or vice versa; or

(b) Change in valuation of closing inventory by adopting different methods year to year such as LIFO to FIFO to weighted average or vice versa.

(iii)

	Rs.
Purchase price of Equity shares of YZ Ltd.(200 shares x Rs.105 per share)	21,000
Add: Brokerage, stamp duty and STT	200
Cost of investment	21,200

If the investment is a long term investment than it will be shown at cost. Therefore value of investment will be Rs. 21,200. However, if the investment is a current investment, then it will be shown at lower of cost (i.e. Rs.21,200) or net realizable value (i.e. Rs.200 x 110 = Rs.22,000). Therefore value of investment will be Rs. 21,200.

(iv) When the partnership deed is silent on the matter of interest on capitals and salary to partners, then no partner is entitled to claim interest on capital and salary. Therefore, claim of X and Z is not tenable. However, inclusion of specific provision regarding the said issues in partnership deed can make them entitled for interest on capital and salary.

(v) According to Section 3 (1) (iii), a private company means a company which has a minimum paid-up capital of one lakh rupees or such higher paid-up capital as may be prescribed, and by its articles:

(a) Restricts the rights of members to transfer its shares.

(b) Limits the number of its member to 50 excluding: (i) persons who are in employment of the company; and (ii) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased. For this purpose joint holders of shares will be counted as single members.

(c) Prohibits any invitation to the public to subscribe to any shares in, or debentures of, the company.

(d) Prohibits any invitation or acceptance of deposits from persons other than its member, directors, and relatives.

(vi)

Computation of divisible profit	(Rs. in lakhs)
Profit for the year 2008-2009	25.00
Less: Depreciation chargeable under Section 205	(17.00)
Divisible profit for the year	8.00

(vii) (a) Statement showing valuation of closing inventory by LIFO method

Date	Receipts			Issue			Balance		
	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount
1.4.09	10	70	700				10	70	700
6.4.09				6	70	420	4	70	280
9.4.09	20	75	1500				4	70	280
							20	75	1500
18.4.09				14	75	1,050	4	70	280
							6	75	450

Value of closing inventory as per LIFO method:

4 units x Rs.70 = Rs.280

6 units x Rs.75 = Rs.450 Rs.730

(b) Statement showing valuation of closing inventory by FIFO method

Date	Receipts			Issue			Balance		
	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount	Unit	Cost/unit	Amount
1.4.09	10	70	700				10	70	700
6.4.09				6	70	420	4	70	280
9.4.09	20	75	1500				4	70	280
							20	75	1500
18.4.09				4	70	280	10	75	750
				10	75	750			

Value of closing inventory as per FIFO method:

10 Units x Rs.75 = Rs.750

(viii) As per para 15 of AS 7 "Construction Contracts (revised 2002)", contract cost should comprise:

(a) costs that relate directly to the specific contract;

(b) costs that are attributable to contract activity in general and can be allocated to the contract; and

(c) such other costs as are specifically chargeable to the customer under the terms of the contract.

(ix)

Computation of cash receipts of annual fee for the year		Rs.
Total fee receivable during the year (500 members × Rs.1,000)	=	5,00,000
Less: Fee not received (40 members × Rs.1,000)	=	(40,000)
		4,60,000
Add: Fee received in advance (70 members × Rs.1,000)	=	70,000
Cash received during the year towards annual fee	=	5,30,000

(x) Section 198 of the Companies Act, 1956 prescribes the overall maximum managerial remuneration payable and also managerial remuneration in case of absence or inadequacy of profits. In the given case, the company is earning profits consistently and has more than one managerial person; therefore, the maximum limit is 10% of net profit.

Question 2

The following are the Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2009:

	(Rs. in lakhs)	
Liabilities	M Ltd.	N Ltd.
Fully paid equity shares of Rs.10 each	3,600	900

10% preference shares of Rs.10 each, fully paid up	1,200	-
Capital Reserve	600	-
General Reserve	2,100	-
Profit and Loss Account	780	-
8% Redeemable debentures of Rs.1,000 each	-	300
Trade Creditors	2,421	369
Provisions	870	93
	11,571	1,662
Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	-	51
Stock	2,370	444
Sundry Debtors	1,044	237
Cash at Bank	1,542	240
Preliminary Expenses	-	33
Discount on Issue of Debentures	-	6
	11,571	1,662

A new Company MN Ltd. was incorporated with an authorised capital of Rs.15,000 lakhs divided into shares of Rs.10 each. For the purpose of amalgamation in the nature of merger, M Ltd. and N Ltd. were merged into MN Ltd. on the following terms:

(i) Purchase consideration for M Ltd.'s business is to be discharged by issue of 120 lakhs fully paid 11% preference shares and 720 lakhs fully paid equity shares of MN Ltd. to the preference and equity shareholders of M Ltd. in full satisfaction of their claims.

(ii) To discharge purchase consideration for N Ltd.'s business, MN Ltd. to allot 90 lakhs fully paid up equity shares to shareholders of N Ltd. in full satisfaction of their claims.

(iii) Expenses on the liquidation of M Ltd. and N Ltd. amounting to Rs.6 lakhs are to be borne by MN Ltd.

(iv) 8% redeemable debentures of N Ltd. to be converted into 8.5% redeemable debentures of MN Ltd.

(v) Expenses on incorporation of MN Ltd. were Rs.15 lakhs.

You are requested to:

(a) Pass necessary Journal Entries in the books of MN Ltd. to record above transactions, and

(b) Prepare Balance Sheet of MN Ltd. after merger. (16 Marks)

Answer

In the books of MN Ltd.

Journal Entries

		Dr.	Cr.
			(Rs. in lakhs)
		Dr.	Cr.
Business Purchase Account	Dr.	9,300	
To Liquidator of M Ltd.			8,400
To Liquidator of N Ltd.			900
(Being consideration payable to liquidators of the two companies taken over)			
Plant and Machinery Account (4,215+468)	Dr.	4,683	
Furniture and Fixtures Account (2,400+183)	Dr.	2,583	
Motor Vehicles Account	Dr.	51	
Stock Account (2,370+444)	Dr.	2,814	
Sundry Debtors Account (1,044+237)	Dr.	1,281	
Cash at Bank Account (1,542+240)	Dr.	1,782	
Preliminary Expenses Account	Dr.	33	
Discount on issue of Debentures Account	Dr.	6	
Profit and Loss Account (Refer W.N.)	Dr.	120	
To 8% Redeemable Debentures of N Ltd. Account			300
To Trade Creditors Account (2,421+369)			2,790
To Provisions Account (870+93)			963
To Business Purchase Account			9,300
(Being incorporation of all the assets and liabilities and the excess of consideration over the share capital being adjusted against reserves and surplus)			
Liquidator of M Ltd. Account	Dr.	8,400	
Liquidator of N Ltd. Account	Dr.	900	
To Equity Share Capital Account (7,200+900)			8,100
To 11% Preference Share Capital Account			1,200
(Being allotment of fully paid shares in discharge of purchase consideration)			
Profit and Loss Account	Dr.	6	
To Bank Account			6
(Being payment of liquidation expenses of M Ltd. and N Ltd.)			

Preliminary Expenses Account	Dr.	15	
To Bank Account			15
(Being expenses on incorporation of MN Ltd.)			
8% Redeemable Debentures of N Ltd. Account	Dr.	300	
To 8.5% Redeemable Debentures Account			300
(Being conversion of 8% Debentures of N Ltd. into 8.5% Debentures)			

Balance Sheet of MN Ltd.

Liabilities	Rs. in lakhs	Assets	Rs. in lakhs
Authorised Share Capital:		Fixed Assets:	
15 crore shares of Rs.10 each	15,000	Plant and Machinery	4,683
Issued, subscribed and paid up:		Furniture and Fixtures	2,583
810 lakhs Equity shares of Rs.10 each, fully paid	8,100	Motor Vehicles	51
120 lakhs 11% Preference shares of Rs.10 each, fully paid	1,200	Current Assets, Loans and Advances:	
(All the above mentioned shares have been issued for consideration other than cash)		(A) Current Assets	
		Stock	2,814
		Sundry Debtors	1,281
Secured Loans:		Cash at Bank (1,782–6–15)	1,761
8.5% Redeemable Debentures	300	(B) Loans and Advances	Nil
Current Liabilities and Provisions:		Miscellaneous Expenditure:	
(A) Current Liabilities		Preliminary Expenses (33+15)	48
Trade Creditors	2,790	Discount on Issue of Debentures	6
(B) Provisions	963	Profit and Loss Account (120+6)	126
	13,353		13,353

Working Note:

Profit and Loss Account		(Rs. in lakhs)
Total consideration = Rs.(8,400 + 900) lakhs		9,300
Less: Share Capital of Companies taken over [Rs.(3,600+1,200+900) lakhs]		5,700
		3,600

Amount to be adjusted:		
Capital Reserve	600	
General Reserve	2,100	
Profit & Loss A/c	780	3,480
Debit balance of Profit & Loss Account		120

Question 3

E, F and G were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2009 Balance Sheet of the firm stood as follows:

Liabilities	Rs.	Assets	Rs.
Capital A/cs		Buildings	55,000
E 50,000		Furniture	25,000
F 40,000		Stock	42,000
G 28,000	1,18,000	Debtors	20,000
Creditors	33,500	Cash at Bank	11,200
Outstanding Expenses	1,700		
	1,53,200		1,53,200

On 31st March, 2009, E decided to retire and F and G decided to continue as equal partners. Other terms of retirement were as follows:

(i) Building be appreciated by 20%.

(ii) Furniture be depreciated by 10%.

(iii) A provision of 5% be created for bad debts on debtors.

(iv) Goodwill be valued at two years' purchase of profit for the latest accounting year. The firm's Profit for the year ended 31st March, 2009 was Rs.25,000. No goodwill account is to be raised in the books of accounts.

(v) Fresh capital be introduced by F and G to the extent of Rs.10,000 and Rs.35,000 respectively.

(vi) Out of sum payable to retiring partner E, a sum of Rs.45,000 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% per annum. The loan is to be paid off by 31st March, 2011.

One month after E's retirement, F and G agreed to admit E's son H as a partner with one-forth share in Profits/Losses. E agreed that the balance in his loan account be converted into H's Capital. E also agreed to forgo one month's interest on his loan.

It was also agreed that H will bring in, his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.

You are requested to pass necessary Journal Entries to give effect to the above transactions and prepare Partners' Capital Accounts. (16 Marks)

Answer

			Dr.	Cr.
			Rs.	Rs.
1.	Building Account	Dr.	11,000	
	To Revaluation Account			11,000
	(Being building appreciated)			
2.	Revaluation Account	Dr.	3,500	
	To Furniture Account			2,500
	To Provision for Doubtful Debts Account			1,000
	(Being furniture depreciated by 10% and Provision for doubtful debts created @ 5% on Debtors)			
3.	Revaluation Account	Dr.	7,500	
	To E's Capital Account			3,750
	To F's Capital Account			2,250
	To G's Capital Account			1,500
	(Being profit on revaluation transferred to capital accounts of partners)			
4.	F's Capital Account	Dr.	10,000	
	G's Capital Account	Dr.	15,000	
	To E's Capital Account			25,000
	(Being adjustment for E's share of goodwill)			
5.	Bank Account	Dr.	45,000	
	To F's Capital Account			10,000
	To G's Capital Account			35,000
	(Being fresh capital introduced by F and G)			
6.	E's Capital Account	Dr.	78,750	
	To Bank Account			45,000
	To E's Loan Account			33,750
	(Being settlement of E's capital on his retirement)			

7.	E's Loan Account	Dr.	33,750	
	To H's Capital Account			33,750
	(Transfer of E's Loan Account to H's Capital Account)			
8.	H's Capital Account	Dr.	12,500	
	To F's Capital Account			6,250
	To G's Capital Account			6,250
	(Being adjustment entry passed for H's share of goodwill)			

Partners' Capital Accounts

	E Rs.	F Rs.	G Rs.	H Rs.		E Rs.	F Rs.	G Rs.	H Rs.
To E (Goodwill)		10,000	15,000		By Balance b/d	50,000	40,000	28,000	
To Bank	45,000				By Revaluation A/c	3,750	2,250	1,500	
To E's Loan A/c	33,750				By F (Goodwill)	10,000			
To Balance c/d		42,250	49,500		By G (Goodwill)	15,000			
					By Bank (fresh capital)		10,000	35,000	
	78,750	52,250	64,500			78,750	52,250	64,500	
To F (Goodwill)				6,250	By Balance b/d		42,250	49,500	
To G (Goodwill)				6,250	By E's Loan A/c				33,750
To Balance c/d		48,500	55,750	21,250	By H (goodwill)		6,250	6,250	
		48,500	55,750	33,750			48,500	55,750	33,750

Working Notes:

1. Calculation of gaining ratio

Partners	New ratio	Old ratio	Gain	Sacrifice
E		$\frac{5}{10}$		$\frac{5}{10}$
F	$\frac{1}{2}$	$\frac{3}{10}$	$\frac{1}{2}-\frac{3}{10}=\frac{2}{10}$	
G	$\frac{1}{2}$	$\frac{2}{10}$	$\frac{1}{2}-\frac{2}{10}=\frac{3}{10}$	

Hence, ratio of gain between F and G = 2:3

2. Value of total goodwill of the firm = Rs.25,000 × 2 = Rs.50,000

   E's share = Rs.50,000 $\times \frac{5}{10}$ = Rs.25,000

   F will bear = Rs.25,000 $\times \frac{2}{5}$ = Rs.10,000

   G will bear = Rs.25,000 $\times \frac{3}{5}$ = Rs.15,000

3. H's share of goodwill = Rs.50,000 $\times \frac{1}{4}$ = Rs.12,500

   F and G share equal profits. Therefore, their sacrificing ratio will also be equal

   Hence, each of them will be credited with Rs.6,250

Question 4

(a) A fire broke out in the godown of a business house on 8th July, 2009. Goods costing Rs.2,03,000 in a small sub-godown remain unaffected by fire. The goods retrieved in a damaged condition from the main godown were valued at Rs.1,97,000.

The following particulars were available from the books of accounts:

Stock on the last Balance Sheet date at 31st March, 2009 was Rs.15,72,000. Purchases for the period from 1st April, 2009 to 8th July, 2009 were Rs.37,10,000 and sales during the same period amounted to Rs.52,60,000. The average gross profit margin was 30% on sales.

The business house has a fire insurance policy for Rs.10,00,000 in respect of its entire stock. Assist the Accountant of the business house in computing the amount of claim of loss by fire.

(b) A trader allows his customers, credit for one week only beyond which he charges interest @ 12% per annum. Anil, a customer buys goods as follows:

Date of Sale/Purchase	Amount (Rs.)
January 2, 2009	6,000
January 28, 2009	5,500
February 17, 2009	7,000
March 3, 2009	4,700

Anil settles his account on 31st March, 2009. Calculate the amount of interest payable by Anil using average due date method. (8 + 8 =16 Marks)

Answer

(a)

Calculation of amount of claim	Rs.	Rs.
Value of stock as on 8th July, 2009 (Refer W.N.)		16,00,000
Less: Value of stock remaining unaffected by fire	2,03,000	
Agreed value of damaged goods	1,97,000	4,00,000
Loss of stock		12,00,000

Applying average clause:

$$\text{Amount of claim} = \frac{\text{Amount of policy}}{\text{Stock on the date of fire}} \times \text{Loss of stock}$$

$$= \frac{\text{Rs.}10{,}00{,}000}{\text{Rs.}16{,}00{,}000} \times 12{,}00{,}000$$

= Rs. 7,50,000

Working Note:

Memorandum Trading Account for the period from 1st April, 2009 to 8th July, 2009

	Rs.		Rs.
To Opening Stock	15,72,000	By Sales	52,60,000
To Purchases	37,10,000	By Closing Stock (Bal.Fig.)	16,00,000
To Gross Profit (30% of sales)	15,78,000		
	68,60,000		68,60,000

(b) Let us assume 9th January, 2009 to be the base date:

Date of Sale	Due date of payment	Amount (Rs.)	No. of days from 9th January, 2009	Product
Jan. 2	Jan. 9	6,000	0	0
Jan. 28	Feb. 4	5,500	26	1,43,000
Feb. 17	Feb. 24	7,000	46	3,22,000
March 3	March 10	4,700	60	2,82,000
		23,200		7,47,000

$$\text{Average Due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of amount}}$$

$= 9^{th}$ January, 2009 $+ \dfrac{7,47,000}{23,200}$

$= 9^{th}$ January 2009 + 32 days

i.e. 32 days from 9^{th} January, 2009 = 10^{th} February, 2009

Thus, average due date = 10^{th} February, 2009

No. of days from 10^{th} February, 2009 to 31^{st} March, 2009 = 49 days.

Interest payable by Anil on Rs.23,200 for 49 days @ 12% per annum

$= \text{Rs.}23,200 \times \dfrac{49}{365} \times \dfrac{12}{100} = \text{Rs.}373.74$

Question 5

(a) The Income and Expenditure Account of City Sports Club for the year ended 31^{st} March, 2009 was as follows:

	Expenditure	Amount (Rs.)		Income	Amount (Rs.)
To	Salaries	1,20,000	By	Subscriptions	1,60,000
To	Printing and Stationery	6,000	By	Entrance Fees	10,000
To	Rent	12,000	By	Contribution for Annual dinner	20,000
To	Repairs	10,000	By	Profit on Annual Sports meet	20,000
To	Sundry Expenses	8,000			
To	Annual Dinner Expenses	30,000			
To	Interest to Bank	6,000			
To	Depreciation on Sports equipment	6,000			
To	Excess of Income over Expenditure	12,000			
		2,10,000			2,10,000

The above account had been prepared after the following adjustments:

	Rs.
Subscriptions outstanding on 31.03.2008	12,000
Subscriptions received in advance on 31.03.2008	9,000
Subscriptions received in advance on 31.03.2009	5,400
Subscriptions outstanding on 31.03.2009	15,000

Salaries outstanding at the beginning and at the end of the financial year were Rs.8,000 and Rs.10,000 respectively. Sundry expenses included prepaid insurance expenses of Rs.1,200.

The Club owned a freehold ground valued Rs.2,00,000. The Club has sports equipment on 01.04.2008 valued at Rs.52,000. At the end of the year, after depreciation, the sports equipment amounted to Rs.54,000. The Club raised a loan of Rs.40,000 from a bank on 01.01.2008, which was unpaid till 31.03.2009. On 31.03.2009, cash in hand was Rs.32,000.

Prepare Receipts and Payments account of the Club for the year ended 31st March, 2009 and Balance Sheet as on that date.

(b) Rama Udyog Limited was incorporated on August 1, 2008. It had acquired a running business of Rama & Co. with effect from April 1, 2008. During the year 2008-09, the total sales were Rs.36,00,000. The sales per month in the first half year were half of what they were in the later half year. The net profit of the company, Rs.2,00,000 was worked out after charging the following expenses:

(i) Depreciation Rs.1,08,000, (ii) Audit fees Rs.15,000, (iii) Directors' fees Rs.50,000, (iv) Preliminary expenses Rs.12,000, (v) Office expenses Rs.78,000, (vi) Selling expenses Rs.72,000 and (vii) Interest to vendors upto August 31, 2008 Rs.5,000.

Please ascertain pre-incorporation and post-incorporation profit for the year ended 31st March, 2009. (10 + 6 = 16 Marks)

Answer

(a) **City Sports Club**

Receipt and Payments Account for the year ended 31st March, 2009

	Receipts	Amount (Rs.)		Payments	Amount (Rs.)
To	Balance b/d (Bal. Fig.)	27,800	By	Salaries:	
				for 2007-2008	8,000
To	Subscription:			for 2008-2009	1,10,000
	for 2007-2008	12,000	By	Printing and Stationery	6,000
	for 2008-2009 (W.N.3)	1,36,000	By	Rent	12,000
	for 2009-2010	5,400	By	Repairs	10,000
To	Entrance Fees	10,000	By	Sundry Expenses (8,000 + 1,200)	9,200

To	Contribution for Annual Dinner	20,000	By	Annual Dinner Expenses	30,000
To	Profit on Annual Sports Meet	20,000*	By	Interest to Bank	6,000
			By	Sports Equipment (W.N.2)	8,000
			By	Balance c/d	32,000
		2,31,200			2,31,200

Balance Sheet as at 31st March, 2009

Liabilities	Amount (Rs.)	Amount (Rs.)	Assets	Amount (Rs.)	Amount (Rs.)
Capital Fund (W.N.1)	2,34,800		Freehold Ground		2,00,000
Add: Excess of income over expenditure	12,000	2,46,800	Sports Equipment Add: Additions during the year (Bal. Fig.)	52,000 8,000 60,000	
Bank Loan		40,000	Less: Depreciation	(6,000)	54,000
Outstanding Salaries		10,000	Subscription in Arrear		15,000
Subscription in Advance		5,400	Prepaid Insurance		1,200
			Cash in hand		32,000
		3,02,200			3,02,200

Working Notes:

(1) Opening Balance of Capital Fund:

Balance Sheet as at 31st March, 2008

	Rs.		Rs.
Capital Fund (Bal. Fig.)	2,34,800	Freehold Ground	2,00,000
Bank Loan	40,000	Sports Equipment	52,000
Outstanding Salaries	8,000	Subscription in Arrear	12,000
Subscription in Advance	9,000	Cash in hand	27,800
	2,91,800		2,91,800

* It is assumed that the profit on annual sports meet has been realized in cash.

(2) Sports Equipment Account

	Rs.		Rs.
To Balance b/d	52,000	By Depreciation Account	6,000
To Bank Account	8,000	By Balance c/d	54,000
	60,000		60,000

(3) Subscription received during 2008-09

	Rs.	Rs.
Subscription for 2008-09		1,60,000
Less:Subscription outstanding as on 31.3.09	15,000	
Less:Subscription received in advance as on 31.3.08	9,000	24,000
		1,36,000

(b) Statement showing pre and post incorporation profit for the year ended 31st March, 2009

Particulars	Total Amount Rs.	Basis of Allocation	Pre-incorporation Rs,	Post-Incorporation Rs.
Gross Profit	5,40,000	2:7	1,20,000	4,20,000
Less: Depreciation	1,08,000	1:2	36,000	72,000
Audit Fees	15,000	1:2	5,000	10,000
Director's Fees	50,000	Post	-	50,000
Preliminary Expenses	12,000	Post	-	12,000
Office Expenses	78,000	1:2	26,000	52,000
Selling Expenses	72,000	2:7	16,000	56,000
Interest to vendors	5,000	Actual	4,000	1,000
Net Profit (Rs.33,000 being pre-incorporation profit is transferred to capital reserve Account)	2,00,000		33,000	1,67,000

Working Notes:

1. **Sales ratio**

   The sales per month in the first half year were half of what they were in the later half year. If in the later half year, sales per month is Re.1 then it should be 50 paise per month in the first half year. So sales for the first four months (i.e. from 1st April, 2008 to 31st July, 2008) will be 4 × .50 = Rs.2 and for the last eight months (i.e.

from 1st August, 2008 to 31st March, 2009) will be (2 × .50 + 6 × 1) = Rs.7. Thus sales ratio is 2:7.

2. Time ratio

1st April, 2008 to 31st July, 2008 : 1st August, 2008 to 31st March, 2009

= 4 months : 8 months = 1:2

Thus, time ratio is 1:2.

3. Gross profit

Gross profit = Net profit + All expenses

= Rs.2,00,000 + Rs.(1,08,000+15,000+50,000+12,000+78,000+72,000+5,000)

= Rs.2,00,000 +Rs.3,40,000 = Rs.5,40,000.

Question 6

Answer any **four** of the following:

(i) Market is full of ready-made accounting softwares. What factors will you consider to choose one of them for your enterprise?

(ii) As per Accounting Standard-14, what are the conditions which must be satisfied for an amalgamation in the nature of merger?

(iii) What do you mean by Customised Accounting Software?

(iv) Rose Ltd. had made an investment of Rs.500 lakhs in the equity shares of Nose Ltd. on 10.01.2009. The realisable value of such investment on 31.03.2009 became Rs.200 lakhs as Nose Ltd. lost a case of patent rights. Rose Ltd. follows financial year as accounting year. How will you recognize this reduction in Financial statements for the year 2008-09.

(v) A company provided Rs.10,00,000 for dividend payment. Is the Corporate Dividend Tax payable in this case? If yes, please compute Corporate Dividend Tax assuming rate of 15% plus surcharge of 10% and disclose as it would appear in profit and loss account of the company.

(vi) SAD Enterprises, a partnership firm, had purchased business of SWAD enterprises on 01.04.2008 and paid Rs.50,000 towards goodwill. On 01.04.2009, SAD enterprises decided to admit W as partner and the goodwill was valued at Rs.1,00,000 for the purpose.

Please explain with reasons, at what price goodwill can be shown in the books of account. (4 × 4 = 16 Marks)

Answer

(i) While choosing the accounting software, the following points should be considered:

1. Fulfilment of business requirements: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.
2. Completeness of reports: Some packages might provide extra reports or the reports match the requirement more than the others.
3. Ease of use: Some packages could be very detailed and cumbersome compare to the others.
4. Cost: The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
5. Reputation of the vendor: Vendor support is essential for any software. A stable vendor with reputation and good track records will always be preferred.
6. Regular updates: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

(ii) According to AS 14 "Accounting for Amalgamations", Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

(iii) A customised accounting software is one where the software is developed on the basis of requirement specifications provided by the organisation. The choice of customised accounting software could be because of the typical nature of the business or else the functionality desired to be computerised is not available in any of the pre-packaged accounting software. An organisation desiring to have an integrated software package covering most of the functional area may have the financial module as part of the entire customised system.

(iv) Recognition of reduction in value of investment would depend upon the nature of investment and nature of decline as per Accounting Standard 13 "Accounting for Investments". As per provisions of the standard, if the investments were acquired for long term and decline is temporary in nature, reduction in value will not be recognized and investments would be carried at cost. If the decline is of permanent nature, it will be charged to profit and loss account. If the investments are current investments, then the reduction should be recognized and charged to Profit and Loss Account as the current investments are carried at cost or fair value, whichever is less.

(v) Yes, Corporate Dividend Tax (CDT)* is payable by the company which has provided for the payment of dividend. CDT is payable even if no income tax is payable. This is payable by a domestic company on distribution of profits to its shareholders.

In the given case, Corporate Dividend Tax would be worked out to Rs.1,65,000 [i.e. (Rs.10,00,000 x 15%) x 110%]. CDT should be accounted for in the same financial year in which provision for dividend is recognized and made. CDT shall be disclosed in profit and loss account below the line just after the provision for dividend. Such disclosure would give a proper picture regarding payments involved with reference to dividends. Disclosure of CDT in the profit and Loss Account will be as follows:

Dividend	XXXX	
Corporate Dividend Tax	<u>XXXX</u>	XXXX

* Corporate Dividend Tax is also known as 'Dividend Distribution Tax'.

(vi) Para 16 of AS 10,' Accounting for Fixed Assets' states that goodwill can be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, only purchased goodwill should be recorded in the books. In the said case, payment of Rs.50,000 was made towards purchase of goodwill, hence to this extent goodwill can be recorded in the books. Additional goodwill of Rs.50,000 is self generated goodwill, which should not be recorded. On admission, death or retirement of a partner, goodwill adjustments can be carried out through capital accounts.