PAPER – 1 : ACCOUNTING

QUESTIONS

Profit or Loss Prior to Incorporation

1. A firm which was carrying on business from 1st January, 2009 gets itself incorporated as a company on 1st May, 2009. The first accounts are drawn up to 30th September, 2009. The gross profit for the period is Rs.56,000. The general expenses are Rs.14,220, directors' fee Rs.12,000 p.a.; formation expenses Rs.1,500. Rent up to 30th June is Rs.1,200 p.a., after which it is increased to Rs.3,000 per annum. Salary of the manager, who upon incorporation of the company was made a director, is Rs.6,000 p.a. His remuneration thereafter is included in the above figure of fee to directors.

   Give Profit and Loss Account showing pre-and post-incorporation profits. The net sales are Rs.8,20,000, the monthly average of which, for the first four months of 2009 is half of that of the remaining period, the company earned a uniform profit. Interest and tax may be ignored.

Investment Accounts

2. On 1.4.2009, Shridhar has 2,500 equity shares of 'A' Ltd., at a book value of Rs.15 per share (Face value Rs.10). On 20th June, he purchased another 500 shares of the company @ Rs.16 per share. The directors of A Ltd., announced a bonus and rights issue. No dividend was payable on these issues. The terms of the issue are as follows:

   Bonus basis 1 : 6 (Date 16th August).

   Rights basis 3 : 7 (Date 31st August) Price Rs.15 per share.

   Due date for payment - 30th September.

   Shareholders can transfer their rights in full or in part. Accordingly, Shridhar sold $33\frac{1}{3}\%$ of his entitlement to Manohar for a consideration of Rs.2 per share and exercised the remaining rights.

   Dividends for the year ended 31st March at the rate of 20% were declared by A Ltd., and received by Shridhar on 31st October. Dividends for shares acquired by him on 2nd June are to be adjusted against the cost of purchase.

   On 15th November, Shridhar sold 2,500 equity shares at a premium of Rs.5 per share.

   Required: Prepare Investment Account in the books of Shridhar.

   For your exercise, assume that the books are closed on 31.12.2009 and shares are valued at average cost.

Accounting for Hire Purchase Instalments

3. From the following information extracted from the books of Perfect Investment Pvt. Ltd. prepare Hire Purchase Trading account for the year ended 31.3.2009, showing the profit in respect of the hire-purchase business of the company:

(i) Instalments due but not received on 1.4.2008 – Rs.60,000.

(ii) Instalments due but not received on 31.3.2009 – Rs.1,00,000.

(iii) Cash received during the financial year 2008-2009 by way of a hire-purchase Instalments Rs.80,00,000.

(iv) Value of Stock 'out' on hire-purchase as at 1.4.2008 at hire-purchase price (loading 20% above cost) Rs.2,40,000.

(v) (a) Cost price of truck 'out' on hire-purchase as at 31.3.2009 - Rs.40,00,000.

(b) Total amount of instalments receivable in respect of v (a) above Rs.48,00,000.

(c) Total amount of instalments received and due up to 31.3.2009 in respect of v (b) above Rs.36,00,000.

(vi) Purchase of trucks during the financial year 2008-09 Rs.80,00,000.

(vii) Sale of trucks, otherwise than on H.P. (at a profit of 6.25% of cost thereof), Rs.8,50,000.

(viii) Body building charges in respect of truck, sold on H.P. Rs.4,00,000.

(ix) Interest paid was Rs.80,000 and unsold trucks on 31.3.2009 at cost price were Rs.1,60,000 (Hire-purchase price Rs.1,92,000).

Insurance Claim for Loss of Stock

4. The premises of Sad Ltd. caught fire on 22nd January, 2010 and the stock was damaged. The firm made up accounts to 31 March each year and on 31st March, 2009 the stock at cost was Rs. 13,27,200 as against Rs. 9,62,200 on 31st March 2008.

Purchases from 1st April, 2009 to the date of fire were Rs. 34,82,700 as against Rs. 45,25,000 for the full year 2008-09 and the corresponding sales figure were Rs. 49,17,000 and Rs. 52,00,000 respectively.

You are given the following further information:

(i) In July, 2009, goods costing Rs. 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) During 2009-2010, a clerk misappropriated unrecorded cash sales. It is estimated that the defalcation averaged Rs.2000 per week from 1st April, 2009 until the clerk was dismissed on 18th August, 2009.

(iii) The rate of gross profit is constant.

From the above information, make an estimate of the stock in hand on the date of fire.

Managerial Remuneration

5. Calculate the managerial remuneration from the following particulars of Astha Ltd. due to the managing director of the company at the rate of 5% of the profits. Also determine the excess remuneration paid, if any:

	Rs.
Net Profit	2,00,000
Net Profit is calculated after considering the following:	
Depreciation	40,000
Preliminary expenses	10,000
Tax provision	3,10,000
Director's fee	8,000
Bonus	15,000
Profit on sale of fixed assets (original cost: Rs.20,000 written down value:Rs.11,000)	15,500
Provision for doubtful debts	9,000
Scientific research expenditure (for setting up new machinery)	20,000
Managing Director's remuneration paid	30,000
Other information:	
Depreciation allowable under Schedule XIV of the Companies Act	35,000
Bonus liability as per Payment of Bonus Act, 1965	18,000

Self Balancing Ledgers

6. On 1st April, 2009 the details of the balances owed by customers were as following:-

	Rs.
A	1,500
B (Considered to be 60% bad; adequate provision maintained)	2,100
C	1,800
Others	35,600
	41,000
Less: Advance by E	2,000
	39,000

Sales during the month totaled Rs.1,55,500 including Rs.1,11,400 as cash sales; of the credit sale, a sale of Rs.2,600 was to E. A returned goods to the extent of Rs.500 and sent a bill receivable accepted by X for the balance. A sum of Rs.450 was received from B and the balance was written off. On instructions from Y. C's balance was transferred to Y's account in the Creditors Ledger. X's acceptance as dishonoured and noting charges were Rs.10. G sent an advance of Rs.1,800 for supply of goods. Out of the amount due from "others" on April 1, 2009 a sum of Rs.27,300 was received; the customers had earned 2½% discount on the amount paid. Similarly, out of the sales in April, a sum of Rs.9,750 had been received, earning discount at the same rate.

F who owed Rs.1,100 and G who owed Rs.800 turned doubtful; a provision of 50% of the amounts due was created. All other debts were considered good.

Prepare Total Debtors account for April 2009.

Partnership –Admission cum Retirement

7. Glad and Happy, who make up their accounts to 30 September in each year, carried on business in partnership under the firm name of Feelings.

Their partnership agreement provided:

(1) Profits and losses should be shared Glad - two-third and Happy - one-third.

(2) Interest on capital accounts should be allowed at the rate of 6% per annum but no interest should be allowed or charged on current accounts.

(3) On the retirement or admission of a partner:

(i) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission is to be arrived at by apportionment on a time basis except where otherwise agreed.

(ii) No account for goodwill is to be maintained in the firm's books, any adjusting entries for transactions between the partners being made in their capital accounts.

(iii) Any balance due to an outgoing partner is to carry interest at 8% per annum from the date of his retirement to the date of payment.

Glad retired from the firm on 31st March 2009 and, on the same day, Happy took into partnership Joy, an employee of the firm. It was agreed that the terms of the previous partnership agreement should apply in all respects except that, as from the date, profits or losses are to be shared: Happy - three-fifth, Joy - two-fifth.

The trial balance extracted from the books of the firm as on 30th September 2009 was as follows:

Particulars	*Rs.*	*Rs.*
Capital Accounts – 30 September 2009		
Glad	-	8,000
Happy	-	6,000
Current Accounts – 30 September 2009		
Glad	-	2,400
Happy	-	1,600
Joy – Cash introduced 31st March, 2009	-	3,000
Plant and machinery at cost	14,000	-
Plant and machinery: Provision for depreciation -30th September, 2008	-	2,800

Motor vehicles at cost	6,200	-
Motor vehicles: provision for depreciation – 30th September 2008	-	3,400
Purchases	62,000	-
Stock – 30th September 2008	12,400	-
Wages	14,600	-
Salaries	10,800	-
Debtors	4,600	-
Sales	-	96,000
Trade expenses	1,600	-
Creditors	-	6,200
Rent and rates	1,400	-
Bad debts	600	-
Balance at bank	1,200	-
	1,29,400	1,29,400

You are given the following further information:

(1) The value of the firm's goodwill as on 31st March 2009 was agreed to be Rs.12,000.

(2) On 31st March, 2009, Joy had paid Glad Rs.5,000 on account of the balance due to him on retirement. But no entry had been made in the books in respect of this payment. The balance due to Glad after taking into account this payment remained unpaid as on 30th September, 2009.

(3) Glad on retirement had taken over one of the firm's motor vehicles and it was agreed that he should be charged for it at its written down value on the date of his retirement. The vehicle had cost Rs.1,400 and up to 30th September, 2009 depreciation of Rs.625 had been provided on it.

(4) The stock as on 30th September 2009 was valued at Rs.14,200.

(5) Partners' drawings which are included in salaries were as follows:

Glad Rs.1,800; Happy Rs.2,400; Joy Rs.900.

(6) Salaries also included Rs.1,200 paid to Joy prior to his being admitted as a partner and which is to be charged against the half-year profits of the firm.

(7) Professional charges of Rs.250 included in trade expenses are specifically attributable to the second half of the year.

(8) The whole of the charge of Rs.600 for bad debts related to the period upto 31st March, 2009.

(9) A bad debts provision specifically, attributable to the second half of the year of 5% of the total debtors is to be made as on 30th September 2009.

(10) As on 30th September 2009, rent paid in advance amounted to Rs.400 and trade expenses accrued amounted to Rs.180.

(11) Provision is to be made for depreciation on plant and machinery and on motor vehicles at the rates of 10% and 25% per annum respectively, calculated on cost.

You are required to prepare:

(a) The Trading and profit and loss account for the year ended 30th September 2009.

(b) Partner's capital and current accounts for the year ended 30th September 2009, and

(c) The balance sheet as on that date.

Accounting for Not for Profit Organisation

8. The accountant of City Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2009:

Receipts:	*Rs.*
Subscriptions	62,130
Fair receipts	7,200
Variety show receipts (net)	12,810
Interest	690
Bar collections	22,350
Payments:	
Premises	30,000
Rent	2,400
Rates and taxes	3,780
Printing and stationary	1,410
Sundry expenses	5,350
Wages	2,520
Fair expenses	7,170
Honorarium to secretary	11,000
Bar purchases (payments)	17,310
Repairs	960
New car (less proceeds of old car Rs. 9,000)	37,800

The following additional information could be obtained:-

	1.4.2008	*31.3.2009*
	Rs.	*Rs.*
Cash in hand	450	Nil
Bank balance as per cash-book	24,420	10,350

Cheque issued for sundry expenses not presented to the bank (entry has been duly made in the cash book)	270	90
Subscriptions due	3,600	2,940
Premises (at cost)	87,000	1,17,000
Provision for depreciation on premises	56,400	-
Car (at cost)	36,570	46,800
Accumulated depreciation on car	30,870	-
Bar stock	2,130	2,610
Creditors for bar purchases	1,770	1,290

Annual honorarium to secretary is Rs. 12,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account for the year ended 31.3.2009.

Accounts from Incomplete Records

9. The following information relates to the business of Mr. Shiv Kumar, who requests you to prepare a Trading and Profit & Loss Account for the year ended 31st March, 2009 and a Balance Sheet as on that date:

(a)

	Balance as on 31st March, 2008 Rs.	*Balance as on 31st March, 2009* Rs.
Building	3,20,000	3,60,000
Furniture	60,000	68,000
Motorcar	80,000	80,000
Stocks	–	40,000
Bills payable	28,000	16,000
Cash and Bank balances	1,80,000	1,04,000
Sundry Debtors	1,60,000	–
Bills receivable	32,000	28,000
Sundry Creditors	1,20,000	–

(b) Cash transactions during the year included the following besides certain other items:

	Rs.		*Rs.*
Sale of old papers and miscellaneous income	20,000	Cash purchases	48,000
		Payment to creditors	1,84,000
Miscellaneous Trade expenses (including salaries etc.)	80,000	Cash sales	80,000
Collection from debtors	2,00,000		

(c) Other information:

(i) Bills receivable drawn during the year amount to Rs. 20,000 and Bills payable accepted Rs. 16,000.

(ii) Some items of old furniture, whose written down value on 31st March, 2008 was Rs. 20,000 was sold on 30th September, 2008 for Rs. 8,000. Depreciation is to be provided on Building and Furniture @ 10% p.a. and on Motorcar @ 20% p.a. Depreciation on sale of furniture to be provided for 6 months and for additions to Building for whole year.

(iii) Of the Debtors, a sum of Rs. 8,000 should be written off as Bad Debt and a reserve for doubtful debts is to be provided @ 2%.

(iv) Mr. Shivkumar has been maintaining a steady gross profit rate of 30% on turnover.

(v) Outstanding salary on 31st March, 2008 was Rs. 8,000 and on 31st March, 2009 was Rs. 10,000 on 31st March, 2008. Profit and Loss Account had a credit balance of Rs. 40,000.

(vi) 20% of total sales and total purchases are to be treated as for cash.

(vii) Additions in Furniture Account took place in the beginning of the year and there was no opening provision for doubtful debts.

Average Due Date

10. 'A' lent Rs. 25,000 to 'B' on 1st January, 2009. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2010. Calculate the average due date and interest @ 10% per annum.

Cash Flow Statement

11. MNG Fertilizers presents the following Balance Sheets as at 31.3.2009 and 31.3.2008. You are required to prepare cash flow statement.

Balance Sheet (Rs. in thousand)		*31.3.2009*		*31.3.2008*
Equity share capital	8,500		7,000	
General Reserve	3,800		4,000	
Profit and Loss Account	0		250	
Share Premium Account	1,500		750	
Shareholders' Funds		13,800		12,000
Secured Loans	4,800		5,000	
Unsecured Loans	5,350		4,000	
Loan Funds		10,150		9,000
Sources		23,950		21,000
Fixed Assets				

Gross Block	22,400		21,000	
Less: Accumulated Depreciation	3,450		3,200	
Net Block		18,950		17,800
Capital work-in-progress		1,860		0
Investments		1,650		2,320
Current Assets, Loans and Advances				
Inventories	2,510		2,600	
Debtors	1,090		1,200	
Cash & Bank Balances	120		280	
Loans	1,700		200	
Advance Tax	0		500	
(A)	5,420		4,780	
Less: Creditors	1,050		1,200	
Outstanding expenses	30		0	
Tax Provision	0		500	
Proposed Dividend	3,400		2,800	
(B)	4,480		4,500	
Net Current Assets (A) – (B)		940		280
Miscellaneous Expenditure		550		600
Applications		23,950		21,000

Other information:

(1) Fixed assets costing Rs. 4,00,000, accumulated depreciation Rs. 3,00,000 were sold for Rs.1,50,000.

(2) Actual tax liability for 2008-2009 was Rs. 5,00,000.

(3) Loans represent long term loans given to other companies.

(4) Interest on loan funds for 2009-2010 was Rs. 14,21,000 and interest and dividend income were Rs.4,02,000.

(5) Investments costing Rs. 20,00,000 were sold for Rs. 25,00,000.

Internal Reconstruction of a Company

12. Following is the Balance Sheet of ABC Ltd. as at 31st March, 2007:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Plant and machinery	9,00,000
2,00,000 Equity shares of		Furniture and fixtures	2,50,000
Rs 10 each fully paid up	20,00,000	Patents and copyrights	70,000

6,000 8% Preference shares of Rs. 100 each	6,00,000	Investments (at cost) (Market value Rs. 55,000)	68,000
9% Debentures	12,00,000	Stock	14,00,000
Bank overdraft	1,50,000	Sundry debtors	14,39,000
Sundry creditors	5,92,000	Cash and bank balance	10,000
		Profit and Loss A/c	4,05,000
	45,42,000		45,42,000

The following scheme of reconstruction was finalised:

(i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.

(iii) Stock equal to Rs.5,00,000 in book value will be taken over by sundry creditors in full settlement of their dues.

(iv) Investment value to be reduced to market price.

(v) The company would issue 11% Debentures for Rs.3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet of the company after internal reconstruction.

Amalgamation of Companies

13. Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31.3.2008:

Particulars	*A Ltd.*	*B Ltd.*
Share capital: Equity shares 10 each (fully paid up)	10,00,000	6,00,000
Securities premium	2,00,000	-
General reserve	3,00,000	2,50,000
Profit and loss account	1,80,000	1,60,000
10% Debentures	5,00,000	-
Secured loan	-	3,00,000
Sundry creditors	2,60,000	1,70,000
	24,40,000	14,80,000
Land and building	9,00,000	4,50,000
Plant and machinery	5,00,000	3,80,000
Investment (5,000 shares of B Ltd.)	80,000	-
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Cash at bank	30,000	40,000
	24,40,000	14,80,000

The companies agree on a scheme of amalgamation on the following terms:

(i) A new company is to be formed by name AB Ltd.

(ii) AB Ltd. to take over all the assets and liabilities of the existing companies.

(iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under:

A Ltd. = Rs.18 per share

B Ltd. = Rs.20 per share

(iv) A contingent liability of A Ltd. of Rs.60,000 is to be treated as actual existing liability.

(v) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of Rs.6 per share.

(vi) The face value of shares of AB Ltd. are to be of Rs.10 each.

You are required to:

(i) Calculate the purchase consideration (i.e., number of shares to be issued to A Ltd. and B Ltd.).

(ii) Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.

(iii) Pass journal entries in the books of AB Ltd. for acquisition of A Ltd. and B Ltd.

(iv) Prepare the Balance Sheet of AB Ltd.

Profit and Loss Appropriation Account

14. 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 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 –below the line.

Partnership- Death of a partner

15. A, B and C were partners of a firm sharing profits and losses in the ratio of 3 : 4 : 3. The Balance Sheet of the firm, as at 31st March, 2008 was as under :

Liabilities		*Rs.*	*Assets*		*Rs.*
Capital Accounts :			Fixed Assets		1,00,000
A	48,000		Current Assets :		
B	64,000		Stock	30,000	
C	48,000	1,60,000	Debtors	60,000	
Reserve		20,000	Cash and Bank	30,000	1,20,000
Creditors		40,000			
		2,20,000			2,20,000

The firm had taken a Joint Life Policy for Rs. 1,00,000; the premium periodically paid was charged to Profit and Loss Account. Partner C died on 30th September, 2008. It was agreed between the surviving partners and the legal representatives of C that :

(i) Goodwill of the firm will be taken at Rs. 60,000.

(ii) Fixed Assets will be written down by Rs. 20,000.

(iii) In lieu of profits, C should be paid at the rate of 25% per annum on his capital as on 31st March, 2008.

Policy money was received and the legal heirs were paid off. The profits for the year ended 31st March, 2009, after charging depreciation of Rs. 10,000 (depreciation upto 30th September was agreed to be Rs. 6,000) were Rs. 48,000.

Partners' Drawings Accounts showed balances as under :

A Rs. 18,000 (drawn evenly over the year)

B Rs. 24,000 (drawn evenly over the year)

C (up-to-date of death) Rs. 20,000

On the basis of the above figures, please indicate the entitlement of the legal heirs of C, assuming that they had not been paid anything other then the share in the Joint Life Policy.

Accounting for Bonus Issue of Shares

16. The following is the Balance Sheet of Trinity Ltd. as at 31.3.2008 :

Balance Sheet of Trinity Ltd. as at 31st March, 2008

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		Fixed Assets	
Authorised		Gross Block	3,00,000
10,000 10% Redeemable Preference Shares of Rs. 10 each	1,00,000	Less : Depreciation	1,00,000

			2,00,000
90,000 Equity Shares of Rs.10 each	9,00,000	Investments	1,00,000
	10,00,000	Current Assets and Loans and Advances	
Issued, Subscribed and Paid-up Capital			
10,000 10% Redeemable Preference Shares of Rs. 10 each	1,00,000	Inventory	25,000
		Debtors	25,000
10,000 Equity Shares of Rs.10 each	1,00,000	Cash and Bank Balances	50,000
(A)	2,00,000	Misc. Expenditure to the extent not written of	20,000
Reserves and Surplus			
General Reserve	1,20,000		
Securities Premium	70,000		
Profit and Loss A/c	18,500		
(B)	2,08,500		
Current Liabilities and Provisions (C)	11,500		
Total (A + B + C)	4,20,000	Total	4,20,000

For the year ended 31.3.2009, the company made a net profit of Rs. 15,000 after providing Rs. 20,000 depreciation and writing off the miscellaneous expenditure of Rs. 20,000.

The following additional information is available with regard to company's operation :

1. The preference dividend for the year ended 31.3.2009 was paid before 31.3.2009.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.2009, was the same as on 31.3.2009.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.2009.
5. To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of Rs. 30,000 after such redemption.
6. Investments were sold at 90% of cost on 31.3.2009.

You are required to

(a) Prepare necessary journal entries to record redemption and issue of bonus shares.

(b) Prepare the cash and bank account.

(c) Prepare the Balance Sheet as at 31st March, 2009 incorporating the above transactions.

Accounting in Computerised Environment

17. Write short note on Pre-packaged Accounting Software.

Short Notes

18. Write short notes on the following:
    (a) Debtors Method for accounting of Hire Purchase Transactions.
    (b) Profit and Loss Appropriation Account.
    (c) Accounting Standards
    (d) Debtors and Creditors Suspense account

19. Write short notes on the following:
    (a) Purchase consideration
    (b) Advantages of self balancing ledgers
    (c) Features of Hire Purchase Instalment system
    (d) Provisions of Section 37 of the Indian Partnership Act
    (e) What is Account current?

Short reasoning based questions

20. (a) If both the sides of a cash book are not tallied i.e. debit side exceeds credit side then what are the possible items for recording the difference?

    (b) The hire purchase price was payable Rs.19,152 on 1.1.20X1 and Rs.15,000 at the end of three successive years. Given the present value of an annuity of Re.1 p.a. @ 5% interest is Rs.2.7232. Calculate the cash price with the help of annuity factor.

    (c) X, Y and Z were partners sharing profits and losses in the ratio of 3:2:1 respectively. X died on 31st March, 2009. Calculate his share of profit during the accounting year 2009, when the partnership deed provided that the share of profit till the date of death be estimated at the sum calculated on the sales till the date of death by applying the ratio of Net Profit to Sales for the last accounting year. Sales from 1.1.2009 to 31.3.2009 amounted to Rs.30,000. Sales and Net Profit for the year 2008 amounted to Rs.3,60,000 and Rs.54,000 respectively.

    (d) Calculate the amount of Insurance claim to be lodged, based on the following information:

Value of stock destroyed by fire	Rs.90,000
Insurance policy amount (subject to average clause)	Rs.65,000
Value of stock salvaged from fire	Rs.40,000

21. (a) Find out the profit of Mr. A from the following information:

Capital at the beginning of the year	Rs.20,00,000
Drawings made by Mr. A	Rs. 2,00,000
Capital at the end of the year	Rs.25,00,000
Additional capital introduced during the year	Rs. 1,00,000

(b) A trader purchased goods for Rs.1,70,000. The opening stock of inventory prior to the said purchase was Rs.30,000. His sales was Rs.2,10,000. Find out the closing stock of inventory if the Gross profit margin is 25% on cost.

(c) X Co. Ltd. having share capital of Rs.50 lakhs divided into equity shares of Rs.10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of Rs.10,00,000 and Profit and Loss account Cr. Rs.5,00,000. Y Co. Ltd. issued 11 equity shares of Rs.10 each for every 10 shares of X Co. Ltd.

How the Journal entry would be passed in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interests method' of amalgamation.

(d) P, N and T are equal partners. The decided to change their profit sharing ratio into 5:4:3. The goodwill is calculated to the extent of Rs.2,40,000. Show Journal entries with narration to give effect for the same.

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

Accounting Standards

22. (a) Is any specific disclosure under AS 1 required for a company in liquidation?

(b) Inventories are usually written down to NRV on an item-by-item basis. Comment.

(c) Discuss the accounting treatment when the depreciable assets are revalued. The Notes on Accounts of Devi Ltd. reveals that "No depreciation has been provided during the year on fixed asset pursuant to an upward revaluation of fixed assets carried out in the current year". State whether the above viewpoint is correct.

(d) What is the basis for recognition of revenue by way of Interest, Royalties and Dividends?

23. (a) What is meant by accounting estimate? Give two examples for accounting estimate.

(b) Provisions contained in the Accounting Standard in respect of Revaluation of fixed assets.

(c) Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

(d) What are the disclosure requirements of AS-7 (Revised)?

Practical Questions Based on Accounting Standards

24. (a) In order to value the inventory of finished goods, HR Ltd. has adopted the standard cost of raw material, labour and overheads. Income tax officer wants to know the method, as per AS-2, for the valuation of raw material.

(b) X Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2009 it changed to WDV basis. The impact of the change, when computed from the date of the asset coming to use, amounts to Rs. 20 lakhs being additional charge.

Decide how it must be disclosed in Profit and loss account. Also, discuss, when such changes in method of depreciation can be adopted by an enterprise as per AS 6.

(c) X Limited has recognized Rs. 10 lakhs on accrual basis income from dividend on units of mutual funds of the face value of Rs. 50 lakhs held by it as at the end of the financial year 31st March, 2009. The dividends on mutual funds were declared at the rate of 20% on 15th June, 2009. The dividend was proposed on 10th April, 2009 by the declaring company. Whether the treatment is as per the relevant Accounting Standard? You are asked to answer with reference to provisions of Accounting Standard.

(d) Soft and Hardwares Ltd. are finalizing their annual accounts as on 31st March. A few elements in their Profit and loss Account are furnished below:

		Amount (Rs. in lakhs)
(a)	Cost of goods sold (includes loss on sale of assets)	2,740
(b)	Profit on sale of property	200
(c)	PBT	300

Some of the assets, revalued in earlier years, have been sold by the company now, for Rs. 100 lacs (WDV Rs. 250 lacs). Revaluation reserve corresponding to these assets stood at Rs. 200 lacs, now brought to Profit and Loss Account.

Comment on this treatment, and advise action, if any, with reference to relevant accounting standard.

25. (a) Bharat Ltd. wants to re-classify its investments in accordance with AS 13. Decide on the amount of transfer, based on the following information:

1. A portion of Current Investments purchased for Rs. 20 lakhs, to be re-classified as Long Term Investments, as the Company has decided to retain them. The market value as on the date of Balance Sheet was Rs. 25 lakhs.

2. Another portion of current investments purchased for Rs. 15 lakhs, to be re-classified as long term investments. The market value of these investments as on the date of balance sheet was Rs. 6.5 lakhs.

3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original cost of these were Rs. 18 lakhs but had been written down to Rs. 12 lakhs to recognise permanent decline, as per AS 13.

(b) Garden Ltd. acquired fixed assets viz. plant and machinery for Rs.20 lakhs. During the same year it sold its furniture and fixtures for Rs.5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS-3?

(c) A company took a construction contract for Rs.100 lakhs in January, 2006. It was found that 80% of the contract was completed at a cost of Rs.92 lakhs on the closing date i.e. on 31.3.2007. The company estimates further expenditure of Rs.23 lakhs for completing the contract. The expected loss would be Rs.15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2007?

SUGGESTED ANSWERS/HINTS

1. Profit and Loss Account for 9 months ended on 30th September, 2009

	Particulars	*W.N.*	*Total (Rs.)*	*Pre-incorpor-ation 1.1.2009 to 30.4.2009*	*Post-incor-poration 1.5.2009 to 30.9.2009*		*Particulars*	*W.N.*	*Total Rs.*	*Pre-incorpor--ation 1.1.2009 to 30.4.2009*	*Post-incor-poration 1.5.2009 to 30.9.2009*
To	General expenses	2	14,220	6,320	7,900	By	Gross profit	1	56,000	16,000	40,000
To	Director's fees	3	5,000	-	5,000						
To	Forrmation exp.	4	1,500	-	1,500						
To	Rent	5	1,350	400	950						
To	Manager's salary	6	2,000	2,000	-						
To	Net profit-		31,930	-	-						
	-Capital Reserve		-	7,280	-						

-P&L Appropriation	-	-	24,650				
	56,000	16,000	40,000		56,000	16,000	40,000

Working Notes:

(1) Let the average monthly sales of first four months be Rs.100. Then the average monthly sales of next five months will be Rs.200.

Total sales of first four months = Rs.100 $\times 4$ = Rs.400 and that of next five months = Rs.200 $\times 5$ = Rs.1,000. The ratio of sales = 400:1000 or 2:5

The gross profit is apportioned on the basis of sales, i.e., 2:5. Therefore, the gross profit is apportioned as:

$$\text{Pre} - \frac{\text{Rs.}56{,}000}{7} \times 2 = \text{Rs.}16{,}000; \qquad \text{Post} - \frac{\text{Rs.}56{,}000}{7} \times 5 = \text{Rs.}40{,}000.$$

(2) General expenses accrue evenly throughout the period and are, therefore, divided on the basis of time.

$$\text{Pre} - \frac{\text{Rs.}14{,}220}{9} \times 4 = \text{Rs.}6{,}320; \qquad \text{Post} - \frac{\text{Rs.}14{,}220}{9} \times 5 = \text{Rs.}7{,}900.$$

(3) Directors' fees payable @ Rs.1,000 per month. It is to be found in company only. So Rs.5,000 (5 × Rs.1,000) must naturally be shown in post-period incorporation period.

(4) Formation expenses though incurred in point of time, before the company was in incorporated, are charge against the post incorporation profit.

(5) Rent for first four months = Rs.100 × 4 = Rs.400. For next five months = (Rs.100 × 2) + (Rs.250 × 3) = Rs.950.

(6) Salary to manager is related to pre-incorporation period only. Salary to be charged = Rs.500 × 4 = Rs.2,000.

2. Investment Account [Equity Shares in A Ltd.]

for the year ending on 31st December 2009

Dr. *Cr.*

Date		*Particulars*	*No.*	*Amount Rs.*	*Date*		*Particulars*	*No.*	*Amount Rs.*
01.04.09	To	Balance b/d	2,500	37,500	30.09.09	By	Bank (Sale of rights)		1,000
20.06.09	To	Bank	500	8,000	31.10.09	By	Bank (dividend on shares acquired on 2nd June)		1,000

16.08.09	To	Bonus	500		15.11.09	By	Bank (Sale of shares	2,500	37,500
30.09.09	To	Bank (Rights shares)	1,000	15,000	31.12.09	By	Balance c/d	2,000	26,000
15.11.09	To	P&L A/c profit on sale of shares		5,000					
			4,500	65,500				4,500	65,500

Working Notes:

(i) Bonus Shares $\left[\frac{2{,}500+500}{6}\right]=500\,\text{shares.}$

(ii) Rights shares $\left[\frac{2{,}500+500+500}{7}\times 3\right]$ = 1,500 shares

(iii) Rights shares renounced = [1,500 × $\frac{1}{3}$] = 500 shares

(iv) Dividend received $[2{,}500\times 10\times 20\%]=\text{Rs.}5{,}000.$

Dividend on share purchased on 20th June = 500 × 10 × 20% = Rs.1,000 is adjusted to Investment Account.

(v) Cost of Shares on 31st December

$$\left[\frac{(37{,}500+8{,}000+15{,}000-1{,}000-1{,}000)}{4{,}500}\right]=\text{Rs.}13\,\text{per share}$$

2,000 share x Rs.13 = Rs.26,000

(vi) Profit on sale of shares = 37,500 – (2,500 x 13) = Rs.5,000.

3. **Perfect Investment Pvt. Ltd.**

Hire Purchase Trading Account

Dr.						*Cr.*
			Rs.			*Rs.*
To	Opening Balance:			By	Bank	80,00,000
	H.P. Stock	2,40,000		By	Stock reserve	40,000
	H.P. Debtors	60,000	3,00,000	By	Trucks send on H.P.	14,08,000
To	Trucks send on H.P.			By	Closing Balance:	

	Purchased during the year	80,00,000		H.P. Stock	12,00,000
	Less: Other sales	8,00,000		H.P. Debtors	1,00,000
		72,00,000			
	Less: Closing Stock	1,60,000			
		70,40,000			
	Add: Loading	14,08,000	84,48,000		
To	Body Building Charges		4,00,000		
To	Bank (Interest paid)		80,000		
To	Stock reserve (20% on cost)		2,00,000		
To	Profit and Loss A/c		13,20,000		
			1,07,48,000		1,07,48,000

Working Notes:

Value of H.P. Stock:

(1)	Cost of trucks in respect of H.P. agreement subsisting as on 31.3.2009	40,00,000
(2)	H.P. price in respect thereof	48,00,000
(3)	Instalments not due (48 lakhs less 36 lakhs)	12,00,000

4. **Trading Account for the year ended 31st March, 2009**

Dr.					*Cr.*
		Rs.			*Rs.*
To	Opening stock	9,62,200	By	Sales	52,00,000
To	Purchase	45,25,000	BY	Closing stock	13,27,200
To	Gross profit	10,40,000			
		65,27,200			65,27,200

Rate of gross profit to sales = (10,40,000 / 52,00,000) x 100 = 20%

Period from 1st April 2009 to 18th August 2009 has 140 days or 20 weeks.

Hence, amount of defalcation = Rs. 2,000 x 20 = Rs. 40,000

Memorandum Trading Account from 1st April, 2009 to 22nd January, 2010

Dr.						*Cr.*
			Rs.			*Rs.*
To	Opening stock		13,27,200	By	Sales	49,17,000
To	Purchase	34,82,700		By	Unrecorded cash sales	
	Less: Cost of goods used for advertising	1,00,000	33,82,700		- Defalcation	40,000
To	Gross profit - 20% of recorded as well as unrecorded sales		9,91,400	By	Stock on 22nd January, 2010 (Bal. Fig.)	7,44,300
			57,01,300			57,01,300

Stock in hand on the date of fire = Rs. 7,44,300

5. For calculating managerial remuneration, first of all, the profit as per Section 349 have to be calculated in the following manner:

Calculation of Profits for the Purpose of Managerial Remuneration

Particulars	*Rs.*	*Rs.*
Net Profit		2,00,000
Add: Depreciation (to be treated separately)	40,000	
Preliminary expenses	10,000	
Tax provision	3,10,000	
Bonus (to be treated separately)	15,000	
Provision for doubtful debts	9,000	
Scientific research expenditure (W.N.1)	20,000	
Managing Director's remuneration	30,000	4,34,000
		6,34,000
Less: Depreciation allowable under Schedule XIV to the Companies Act	35,000	
Bonus liability as per Payment of Bonus Act, 1965	18,000	
Capital profit on sale of fixed assets (W.N.2)	6,500	59,500
Profit under section 349		5,74,500

Calculation of Managerial Remuneration

Particulars	*Rs.*
Remuneration payable to Managing Director @ 5% of Rs.5,74,500	28,725
Remuneration already paid to Managing Director	30,000
Excess amount paid	1,275

Working Notes:

(1) Cost of setting up new machinery for scientific research is a capital expenditure. Therefore, it will not be treated as allowable expenses for computing managerial remuneration. At the time of calculation of profit, it was deducted from Net Profit. So, it is to be added back.

(2) Calculation of Capital Profit on Sale of Fixed Assets

Particulars	*Rs.*
Sale Price (W.D.V. + Profit on sale, i.e., Rs.11,000 + Rs.15,500)	26,500
Less:Cost price (original)	20,000
Capital Profit	6,500

6. Total Debtors Accounts

Dr.					*Cr.*
2009		*Rs.*	*2009*		*Rs.*
Apr. 1	To Balance b/d	41,000	Apr. 1	By Balance b/d	2,000
" 30	To Credit Sales	44,100	" 30	By Cash	39,300
" 30	To Bills Receivable A/c	1,000	" 30	By Discount Account	950
" 30	To Cash (Noting Charges)	10	" 30	By Bad Debts Account	1,650
" 30	To Balance c/d (G)	1,800	" 30	By Returns Inwards A/c	500
			" 30	By Bills Receivable A/c	1,000
			" 30	By Total Creditor A/c (Transfer)	1,800
			" 30	By Balance c/d	40,710
		87,910			87,910
2009			2009		
May 1	To Balance b/d	40,710	May 1	To Balance b/d	1,800

Working Notes:

(i)	Cash Received:		*Rs.*
	From B		450
	From G		1,800
		Rs.	2,250
	Ex sales before April 1	27,300	

Ex sales during April	9,750	37,050
		39,300

(ii) Discount: Rs.37,050 × 2½ / 97½ = Rs.950

(iii) The creation of the Provision for Doubtful Debts will not affect the Total Debtors Account.

7. Trading and Profit and Loss A/c

for the year ended 30th September, 2009

				Rs.	Rs.
Sales					96,000
Less:	Cost of goods sold:				
	Opening Stock			12,400	
	Purchase			62,000	
				74,400	
	Less:	Closing stock		14,200	60,200
Less:	Wages				14,600
Gross Profit					21,200

	Half year to 31st March 2009		*Half year to 30th September 2009*	
	Rs.	*Rs.*	*Rs.*	*Rs.*
Gross profit allocated on time basis		10,600		10,600
Less: Expenses				
Salaries	3,450		2,250	
Trade expenses	765		1,015	
Rent and rates	500		500	
Bad debts	600		-	
Provision for doubtful debts	-		230	
Depreciation:				
Plant and machinery	700		700	
Motor vehicles	775		600	
Interest on loan	-		540	
		6,790		5,835
		3,810		4,765

Appropriation of profits:

Interest on Capital:

Glad	240			
Happy	180		84	
Joy			96	
		420		180
Remaining profits				
Glad	2,260			
Happy	1,130		2,751	
Joy		3,390	1,834	4,585
		3,810		4,765

(b) **Partners' Capital Accounts**

	Glad	*Happy*	*Joy*		*Glad*	*Happy*	*Joy*
	Rs.	*Rs.*	*Rs.*		*Rs.*	*Rs.*	*Rs.*
To Glad		3,200	4,800	By Balance b/d	8,000	6,000	
To Glad's Loan A/c	16,000			By Cash			3,000
To Balance c/d		2,800	3,200	By Happy	3,200		
				By Joy	4,800		
				By Cash			5,000
	16,000	6,000	8,000		16,000	6,000	8,000

Partners' Current Accounts

	Glad	*Happy*	*Joy*		*Glad*	*Happy*	*Joy*
	Rs.	*Rs.*	*Rs.*		*Rs.*	*Rs.*	*Rs.*
To Car taken over	600	-	-	By Balance b/d	2,400	1,600	
To Drawings	1,800	2,400	900	By Interest on capital	240	264	96
To Transfer to loan account	2,500			By Profit	2,260	3,881	1,834
To Balance c/d		3,345	1,030				
	4,900	5,745	1,930		4,900	5,745	1,930

(c)

Balance Sheet as at 30th September 2009

Assets	*Cost*	*Depreciation*	*Net*
	Rs.	*Rs.*	*Rs.*
Fixed assets:			
Plant and machinery	14,000	4,200	9,800
Motor vehicles	4,800	3,975	825
	18,800	8,175	10,625
Current assets:			
Stock		14,200	
Debtors		4,370	
Prepaid Rent		400	
Balance at bank		1,200	
		20,170	
Less: Current liabilities			
Outstanding Trade expenses		180	
Creditors		6,200	
Net current assets			13,790
			24,415
Financed by	*Happy*	*Joy*	*Total*
	Rs.	*Rs.*	*Rs.*
Capital accounts	2,800	3,200	6,000
Current accounts	3,345	1,030	4,375
Loan – Glad			14,040
			24,415

Working Notes

			Rs.	*Rs.*
1.	**Salaries**			
	Total as per trial balance			10,800
	Less: Partners' Drawings - Glad		1,800	
		Happy	2,400	
		Joy	900	5,100
				5,700

Allocation

Half-year to 31st March, 2009:	
$\frac{1}{2} \times$ (Rs.5,700 – Rs.1,200) + Joy's salary of Rs.1,200	3,450
Half-year to 30 September 2009:	
$\frac{1}{2} \times$ (Rs.5,700 – Rs.1,200)	2,250
	5,700

2. **Trade Expenses**

Total as per trial balance	1,600
Add: Accrual	180
	1,780

Allocation

Half-year to 31 March 2009:	
$\frac{1}{2} \times$ (Rs.1,780 – Rs.250)	765
Half-year to 30th September 2009:	
$\frac{1}{2} \times$ (Rs.1,780 – Rs.250) + professional charges of Rs.250	1,015
	1,780

3. **Rent and rates**

Total as per trial balance	1,400
Less: Rent paid in advance	400
Allocation: 50 : 50	1,000

4. **Depreciation**

Plant and machinery:

10% per annum on Rs.14,000 – Rs.1,400; Allocated 50:50

Motor vehicles:

Half-year to 31st March 2009: 25% per annum on Rs.6,200 = Rs.775

Half-year to 30th September 2009: 25% per annum on Rs.4,800 = Rs.600

5. **Glad's Loan Account**

	Rs.		*Rs.*
To Cash from Joy	5,000	By Transfer from capital account	16,000
To Balance c/d	14,040	By Transfer from current account	2,500

		By Profit and loss account:	
		Interest at 8% p.a. on Rs.13,500 for six months	540
	19,040		19,040
		By Balance b/d	14,040

6. **Car taken over by Glad**

	Rs.	Rs.
Cost		1,400
Depreciation – to 30th September 2009	625	
To 31st March, 2009	175	800
		600

7. **Motor vehicles**

	Cost	Depreciation
	Rs.	Rs.
Per trial balance	6,200	3,400
Less: Vehicle sold	1,400	800
	4,800	2,600
Charge for year to 30th September 2009		1,375
		3,975

8. **Debtors**

	Rs.
Balance per trial balance	4,600
Less: Provision for bad debts	230
	4,370

8.

City Club

Receipts and Payments Account

for the year ended 31st March, 2009

Receipts	*Rs.*	*Payments*	*Rs.*
To Opening balance:		By Premises	30,000
Cash on hand	450	By Rent	2,400
Bank balance	24,420	By Rates and taxes	3,780
To Subscriptions	62,130	By Printing and stationary	1,410

To Fair receipts	7,200	By Sundry expenses	5,350
To Variety show receipts (net)	12,810	By Wages	2,520
To Interest	690	By Fair expenses	7,170
To Bar collections	22,350	By Honorarium to secretary	11,000
To Sale proceeds of old car	9,000	By Bar purchases (payments)	17,310
		By Repairs	960
		By New Car	46,800
		By Closing balance	
		Cash in hand	Nil
		Bank balance	10,350
	1,39,050		1,39,050

Income and Expenditure Account

for the year ended 31st March, 2009

Expenditure	*Rs.*	*Rs.*	*Income*	*Rs.*	*Rs.*
To Rent		2,400	By Subscriptions	62,130	
To Rates and taxes		3,780	*Add:* Due as on 31.3.09	2,940	
To Printing and stationary		1,410		65,070	
To Wages		2,520	*Less*: Due as on 31.3.08	3,600	61,470
To Honorarium to secretary		12,000	By Surplus from fair:		
To Sundry expenses		5,350	Fair receipts	7,200	
To Repairs		960	*Less:* Fair expenses	7,170	30
To Depreciation on			By Surplus from variety show		12,810
Premises @ 5%	3,030				690
Car @20%	9,360	12,390	By Interest		6,000
			By Profit from bar (W.N.2)		
To Excess of income over expenditure		43,490	By Profit from sale of car (W.N. 3)		3,300
		84,300			84,300

Working Notes:

1. Calculation of bar purchases

Bar Creditors Account

Dr.			*Cr.*
	Rs.		*Rs.*
To Bank A/c	17,310	By Balance b/d	1,770
To Balance c/d	1,290	By Bar purchases	16,830
	18,600		18,600

2. Profit from bar:

	Rs.	*Rs.*
Bar collections		22,350
Less: Bar stock consumed-		
Opening stock	2,130	
Add: Purchases	16,830	
	18,960	
Less: Closing stock	2,610	16,350
		6,000

3. Profit on sale of car:

Sale proceeds of old car	9,000
Less: W.D.V. of old car (Rs. 36,570-Rs. 30,870)	5,700
	3,300

9. Trading and Profit and Loss Account of Mr. Shiv Kumar for the year ended 31st March, 2009

		Rs.			*Rs.*
To	Opening stock (balancing figure)	80,000	By	Sales	4,00,000
			By	Closing stock	40,000
To	Purchases	2,40,000			
To	Gross profit c/d @ 30% on sales	1,20,000			
		4,40,000			4,40,000
To	Miscellaneous expenses (Rs.80,000 – Rs.8,000 + Rs.10,000)	82,000	By	Gross profit b/d	1,20,000
			By	Miscellaneous receipts	20,000
			By	Net loss transferred to Capital A/c	25,840

To	Depreciation:			
	Building Rs. 36,000			
	Furniture Rs. 7,800			
	(Rs.6,800 + Rs.1,000)			
	Motor Car Rs. 16,000	59,800		
To	Loss on sale of furniture	11,000		
To	Bad debts	8,000		
To	Provision for doubtful debts	5,040		
		1,65,840		1,65,840

Balance Sheet of Mr. Shivkumar

as on 31st March, 2009

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital as on 1st April, 2008		7,16,000	Building	3,20,000	
			Add: Addition during the year	40,000	
Profit and Loss A/c	40,000			3,60,000	
Opening balance			*Less:* Provision for		
Less: Loss for the year	25,840	14,160	depreciation	36,000	3,24,000
			Furniture	60,000	
Sundry creditors		1,12,000	*Less:* Sold during the year	20,000	
Bills payable		16,000		40,000	
Outstanding salary		10,000	*Add:* Addition during the year	28,000	
				68,000	
			Less: Depreciation	6,800	61,200
			Motor car (at cost)	80,000	
			Less: Depreciation	16,000	64,000
			Stock in trade		40,000
			Sundry debtors	2,52,000	
			Less: Provision for doubtful debts @ 2%	5,040	2,46,960

		Bills receivable	28,000
		Cash in hand and at bank	1,04,000
	8,68,160		8,68,160

Working Notes:

Sundry Debtors Account

		Rs.			Rs.
To	Balance b/d	1,60,000	By	Cash/Bank A/c	2,00,000
To	Sales A/c	3,20,000	By	Bills Receivable A/c	20,000
			By	Bad debts A/c	8,000
			By	Balance c/d (balancing fig.)	2,52,000
		4,80,000			4,80,000

Sundry Creditors Account

		Rs.			Rs.
To	Cash/Bank A/c	1,84,000	By	Balance b/d	1,20,000
To	Bills Payable A/c	16,000	By	Purchases A/c	1,92,000
To	Balance c/d (balancing figure)	1,12,000			
		3,12,000			3,12,000

Bills Receivable Account

		Rs.			Rs.
To	Balance b/d	32,000	By	Cash/ Bank A/c (balancing figure)	24,000
To	Sundry Debtors A/c	20,000			
			By	Balance c/d	28,000
		52,000			52,000

Bills Payable Account

		Rs.			Rs.
To	Cash/Bank A/c (balancing figure)	28,000	By	Balance b/d	28,000
			By	Sundry Creditors A/c	16,000
To	Balance c/d	16,000			
		44,000			44,000

Furniture Account

		Rs.			Rs.
To	Balance b/d	60,000	By	Bank/Cash A/c	8,000
To	Bank A/c	28,000	By	Depreciation A/c	1,000
			By	Profit and loss A/c (loss on sale)	11,000
			By	Depreciation A/c	6,800
			By	Balance c/d	61,200
		88,000			88,000

Cash/Bank Account

		Rs.			Rs.
To	Balance b/d	1,80,000	By	Misc. trade expenses A/c	80,000
To	Miscellaneous receipts A/c	20,000	By	Purchases A/c	48,000
To	Sundry Debtors A/c	2,00,000	By	Furniture A/c (balancing figure)	28,000
To	Sales A/c	80,000	By	Sundry Creditors A/c	1,84,000
To	Furniture A/c (sale)	8,000	By	Bills Payable A/c	28,000
To	Bills Receivable A/c	24,000	By	Building A/c	40,000
			By	Balance c/d	1,04,000
		5,12,000			5,12,000

Opening Balance Sheet of Mr. Shivkumar

as on 31st March, 2008

Liabilities	*Rs.*	**Assets**	*Rs.*
Capital (balancing figure)	7,16,000	Building	3,20,000
Profit and loss A/c	40,000	Furniture	60,000
Sundry Creditors	1,20,000	Motor car	80,000
Bills Payable	28,000	Stock in trade	80,000
Outstanding salary	8,000	Sundry Debtors	1,60,000
		Bills Receivable	32,000
		Cash in hand and at bank	1,80,000
	9,12,000		9,12,000

10. Calculation of sum of periods from the date of each transaction:

1st payment is made after 12 months from the date of loan.

2nd payment is made after 18 months from the date of loan.

3rd payment is made after 24 months from the date of loan.

4th payment is made after 30 months from the date of loan.

5th payment is made after $\frac{36}{120}$ months from the date of loan.

Average due date = Date of loan+ $\frac{\text{Sum of months from 1st January, 2009 to the date of each installment}}{\text{Number of installments}}$

$=1^{st}$ January, 2009 + $\frac{120 months}{5}$

$=1^{st}$ January, 2009+ 24 months

$=1^{st}$ January, 2011

Interest = Rs. 25,000 x 10/100 x 2 years

= Rs. 5,000

11.

Cash flow from Operating Activities	*(Rs. in thousand)*	
Change in general reserve	–200	
Change in profit and loss account	–250	
Proposed dividend	3,400	
Provision for tax	0	
Profit before tax		2,950
Add: Depreciation	550	
Add: Miscellaneous Expenses	50	
Add/(Less): Profit /(loss) on sale of fixed assets	–50	
Add/(Less): Profit /(loss) on sale of investments	–500	50
Funds flow from operations		3,000
Add: Interest paid		1,421
Less: Interest and Dividend Received		–402
Add/(Less): Working Capital Adjustment		
Inventories	90	
Debtors	110	
Creditors	–150	
Outstanding expenses	30	80
Cash flow from Operating Activities (before Tax)		4,099

Less: Advance tax for 2009-2010		0
Cash flow from operating Activities (after tax)		4,099
Cash flow from Financing Activities		
Issue of shares		
Face value	1,500	
Premium	750	2,250
Repayment of Secured Loans	–200	
Raising of Unsecured Loans	1,350	
Net loan		1,150
Interest payment		–1,421
Dividend payment for 2009		–2,800
		–821
Cash flow from Investment Activities		
Purchase of Fixed Assets	–1,800	
Sale of Fixed Assets	150	
Capital WIP	–1,860	
Fixed Assets (Net)		–3,510
Purchase of Investments	–1,330	
Sale Proceeds of Investments	2,500	
Investments (Net)		1,170
Loans		–1,500
Interest and Dividend Income		402
		–3,438
Cash Flow Statement		
Cash flow from Operating Activities (after tax)		4,099
Cash flow from Financing Activities		–821
Cash flow from Investment Activities		–3,438
Increase/decrease in Cash and Bank Balance (120 – 280)		–160

12. In the Books of ABC Ltd.

Journal Entries

Particulars		*Rs.*	*Rs.*
8% Preference share capital A/c	Dr.	6,00,000	
To Preference shareholders A/c			4,20,000

To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital]			
Preference shareholders A/c	Dr.	4,20,000	
To 11% Debentures A/c			4,20,000
[Being the issue of debentures to preference shareholders]			
9% Debentures A/c	Dr.	12,00,000	
To Debenture holders A/c			12,00,000
[Being transfer of 9% debentures to debenture holders A/c]			
Debenture holders A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Sundry creditors A/c	Dr.	5,92,000	
To Stock A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving stocks]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

Capital Reduction Account

		Rs.			Rs.
To	Investments A/c	13,000	By	Preference share capital A/c	1,80,000
To	Profit and loss A/c	4,05,000	By	9% Debenture holders A/c	3,00,000
To	Capital reserve A/c	1,54,000	By	Sundry creditors A/c	92,000
		5,72,000			5,72,000

Balance Sheet of ABC Ltd. (And Reduced)

As on 31st March 2007

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital		Plant & machinery (9,00,000 – 9,00,000)	Nil
2,00,000 Equity shares of Rs.10 each fully paid-up	20,00,000	Furniture & fixtures	2,50,000
Capital reserve	1,54,000	Patents & copyrights	70,000
11% Debentures (Rs.4,20,000 + Rs.3,00,000)	7,20,000	Investments (Rs.68,000 – Rs.13,000)	55,000
		Stock (Rs.14,00,000 – Rs.5,00,000)	9,00,000
		Sundry debtors	14,39,000
		Cash at bank (refer W.N.)	1,60,000
	28,74,000		28,74,000

Working Note:

Cash at bank = Opening balance + 11% Debentures issued – Bank overdraft paid

= Rs.10,000 + Rs.3,00,000 – Rs.1,50,000

= Rs.1,60,000

13. (i) Statement showing calculation of purchase consideration

(Number of shares)

	A Ltd.	*B. Ltd.*
Existing shares	1,00,000	60,000
Less: Shares held by A Ltd.		5,000
	1,00,000	55,000
Value per share	*Rs.18*	*Rs.20*
Total value	Rs.18,00,000	Rs.11,00,000

No. of shares to be issued at a premium of Rs.6 per share i.e. Rs.16 (10+6)	1,12,500 shares	68,750 shares
	Rs.	*Rs.*
Share capital	11,25,000	6,87,500
Add: Securities premium	6,75,000	4,12,500
Total purchase consideration	18,00,000	11,00,000

(ii) Journal Entries in the books of A Ltd.

		Rs.	*Rs.*
Realisation A/c	Dr.	24,40,000	
To Land & building A/c			9,00,000
To Plant & machinery A/c			5,00,000
To Stock A/c			5,20,000
To Sundry debtors A/c			4,10,000
To Investments A/c			80,000
To Bank A/c			30,000
(Being assets transferred to Realisation A/c)			
Profit and loss A/c	Dr.	60,000	
To Creditors A/c			60,000
(Being contingent liability treated as real liability)			
10% Debentures A/c	Dr.	5,00,000	
Creditors A/c	Dr.	3,20,000	
To Realisation A/c			8,20,000
(Being transfer of liabilities to Realisation A/c)			
AB Ltd.	Dr.	18,00,000	
To Realisation A/c			18,00,000
(Being the purchase consideration accounted for)			
Share in AB Ltd. A/c	Dr.	18,00,000	
To AB Ltd.			18,00,000
(Being purchase consideration received)			

Share Capital A/c	Dr.	10,00,000	
Securities premium A/c	Dr.	2,00,000	
General Reserve A/c	Dr.	3,00,000	
Profit and Loss A/c	Dr.	1,20,000	
Realisation A/c	Dr.	1,80,000	
To Shareholders A/c			18,00,000
(Being transfer of balances to shareholders' account)			
Shareholders A/c	Dr.	18,00,000	
To Shares in AB Ltd.			18,00,000
(Being closure of shareholders a/c)			

(iii) Journal Entries in the Books of AB Ltd.

		Rs.	*Rs.*
Land & building A/c	Dr.	9,00,000	
Plant & machinery A/c	Dr.	5,00,000	
Stock A/c	Dr.	5,20,000	
Debtors A/c	Dr.	4,10,000	
Bank A/c	Dr.	30,000	
Goodwill A/c	Dr.	2,60,000	
To 10% Debentures A/c			5,00,000
To Sundry creditors A/c			3,20,000
To Liquidator of A Ltd. A/c			18,00,000
(Being the purchase consideration of A Ltd. accounted for)			
Land & building A/c	Dr.	4,50,000	
Plant & machinery A/c	Dr.	3,80,000	
Stock A/c	Dr.	3,50,000	
Debtors A/c	Dr.	2,60,000	
Bank A/c	Dr.	40,000	
Goodwill A/c	Dr.	90,000	
To Secured loan A/c			3,00,000
To Sundry creditors A/c			1,70,000
To Liquidator of B Ltd. A/c			11,00,000
(Being purchase consideration of B Ltd. accounted for)			

Liquidator of A Ltd. A/c	Dr.	18,00,000	
To Equity share capital A/c			11,25,000
To Securities premium A/c			6,75,000
(Being shares issued to Liquidator of A Ltd.)			
Liquidator of B Ltd. A/c	Dr.	11,00,000	
To Equity share capital A/c			6,87,500
To Securities premium A/c			4,12,500
(Being shares issued to Liquidator of B Ltd.)			

(iv) Balance Sheet of AB Ltd.

(After amalgamation of A Ltd. & B Ltd.)

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Goodwill (2,60,000 + 90,000)	3,50,000
1,81,250 Equity shares of Rs.10 each fully paid up	18,12,500	Land & building	13,50,000
(above shares have been issued for consideration other than cash)		Plant & machinery Stock	8,80,000 8,70,000
Securities premium	10,87,500	Sundry debtors	6,70,000
10% Debentures	5,00,000	Cash at bank	70,000
Secured loan	3,00,000		
Sundry creditors	4,90,000		
	41,90,000		41,90,000

14. Profit and Loss Account –(below the line)

for the year ended 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/f	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:

Balance of amount available for Preference and Equity shareholders and Bonus for Employees	*Rs.*
Credit Side	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 will be = x

Suppose 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 = $\frac{2}{3}x \times \frac{10}{100} = \frac{2}{30}x$

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

32 x = 89,71,200

x = 89,71,200/32 = 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

15. Computation of entitlement of legal heirs of C

(1) Profits for the half year ended 31st March, 2009

	Rs.
Profits for the year ended 31st March, 2009 (after depreciation)	48,000
Add : Depreciation	10,000
Profits before depreciation	58,000
Profits for the first half (assumed : evenly spread)	29,000
Less : Depreciation for the first half	6,000
Profits for the first half year (after depreciation)	23,000
Profits for the second half (i.e., 1st October, 2008 to 31st March, 2009)	29,000
Less : Depreciation for the second half	4,000
Profits for the second half year (after depreciation)	25,000

(2) Capital Accounts of Partners as on 30th September, 2008

Dr. Cr.

		A	B	C			A	B	C
		Rs.	Rs.	Rs.			Rs.	Rs.	Rs.
To	Fixed Assets (loss on revaluation)	6,000	8,000	6,000	By	Balance b/d	48,000	64,000	48,000
					By	Reserve	6,000	8,000	6,000
					By	Goodwill	18,000	24,000	18,000
To	Drawings	9,000	12,000	20,000	By	P & L Appropriation A/c (Interest on Rs. 48,000 @ 25% for 6 months)	—	—	6,000
To	C Executor's A/c			52,000					
To	Balance c/d	57,000	76,000	–					
		72,000	96,000	78,000			72,000	96,000	78,000

(3) Application of Section 37 of the Partnership Act

Legal heirs of C have not been paid anything other than the share in joint life policy. The amount due to the deceased partner carries interest at the mutually agreed upon rate. In the absence of any agreement, the representatives of the deceased partner can receive at their option interest at the rate of 6% per annum or the share of profit earned for the amount due to the deceased partner.

Thus, the representatives of C can opt for

Either,

(i) Interest on Rs. 52,000 for 6 months @ 6% p.a. = Rs. 1,560

Or

(ii) Profit earned out of unsettled capital (in the second half year ended 31st March, 2009)

$$\text{Rs. } 25{,}000 \times \frac{52{,}000}{57{,}000 + 76{,}000 + 52{,}000} = \text{Rs. } 7{,}027 \text{ (approx.)}$$

In the above case, it would be rational to assume that the legal heirs would opt for Rs. 7,027.

(4) Amount due to legal heirs of C

	Rs.
Balance in C's Executor's account	52,000
Amount of profit earned out of unsettled capital [calculated in (3)]	7,027
Amount due	59,027

16. Journal Entries in the Books of Trinity Ltd.

		Dr. *Rs.*	*Cr.* *Rs.*
Securities Premium A/c	Dr.	10,000	
To Premium on Redemption of Preference shares			10,000
(Being amount of premium payable on redemption of preference shares)			
10% Redeemable Preference Capital	Dr.	10,00,000	
Premium on redemption of Preference Shares	Dr.	10,000	
To Preference Shareholders			1,10,000
(Being the amount payable to preference shareholders on redemption)			
General Reserve A/c	Dr.	1,00,000	
To Capital Redemption Reserve			1,00,000
(Being transfer to the latter account on redemption of shares)			
Bank A/c	Dr.	45,000	
Profit and Loss A/c	Dr.	5,000	

To Investments			50,000
(Being amount realised on sale of Investments and loss thereon adjusted)			
Preference shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Being payment made to preference shareholders)			
Capital Redemption Reserve A/c	Dr.	1,00,000	
To Bonus to Shareholders			1,00,000
(Amount adjusted for issuing bonus share in the ratio of 1 : 1.)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital			1,00,000
(Balance on former account transferred to latter)			

(b) **Cash and Bank A/c**

Dr.				*Cr.*
		Rs.		*Rs.*
To Balance b/d		50,000	By Preference Dividend	10,000
To Cash from operations:			By Preference shareholders	1,10,000
Profit	15,000		By Balance c/d	30,000
Add : Depreciation	20,000			
Add : Miscellaneous Expenditure written off	20,000	55,000		
To Investments		45,000		
		1,50,000		1,50,000

(c) **Balance Sheet of Trinity Limited**
as at 31st March, 2009 (after redemption)

Liabilities	*Rs.*	*Assets*		*Rs.*
Share Capital		Fixed Assets		
Authorised Capital	10,00,000	Gross Block	3,00,000	
Issued, Subscribed and Paid-up		*Less* : Depreciation		

Capital			upto 31.3.2008		1,00,000	
20,000 Equity Share						
of Rs. 10 each fully paid		2,00,000	For the year	20,000	1,20,000	1,80,000
(10,000 shares have been						
allotted as Bonus Shares			Investments			
by capitalising capital			(Market Value Rs. 45,000)			50,000
Redemption Reserve)			Current Assets, Loans and Advances			
Reserves and Surplus						
General Reserve	20,000		Inventory		25,000	
Securities Premium	60,000		Debtors		25,000	
Profit and Loss A/c	18,500	98,500	Cash and Bank Balance		30,000	80,000
Current Liabilities and Provisions						
Sundry Creditors		11,500				
		3,10,000				3,10,000

Working Notes:

(i) Profit and Loss Account for the year ending 31st March, 2009

		Rs.
Balance as on 1.4.2008	18,500	
Add : Profit for the year	15,000	33,500
Less : Preference Dividend	10,000	
Loss on sale of investments	5,000	15,000
Balance as on 31.3.2009		18,500

(ii)

General Reserve	1,20,000
Less : Transfer to Capital Redemption Reserve	1,00,000
Balance as on 31.3.2009	20,000

(iii)

Securities Premium	70,000
Less : Premium on Redemption of Preference shares	10,000
Balance as on 31.3.2009	60,000

(iv)

Capital Redemption Reserve	1,00,000
Less : Transfer for Bonus Shares	1,00,000
Balance as on 31.3.2009	NIL

(v) Sale of Investments:

Cost of Investments	50,000
Less : Cash Received	45,000
Loss on Sale of Investments	5,000
Total Investments:	1,00,000
Less : Cost of Investments sold	50,000
Cost of Investments on hand	50,000
Market value (90% of Rs. 50,000)	45,000

17. Prepackaged accounting softwares are easy to use, relatively inexpensive and readily available. The installation of these softwares are very simple. An installation diskette or CD is provided with the software which can be used to install the software on a personal computer. A network version of this software is also generally available which needs to be installed on the server and work can be performed from the various workstations or nodes connected to the server. Along with the software an user manual is provided which guides the user on how to use the software. After installation of the software, the user should check the version of the software to ensure that they have been provided with the latest. The vendor normally provides regular updates to take care of the changes of law as well as add features to the existing software. These softwares normally have a section which provides for the creation of a company. The name, address, phone numbers and other details of the company like VAT registration number, PAN and TAN numbers are feeded into the system. The accounting period has to be set by inserting the first and the last day of the financial year. The next step in the use of this software could be the creation of accounts. This is done by adding the accounts along with their codes into the master file files. Each account has to be classified into whether it is an asset or liability or an income or expenditure account. Whether the account has other subsidiary ledgers under it needs to be indicated to the system. The opening balances are to be entered into the master file files. The company parameters need to be set at this point of time so that the accounts which are the cash, bank, sundry debtors, sundry creditors, etc are known to the system. The customers name, address and other basic details are also entered in the customer master file. Similarly, the creditors details are entered into the creditor master file files. Product details are entered through the product master file files. Here the unit of measurement and the opening stock quantities including the values are provided. The system of valuation of stock like the FIFO, LIFO, Weighted average, etc are defined in the product master file files.

18. **(a)** In the Debtors method, Hire purchase Trading account is prepared. The objective of preparing Hire Purchase Trading Account is to measure the profitability of the Hire Purchase division separately. The following are the steps to be followed while preparing a Hire Purchase Trading Account:

(1) Credit all down payments and instalments falling due to hire purchase sales account. Transfer balance in Hire Purchase Sales Account to Hire Purchase

Trading Account.

(2) Transfer cost of all transactions to Hire Purchase Trading Account.

Hire Purchase Trading A/c Dr.

To Shop Stock A/c

(3) Charge any special expenses to Hire Purchase Trading Account.

(4) Treat instalments not yet due as stock lying with customers and transfer to Hire Purchase Trading Account.

(5) Charge appropriate stock reserve.

(b) Profit and Loss Appropriation Account: Profit and Loss Appropriation Account is prepared by a partnership firm to distribute the net profit among the partners in accordance with the partnership deed. Any interest on drawing is added to the net profit and thereafter out of such total profit, interest on partners' capital, salaries, commission, rent etc. are distributed as per agreement. Lastly, the balance of profit is distributed among the partners at the profit sharing ratio.

(c) Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. The ostensible purpose of the standard setting bodies is to promote the dissemination of timely and useful financial information to investors and certain other parties having an interest in the company's economic performance. Accounting Standards reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises.

Accounting Standards deal with the issues of

(i) recognition of events and transactions in the financial statements,

(ii) measurement of these transactions and events,

(iii) presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

(iv) the disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

Accounting Standards standardize diverse accounting policies with a view to eliminate, to the maximum possible extent,

(i) the non-comparability of financial statements and thereby improving the reliability of financial statements, and

(ii) to provide a set of standard accounting policies, valuation norms and disclosure requirements.

(d) A company taking over a running business may also agree to collect its debts as an agent for the vendors and may further undertake to pay the creditor on behalf of the vendors. In such a case, the debtors and creditors of the vendors will be included in the accounts for the company by debit or credit to separate Total Accounts in the General Ledger to distinguish them from the debtors and creditors of the business and contra entries will be made in corresponding Suspense Accounts. Also details of debtors' and creditors' balance will be kept in separate ledgers. In order that the collections from debtors and payments of creditors of vendors may not get mixed up with those of the company, it is a desirable procedure further to distinguish them by having separate columns for them in the Cash Book.

19. (a) AS-14 'Accounting for Amalgamations'. Para 3(*g*) of AS-14 defines the term purchase consideration as the "aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company". Therefore purchase consideration does not include the sum which the transferee company will directly pay to the creditors of the transferor company. The purchase consideration essentially depends upon the fair value of its elements. For example, when the consideration includes securities, the value fixed by the statutory authority may be taken as the fair value. In case of other assets, the fair value may be determined by reference to the market value of the assets given up or in the absence of market value, book value of the assets are considered.

Sometimes adjustments may have to be made in the purchase consideration in the light of one or more future events. When the additional payment is probable and can be reasonably estimated it is to be included in the calculation of purchase consideration.

(b) The advantages of this system are:

(i) It fixes the responsibility of the ledger keeper, as to the balancing of the ledger or ledger under his/her charge and the person responsible for the mistake can be called upon to work overtime to locate it. Errors are localised.

(ii) It enables preparation of interim accounts without personal ledgers having to be balanced.

(iii) The figures of total debtors or creditors is readily available.

(c) Features of Hire Purchase Instalment system

1. *Possession:* The hire vendor transfers only possession of the goods to the hire purchaser immediately after the contract for hire purchase is made.
2. *Instalments:* The goods is delivered by the hire vendor on the condition that a hire purchaser should pay the amount in periodical instalments.
3. *Down Payment:* The hire purchaser generally makes a down payment on signing the agreement.

4. *Constituents of Hire purchase instalments:* Each instalment consists partly of a finance charge (interest) and partly of a capital payment.

5. *Ownership:* The property in goods is to pass to the hire purchaser on the payment of the last instalment and exercising the option conferred upon him under the agreement.

6. *Repossession:* In case of default in respect of payment of even the last instalment, the hire vendor has the right to take the goods back without making any compensation.

(d) Where any member of a firm has died or otherwise ceased to be a partner, and the surviving or continuing partners carry on the business of the firm with the property of the firm without any final settlement of accounts as between them and the outgoing partner or his estate, then, in the absence of a contract to the contrary, the outgoing partner or his estate is entitled at the option of himself or his representatives to such share of the profits made since he ceased to be a partner as may be attributable to the use of his share of the property of the firm or to interest at the rate of six per cent per annum on the amount of his share in the property of the firm :

Provided that where by contract between the partners an option is given to surviving or continuing partners to purchase the interest of a deceased or outgoing partner, and that option is duly exercised, the estate of the deceased partner, or the outgoing partner or his estate, as the case may be, is not entitled to any further or other share of profits; but if any partner assuming to act in exercise of the option does not in all material respects comply with the terms thereof, he is liable to account under the foregoing provisions of this section. This way, the outgoing partner has the option to receive, interest at the rate of 6% p.a. or the share of profit earned on the unsettled amounts for the period till his dues are settled by the firm in the absence of any contract made to the contrary.

It may be noted that the outgoing partner is not bound to make election until the share of the profit that would be payable to him has been ascertained.

(e) Account current is a running statement of transactions between parties, maintained in the form of a ledger account, for a given period of time and includes interest allowed or charged on various items. It is prepared when transactions regularly take place between two parties. An account current has two parties – one who renders the account and the other to whom the account is rendered.

20. (a) If debit side exceeds credit side then the difference may be any of the following item:

(i) Closing cash balance or bank balance; or

(ii) Opening bank overdraft;

(iii) Cash purchase; or

(iv) Payment to creditors; or

(v) Bills Payable discharged; or

(vi) Drawings; or

(vii) Purchase of fixed assets; or

(viii) Sundry expenses; or

(ix) Cash embezzlement by cashier.

(b)

Cash Price	=	Down Payment + Present Value of Instalments
	=	Rs.19,152 + Rs. 15,000 x 2.7232
	=	Rs.19,152 + Rs.40,848
	=	Rs.60,000

(c)

Estimated Profits for the period from 1.1.2009 to 31.3.2009

$= \frac{\text{Rs.}30{,}000}{\text{Rs.}3{,}60{,}000} \times 54{,}000$ 4,500

Share of X $\left(\text{Rs.}4{,}500 \times \frac{3}{6}\right)$ 2,250

(d) $\text{Amount of claim} = \frac{\text{Stock destoyed by fire}}{\text{Total stock before fire}} \times \text{Amount of Policy}$

$$= \frac{90{,}000}{1{,}30{,}000} \times 65{,}000 = \text{Rs.}45{,}000$$

21.

(a) **Statement showing Profit earned during the year**

	Rs.
Capital at the end of the year	25,00,000
Add: Drawings	2,00,000
	27,00,000
Less: Additional Capital	(1,00,000)
	26,00,000
Less: Capital at the beginning of the year	(20,00,000)
Profit earned during the year	6,00,000

(b) Calculation of Closing Stock:

Cost of goods sold	=	Sales – Gross Profit
	=	$2.10,000 - 2,10,000 \times \frac{25}{125}$ = Rs.1,68,000
Total stock available	=	Opening Stock + Purchases
	=	30,000 + 1,70,000
	=	Rs.2,00,000
Closing Inventory	=	Total stock available – Cost of goods sold
	=	Rs.2,00,000 – 1,68,000
	=	Rs.32,000

(c)

In the books of Y Co. Ltd.

Journal Entry

		Rs.	*Rs.*
Liquidator of X Co. Ltd.	Dr.	50,00,000	
General Reserve (of X Co. Ltd.)	Dr.	5,00,000	
To Equity Share Capital A/c			55,00,000
(The excess of shares issued over the existing value in the books of X Co. Ltd. adjusted in carrying value of General Reserve).			

(d)

Journal Entries		*Dr. (Rs.)*	*Cr. (Rs.)*
A's Capital A/c	Dr.	20,000	
To C's Capital A/c			20,000
(Being adjusting entry passed for goodwill on change in profit and loss sharing ratio)			

(e) Journal entry to be passed for accounting unrealized pProfit 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)

<u>(Being adjustment for unrealized profit on stock)</u>

22. (a) For a company under liquidation, the fundamental accounting assumption of "going concern" is apparently not valid. The assets and liabilities would stand appropriately adjusted to reflect the realizable value, by way of carrying amounts. This information will be required to be disclosed by the company under AS 1 on Disclosure of Accounting Policies.

(b) Inventories are usually written down to Net Realisable Value on an item-by-item basis. They should not be valued at Net Realisable Value on-

1. Wholistic basis i.e. all items of inventory taken together and
2. Classification basis e.g. all finished goods, or all inventories in a particular business segment.

Exceptions: In special circumstances, it may be appropriate to group similar or related items, viz.,

1. Inventory items relating to the same product line that have similar purposes or end uses;
2. produced and marketed in the same geographical area; and
3. Cannot be practicably evaluated separately from other items in the product line.

(c) Where the depreciable assets are revalued, the provision for depreciation should be based on the revalued amount and on the estimate of the useful lives of such assets.

If revaluation has a material effect on the amount of depreciation, the same should be disclosed separately in the year in which revaluation is carried out.

(d) *Interest*: On time proportion basis considering the amount outstanding and rate of interest.

Royalties: On accrual basis in accordance with the terms of relevant agreement.

Dividends: When the owner's right to receive payment is established.

23. (a) As a result of the uncertainties in business activities, many financial statement items cannot be measured with precision but can only be estimated. These are called accounting estimates. Therefore, the management makes various estimates and assumptions of assets, liabilities, incomes and expenses as on the date of preparation of financial statements. This process of estimation involves judgements based on the latest information available.

Examples of estimation in some fields are:

(i) Estimation of useful life of depreciable assets.

(ii) Estimation of provision to be made for bad and doubtful debts.

(b) (i) Revaluation of fixed Assts

According to Accounting Standard 10 on "Accounting for Fixed Assets"

(a) When fixed assets are revalued in financial statements, the basis of selection should be an entire class of assets or the selection should be done on a systematic basis. The basis of selection should be disclosed.

(b) The revaluation of any class of assets should not result in the net book value of that class being greater than the recoverable amount of that class of assets.

(c) The accumulated depreciation should not be credited to profit and loss account.

(d) The net increase in book value should be credited to a revaluation reserve account.

(e) On disposal of a previously revalued item of fixed asset, the difference between net disposal proceeds and the net book value should be charged or credited to the profit and loss account except that to the extent to which such a loss is related to an increase and which has not been subsequently reversed or utilised may be charged directly to that account.

(c) As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

(i) The Pooling of Interest Method

Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

(ii) The Purchase Method

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company.

(d) According to paragraphs 38, 39 and 41 of AS 7, an enterprise should disclose:

(a) the amount of contract revenue recognized as revenue in the period;

(b) the methods used to determine the contract revenue recognized in the period; and

(c) the methods used to determine the stage of completion of contracts in progress.

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

(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;

(b) the amount of advances received; and

(c) the amount of retentions.

An enterprise should also present:

(a) the gross amount due from customers for contract work as an asset; and

(b) the gross amount due to customers for contract work as a liability.

24. (a) The use of standard cost of elements of cost of production has been suggested by AS-2 as a matter of convenience only. In fact, AS-2 aims to suggest the use of absorption costing based on normal capacity. AS-2 says that standard cost system may be used for convenience if the results approximate the actual cost. If the company can adopt absorption costing for value of inventory, then the standard cost systems need not be adopted.

(b) The company should disclose the change in method of depreciation adopted for the accounting year. The impact on depreciation charge due to change in method must be quantified and reported by the enterprise.

Following aspects may be noted in this regard as per AS 6 on Depreciation Accounting.

(a) The depreciation method selected should be applied consistently from period to period.

(b) A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.

(c) When such a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed.

(d) In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss.

(e) In case the change in the method results in surplus, the surplus should be credited to the statement of profit and loss. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

(c) Paragraph 8.4 and 13 of Accounting Standard 9 on Revenue Recognition states that dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established.

In the given case, the dividend is proposed on 10th April, 2009, while it is declared on 15th June, 2003. Hence, the right to receive payment is established on 15th June, 2009. As per the above mentioned paragraphs, income from dividend on units of mutual funds should be recognised by X Ltd. in the financial year ended 31st March, 2010.

The recognition of Rs. 10 lakhs on accrual basis in the financial year 2008-2009 is not as per AS 9 'Revenue Recognition'.

(d) As per para 14.4, and para 32 of AS 10 loss of Rs. 150 lakhs should be taken to Revaluation reserve corresponding to these assets. Surplus of revaluation reserve following the retirement or disposal of an asset which relates to that asset may be transferred to general reserve. (Debit profit on sale of property, and credit loss on sale, and credit general reserve).

25. (a) The transfers should be made at lower of (a) Cost, and (b) Fair value at the date of transfer.

1. In this case, the transfer should be made at cost (being lower of Rs. 20 lakhs and Rs. 25 lakhs) and hence the long term investments should be carried at Rs. 20 lakhs.

2. In the second case, the transfer should be made at Market Value (being lower of Rs. 15 lakhs and Rs. 6.5 lakhs) and hence the long term investments should be carried at Rs. 6.50 lakhs. The loss of Rs. 15 – Rs. 6.5 = Rs. 8.5 lakhs should be provided for in the profit and loss account.

3. Here, the transfer should be made at carrying amount (being lower of Rs. 18 lakhs and Rs. 12 lakhs) and hence these reclassified current investments should be carried at Rs. 12 lakhs.

(b) According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard.

Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furniture and fixtures.

(c) As per paragraphs 31 and 35 of AS 7 on Construction Contracts, an expected loss on the construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work has commenced on the contract; or (ii) the stage of completion of the contract; or (iii) the amount of profits expected to arise in other contracts.

Hence, the company must recognize the loss immediately