PAPER – 1 : ACCOUNTING

*Answer **all** questions*

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

Working notes should form part of the answer

Question 1

(i) A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. Their capitals are Rs. 60,000 and Rs. 40,000 respectively. They admit C as a new partner who will get 1/6th share in the profit of the firm. C brings in Rs. 25,000 as his capital. Find out the amount of goodwill on the basis of the above information.

(ii) From the following, calculate the cash price of the asset:

	Rs.
Hire purchase price of the asset	50,000
Down payment	10,000
Four annual instalments at the end of each year	10,000
Rate of interest	5% p.a

(iii) Mr. X purchased 1,000, 6% Government Bonds of Rs. 100 each on 31st January, 2009 at Rs. 95 each. Interest is payable on 30th June and 31st December. The price quoted is cum interest. Journalise the transaction.

(iv) Swaminathan owed to Subramanium the following sums :

Rs. 5,000 on 20th January, 2009

Rs. 8,000 on 3rd March, 2009

Rs. 6,000 on 5th April, 2009

Rs. 11,000 on 30th April, 2009

Ascertain the average due date.

(v) A company acquired a machine on 1.4.2006 for Rs. 5,00,000. The company charged depreciation upto 2008-09 on straight line basis with estimated working life of 10 years and scrap value of Rs. 50,000. From 2009-10, the company decided to change depreciation method at 20% on reducing balance method. Compute the amount of depreciation to be debited to Profit and Loss Account for the year 2009-10.

(vi) An unquoted long-term investment is carried in the books at cost of Rs. 2 lacs. The published accounts of unlisted company received in May, 2009 showed that the company has incurred cash losses with decline market share and the long-term investment may not fetch more than Rs. 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2009?

(vii) *In the absence of a partnership deed, what will be your decision in disputes amongst partners regarding the following matters:*

(a) *Profit sharing ratio;*

(b) *Interest rate, at which interest is to be allowed to a partner, on loan given to the firm by a partner.*

(viii) *According to Accounting Standard 9, when revenue from sales should be recognised?*

(ix) *In January, 2010 a firm took an insurance policy for Rs. 60 lakhs to insure goods in its godown against fire subject to average clause. On 7th March, 2010 a fire broke out destroying goods costing Rs. 44 lakhs. Stock in the godwon was estimated at Rs.80 lakhs. Compute the amount of insurance claim.*

(x) *On 1st April, 2009 a car company sold to Arya Bros., a motor car on hire-puchase basis. The total hire-puchase price was Rs. 4,60,000 with down payment of Rs. 1,60,000. Balance amount was to be paid in three annual instalments of Rs. 1,00,000 each. The first instalment payable on 31st March, 2010. The cash price of the car was Rs. 4,00,000.*

How will Arya Bros. account for interest over three accounting years assuming books of accounts are closed on 31st March every year. *(10 x 2 = 20 Marks)*

Answer

(i) Calculation of Goodwill

C brings capital for 1/6th share in profit	=	Rs.25,000
Therefore, total capital of the firm	=	Rs.25,000 × 6 = Rs.1,50,000
Capital of old partners should be	=	Rs.1,50,000 – Rs.25,000 = Rs.1,25,000
Actual combined capital of old partners	=	Rs.60,000 + Rs.40,000 = Rs.1,00,000
So, the goodwill of the firm	=	Rs.1,25,000- Rs.1,00,000=Rs.25,000

(ii) Calculation of cash price of the asset

Number of instalments	*Closing balance*	*Amount of instalment*	*Total*	*Interest 5/105*	*Opening balance*
4	0	10,000	10,000	476	9,524
3	9,524	10,000	19,524	930	18,594
2	18,594	10,000	28,594	1,362	27,232
1	27,232	10,000	37,232	1,773	35,459

Cash price of the asset = Down payment + Rs.35,459

= Rs.10,000 + Rs.35,459

= Rs.45,459

(iii) Journal Entry

Date	*Particulars*		*Amount (Dr.) Rs.*	*Amount (Cr.) Rs.*
31st Jan., 2009	Investment A/c	Dr.	94,500	
	Interest A/c (Rs. $1,00,000 \times \frac{6}{100} \times \frac{1}{12}$)	Dr.	500	
	To Bank A/c			95,000
	(Being purchase of 1,000, 6% Government bonds of Rs.100 each at Rs.95 each cum interest)			

(iv) Calculation of average due date taking 20th January as the base date

Due Date	*Amount Rs.*	*No. of days from 20th January*	*Product*
20th January	5,000	0	0
3rd March	8,000	42	3,36,000
5th April	6,000	75	4,50,000
30th April	11,000	100	11,00,000
	30,000		18,86,000

Average due date $= 20^{th}\text{ January} + \frac{\text{Total Product}}{\text{Total Amount}}$

$= 20^{th}\text{ January} + \frac{18,86,000}{30,000}$

= 20th January, 2009 + 63 days (approx)

= 24th March, 2009

(v) Annual depreciation charged by the company up to 2008-09

$= \frac{\text{Cost price of the machine - Scrap value}}{\text{Useful life of the machine}}$

$= \frac{\text{Rs.}5,00,000 - \text{Rs.}50,000}{10} = \text{Rs.}45,000$

WDV of machine at the end of 2008-09 by Straight Line Method (SLM)

= Rs.5,00,000 – (Rs.45,000 × 3) = Rs.3,65,000

Depreciation by Reducing Balance Method (RBM)

	Cost / WDV at the beginning of the year Rs.		Depreciation Rs.	WDV at the end of the year Rs.
2006-07	5,00,000	5,00,000 × 20%	1,00,000	4,00,000
2007-08	4,00,000	4,00,000 × 20%	80,000	3,20,000
2008-09	3,20,000	3,20,000 × 20%	64,000	2,56,000
			2,44,000	
2009-10	2,56,000	2,56,000 × 20%	51,200	2,04,800

Depreciation to be charged in 2009 – 2010

	Rs.
Book value of the machine as per SLM as on 2008-09	3,65,000
Less: Book value of the machine as per RBM as on 2008-09	(2,56,000)
	1,09,000
Add: Depreciation for the year 2009-10 as per RBM	51,200
Total depreciation debited to Profit and Loss account in the year 2009-10	1,60,200

(vi) As per para 32 of AS 13 'Accounting for Investments', investment classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. As per para 17 of the standard, indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

The facts of given case clearly suggest that there is decline in the market share of the company and the investment will not fetch more than Rs.20,000. Therefore, the provision of Rs.1,80,000 should be made to reduce the carrying amount of long term investment to Rs.20,000 in the financial statements for the year ended 31st March, 2009.

(vii) In the absence of a partnership deed:

(a) The partners will share profits/losses equally; and

(b) Interest @ 6% per annum is to be paid on the loan advanced to the firm by a partner.

(viii) As per para 11 of AS 9 'Revenue Recognition', revenue from sales should be recognised only when requirements as to performance are satisfied provided that at the time of performance it is not unreasonable to expect ultimate collection. These requirements can be given as follows:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

(ix) Amount of insurance claim $= \text{Amount of loss due to fire} \times \dfrac{\text{Amount of insurance policy}}{\text{Total stock in the godown}}$

$$= \text{Rs.44 lakhs} \times \frac{\text{Rs.60 lakhs}}{\text{Rs.80 lakhs}} = \text{Rs.33 lakhs}$$

(x) Total interest on hire purchase transactions= Rs.4,60,000 – Rs.4,00,000 = Rs.60,000

As balance payment is made in three equal instalments, so interest is to be allocated in the ratio of 3:2:1

$$\text{Therefore, interest for Ist year} = \text{Rs.60,000} \times \frac{3}{6} = \text{Rs.30,000}$$

$$\text{IInd year} = \text{Rs.60,000} \times \frac{2}{6} = \text{Rs.20,000}$$

$$\text{IIIrd year} = \text{Rs.60,000} \times \frac{1}{6} = \text{Rs.10,000}$$

Question 2

The books of account of Ruk Ruk Maan of Mumbai showed the following figures:

	31.3.2008 Rs.	31.3.2009 Rs.
Furniture & fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000

An analysis of the cash book revealed the following:

	Rs.
Cash sales	*16,20,000*
Collection from debtors	*10,58,000*
Discount allowed to debtors	*20,000*
Cash purchases	*6,15,000*
Payment to creditors	*9,73,000*
Discount received from creditors	*32,000*
Payment for bills payable	*4,30,000*
Drawings for domestic expenses	*1,20,000*
Salaries paid	*2,36,000*
Rent paid	*1,32,000*
Sundry trade expenses	*81,000*

Depreciation is provided on furniture & fixtures @10% p.a. on diminishing balance method. Ruk Ruk Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare Trading and Profit and Loss account for the year ended 31st March, 2009 and Balance Sheet as on that date. *(16 Marks)*

Answer

In the books of Ruk Ruk Maan

Trading & Profit & Loss Account

for the year ended 31st March, 2009

	Particulars	Amount		Particulars	Amount
		Rs.			Rs.
To	Opening stock	2,45,000	By	Sales:	
To	Purchases:			Cash	16,20,000
	Cash	6,15,000		Credit (W.N.3)	11,00,000
	Credit (W.N. 2)	15,00,000	By	Closing stock	3,20,000
To	Gross profit c/d	6,80,000			
		30,40,000			30,40,000
To	Salaries (W.N.5)	2,37,000	By	Gross profit b/d	6,80,000
To	Rent	1,32,000	By	Discount received	32,000
To	Sundry trade expenses	81,000			
To	Discount allowed	20,000			

To Depreciation on furniture & fixtures	26,000		
To Net profit	2,16,000		
	7,12,000		7,12,000

Balance Sheet

as at 31st March, 2009

Liabilities		*Amount*		*Amount*
		Rs.		*Rs.*
Capital			Fixed assets	
Opening balance (W.N.7)	5,16,000		Furniture & fixtures	2,34,000
Add: Net profit	2,16,000		Current assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	1,20,000	6,12,000	Debtors (W.N.4)	1,47,000
Current liabilities & provisions:			Cash & bank (W.N.6)	2,01,000
Creditors		1,90,000		
Bills payable		80,000		
Outstanding salaries		20,000		
		9,02,000		9,02,000

Working Notes:

1. Bills Payable Account

	Rs.		*Rs.*
To Cash/Bank	4,30,000	By Balance b/d	70,000
To Balance c/d	80,000	By Trade creditors (Bal. fig.)	4,40,000
	5,10,000		5,10,000

2. Creditors Account

	Rs.		*Rs.*
To Cash/Bank	9,73,000	By Balance b/d	1,35,000
To Bills payable A/c (W.N.1)	4,40,000	By Credit purchases (Bal. fig.)	15,00,000
To Discount received	32,000		
To Balance c/d	1,90,000		
	16,35,000		16,35,000

3. Calculation of credit sales

		Rs.
Opening stock		2,45,000
Add: Purchases		
Cash purchases	6,15,000	
Credit purchases	15,00,000	21,15,000
		23,60,000
Less: Closing Stock		3,20,000
Cost of goods sold		20,40,000
Gross profit ratio on sales		25%
Total sales $\left[\text{Rs.}20,40,000 \times \frac{100}{75}\right]$		27,20,000
Less: Cash sales		16,20,000
Credit sales		11,00,000

4. Debtors Account

		Rs.			Rs.
To	Balance b/d	1,25,000	By	Cash/Bank	10,58,000
To	Credit sales (W.N.3)	11,00,000	By	Discount allowed	20,000
			By	Balance c/d (Bal. fig.)	1,47,000
		12,25,000			12,25,000

5. Salaries

	Rs.
Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.3.2009	20,000
	2,56,000
Less: Outstanding salaries as on 31.03.2008	19,000
	2,37,000

6. Cash / Bank Account

		Rs.			Rs.
To	Balance b/d	1,10,000	By	Cash purchases	6,15,000
To	Cash sales	16,20,000	By	Creditors	9,73,000
To	Debtors	10,58,000	By	Bills payable	4,30,000

		By Drawings	1,20,000
		By Salaries	2,36,000
		By Rent	1,32,000
		By Sundry trade expenses	81,000
		By Balance c/d	2,01,000
	27,88,000		27,88,000

7. Balance Sheet

as at 31st March, 2008

	Rs.		Rs.
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding salaries	19,000	Debtors	1,25,000
Capital (Bal. fig.)	5,16,000	Cash & bank	1,10,000
	7,40,000		7,40,000

Question 3

The Balance Sheet of Reckless Ltd. as on 31st March, 2008 is as follows:

		Rs.
Assets:		
Freehold premises		*2,20,000*
Machinery		*1,77,000*
Furniture & fittings		*90,800*
Stock		*3,87,400*
Sundry debtors	*80,000*	
Less : Provision for doubtful debts	*4,000*	*76,000*
Cash in hand		*2,300*
Cash at bank		*1,56,500*
Bills receivable		*15,000*
		11,25,000
Liabilities:		
60,000 Equity shares of Rs. 10 each		*6,00,000*
Pre-incorporation profit		*21,000*
Contingency reserve		*1,35,000*

Profit and loss appropriation account	*1,26,000*
Acceptances	*20,000*
Creditors	*1,13,000*
Provision for income-tax	*1,10,000*
	11,25,000

Careful Ltd. decided to take over Reckless Ltd. from 31st March, 2008 with the following assets at value noted against them :

	Rs.
Bills receivable	*15,000*
Freehold premises	*4,00,000*
Furniture and fittings	*80,000*
Machinery	*1,60,000*
Stock	*3,45,000*

¼ of the consideration was satisfied by the allotment of fully paid preference shares of Rs. 100 each at par which carried 13% dividend on cumulative basis. The balance was paid in the form of Careful Ltd.'s equity shares of Rs. 10 each, Rs. 8 paid up.

Sundry Debtors realised Rs. 79,500. Acceptances were settled for Rs. 19,000. Income-tax authorities fixed the taxation liability at Rs. 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to Rs. 4,000.

You are required to :

(i) Calculate the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of consideration.

(ii) Prepare the important ledger accounts in the books of Reckless Ltd.; and

(iii) Pass journal entries in the books of Careful Ltd. with narration. *(16 Marks)*

Answer

(i) Calculation of the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of purchase consideration

Calculation of purchase consideration:	*Rs.*
Agreed value of assets taken over:	
Bills receivable	15,000
Freehold premises	4,00,000
Furniture & fittings	80,000
Machinery	1,60,000
Stock	3,45,000
	10,00,000

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Discharge of purchase consideration:

1. Amount paid by allotment of 13% preference shares

$$= \text{Rs.}10{,}00{,}000 \times \frac{1}{4}$$

$$= \text{Rs.}2{,}50{,}000$$

Number of 13% preference shares of Rs.100 each

$$= \frac{\text{Rs.}2{,}50{,}000}{\text{Rs.}100} = 2{,}500 \text{ preference shares}$$

2. Amount paid by allotment of equity shares

$$= \text{Rs.}10{,}00{,}000 - \text{Rs.}2{,}50{,}000 = \text{Rs.}7{,}50{,}000$$

Paid up value of one equity share = Rs.8 each

Hence, the number of equity shares allotted

$$= \frac{\text{Rs.}7{,}50{,}000}{\text{Rs.}8} = 93{,}750 \text{ equity shares}$$

(ii) Ledger accounts in the books of Reckless Ltd.

Realisation Account

		Rs.			Rs.
To	Freehold premises	2,20,000	By	Creditors	1,13,000
To	Machinery	1,77,000	By	Acceptances	20,000
To	Furniture & fittings	90,800	By	Provision for tax	1,10,000
To	Stock	3,87,400	By	Provision for doubtful debts	4,000
To	Sundry debtors	80,000	By	Careful Ltd.	10,00,000
To	Bills receivable	15,000	By	Cash/Bank:	
To	Cash/ Bank:			Sundry debtors	79,500
	Acceptances	19,000			
	Provision for tax	1,11,600			
	Creditors	1,03,700			
To	Cash/Bank:				
	Liquidation expenses	4,000			
To	Profit	1,18,000			
		13,26,500			13,26,500

Cash and Bank Account

	Rs.		Rs.
To Balance b/d – Cash at bank	1,56,500	By Realisation A/c Acceptances	19,000
Cash in hand	2,300	Provision for tax	1,11,600
To Realisation A/c (Debtors)	79,500	By Realisation A/c (Expenses)	4,000
		By Realisation A/c [Creditors (bal fig.)]	1,03,700
	2,38,300		2,38,300

Equity Shareholders Account

	Rs.		Rs.
To 13% Cumulative preference shares in Careful Ltd.	2,50,000	By Equity share capital	6,00,000
To Equity shares in Careful Ltd.	7,50,000	By Pre-incorporation profit	21,000
		By Contingency reserve	1,35,000
		By Profit & loss Appropriation A/c	1,26,000
		By Realisation A/c	1,18,000
	10,00,000		10,00,000

Careful Ltd. Account

	Rs.		Rs.
To Realisation A/c	10,00,000	By 13% Cumulative preference shares in Careful Ltd.	2,50,000
		By Equity shares in Careful Ltd.	7,50,000
	10,00,000		10,00,000

(iii) Journal Entries in the books of Careful Ltd.

		Rs.	Rs.
Business purchase Account	Dr.	10,00,000	
To Liquidator of Reckless Ltd. Account			10,00,000
(Being amount payable to liquidator of Reckless Ltd. for assets taken over)			

Bills receivable Account	Dr.	15,000	
Freehold premises Account	Dr.	4,00,000	
Furniture & fittings Account	Dr.	80,000	
Machinery Account	Dr.	1,60,000	
Stock Account	Dr.	3,45,000	
To Business purchase Account			10,00,000
(Being assets taken over from Reckless Ltd.)			
Liquidator of Reckless Ltd.	Dr.	10,00,000	
To 13% Cumulative preference share capital Account			2,50,000
To Equity share capital Account			7,50,000
(Being allotment of 13% cumulative preference shares of Rs.100 each fully paid up and equity shares of Rs.10 each, Rs.8 paid up)			

Question 4

(a) *Easilife Ltd. has a hire-purchase department which fixes hire-purchase price by adding 40% to the cost of the goods. The following additional information is provided to you :*

	Rs.
On 1st April, 2009 :	
Goods out on hire-purchase (at hire-purchase price)	*2,10,000*
Instalments due	*14,000*
Transactions during the year :	
Hire-purchase price of goods sold	*9,80,000*
Instalments received	*8,12,000*
Value of goods repossessed due to defaults (hire-purchase instalments unpaid Rs. 5,600)	*7,800*
On 31st March, 2010:	
Goods out on hire-purchase (at hire-purchase price)	*3,78,000*

You are required to prepare Hire-purchase Trading Account, ascertaining the profit made by the department during the year ended 31st March, 2010.

(b) *Gaama Investment Company holds 1,000, 15% debentures of Rs. 100 each in Beta Industries Ltd. as on April 1, 2009 at a cost of Rs. 1,05,000. Interest is payable on June, 30 and December, 31 each year.*

On May 1, 2009, 500 debentures are purchased cum-interest at Rs. 53,500. On November 1, 2009, 600 debentures are sold ex-interest at Rs. 57,300. On November 30, 2009, 400 debentures are purchased ex-interest at Rs, 38,400. On December 31, 2009, 400 debentures are sold cum-interest for Rs. 55,000.

Prepare the investment account showing value of holdings on March 31, 2010 at cost, using FIFO method. *(10+6 =16 Marks)*

Answer

(a) Easilife Ltd.

Hire Purchase Trading Account

	Rs.		Rs.
To Opening Balances:		By Opening hire purchase stock reserve A/c (W.N.1)	60,000
Hire purchase stock	2,10,000	By Bank A/c (Instalments received)	8,12,000
Instalments due	14,000	By Goods repossessed A/c	7,800
To Goods sold on hire purchase A/c	9,80,000	By Goods sold on hire purchase A/c (Loading) (W.N.2)	2,80,000
To Closing hire purchase stock reserve A/c (W.N.3)	1,08,000	By Closing Balances:	
To Profit and loss A/c	2,34,200	Hire purchase stock	3,78,000
(Transfer of profit)		Instalments due (W.N.4)	8,400
	15,46,200		15,46,200

Working Notes:

		Rs.
1.	Opening hire purchase stock reserve = Rs.2,10,000 $\times \frac{40}{140}$	60,000
2.	Loading on goods sold = Rs.9,80,000 $\times \frac{40}{140}$	2,80,000
3.	Closing hire purchase stock reserve = Rs.3,78,000 $\times \frac{40}{140}$	1,08,000
4.	Closing instalments due:	
	Opening hire purchase stock	2,10,000
	Opening instalments due	14,000

	Goods sent on hire purchase		9,80,000
			12,04,000
Less:	Instalments received	8,12,000	
	Unpaid instalments on repossessed goods	5,600	
	Closing hire purchase stock	3,78,000	(11,95,600)
			8,400

(b) In the books of Gaama Investments Ltd.

Investment Account (15% Debentures in Beta Industries Ltd.)

Date	*Particulars*	*Nominal Value*	*Interest*	*Cost*	*Date*	*Particulars*	*Nominal Value*	*Interest*	*Cost*
		Rs.	*Rs.*	*Rs.*			*Rs.*	*Rs.*	*Rs.*
1.04.09	To Balance b/d (W.N.1)	1,00,000	3,750	1,05,000	30.06.09	By Bank A/c (W.N.3)	-	11,250	-
1.05.09	To Bank A/c (W.N.2)	50,000	2,500	51,000	1.11.09	By Bank A/c (W.N.4)	60,000	3,000	57,300
30.11.09	To Bank A/c (W.N.5)	40,000	2,500	38,400	1.11.09	By Profit & Loss A/c (W.N.11)			5,700
31.12.09	To Profit & Loss A/c (W.N.12)			10,000	31.12.09	By Bank A/c (W.N. 6 & 7)	40,000	3,000	52,000
31.03.10	To Profit & Loss A/c	-	18,625		31.12.09	By Bank A/c (W.N.8)	-	6,750	-
					31.03.10	By Bank A/c (W.N.9 & 10)	90,000	3,375	89,400
		1,90,000	27,375	2,04,400			1,90,000	27,375	2,04,400

Working Notes:

1. Accrued interest as on 1.4.09 = Rs.1,00,000 × $\frac{15}{100} \times \frac{3}{12} = $Rs.3,750

2. Accrued interest = Rs.50,000 × $\frac{15}{100} \times \frac{4}{12} = $Rs.2,500

   Cost of investment for purchase on 1.5.09 = Rs.53,500 – Rs.2,500 = Rs.51,000

3. Interest received = Rs.1,50,000 × $\frac{15}{100} \times \frac{6}{12} = $Rs.11,250

4. Accrued interest = Rs.60,000 × $\frac{15}{100} \times \frac{4}{12} = $Rs.3,000

5. Accrued interest = Rs.40,000 × $\frac{15}{100} \times \frac{5}{12} = \text{Rs.}2{,}500$

6. Accrued interest = Rs.40,000 × $\frac{15}{100} \times \frac{6}{12} = \text{Rs.}3{,}000$

7. Sale price of investment on 31.12.09 = Rs.55,000 – Rs.3,000 = Rs.52,000

8. Accrued interest = Rs.90,000 × $\frac{15}{100} \times \frac{6}{12} = \text{Rs.}6{,}750$

9. Accrued interest = Rs.90,000 × $\frac{15}{100} \times \frac{3}{12} = \text{Rs.}3{,}375$

10. Cost of investment as on 31.3.10= Rs.51,000 + Rs.38,400 = Rs.89,400

11. Loss on debentures sold on 1.11.2009:

Sales price of debentures	Rs.57,300
Less: Cost of investment sold = $\frac{\text{Rs.}1{,}05{,}000}{1{,}000} \times 600 =$	(Rs.63,000)
Loss on sale	(Rs. 5,700)

12. Profit on debentures sold on 31.12.2009:

Sales price of debentures	Rs.52,000
Less: Cost of investment sold = $\frac{\text{Rs.}1{,}05{,}000}{1{,}000} \times 400 =$	(Rs.42,000)
Profit on sale	Rs. 10,000

Question 5

(a) *On the basis of the following informations, prepare Income and Expenditure Account for the year ended 31st March, 2010 :*

Receipts and Payments Account for the year ended 31st March, 2010

Receipts	*Rs.*	*Payments*	*Rs.*
To Cash in hand (opening)	*1,300*	*By Salaries*	*2,58,000*
To Cash at bank (opening)	*3,850*	*By Rent*	*71,500*
To Subscriptions	*4,94,700*	*By Printing & stationery*	*3,870*
To Interest on 8% Government bonds	*4,000*	*By Conveyance*	*10,600*
To Bank interest	*160*	*By Scooter purchased*	*50,000*

		By 8% Government bonds	1,00,000
		By Cash in hand (closing)	840
		By Cash at bank (closing)	9,200
	5,04,010		5,04,010

(i) Salaries paid includes Rs. 6,000 paid in advance for April, 2010. Monthly salaries paid were Rs. 21,000.

(ii) Outstanding rent on 31st March, 2009 and 31st March, 2010 amounted to Rs. 5,500 and Rs. 6,000 respectively.

(iii) Stock of printing and stationery material on 31st March, 2009 was Rs. 340; it was Rs. 365 on 31st March, 2010.

(iv) Scooter was purchased on 1st October, 2009. Depreciation @ 20% per annum is to be provided on it.

(v) Investments were made on 1st April, 2009.

(vi) Subscriptions due but not received on 31st March, 2009 and 31st March, 2010 totalled Rs. 14,000 and Rs. 12,800 respectively. On 31st March, 2010, subscriptions amounting to Rs. 700 had been received in advance for April, 2010.

(b) The following particulars relate to Bee Ltd., for the year ended 31st March, 2010 :

(i) Furniture of book value of Rs. 15,500 was disposed off for Rs. 12,000.

(ii) Machinery costing Rs. 3,10,000 was purchased and Rs. 20,000 were spent on its erection.

(iii) Fully paid 8% preference shares of the face value of Rs. 10,00,000 were redeemed at a premium of 3%. In this connection 60,000 equity shares of Rs. 10 each were issued at a premium of Rs. 2 per share. The entire money being received with applications.

(iv) Dividend was paid as follows:

On 8% preference shares	*Rs. 40,000*
On equity shares for the year 2009-10	*Rs. 1,10,000*

(v) Total sales were Rs. 32,00,000 out of which cash sales were Rs. 11,50,000.

(vi) Total purchases were Rs. 8,00,000 including cash purchase of Rs. 60,000.

(vii) Total expenses were Rs. 12,40,000 charged to Profit and Loss A/c.

(viii) Taxes paid including dividend distribution tax of Rs.22,500 were Rs.3,30,000.

(ix) Cash and cash equivalents as on 31st March, 2010 were Rs. 1,25,000.

You are requested to prepare Cash Flow Statement as per AS 3 for the year ended 31st March, 2010 after taking into consideration the following also:

	On 31st March, 2009 (Rs.)	On 31st March, 2010 (Rs.)
Sundry debtors	1,50,000	1,47,000
Sundry creditors	78,000	83,000
Unpaid expenses	63,000	55,000

(8+8=16 Marks)

Answer

(a) Income and Expenditure Account for the year ended 31st March, 2010

Expenditure	Rs.	Income	Rs.
To Salaries (W.N.1)	2,52,000	By Subscription (W.N.6)	4,92,800
To Rent (W.N.2)	72,000	By Interest on 8% Government bonds (W.N.5)	8,000
To Printing and stationery (W.N.3)	3,845	By Bank interest	160
To Conveyance	10,600		
To Depreciation on Scooter (W.N.4)	5,000		
To Surplus i.e. excess of income over expenditure	1,57,515		
	5,00,960		5,00,960

Working Notes:

		Rs.
1.	Salaries paid	2,58,000
	Less: Salary paid in advance for April, 2010	6,000
	Salaries for the year	2,52,000
2.	Rent paid	71,500
	Add: Outstanding rent as on 31.3.2010	6,000
		77,500
	Less: Outstanding rent as on 31.3.2009	5,500
	Rent for the year 2009-2010	72,000
3.	Printing and stationery	3,870
	Add: Stock as on 31.3.2009	340
		4,210
	Less: Stock as on 31.3.2010	365
	Printing and stationery consumed during the year 2009-2010	3,845

4.	Depreciation on scooter = Rs.50,000 $\times \frac{20}{100} \times \frac{6}{12}$ =Rs.5,000	
5.	Interest on Government bonds received	4,000
	Add: Interest due but not received as on 31.3.2010	4,000
	Interest income for the year 2009-2010	8,000
6.	Subscription received	4,94,700
	Add: Accrued subscription as on 31.3.2010	12,800
		5,07,500
	Less: Accrued subscription as on 31.3.2009 14,000	
	Unearned subscription for April, 2010 700	(14,700)
	Income for the year 2009-2010	4,92,800

(b) Cash Flow Statement for the year ended 31st March, 2010

		Rs.	*Rs.*
I.	Cash flow from operating activities		
	Cash receipts from customers (W.N.1)	32,03,000	
	Less: Cash paid to suppliers and payment for expenses (W.N.3)	(20,43,000)	
	Cash generated from operations	11,60,000	
	Income tax paid (Rs.3,30,000 – Rs.22,500)	(3,07,500)	
	Net cash from operating activities		8,52,500
II.	Cash flows from investing activities		
	Sale of furniture	12,000	
	Purchase of machinery	(3,30,000)	
	Net cash used in investing activities		(3,18,000)
III.	Cash flow from financing activities		
	Proceeds from issue of equity shares	7,20,000	
	Redemption of 8% preference shares	(10,30,000)	
	Dividend paid (Rs.40,000 + Rs.1,10,000)	(1,50,000)	
	Dividend distribution tax paid	(22,500)	
	Net cash used in financing activities		(4,82,500)
Net increase in cash and cash equivalents			52,000
Add: Cash and cash equivalents as on 31st March, 2009 (Bal. fig.)			73,000
Cash and cash equivalents as on 31st March, 2010			1,25,000

Working Notes:

1. **Cash receipt from customers:**

   Credit sales = Total sales Rs.32,00,000 – Cash sales Rs.11,50,000 = Rs.20,50,000

Total Debtors Account

		Rs.			Rs.
To	Balance b/d	1,50,000	By	Cash/Bank (Bal. fig.)	20,53,000
To	Credit sales	20,50,000	By	Balance c/d	1,47,000
		22,00,000			22,00,000

Total sale receipts = Rs.20,53,000 + Rs.11,50,000 = Rs.32,03,000

2. **Cash payment to suppliers:**

   Credit Purchases = Total purchases Rs.8,00,000 – Cash purchases Rs.60,000
   = Rs.7,40,000

Total Creditors Account

		Rs.			Rs.
To	Cash/Bank (Bal. fig.)	7,35,000	By	Balance b/d	78,000
To	Balance c/d	83,000	By	Credit purchases	7,40,000
		8,18,000			8,18,000

Total payments to suppliers = Rs.7,35,000 + Rs.60,000 = Rs.7,95,000

3. Cash paid to suppliers and payment for expenses

		Rs.
Outstanding expenses as on 31.3.2009		63,000
Add:	Expenses charged to profit and loss account	12,40,000
		13,03,000
Less:	Outstanding expenses as on 31.3.2010	55,000
Payment on account of expenses		12,48,000

Total of payment to suppliers and payment for expenses

= Rs.7,95,000 + Rs.12,48,000 = Rs. 20,43,000

Question 6

Answer the following:

(a) *Weak Ltd. acquired the fixed assets of Rs. 100 lakhs on which it received the grant of Rs. 10 lakhs. What will be the cost of the fixed assets as per AS 12 and how it will be disclosed in the financial statements?*

(b) *During the current year 2009-10 M/s L & C Ltd. made the following expenditure relating to its plant and machinery:*

	Rs.
General repairs	*4,00,000*
Repairing of electric motors	*1,00,000*
Partial replacement of parts of machinery	*50,000*
Substantial improvements to the electrical wiring system which will increase efficiency of the plant and machinery	*10,00,000*

What amount should be capitalised according to AS 10?

(c) *What are the advantages of pre-packaged accounting software?*

(d) *Raw materials inventory of a company includes certain material purchased at Rs. 100 per kg. The price of the material is on decline and replacement cost of the inventory at the year end is Rs. 75 per kg. It is possible to convert the material into finished product at conversion cost of Rs. 125.*

Decide whether to make the product or not to make the product, if selling price is (i) Rs. 175 and (ii) Rs. 225. Also find out the value of inventory in each case.

(4 x 4 = 16 Marks)

Answer

(a) Paragraphs 8 and 14 of AS 12 'Accounting for Government Grants' deal with the presentation of government grants related to specific fixed assets. It prescribes two different methods for recognition of a government grant. In the first method, Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Hence in the given case, fixed assets should be presented at Rs.90 lakhs (Rs.100 lakhs less Rs.10 lakhs) in the balance sheet of Weak Ltd.

Under the second method, government grants related to depreciable fixed assets may be treated as deferred income which should be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e., such grants should be allocated to income over the periods and in the proportions in which depreciation on those assets is charged. In this case, fixed assets will be shown at Rs.100 lakhs in the balance sheet of Weak Ltd. and the corresponding grant amounting Rs.10 lakhs will be treated as deferred income to be recognized over useful life of the fixed asset.

(b) As per para 12.1 of AS 10 'Accounting for Fixed Assets', expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity. Hence, in the given case, repairs amounting Rs.5 lakhs and partial replacement of parts of machinery worth Rs.50,000 should be charged to profit & loss account. Rs.10 lakhs incurred for substantial improvement to the electrical wiring system which will increase efficiency should be capitalized.

(c) Advantages of Pre-Packaged Accounting Software:

1. *Easy to install*: The CD or floppy disk is to be inserted and the setup file should be run to complete the installation. Certain old DOS based accounting softwares require some settings to be added in the system configuration file and the system batch file. These instructions are generally provided in the user manuals.

2. *Relatively inexpensive*: These packages are sold at very cheap prices nowadays.

3. *Easy to use*: Mostly menu driven with help options. Further the user manual provides most of the solutions to problems that the user may face while using the software.

4. *Backup procedure is simple*: Housekeeping section provides a menu for backup. The backup can be taken on floppy disk or CD or hard disk.

4. *Flexibility:* There is certain flexibility in formatting of report as provided by some of the softwares. This allows the user to make the invoice, challan, GRNs look the way they want.

6. *Very effective for small and medium size businesses:* Most of their functional areas are covered by these standardised packages.

(d) As per para 24 of AS 2 'Valuation of Inventories', materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

(i) When selling price is Rs.175

Incremental Profit = Rs.175 – Rs.125 = Rs.50

Current price of the material = Rs.75

Therefore, it is better not to make the product. Raw material inventory would be valued at net realisable value i.e. Rs.75 because the selling price of the finished product is less than Rs.225 (100+125) per kg.

(ii) When selling price is Rs.225

Incremental Profit = Rs.225 – Rs.125 = Rs.100

Current price of the raw material = Rs.75.

Therefore, it is better to make the product.

Raw material inventory would be valued at Rs.100 per kg because the selling price of the finished product is not less than Rs.225.