PAPER – 1 : ACCOUNTING

QUESTIONS

Answer the following (give adequate working notes in support of your answer):

1. (i) A firm which was carrying on business from 1st January 2009, gets itself incorporated as a company on 1st May, 2009. The net sales are Rs. 49,00,000, the monthly average of which for the first four months of 2009 is one half of that of the remaining period. Calculate the sales ratio for the purpose of pre and post incorporation profit when the accounting year ends on 30th September, 2009.

(ii) P and Q are partners sharing profit in the ratio of 4:1. P surrenders 1/4th of his share and Q surrenders ½ of his share in favour of R, a new partner. What is the sacrificing ratio and the new profit sharing ratio of all the partners?

(iii) A, B and C are partners sharing profits and losses in the ratio of 3:2:1 with a minimum guaranteed profit of Rs.12,000 payable to C. If any amount payable to C is in excess of Rs.12,000 as his share of profit in any year then firm had a right to recoup it. During 2008-09 and 2009-2010 profits were Rs.39,000 and Rs.81,000. Calculate the amount to be distributed as profit to A & B in these two years.

(iv) The closing capital of Mr. B as on 31.3.2010 was Rs.4,00,000. On 1.4.2009 his capital was Rs.3,50,000. His net profit for the year ended 31.3.2010 was Rs.1,00,000. He introduced Rs.30,000 as additional capital in February, 2010. Find out the amount drawn by Mr. B for his domestic expenses.

(v) 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.

2. (i) 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.

Explain how the difference will be adjusted in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interests method' of amalgamation.

(ii) For the purpose of consequential loss claim, calculate profit on short sale from the following information:

1. Date of fire: 1st September, 2009;
2. Period of disruption : 1st September, 2009 to 1st February, 2010;
3. Standard turnover i.e. for corresponding months (1st September,2008 to 1st February, 2009) in the year preceding the date of fire Rs. 2,25,000;

4. Turnover during the disruption period Rs. 67,500.
5. Rate of Gross profit 18%
6. Special clause stipulated:
    a. Increase in rate of G.P. = 2%
    b. Increase in turnover (standard and annual) = 10%

(iii) Y Ltd. used certain resources of X Ltd. In return, X Ltd. receives Rs. 10 lakhs and Rs. 15 lakhs as interest and royalties respectively, from Y Ltd. during the year 2009 – 10. State on what basis X Ltd. should recognize their revenue, as per AS 9.

(iv) Cash profit of a organization will be effected by providing lower depreciation on fixed assets. State with reasons whether the given statement is true or false.

(v) Computer point sells computers on Hire-purchase basis at cost plus 25%. Terms of Sale are Rs.5,000 down payment and eight monthly instalments of Rs.2,500 for each computer.

Two Computers on which five instalments were due and two instalments not yet due were repossessed out of Sales effected during current year. Repossessed stock is valued at 50% of cost. Calculate the value of repossessed computers.

Preparation of Financial Statements of Companies

3. The following items were extracted from the Balance Sheet of Xansa Ltd. as on 1st April, 2009:

	Rs.
13½% Preference Share capital	4,00,000
Equity Share Capital fully paid up	5,00,000
Equity Share Capital 60% partly paid up	3,00,000
Securities Premium	7,00,000
15% Debentures	10,00,000

Profit before interest on debentures and before payment of tax @ 30% is Rs. 11,50,000 for the year ended 31st March, 2010.

The Board of Directors of the Company proposed a dividend of 15% on equity capital and capitalisation of profits for making partly paid-up shares into fully paid up. Corporate dividend tax is payable @ 15%.

Pass the necessary Journal entries to incorporate the Board's recommendations and show how the items concerned would be shown on the liabilities side of the Balance Sheet of Xansa Ltd. as on 31st March, 2010.

Cash Flow Statement

4. The Balance Sheets of a Company as on 31st March, 2009 and 2010 are given below:

Liabilities	31.3.09 Rs.	31.3.10 Rs.	Assets	31.3.09 Rs.	31.3.10 Rs.
Equity Capital	15,00,000	17,00,000	Fixed Assets	15,30,000	20,60,000
General Reserve	1,80,000	2,10,000	9% Investments (Long term)	90,000	2,40,000
Profit & Loss A/c	1,50,000	6,00,000	Debtors	1,20,000	2,25,000
12% Debentures	3,00,000	4,50,000	Stock	5,70,000	5,55,000
Creditors	60,000	2,25,000	Cash in hand	1,80,000	5,40,000
Bills payables	60,000	50,000	Underwriting Commission	7,500	9,000
Bank overdraft	30,000	25,000	Discount on issue of debentures	22,500	6,000
Proposed dividend	1,80,000	2,25,000			
Provision for tax	30,000	60,000			
Provision for doubtful debts	30,000	45,000			
Unpaid interest on debentures		35,000			
Unpaid dividend	-	10,000			
Total	25,20,000	36,35,000	Total	25,20,000	36,35,000

Additional information:

During the year ended 31st March, 2010 :

(i) A machine costing Rs. 2,10,000 (depreciation provided thereon Rs. 90,000) was sold for Rs. 75,000. Depreciation charged during the year was Rs. 2,10,000.

(ii) New shares and debentures were issued on 31st March, 2010.

(iii) Tax paid during the year was Rs. 15,000.

(iv) An interim dividend @ 15% was paid on equity shares.

(v) On 31st March, 2010 some investments were purchased for Rs. 2,70,000 and some investments were sold at a profit of 20% on sale.

You are required to prepare cash flow statement as per AS 3.

Profit or Loss Prior to Incorporation

5. Fresh Look Ltd. was incorporated on 1.7.2009 and it took over the business of a vendor w.e.f. 1.4.2009. Following information was made available for the year ended 31.3.2010:

   Gross profit Rs.98,000, Commission Rs.2,625, Advertisement Rs.5,250, Discount Rs.350, Directors Fees Rs.9,000, Salaries Rs.18,000, Depreciation Rs.2,800. Insurance Rs.600, Preliminary Expenses Rs.700, Rent and Taxes Rs.3,000, Bad Debts Rs.1,250, Interest to vendor (upto 1.10.2009) Rs.2,000, Audit Fee Rs.2,000 and Bad Debts recovered (on 1.5.2009) Rs.500.

   Following additional information was provided:

   1. Average monthly turnover from September onwards was double than that of average monthly turnover of the first four months. However, in August, 2009, the turnover was 150% of the turnover in the following month.
   2. Rent for the first three months was paid @ Rs. 20 per month and thereafter, it was increased by Rs. 50 per month.
   3. Bad debts for the period from September 1, 2009 to March 31, 2010 amount to Rs.350 only.
   4. Audit fee was allocated on time basis.

   You are required to find out the amount of profit for pre and post incorporation period, clearly showing, the basis of allocation.

Accounting for Bonus Issue

6. The Balance Sheet of Assured Ltd. as at 31.3.2010 is as follows:

Balance Sheet as at 31.3.2010

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital:		Sundry Assets	17,00,000
1,50,000 Equity Shares of Rs. 10 each	15,00,000		
Issued, Subscribed and Paid-up			
80,000 Equity Shares of Rs. 7.50 each			
called up and paid up	6,00,000		
Reserves and surplus:			
Capital Redemption Reserve	1,50,000		
Plant Revaluation Reserve	20,000		
Securities Premium Account	1,50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
General Reserve	3,00,000		
	17,00,000		17,00,000

The company wanted to issue bonus shares to its share holders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with.

(a) You are required to give effect to the proposal by passing journal entries in the books of Assured Ltd.

(b) Show the Balance Sheet (after bonus issue).

Internal Reconstruction

7. Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 2010:

Liabilities	Rs.	Assets	Rs.
6,000 shares of Rs. 60 each,		Property, machinery	
Rs. 30 paid up		and plant etc. (Cost	
First debentures	3,00,000	Rs. 3,90,000)	
Second debentures	6,00,000	Estimated at	1,50,000
Unsecured creditors	4,50,000	Cash in hand of	
		the receiver	2,70,000
		Charged under debentures	4,20,000
		Uncalled capital	1,80,000
			6,00,000
		Deficiency	7,50,000
	13,50,000		13,50,000

A holds the first debentures for Rs. 3,00,000 and second debentures for Rs. 3,00,000. He is also an unsecured creditor for Rs. 90,000. B holds second debentures for Rs. 3,00,000 and is an unsecured creditor for Rs. 60,000.

The following scheme of reconstruction is proposed:

1. A is to cancel Rs.2,10,000 of the total debt owing to him, to bring Rs. 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for Rs. 5,10,000 in satisfaction of all his claims.
2. B is to accept Rs. 90,000 in cash in satisfaction of all claims by him.
3. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of Rs. 7.50 each, fully paid against their claim for each share of Rs.60. The balance of 25% is to be postponed and to be payable at the

end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.

4. Uncalled capital is to be called up in full and Rs. 52.50 per share cancelled, thus making the shares of Rs. 7.50 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, Give necessary journal entries.

Amalgamation of Companies

8. Roshni and Jyoti have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called Ujala Ltd.

Following is the Balance Sheet of Roshni and Jyoti as at 31.3.2010:

Liabilities	Roshni	Jyoti	Assets	Roshni	Jyoti
	Rs.	Rs.		Rs.	Rs.
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following are the additional information:

(i) The authorised capital of the new company will be Rs.25,00,000 divided into 1,00,000 equity shares of Rs.25 each.

(ii) Liabilities of Roshni includes Rs.50,000 due to Jyoti for the purchases made. Jyoti made a profit of 20% on sale to Roshni.

(iii) Roshni has goods purchased from Jyoti, cost to him Rs.10,000. This is included in the Current asset of Roshni as at 31st March, 2010.

(iv) The assets of Roshni and Jyoti are to be revalued as under:

	Roshni	Jyoti
	Rs.	Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(v) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of Rs. 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	Roshni	Jyoti
	Rs.	Rs.
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

(c) Issue 12% preference shares of Rs.10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2010 after revaluation of assets of Roshni and Jyoti respectively.

You are required to:

(i) Compute the amount of equity and preference shares issued to Roshni and Jyoti.

(ii) Prepare the Balance Sheet of Ujala Ltd. immediately after amalgamation.

Average Due Date

9. Rs. 20,000 is lent by Aaj to Kal on 1 January 2006. The loan is repayable in five equal instalments commencing from 1 January 2008. Calculate the average due date and interest at 12% p.a.

Account Current

10. The following are the transactions that took place between You and Me during the half year ended 30 June, 2010:

		Rs.
1 January	Balance due to You by Me	3,010
7 January	Goods sold by You to Me	4,430
16 February	Goods purchased by You from Me	6,480
18 February	Goods returned by You to Me (out of the purchases of 16 February)	560
24 March	Goods sold by Me to You	3,560
22 April	Goods purchased by Me	1,500
29 April	Cash paid by You to Me	2,500
17 May	Goods sold by You to Me	2,710
22 June	Goods sold by Me to You	2,280

Draw up an account current to be rendered by Me to You charging interest at 10% per annum.

Self Balancing Ledgers

11. The details of the balances owed by customers were as follows as on 1st April 2010:

	Rs.
X	15,000
Y (6% considered to be bad; adequate provision maintained)	21,000
Z	18,000
Other customers	3,56,000
	4,10,000
Less: Advance by P	20,000
	3,90,000

Sales during the month amounted to Rs. 5,55,000 including a cash sale of Rs. 1,14,000; of the credit sales, Rs. 26,000 was to P. X returned goods to the extent of Rs. 6,000 and sent a bill receivable for the balance. A sum of Rs. 4,500 was received from Y and the balance was written off. On instructions from B, Z's balance was transferred to B's account in the creditors ledger. The acceptance of X was dishonoured and noting charges paid were Rs. 150. D sent an advance of Rs. 18,000 for supply of goods, Out of the amount due from "Other Customers" on 1st April 2010, Rs. 2,73,000 was received; the customers had earned 2½% discount on the gross amount paid. Similarly, out of the sale in April, a sum of Rs. 97,500 has been received, earning discount at same rate.

Q, who owed Rs. 11,000 and H who owed Rs. 8,000, turned doubtful; a provision of 50% of the amounts due was created. Other debts were considered all good.

Prepare Total Debtors Account for April 2010.

Accounts for Not-for Profit Organization

12. The following details related to the affairs of the Fun Club for the year ending 31st December 2009:

As on 31.12.2008

Creditors Rs. 10,000; Subscriptions for 2009 Rs. 3,000; Liabilities for Salaries Rs. 7,000; Arrears of Subscriptions 2007 Rs. 19,000; Arrears of Subscriptions 2008 Rs. 30,000; Investments 4% Bonds Rs. 15,000; Stock Rs. 6,000.

As on 31.12.2009:

Creditors Rs. 5,000; Subscriptions for 2010 Rs.4,000; Cash at Bank Rs.17,700; Arrears of Subscriptions for 2008 Rs.10,000; Arrears of Subscriptions for 2009 Rs. 27,000; Members' arrears for provisions sold Rs. 4,000.

Details of Transaction during 2009:

Arrears of 2007 collected Rs. 18,000; Arrears of 2008 collected Rs. 17,000; Cash sales of provisions Rs. 12,000; Salaries paid Rs. 40,000; Interest received Rs. 450; 4% Bonds purchased Rs. 10,000 on 1.1.2009; Cash purchases of provision Rs. 9,000; Credit sale of provision to members Rs.90,000.

Other details:

Demand of Subscription during 2009 was Rs. 70,000; Total purchase of provision Rs.1,09,000; Profit on Provisions Rs. 12,000; the salaries for the year 2009 were Rs.45,000 and Rent Rs. 2,000.

From the above information prepare:

(a) Opening Balance Sheet,

(b) Closing Balance Sheet,

(c) Receipts and Payments Account for the year 2009, and

(d) Income and Expenditure Account for the year 2009.

Accounts from Incomplete Records

13. Shri Ram furnishes you with the following information relating to his business :

(a)

Assets and liabilities as on	1.1.2009	31.12.2009
	Rs.	Rs.
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

(b) Receipts and payments during 2009:

Collections from debtors, after allowing discount of Rs. 1,500 amounted to Rs. 58,500. Collections on discounting of bills of exchange, after deduction of discount of Rs. 125 by the bank, totalled to Rs. 6,125. Creditors of Rs. 40,000 were paid Rs. 39,200 in full settlement of their dues. Payment for freight inwards Rs.3,000. Amount withdrawn for personal use Rs.7,000. Payment for office furniture Rs.1,000. Investment carrying annual interest of 4% was purchased at Rs. 96 on 1st July, 2009 and payment made there for. Expenses including salaries paid Rs. 14,500. Miscellaneous receipts Rs. 500.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 10,000. Of these, bills of exchange of Rs. 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 400 was dishonoured.

(d) Goods costing Rs. 900 were used as advertising materials.

(e) Goods are invariably sold to show a gross profit of $33^1/_3$% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction by Shri Ram.

(g) Provide at 2.5% for doubtful debts on closing debtors.

Shri Ram asks you to prepare Trading and Profit and Loss A/c for the year ended 31st December, 2009 and the balance sheet as on that date.

Hire Purchase Transactions

14. Sun Moon Corporation sells goods on hire-purchase basis. The hire-purchase price is cost plus 50%. From the following information, prepare Hire-purchase Trading Account for the year ended 31st March, 2010:

	Rs.
Hire-purchase stock reserve on 1.4.2009	1,20,000
Instalments due on 1.4.2009	30,000
Goods sold on hire-purchase during the year	8,40,000
Instalments due on 31.3.2010	70,000
Hire-purchase stock reserve on 31.3.2010	1,80,000

Investment Accounts

15. Anshu invests and disinvests from time to time in 10% Non-convertible Debentures (NCD) of Zero Ltd. on FIFO basis. From the following transactions, prepare Investment account as it would appear in her books:

15.6.2009	Purchased	3,000 NCD, ex-interest @ Rs. 96 each
15.9.2009	Sold	3,000 NCD, ex-interest @ Rs. 100 each
15.12.2009	Purchased	2,000 NCD, cum interest @ Rs. 99 each
15.2.2010	Sold	2,000 NCD, cum interest @ Rs. 102 each

Opening balance of NCD of Rs. 100 each was Rs. 2,00,000 on 1.4.2009 and Cost of acquisition was Rs. 1,80,000. Interest payment dates on NCD are 30th June and 31st December. Anshu follows financial year as accounting year.

Insurance Claim (Loss of Profit)

16. A fire occurred in the premises of Jogi Sons on 15th October, 2009 and normal business operations were restored on 1st April, 2010. The company had taken loss of profit policy for Rs. 1,50,000 with indemnity period of six months and a clause for adjustment of 20% to be made in respect of the expected incremental turnover.

From the following information compute amount of claim under "Loss of Profit" policy:

	Rs.
Actual turnover from 15th October, 2009 to 31st March, 2010	1,20,000
Turnover during the corresponding period of previous year	2,40,000
Turnover from 15th October, 2008 to 14th October, 2009	4,80,000
Net profit for the last financial year	90,000
Insured standing charges for the last financial year	67,500
Turnover for the last financial year	4,50,000

Partnership Accounts

17. X, Y and Z are in partnership sharing Profits and Losses in the ratio 2 : 2: 1. Partnership deed provides that all the partners are entitled to interest @ 9% per annum on fixed capital of Rs. 2,00,000 contributed in profit sharing ratio. Z is entitled for 10% commission of net profit after such commission, for special performance.

On 1.9.2009, it was decided to retire X on health grounds and admit A, the son of X as partner with 1/5th share in Profit and Loss. Other decisions taken on this date were as follows:

(a) Firm's fixed capital to be raised to Rs. 3,00,000 and partners to maintain fixed capital in profit sharing ratio. Hence forth, interest on capital shall be paid @ 10% per annum.

(b) No commission to be paid to Z from 1.9.2009.

(c) Goodwill is assessed at Rs. 60,000 not to be shown in the books.

(d) X was paid Rs. 50,000 in cash on retirement.

(e) Balance claim payable to X was to be credited to A's fixed capital account and current account.

(f) Profit for the accounting year 2009-10 before interest on capital, Z's commission and depreciation was Rs. 1,80,000. Depreciation for the year amounted to Rs.18,500 (inclusive of depreciation of Rs.6,000 upto 1.9.2009)

You are required to prepare:

(i) Profit and Loss Appropriation account of the firm for the year ended 31st March, 2010.

(ii) Partners' Current accounts.

Accounting in Computerized Environment

18. Write a short note on a prepackaged accounting software?

Insurance Claim (Loss of Stock)

19. On 30 June, 2010, accidental fire destroyed a major part of the stocks in the godown of Nidhi Associates. Stocks costing Rs. 30,000 could be salvaged but not their stores

ledgers. A fire insurance policy was in force under which the sum insured was Rs.3,50,000. From available records, the following information was retrieved:

(i) Total of sales invoices during the period April-June amounted to Rs. 30,20,000. An analysis showed that goods of the value of Rs. 3,00,000 had been returned by the customers before the date of the fire.

(ii) Opening stock on 1.4.2010 was Rs. 2,20,000 including stocks of the value of Rs. 20,000 being lower of cost and net realizable value subsequently realised.

(iii) Purchases between 1.4.2010 and 30.6.2010 were Rs. 21,00,000.

(iv) Normal gross profit rate was 33-1/3% on sales.

(v) A sum of Rs. 30,000 was incurred by way of fire fighting expenses on the day of the fire.

Partnership –Profit and Loss Appropriation Account

20. Ankur, Aarav and Aarush are partners in a firm. Their fixed capitals as on 1st April, 2009 were Rs.60,000, Rs.60,000 and Rs.90,000 respectively. They have decided mutually that interest on capital @ 15% per annum and salary Rs.1,000 per month to each partner is to be given. Aarush has deposited Rs.25,000 as loan on 1st September, 2009 in the firm, in respect of which interest rate has not been decided. Each partner's annual drawings were Rs.10,000, on which no interest is to be charged.

First Rs.35,000 of divisible profits, are to be distributed in their capital ratio; next Rs.20,000 in the ratio of 2:3:5 and profits over Rs.55,000 are to be distributed equally. Profits of accounting year ending 31st March, 2010 were Rs.1,47,850 in which no adjustment has been done in respect of interest, salary etc. The balances of current accounts of partners as on 1st April, 2009 were Rs.2,000 (Cr.), Rs.1,000 (Dr.) and Rs.3,000 (Cr.) respectively. Prepare Profit and Loss Appropriation Account and Partners' Current Account on the basis of above information.

Accounting Standards

21. (a) What are the three major considerations for the selection of any accounting principles and policies?

(b) Whether interest paid on loan utilized for acquiring inventory be capitalized to the cost of inventory?

(c) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3 (revised).

22. (a) Write short notes on the advantages and disadvantages of setting of Accounting Standards.

(b) Write short note on Effect of Uncertainties on Revenue Recognition.

23. (a) What will be the value of asset acquired in exchange for another asset as per AS 10?

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

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

24. (a) Nidhi Ltd. purchased raw materials at a basic price of Rs.10,000 on which excise duty of Rs.1500 is paid. Cost of inventory (of raw materials) at this stage would be Rs.11,500. The material is thereafter processed. For this purpose conversion costs (labour and direct overheads, and other fixed production overheads) amounting to Rs.1,800 are incurred. Excise duty liability on finished goods amounting Rs.1,700 is being paid by the company. Company is entitled for a CENVAT credit of Rs.1,500. Compute the value of inventory.

(b) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of AS 3:

		Rs. (in lacs)	Rs.(in lacs)
Net Profit			60,000
Add:	Sale of Investments		70,000
	Depreciation on Assets		11,000
	Issue of Preference Shares		9,000
	Loan raised		4,500
	Decrease in Stock		12,000
			1,66,500
Less:	Purchase of Fixed Assets	65,000	
	Decrease in Creditors	6,000	
	Increase in Debtors	8,000	
	Exchange gain	8,000	
	Profit on sale of investments	12,000	
	Redemption of Debenture	5,700	
	Dividend paid	1,400	
	Interest paid	945	1,07,045
			59,455
Add:	Opening cash and cash equivalent		12,341
Closing cash and cash equivalent			71,796

(c) X Co negotiates with Indian Oil for construction of "franchisee retail petrol, outlet stations". Based on proposals submitted to different Zonal offices of Indian Oil, the final approval for one outlet each in Berhampore, Salem, Vadodara and Warangal is awarded to X Co. Agreement (in single document) is entered into with Indian Oil for Rs.245 lacs. The agreement lays down values for each of the four outlets (Rs. 44 + 66 + 80 + 55 lacs) in addition to individual completion time. Comment whether X Co. will treat it as a single contract or four separate contracts?

25. (a) TVSM company has taken a Transit Insurance Policy. Suddenly in the year 2009-2010 the percentage of accident has gone up to 7% and the company wants to recognise insurance claim as revenue in 2009-2010 in accordance with relevant Accounting Standards. Do you agree?

(b) A 1100 cc motor car provides a mileage of 14 km per litre of petrol. The car is put to use for five years. The assessed level of performance is 10 km per litre. A sum of Rs.23,000 is spent on the engine to improve its performance. The performance improves to 14 km per litre. The company wants to expense the amount of Rs.23,000, Comment.

(c) A machinery costing Rs.10 lakhs has useful life of 5 years. After the end of 5 years, its scrap value would be Rs.1 lakh. How much depreciation is to be charged in the books of the company as per Accounting Standard 6?

(d) A manufacturing company purchased shares of another company from stock exchange on 1st May, 2007 at a cost of Rs.5,00,000. It also purchased Gold of Rs.2,00,000 and Silver of Rs.1,50,000 on 1st April, 2005. How will you treat these investments as per the applicable AS in the books of the company for the year ended on 31st March, 2008, if the values of these investments are as follows:

	Rs.
Shares	2,00,000
Gold	4,00,000
Silver	2,50,000

SUGGESTED ANSWERS/HINTS

1. (i) Let the average monthly sales of first four months be Rs. 100 per month.

Then the average monthly sales of next five months will be Rs.200 per month.

Total sales of first four months= Rs.100 x 4 = Rs.400

And that of next five months = Rs.200 x 5 = Rs.1,000.

The ratio of sales = 400:1,000 or 2:5.

(ii) P surrenders $\frac{1}{4}th$ of $\frac{4}{5}$ in favour of R.

It means P has surrendered $\frac{1}{4}\times\frac{4}{5}=\frac{1}{5}$ out of his share in favour of R.

Q surrenders $\frac{1}{2} of \frac{1}{5}$ in favour of R. It means Q has surrendered

$\frac{1}{2}\times\frac{1}{5}=\frac{1}{10}$ out of his share in favour of R.

Therefore, sacrificing ratio = P: $\frac{1}{5}$: Q $\frac{1}{10}$ or 2:1

New Profit sharing ratio : P's new share = $\frac{4}{5}-\frac{1}{5}=\frac{3}{5}$

Q's new share = $\frac{1}{5}-\frac{1}{10}=\frac{1}{10}$

R's new share = $\frac{1}{5}+\frac{1}{10}=\frac{3}{10}$

Therefore, the new ratio of P, Q and R = $\frac{3}{5}:\frac{1}{10}\frac{3}{10}$ or 6:1:3.

Hence, the new ratio will be = 11:9:5.

(iii) (1) **Distribution of Profits for 2008-09**

Total profits are Rs.39,000 and the ratio of distribution is 3:2:1. Hence, the share of A, B and C will be Rs.19,500, Rs.13,000 and Rs.6,500 respectively. But minimum guaranteed profit payable to C is Rs.12,000. Hence, the balance of Rs.27,000 will be distributed between A and B in the ratio of 3:2. Therefore, the share A and B will be Rs.16,200 and Rs.10,800 respectively.

(2) **Distribution of Profits for 2009-2010**

Total profits are Rs.81,000 and the ratio of distribution is 3:2:1. Hence, the share of A, B and C will be Rs.40,500, Rs.27,000 and Rs.13,500. But C will get only Rs.12,000 and the balance of Rs.69,000 will be distributed between A and B in the ratio of 3:2. Hence, the share of A and B will be Rs.41,400 and Rs.27,600 respectively.

(iv)

	Rs.
Opening Capital (01-04-2009)	3,50,000
Add: Net Profit	1,00,000
	4,50,000
Add: Additional Capital introduced in February, 2010	30,000
	4,80,000
Less: Drawings by Mr. 'B' for domestic expenses (Bal.Fig.)	80,000
Closing Capital (31.3.2010)	4,00,000

(v) **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

2. (i)

	Rs.
Purchase consideration = 5,00,000 × 11/10 = 55,000 shares of Rs. 10 each	55,00,000
Less: Share capital of X Co. Ltd.	50,00,000
Adjusted through General Reserve	5,00,000

(ii) (a) Calculation of Short Sales:

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

(b) Agreed Rate of G.P. = 18% + 2%

= 20% on sales.

(c) Loss of Profit on Short Sales:

= 20% of Rs.1,80,000 = Rs.36,000.

(iii) As per AS 9, interest of Rs.10 lakhs should be recognized on the basis of proportionate time period, whereas royalty of Rs.15 lakhs should be recognized on accrual basis as per the agreement.

(iv) False: Providing higher or lower depreciation on Fixed Assets will not affect the cash profit because depreciation is a non-cash expenditure.

(v) Value of repossessed computers:

H.P. Price of two repossessed computers

= [Rs.5,000 + (8 x Rs. 2,500)] x 2 computers

= Rs.50,000

Cost price of the repossessed computers $= \frac{\text{Rs.}50{,}000}{125} \times 100$ = Rs. 40,000

Value of repossessed computers = Rs.40,000 x 50% = Rs.20,000

3. Journal Entries

	Rs.	Rs.
Profit and Loss A/c Dr.	1,50,000	
To Debenture Interest A/c		1,50,000
(Being transfer of debenture interest to profit and loss account)		

Profit and Loss A/c Dr.		3,00,000	
To Provision for Taxation A/c			3,00,000
(Being provision for tax made @ 30% on Rs. 10,00,000 i.e. 11,50,000 – 1,50,000)			
Profit and Loss A/c Dr.		7,00,000	
To Profit and Loss Appropriation A/c			7,00,000
(Being transfer of net profit to profit and loss appropriation account)			
Profit and Loss Appropriation A/c Dr.		35,000	
To General Reserve A/c			35,000
(Being creation of general reserve @ 5% of net profit, as rate of dividend is 15% as per section 205 (2A) of the Companies Act read with the Companies (Transfer of Profits to Reserves) Rules, 1975)			
Profit and Loss Appropriation A/c Dr.		54,000	
To Proposed preference share dividend A/c			54,000
(Being preference share dividend payable @ 13½% on Rs. 4,00,000)			
Profit and Loss Appropriation A/c Dr.		1,20,000	
To Proposed equity share dividend A/c			1,20,000
(Being equity share dividend payable @ 15% on Rs. 8,00,000)			
Profit and Loss Appropriation A/c Dr.		26,100	
To Provision for corporate dividend tax A/c			26,100
(Being provision made for corporate dividend tax @ 15% on total dividend of Rs.1,74,000)			
Profit and Loss Appropriation A/c Dr.		2,00,000	
To Equity Share Capital A/c			2,00,000
(Being partly paid equity shares converted to fully paid up, by capitalization of profit)			

Balance Sheet (Extracts) as on 31st March, 2010

Share capital:		Rs.
13½% preference share capital		4,00,000
Equity share capital fully paid up		10,00,000

Reserves and Surplus:		
Securities Premium		7,00,000
General Reserve		35,000
Profit and Loss Appropriation Account		2,64,900
Secured Loan:		
15% Debentures		10,00,000
Provisions:		
Corporate Income-tax		3,00,000
Proposed Dividend:		
Preference	54,000	
Equity	1,20,000	1,74,000
Corporate Dividend Tax		26,100

Note: It is assumed that debenture interest has been paid.

4. Cash Flow Statement

				Rs.
I.	Cash flow from operating activities			
	Closing Balance as per Profit and Loss A/c		6,00,000	
	Less: Opening Balance as per Profit & Loss A/c		1,50,000	
	Profit during the year		4,50,000	
	Add: Proposed dividend during the year		2,25,000	
	Add: Interim dividend paid during the year		2,25,000	
	Add: Transfer to general reserve		30,000	
	Add: Provision for Tax (W.N. 3)		45,000	
	Add: Depreciation		2,10,000	
	Add: Interest on debentures		36,000	
	Add: Discount on issue of debentures (written off)		16,500	
	Add: Loss on Sale of machine		45,000	
				12,82,500
	Less: Income on Investment	(8,100)		
	Profit on Sale of Investment	(30,000)		(38,100)
	Funds from Operation			12,44,400
	Add: Decrease is Current Assets or Increase in Current Liabilities			
	Decrease in Stock		15,000	

	Increase in Creditors	1,65,000	
	Increase in Provision for doubtful debts	15,000	1,95,000
	Less: Increase in Current Assets		14,39,400
	Debtors	1,05,000	
	Decrease in B/P	10,000	1,15,000
			13,24,400
	Less: Tax Paid		(15,000)
	Net Cash From Operating Activities		13,09,400
II	**Cash Flows from Investing Activities**		
	Sale of Machine	75,000	
	Sale of Investment	1,50,000	
	Income on investment	8,100	
	Purchase of Fixed Assets (W.N.1)	(8,60,000)	
	Purchase of Investment (W.N.2)	(2,70,000)	
	Cash used in Investing Activities		(8,96,900)
III.	**Cash flow from Financing Activities**		
	Issue of share capital (2,00,000 – 1,500*)	1,98,500	
	Issue of debentures	1,50,000	
	Less: Interest paid on debentures (36,000 – 35,000)	(1,000)	
	Interim dividend paid	(2,25,000)	
	Final dividend paid (1,80,000 –10,000)	(1,70,000)	
	Cash used in Financing Activities		(47,500)
Net Cash Flow			3,65,000
Add : Cash and cash equivalents at the beginning of the period (1,80,000 – 30,000)			1,50,000
Cash and cash equivalents at the end of the period (5,40,000 – 25,000)			5,15,000

Working Notes:

1. Fixed Assets A/c

	Rs.		Rs.
To Balance b/d	15,30,000	By Bank	75,000
To Bank (Purchase) (Bal.fig.)	8,60,000	By P & L A/c (loss on sale)	45,000

* Underwriting commission is given in the form of shares only. It means that shares issued against cash will be of Rs.1,98,500 only.

		By Depreciation	2,10,000
		By Balance c/d	20,60,000
	23,90,000		23,90,000

2. Investment A/c

	Rs.		Rs.
To Balance b/d	90,000	By Bank (W.N.4)	1,50,000
To Bank	2,70,000	By Balance c/d	2,40,000
To Profit & Loss (W.N.4)	30,000		
	3,90,000		3,90,000

3. Provision for Tax A/c

	Rs.		Rs.
To Bank	15,000	By Balance b/d	30,000
To Balance c/d	60,000	By Profit & Loss A/c (Provision) (Bal.fig.)	45,000
	75,000		75,000

4. Cost of investment sold =(Rs.90,000+Rs.2,70,000) – Rs.2,40,000 = Rs.1,20,000.
Sales price = 1,20,000 x (100/80) = Rs.1,50,000
Profit on sale = Rs.1,50,000 – Rs.1,20,000

5. Profit and Loss Account
showing calculation of pre-incorporation and post-incorporation profit

Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post
		Rs.	Rs.			Rs.	Rs.
To Commission	(1:6)	375	2,250	By Gross Profit	(1:6)	14,000	84,000
To Advertisement	(1:6)	750	4,500	By Bad Debts Realised	Actual	500	-
To Discount	(1:6)	50	300				
To Directors Fees	Actual	-	9,000				
To Salaries	(1:3)	4,500	13,500				
To Depreciation	(1:3)	700	2,100				
To Insurance	(1:3)	150	450				
To Preliminary Expenses	Actual	-	700				
To Rent	(W.N.3)	60	630				
To Taxes	(W.N.3)	578	1,732				

To Bad Debts	(W.N.4)	386	864				
To Interest to vendor (upto 1-10-2009)	(1:1)	1,000	1,000				
To Audit Fees	(1:3)	500	1,500				
To Capital reserve		5,451					
To Net profit			45,474				
		14,500	84,000			14,500	84,000

Working Notes:

1. Calculation of Sales Ratio:

   Let average monthly turnover during first four months (April, May, June and July) = 100

   Average monthly turnover from September onwards = 100 x 2 = 200

   Monthly turnover during August = 150% of 200 = 300

   Turnover during pre-incorporation period = 100 x 3 = 300

   Turnover during post-incorporation period (for July + August + September to March)

   = 100 + 300 + (200 x 7) = 1,800

   Sales Ratio = 300: 1,800 = 1:6

2. Calculation of Time ratio:

   April 2009 to June 2009 : July 2009 to March 2010

   3 months : 9 months or 1:3

3. Break-up of Rent and Taxes:

   Rent = (20 x 3) + (70 x 9) = Rs. 690

   Taxes = 3,000 – 690 = 2,310.

4. Allocation of Bad Debts:

   Bad Debts from April to August = 1,250-350 = Rs. 900

   Sales ratio upto August (i.e. April, May and June): (July and August)

   (100 + 100 + 100) : (100 + 300) = 3:4

   Rs. 900 allocated in the ratio of 3:4 is Rs. 386 and Rs. 514

   Post-incorporation bad debts = 514 + 350 = Rs. 864

   and Pre-incorporation bad debts = Rs. 386

6. In the Books of Assured Ltd.

Journal Entries

			Rs.	Rs.
(i)	Share Final Call A/c	Dr.	2,00,000	
	To Share Capital A/c			2,00,000
	(Being the final call of Rs. 2.50 each on 80,000 equity shares made)			
(ii)	Bank A/c	Dr.	2,00,000	
	To Share Final Call A/c			2,00,000
	(Being the amount due on final call received)			
(iii)	General Reserves	Dr.	3,00,000	
	Securities Premium A/c	Dr.	1,00,000	
	To Bonus to Share holders A/c			4,00,000
	(Being the appropriation made to facilitate issue of fully paid up bonus shares in the ratio of one share for every two shares held)			
(iv)	Bonus to Shareholders A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being the issuance of 40,000 fully paid up shares of Rs. 10 each by way of bonus)			

Balance Sheet (after bonus issue)

Liabilities	Amount Rs.	Assets	Amount Rs.
Authorised Share Capital		Sundry Assets	17,00,000
1,50,000 equity shares of Rs. 10 each	15,00,000	Bank	2,00,000
Issued and Subscribed			
1,20,000 Equity Shares of Rs. 10 each fully paid up	12,00,000		
(Of the above, 40,000 equity shares are allotted as fully paid up by way of bonus shares)			
Reserves and Surplus			
Capital Redemption Reserve	1,50,000		

Plant Revaluation Reserve	20,000		
Securities Premium	50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
	19,00,000		19,00,000

7. Journal Entries

Particulars		Debit (Rs.)	Credit (Rs.)
First debentures A/c	Dr.	3,00,000	
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	90,000	
To A's A/c			6,90,000
(Being A's total liability ascertained)			
A's A/c	Dr.	2,10,000	
To Reconstruction A/c			2,10,000
(Being cancellation of debt upto Rs.2,10,000)			
Bank A/c	Dr.	30,000	
To A's A/c			30,000
(Being cash received in course of settlement)			
A's A/c	Dr.	5,10,000	
To First debentures A/c			5,10,000
(Being liability of A, discharged against first debentures)			
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	60,000	
To B's A/c			3,60,000
(Being B's liability ascertained)			
B's A/c	Dr.	3,60,000	
To Bank A/c			90,000
To Reconstruction A/c			2,70,000
(Being B's liability discharged)			

Unsecured creditors A/c	Dr.	3,00,000	
To Equity share capital A/c			1,12,500
To Loan (Unsecured) A/c			75,000
To Reconstruction A/c			1,12,500
(Being settlement of unsecured creditors)			
Share final call A/c	Dr.	1,80,000	
To Share capital A/c			1,80,000
(Being final call money due)			
Bank A/c	Dr.	1,80,000	
To Share final call A/c			1,80,000
(Being final call money received)			
Share capital A/c (Face value Rs.60)	Dr.	3,60,000	
To Share capital (Face value Rs. 7.50)			45,000
To Reconstruction A/c			3,15,000
(Being share capital reduced to Rs.7.50 each)			
Reconstruction A/c	Dr.	8,70,000	
To Profit and loss A/c			8,70,000
(Being reconstruction surplus used to write off losses)			

Working Notes:

1.	Settlement of claim of remaining unsecured creditors	Rs.
	75% of Rs.3,00,000	2,25,000
	Considering their claim for share of Rs.60 each	
	2,25,000/60 =3,750 shares	
	Less: Number of shares to be issued	
	3,750 x 4= 15,000 shares of Rs.7.5 each	
	Total value= 15,000 x 7.50	1,12,500
	Transferred to Reconstruction A/c	1,12,500

2. Ascertainment of profit and loss A/c debit balance at the time of reconstruction.

Liabilities	Rs.	Asset	Rs.
Share capital	1,80,000	Fixed assets	3,90,000
1st Debenture	3,00,000	Cash	2,70,000
2nd Debenture	6,00,000	Profit and loss A/c	8,70,000
Unsecured creditors	4,50,000		
	15,30,000		15,30,000

8. (i) Calculation of amount of equity shares issued to Roshni and Jyoti

Profits of	Roshni	Jyoti
	Rs.	Rs.
Ist year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability

	Roshni	Jyoti
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of amount of 12% Preference shares issued to Roshni and Jyoti

	Roshni	Jyoti
	Rs.	Rs.
Capital employed (Refer working note 1)	8,40,000	9,24,000
8% return on capital employed	67,200	73,920
12% Preference shares to be issued $\left[67{,}200 \times \frac{100}{12}\right]$	Rs. 5,60,000	
$\left[73{,}920 \times \frac{100}{12}\right]$		Rs. 6,16,000

Total Purchase Consideration

	Roshni	Jyoti
	Rs.	Rs.
Equity Shares	2,85,000	3,15,000
12% Preference shares	5,60,000	6,16,000
Total	8,45,000	9,31,000

(ii) Balance Sheet of Ujala Ltd. (after amalgamation)

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Fixed assets:	
1,00,000 Equity Share of Rs.25 each	25,00,000	Goodwill (W.N.1)	14,000
Issued and subscribed share capital:		Plant and Machinery	12,00,000
24,000 Equity Shares of Rs.25 each	6,00,000	Building	14,23,000
1,17,600 12% Preference shares of Rs.10 each	11,76,000	Current Assets (W.N.2)	2,70,100
(All of the equity and preference shares have been issued for consideration other than cash)			
Current Liabilities (W.N. 3)	11,31,100		
	29,07,100		29,07,100

Working Notes:

1. Goodwill

	Roshni Rs.	Jyoti Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
	14,63,500	14,81,600
Less: Current liabilities	6,23,500	5,57,600
Net assets (capital employed)	8,40,000	9,24,000
Less: Purchase consideration	8,45,000	9,31,000
Goodwill	5,000	7,000

Total purchased goodwill		12,000
Add: Unrealised profit of Rs.10,000 @ 20% = Rs.2,000 is adjusted from current assets and from goodwill (since P & L A/c is not given)		2,000
Total Goodwill		14,000

2. Current Assets

	Roshni Rs.	Jyoti Rs.
Balances before amalgamation	1,63,500	1,58,600
Less: Liabilities of Roshni due to Jyoti	-	50,000
Less: Unrealised Profit on stock i.e.Rs.10,000 x 20%	2,000	
Total	1,61,500	1,08,600
Grand Total		2,70,100

3. Current Liabilities

	Roshni Rs.	Jyoti Rs.
Balances before amalgamation	6,23,500	5,57,600
Less: Liabilities of Roshni due to Jyoti	50,000	-
Total	5,73,500	5,57,600
Grand Total		11,31,100

9. Statement showing calculation of average due date

Instalments	Due Dates	Years since 1 January 2006
1	1 January 2008	2
2	1 January 2009	3
3	1 January 2010	4
4	1 January 2011	5
5	1 January 2012	6
		20

$$\text{Average Due Date} = \text{Date of Loan} + \frac{20}{5}$$

= 1 January, 2006 + 4 years = 1 January, 2010

$$\text{Interest} = \frac{20{,}000 \times 12 \times 4}{100} = \text{Rs. } 9{,}600$$

10. In the books of Me

You in Account Current with Me

As on 30 June, 2010

Date 2010	Particulars	Debit Amount Rs.	Credit Amount Rs.	Dr. or Cr.	Balance Rs.	Days	Debit Products Rs.	Credit Products Rs.
Jan. 1	By Balance b/d		3,010.00	Cr.	3,010.00	7		21,070
Jan. 7	By Purchases		4,430.00	Cr.	7,440.00	40		2,97,600
Feb. 16	To Sales	6,480.00		Cr.	960.00	2		1,920
Feb. 18	By Returns Inward		560.00	Cr.	1,520.00	34		51,680
Mar. 24	To Sales	3,560.00		Dr.	2,040.00	29	59,160	
Apr. 22	By Purchases		1,500	Dr.	540.00	7	3,780	
Apr. 29	By Cash		2,500.00	Cr.	1,960.00	18		35,280
May 27	By Purchases		2,710.00	Cr.	4,670.00	36		1,68,120
June 22	To Sales	2,280.00		Cr.	2,390.00	8		19,120
June 30	Balance of products						5,31,850	
June 30	By Interest on balance of Products: $\left(\frac{5{,}31{,}850 \times 10}{100 \times 365}\right)$		145.71	Cr.	2,535.71			
June 30	To Balance c/d	2,535.71	———					
		14,855.71	14,855.71					
July 1	By Balance b/d		2,535.71	Cr.	2,535.71			

SONU GUPTA CLASSES
WWW.SONUGUPTACLASSES.IN
4, Vaishali, Pitampura,
Main Road (Near Gulab Sweets),
Delhi, India - 110034
9811682345, 9910209995

11. Total Debtors Account

Date 2010	Particulars	Amount Rs.	Date 2010	Particulars	Amount Rs.
Apr.1	To Balance b/d		Apr.1	By Balance b/d	20,000
				— Advanced by P	
	(15,000 + 21,000 + 18,000 +3,56,000)	4,10,000		By Cash A/c (W.N.1)	3,93,000
30.	To Sales (credit) A/c	4,41,000	30.	By Discount Allowed A/c (W.N.2)	9,500
	(5,55,000 – 1,14,000)			By Bad Debts A/c	16,500
	To Bills Receivable A/c	9,000		By (21,000 – 4,500)	
	— Dishonoured of X			By Returns Inward A/c	6,000
	To Cash A/c—Noting Charges	150		— by X	
	To Balance c/d— D	18,000		By Bill Receivable A/c	9,000
				— by X	
				By Transfer to Total Creditors A/c	18,000
				— Z's balance	
				By Balance c/d	
				X - 9,150	
				B – 18,000	
				Others - 3,79,000	4,06,150
		8,78,150			8,78,150
May1	To Balance b/d	4,06,150	May1	By Balance b/d -D	18,000

Working Notes:

1. Amount received from Customers

		Rs.
From Y		4,500
D (advance)		18,000
Add:	From other customers before April 1	2, 73,000
	From sales during the month of April	97,500
		3,93,000

2. Discount allowed @ $2\frac{1}{2}$ % on gross amount

Then, net value in % = 97½ (100 - $2\frac{1}{2}$)

So, discount on Rs. 3,70,500 (i.e. 2,73,000 + 97,500) will be

$$= \text{Rs. } 3{,}70{,}500 \times \frac{2\frac{1}{2}}{97\frac{1}{2}}$$

= Rs. 9,500

12. Balance Sheet

as at 1st January 2009

Liabilities	Rs.	Assets	Rs.
Capital fund (bal. fig.)	54,250	Investment in 4% Bonds	15,000
Creditors	10,000	Stock	6,000
Subscription received in Advance for 2009	3,000	Outstanding Subscriptions	
Outstanding Salaries	7,000	for 2007	19,000
		for 2008	30,000
		Balance at Bank	4,250
	74,250		74,250

Balance Sheet

as at 31st December 2009

Liabilities		Rs.	Assets	Rs.
Capital fund :			Investments 4% Bonds	25,000
on 1.1.2009	54,250		Accrued Interest	550
Surplus for 2009	33,000	87,250		
Creditors for Provisions		5,000	Stock (W.N.1)	25,000
Subscription received in Advance for 2010		4,000	Debtors of Provisions	4,000
Outstanding Salaries		12,000	Outstanding Subscriptions	
Outstanding Rent		2,000	2007	1,000
			2008	10,000
			2009	27,000
			Balance at Bank	17,700
		1,10,250		1,10,250

Receipts and Payments Account
for the year ended 31st December 2009

Receipts	Rs.	Payments	Rs.
To Balance in hand (bal. fig.)	4,250	By Salaries	40,000
To Subscriptions:		By Investment purchased	10,000
2007	18,000	By Purchase of provisions	9,000
2008	17,000	By Creditors (W.N.3)	1,05,000
2009 (W.N.4)	40,000	By Balance in hand	17,700
To Cash Sales	12,000		
To Interest	450		
To Debtors (W.N.2)	86,000		
To Subscriptions for 2010	4,000		
	1,81,700		1,81,700

Income and Expenditure Account
for the year ended 31st December 2009

Expenditures	Rs.	Incomes		Rs.
To Salaries	45,000	By Subscriptions for 2009		70,000
To Rent	2,000	By Interest	450	
To Bad Debts (W.N.4) (Subscriptions for 2008)	3,000	Add: Accrued interest	550	1,000
To Excess of income over expenditure	33,000	By Profit on Provision		12,000
	83,000			83,000

Working Notes:

1. Provisions Account

	Rs.		Rs.
To Opening Stock	6,000	By Sales- Credit Rs.90,000	
To Purchases	1,09,000	Cash Rs.12,000	1,02,000
To Profit	12,000	By Closing Stock	25,000
	1,27,000		1,27,000

2. Debtors Account

	Rs.		Rs.
To Sale of Provisions	90,000	By Cash (Bal.fig.)	86,000
		By Balance c/d	4,000
	90,000		90,000

3. Creditors Account

	Rs.		Rs.
To Cash (Bal.fig.)	1,05,000	By Balance b/d	10,000
To Balance c/d	5,000	By Provisions	1,00,000
	1,10,000		1,10,000

4. Subscription Account

	2007 Rs.	2008 Rs.	2009 Rs.		2007 Rs.	2008 Rs.	2009 Rs.
To Balance b/d	19,000	30,000	-	By Balance b/d	-	-	3,000
To Income and				By Cash A/c	18,000	17,000	40,000*
Expenditure A/c	-	-	70,000	By Bad Debts A/c	-	3,000	-
				By Balance c/d	1,000*	10,000	27,000
	19,000	30,000	70,000		19,000	30,000	70,000

* means balancing figure.

13. Trading and Profit and Loss Account of Shri Ram

for the year ended 31st December, 2009

		Rs.		*Rs.*
To Opening Stock		8,000	By Sales	73,050
To Purchases	45,600		By Closing stock	7,000
Less : For advertising	900	44,700		
To Freight inwards		3,000		
To Gross profit c/d		24,350		
		80,050		80,050
To Sundry expenses		14,200	By Gross profit b/d	24,350

To Advertisement		900	By Interest on investment $\left(\text{Rs.}100\times\frac{4}{100}\times\frac{1}{2}\right)$	2
To Discount allowed –				
Debtors	1,500		By Discount received	800
Bills Receivable	125	1,625	By Miscellaneous income	500
To Depreciation on furniture		650		
To Provision for doubtful debts		486		
To Net Profit		7,791		
		25,652		25,652

Balance Sheet as on 31st December, 2009

Liabilities		*Amount Rs.*	*Assets*		*Amount Rs.*
Capital as on 1st January, 2009	18,800		Furniture	6,000	
Less : Drawings	7,904		Additions during the year	1,000	
	10,896			7,000	
Add : Net Profit	7,791	18,687	*Less :* Depreciation	650	6,350
Sundry creditors		15,000	Investment		96
Outstanding expenses		1,800	Interest accrued		2
			Closing Stock		7,000
			Sundry debtors	19,450	
			Less : Provision for		
			doubtful debts	486	18,964
			Bills receivable		1,750
			Cash in hand and at bank		625
			Prepaid expenses		700
		35,487			35,487

Working Notes :

(1) Capital on 1st January, 2009

Balance Sheet as on 1st January, 2009

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital (Balancing figure)	18,800	Furniture (w.d.v.)	6,000
Creditors	11,000	Stock at cost	8,000
Outstanding expenses	2,000	Debtors	16,000
		Cash in hand and at bank	1,200
		Prepaid expenses	600
	31,800		31,800

(2) Purchases made during the year

Creditors Account

	Rs.		*Rs.*
To Cash and bank A/c	39,200	By Balance b/d	11,000
To Discount received A/c	800	By Debtors A/c	400
To Bills Receivable A/c	2,000	By Purchases A/c (Bal.fig.)	45,600
To Balance c/d	15,000		
	57,000		57,000

(3) Sales made during the year

		Rs.
Opening stock		8,000
Purchases	45,600	
Less : For advertising	900	44,700
Freight inwards		3,000
		55,700
Less : Closing stock		7,000
Cost of goods sold		48,700
Add : Gross profit (@ 50% on cost)		24,350
		73,050

(4) Debtors on 31.12.2009

Debtors Account

	Rs.		Rs.
To Balance b/d	16,000	By Cash and bank A/c	58,500
To Sales A/c	73,050	By Discount allowed A/c	1,500
To Creditors A/c (bill dishonoured)	400	By Bills receivable A/c	10,000
		By Balance c/d (Bal.fig.)	19,450
	89,450		89,450

(5) Additional drawings by Shri Ram

Cash and Bank Account

	Rs.		Rs.
To Balance b/d	1,200	By Freight inwards A/c	3,000
To Sundry debtors A/c	58,500	By Furniture A/c	1,000
To Bills Receivable A/c	6,125	By Investment A/c	96
To Miscellaneous income A/c	500	By Expenses A/c	14,500
		By Creditors A/c	39,200
		By Drawings A/c (Rs.7,000+Rs.904)	7,904
		By Balance c/d	625
	66,325		66,325

(6) Amount of expenses debited to Profit and Loss A/c

Expenses Account

	Rs.		*Rs.*
To Prepaid expenses A/c (on 1.1.2009)	600	By Outstanding expenses A/c (on 1.1.2009)	2,000
To Bank A/c	14,500	By Profit and Loss A/c (Balancing figure)	14,200
To Outstanding expenses A/c (on 31.12.2009)	1,800	By Prepaid expenses A/c (on 31.12.2009)	700
	16,900		16,900

(7) Bills Receivable on 31.12.2009

Bills Receivable Account

	Rs.		Rs.
To Debtors A/c	10,000	By Creditors A/c	2,000
		By Bank A/c	6,125
		By Discount on bills receivable A/c	125
		By Balance c/d (Bal.fig.)	1,750
	10,000		10,000

Note: As regards investment, it has been assumed that investment purchased for Rs. 96 was of the face value Rs. 100.

14. Hire-Purchase Trading Account for the year ended 31.03.2010

	Rs.		Rs.
To H.P. Stock (Opening)	3,60,000	By H.P. Stock Reserve (Opening)	1,20,000
To Installment due (Opening)	30,000	By Bank (Cash Collected)	6,20,000
To Goods Sold on H.P.	8,40,000	By Goods Sold on H.P. (Loading)	2,80,000
To H.P. Stock Reserve (Closing)	1,80,000	By H.P. Stock (Closing)	5,40,000
To Profit & Loss A/c	2,20,000	By Installments due	70,000
	16,30,000		16,30,000

Working Notes:

(i) Calculation of Opening and Closing H.P. Stock

$$\text{Opening Stock} = \frac{\text{H.P. Stock Reserve} \times 150}{50}$$

$$= \frac{1,20,000 \times 150}{50}$$

$$= \text{Rs. } 3,60,000$$

$$\text{Closing Stock} = \frac{\text{H.P. Stock Reserve} \times 150}{50}$$

$$= \frac{1,80,000 \times 150}{50}$$

$$= \text{Rs. } 5,40,000$$

SONU GUPTA CLASSES
WWW.SONUGUPTACLASSES.IN
4, Vaishali, Pitampura,
Main Road (Near Gulab Sweets),
Delhi, India - 110034
9811682345, 9910209995

(ii) Calculation of installments collected:

	Rs.
H.P. Stock on 01.04.2009	3,60,000
Installments due on 01.04.2009	30,000
Goods sold on H.P. basis	8,40,000
	12,30,000
Less: H.P. Stock on 31.03.2010	5,40,000
	6,90,000
Less: Installment due on 31.03.2010	70,000
Installment collected during the year	6,20,000

15. In the books of Anshu

10% Non-Convertible Debentures (NCD) Account

	Particulars	Face Value Rs.	Interest Rs.	Cost Rs.		Particulars	Face Value Rs.	Interest Rs.	Cost Rs.
April 1	To Balance b/d	2,00,000	5,000	1,80,000	June 30	By Bank		25,000	
June 15	To Bank	3,00,000	13,750	2,88,000	Sept. 15	By Bank	3,00,000	6,250	3,00,000
Sept. 15	To P&L A/c			24,000	Dec. 31	By Bank		20,000	
Dec. 15	To Bank	2,00,000	9,167	1,88,333	Feb. 15	By Bank	2,00,000	2,500	2,01,500
Feb. 15	To P&L A/c			9,500	Mar.31	By balance c/d	2,00,000	5,000	1,88,333
Mar.31	To P&L A/c (Bal. fig.)		30,833						
		7,00,000	58,750	6,89,333			7,00,000	58,750	6,89,333

Working Notes

(i) Profit/Loss on sale of NCD

Sold on 15.09.2009	Rs.
Selling price (3,000 x 100)	3,00,000
Less: Cost of purchases	
2000 x 90 (opening)	1,80,000
1000 x 96 (purchases)	96,000
Profit	24,000

Sold on 15.02.2010

Selling price (2,000 x 102)	2,04,000
Less: Interest included	2,500
	2,01,500
Less: Cost of purchases (2000 x 96)	1,92,000
Profit	9,500

(ii) As the disinvestment is done on FIFO basis, NCDs purchased on 15.12.2009 remained in stock on 31.03.2010 at a cost of Rs. 1,88,333

(iii) Interest calculation on various dates:

Rs.

(a) On 1.4.09:

$$2,00,000 \times 10\% \times \frac{3}{12} \rightarrow (1.1.09 - 31.3.09) = 5,000$$

(b) On 15.6.09:

$$3,00,000 \times 10\% \times \frac{5.5}{12} \rightarrow (1.1.09 - 15.6.09) = 13,750$$

(c) On 30.6.09:

$$5,00,000 \times 10\% \times \frac{6}{12} \rightarrow (1.1.09 - 30.6.09) = 25,000$$

(d) On 15.9.09:

$$3,00,000 \times 10\% \times \frac{2.5}{12} \rightarrow (1.7.09 - 15.9.09) = 6,250$$

(e) On 15.12.09

$$2,00,000 \times 10\% \times \frac{5.5}{12} \rightarrow (1.7.09 - 15.9.09) = 9,167$$

(f) On 31.12.09:

$$4,00,000 \times 10\% \times \frac{6}{12} \rightarrow (1.7.09 - 31.12.09) = 20,000$$

(g) On 15.2.2010:

$$2,00,000 \times 10\% \times \frac{1.5}{12} \rightarrow (1.1.10 - 15.2.10) = 2,500$$

(h) On 31.3.2010:

$$2,00,000 \times 10\% \times \frac{3}{12} \rightarrow (1.1.10 - 31.3.10) = 5,000$$

16. Computation of the amount of claim for the loss of profit

	Rs.
(i) **Ascertainment of turnover:**	
Turnover from 15th October, 2008 to 31st March, 2009	2,40,000
Add: 20% expected increase	48,000
	2,88,000
Less: Actual turnover from 15th October, 2009 to 31st March, 2010	1,20,000
Reduction in turnover due to fire	1,68,000
Gross profit on reduction in turnover @ 35% (see working note)	58,800

(ii) **Claim amount:**

Amount of claim without application of average clause Rs. 58,800

Application of average clause

$$= \frac{\text{Amount of Policy}}{\text{G.P. on Turnover}} \times \text{Amount of claim}$$

$$= \frac{1,50,000}{2,01,600} \times 58,800$$

= Rs. 43,750

Therefore, amount of claim = Rs. 43,750

Working Notes:

(i)

Rate of Gross Profit for last financial year:	Rs.
Net Profit	90,000
Add: Insured standing charges	67,500
	1,57,500
Turnover for the last financial year	4,50,000

$$\text{Rate of Gross Profit} = \frac{1,57,000}{4,50,000} \times 100$$

= 35%

(ii)

Adjusted Annual Turnover:	Rs.
Turnover from 15th October, 2008 to 14th October, 2009	4,80,000
Add: 20% expected increase	96,000
	5,76,000
Gross Profit @ 35% on incremental turnover	2,01,600

17. Profit & Loss Appropriation Account

for the year ended 31st March, 2010

	For the period			For the period	
	1.4.09 to 31.8.09 Rs.	1.9.09 to 31.3.10 Rs.		1.4.09 to 31.8.09 Rs.	1.9.09 to 31.3.10 Rs.
To Interest on capital	7,500	17,500	By Net Profit	75,000	1, 05,000
To Depreciation	6,000	12,500			
To Z's Commission	5,591	-			
To Transfer to current A/c					
X	22,364	-			
Y	22,363	40,000			
Z	11,182	20,000			
A	-	15,000			
	75,000	1,05,000		75,000	1,05,000

Partners' Current Account

	X Rs.	Y Rs.	Z Rs.	A Rs.		X Rs.	Y Rs.	Z Rs.	A Rs.
From 1.4.09 to 31.8.09									
To X	-	16,000	8,000		By X's capital A/c (Transfer)	80,000	-	-	
To Cash	50,000	-	-	-	By Interest on Capital	3,000	3,000	1,500	
To A's Capital A/c	60,000	-	-	-	By commission	-	-	5,591	

To	A's Current A/c	19,364				By	Y	16,000			
To	Balance c/d		9,363	10,273		By	Z	8,000			
						By	P/L Appropriation Account	22,364	22,363	11,182	
		1,29,364	25,363	18,273				1,29,364	25,363	18,273	
From 1.9.09 to 31.3.10											
To	Y		-	-	8,000	By	Balance b/d		9,363	10,273	
To	Z				4,000	By	X's Current A/c		-	-	19,364
To	Balance c/d		66,696	38,940	25,864	By	Interest on Capital		9,333	4,667	3,500
						By	A		8,000	4,000	-
						By	P/L Appropriation A/c		40,000	20,000	15,000
			66,696	38,940	37,864				66,696	38,940	37,864

Working Notes:

(i) New Profit sharing ratio and proportionate partners' capital as per new ratio:

Fixed capital of the firm Rs. 3,00,000

New profit sharing ratio:

A is given 1/5 share

$$\text{Balance share } 1 - \frac{1}{5} = \frac{4}{5}$$

$$Y\text{'s share} = \frac{4}{5} \times \frac{2}{3} = \frac{8}{15}$$

$$Z\text{'s share} = \frac{4}{5} \times \frac{1}{3} = \frac{4}{15}$$

New ratio

Y		Z		A	
$\frac{8}{15}$	:	$\frac{4}{15}$	:	$\frac{1}{15}$	or 8:4:3

Fixed capital of partners in profit sharing ratio will be

$$Y = \frac{3,00,000 \times 8}{15} = 1,60,000$$

$$Z = \frac{3,00,000 \times 4}{15} = 80,000$$

$$A = \frac{3,00,000 \times 3}{15} = 60,000$$

(ii) Goodwill adjustment at the time of retirement of X

	X Rs.	Y Rs.	Z Rs.
Goodwill as per old ratio 2:2:1	24,000	24,000	12,000
Less : Goodwill in 2:1	——	40,000	20,000
	24,000	(16,000)	(8,000)

Goodwill adjustment at the time of admission of A

	Y Rs.	Z Rs.	A Rs.
Goodwill in 2:1 (before admission)	40,000	20,000	——
Less : Goodwill in 8:4:3	32,000	16,000	12,000
	8,000	4,000	(12,000)

(iii) Interest on partners' capital

For the period from 1.4.09 to 31.8.2009 (5 months)

$$\text{X's capital Rs. } 80,000 \times 9\% \times \frac{5}{12} = \text{Rs. } 3,000$$

$$\text{Y's capital Rs. } 80,000 \times 9\% \times \frac{5}{12} = \text{Rs. } 3,000$$

$$\text{Z's capital Rs. } 40,000 \times 9\% \times \frac{5}{12} = \text{Rs. } 1,500$$

Total = Rs. 7,500

For the period from 1.9.2009 to 31.3.2010 (7 months)

$$\text{Y's capital Rs. } 1,60,000 \times 10\% \times \frac{7}{12} = \text{Rs. } 9,333$$

$$\text{Z's capital Rs. } 80,000 \times 10\% \times \frac{7}{12} = \text{Rs. } 4,667$$

$$\text{A's capital Rs. } 60,000 \times 10\% \times \frac{7}{12} = \text{Rs. } 3,500$$

Total = Rs. 17,500

(iv) Commission payable to Z

Profit for the period 01.04.2009 to 31.8.2009 = 1,80,000 x $\frac{5}{12}$ = Rs. 75,000

Less: Depreciation for the period	Rs. 6,000	
Interest on capital for the period	Rs. 7,500	Rs. 13,500
		Rs. 61,500

Commission to Z @ 10%

Net profit before commission = Rs. 61,500

Profit after 10% commission = $\frac{61,500 \times 100}{110}$

= Rs. 55,909

Commission @ 10% = Rs. 5,591

18. There are several prepackaged accounting softwares which are available in the market and are used extensively for small and medium sized organisations. These 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. Once the basic parameters are set and the master files are updated, the system is ready for use.

19. Memorandum Trading Account

For the period from 1.4.2010 to 30.6.2010

	Rs.		Rs.
To Opening Stock: 2,20,000 Less: Abnormal Item 20,000	2,00,000	By Sales 30,20,000	
To Purchases	21,00,000	Less: Abnormal Item (20,000)	
To Gross Profit (1/3 of Rs. 27,00,000)	9,00,000	Returns (3,00,000)	27,00,000

		By Stock at the end (Bal.Fig.)	5,00,000
	32,00,000		32,00,000

Statement of Insurance Claim

	Rs.
Stock on the date of fire	5,00,000
Less: Stock Salvaged	30,000
	4,70,000
Add: Fire fighting expenses	30,000
	5,00,000

Insurance Claim: $\dfrac{\text{Policy Amount}}{\text{Stock on the date of fire}} \times \text{Total Loss}$

$$\frac{3,50,000}{5,00,000} \text{ x } 5,00,000 = \text{Rs. } 3,50,000$$

20. Profit and Loss Appropriation Account

For the year ended 31^{st} March, 2010

	Rs.	Rs.		Rs.
To Partner's Salaries			By Balance b/d (Net Profit)	1,47,850
Ankur (1,000 × 12)	12,000			
Aarav (1,000 × 12)	12,000			
Aarush (1,000 × 12)	12,000	36,000		
To Interest on Loan: Aarush $\left(25,000 \times \frac{6}{12} \times \frac{7}{12}\right)$		875		
To Interest on Capital:				
Ankur	9,000			
Aarav	9,000			
Aarush	13,500	31,000		
To Current Account:				
(Share of Profit)				
Ankur	22,325			

Aarav	24,325			
Aarush	33,325	79,975		
		1,47,850		1,47,850

Working Note:

Distribution of profit:

Divisible Total Profit = (1,47,850 – 68,375) = Rs.79,975

	Ankur Rs.	Aarav Rs.	Aarush Rs.
First Rs.35,000 (Capital Ratio 2:2:3)	10,000	10,000	15,000
Next Rs.20,000 (2:3:5)	4,000	6,000	10,000
Balance Rs.24,975 (1:1:1)	8,325	8,325	8,325
	22,325	24,325	33,325

Partners' Current Accounts

Particulars	X Rs.	Y Rs.	Z Rs.	Particulars	X Rs.	Y Rs.	Z Rs.
To Balance b/d	-	1,000	--	By Balance b/d	2,000		3,000
To Drawings	10,000	10,000	10,000	By Salaries	12,000	12,000	12,000
To Balance c/d	35,325	34,325	52,700	By Interest on Loan	---	----	875
				By Interest on capital	9,000	9,000	13,500
				By P/L Appropriation A/c	22,325	24,325	33,325
	45,325	45,325	62,700		45,325	45,325	62,700

21. (a) Three major considerations for the selection of any accounting principles and policies are :

(a) **Prudence :** Prudence is the inclusion of a degree of caution in the exercise of judgments needed in making estimates required under conditions of uncertainty.

By exercising prudence, an enterprise does not recognise profits on the basis of anticipation. These are recognized only when realised though not necessarily in cash. However, all known losses are anticipated and provided for.

For example, in determining the carrying amount of inventory, the profit margins are ignored and yet, the realisable value if less than cost is taken cognizance of.

(b) **Substance over form** If information is to represent faithfully the transactions or events, it is essential that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form.

For example, where rights and interests in a property stands transferred while legal documentation for the transfer is yet to be completed, the transaction should be recorded as a sale in the books of transferor and acquisition .in the books of transferee.

(c) **Materiality:** The relevance of information is affected by its materiality. Information is material if its misstatement, i.e. omission or erroneous statement, could influence the economic decisions taken by the user, based on such financial statements. Accordingly, financial statements should disclose all material items, i.e., knowledge of which might influence the decision of the financial statements.

Other qualitative characteristics of accounting information, such as (i) relevance, (ii) neutrality, (iii) completeness, and (iv) reliability are equally critical to users in order that financial statements are meaningful. In the selection and adoption of accounting policies these aspects should also be kept in view

(b) AS 2 provides that interest and other borrowing costs are usually considered as not relating to bringing the inventory to its present location and condition. Therefore, such costs are: usually not included.

(c) As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

(a) the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statement of profit and loss for:

(i) changes during the period in inventories and operating receivables and payables:

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealized foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

22. (a) The Accounting Standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. 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 companies' economic performance. The setting of accounting standards has the following advantages:

(i) Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) There are certain areas where important information are not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in accounting standards practised in different countries.

However, there are some disadvantages of setting of accounting standards:

(i) Alternative solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.

(ii) There may be a trend towards rigidity and away from flexibility in applying the accounting standards.

(iii) Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.

(b) Para 9 of AS 9 on "Revenue Recognition" deals with the effect of uncertainties on Revenue Recognition. The para states:

1. Recognition of revenue requires that revenue is measurable and at the time of sale or the rendering of the service it would not be unreasonable to expect ultimate collection.

2. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc. revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise, revenue only when it is reasonably certain that the ultimate collection will be made. When there is uncertainty as to ultimate collection, revenue is recognised at the, time of sale or rendering of service even , though payments are made by instalments.

3. When the uncertainty relating to collectability arises subsequent to the time of sale or rendering of the service, it is more appropriate to make a separate provision to reflect the uncertainty rather than to adjust the amount of revenue originally recorded.

4. An essential criterion for the recognition of revenue is that the consideration receivable for the sale of goods, the rendering of services or from the use by others of enterprise resources is reasonably determinable. When such consideration is not determinable within reasonable limits; the recognition of revenue is postponed.

5. When recognition of revenue is postponed due to the effect of uncertainties, it is considered as revenue of the period in which it is properly recognised.

23. (a) As per para 11 of AS 10, when a fixed asset is acquired in exchange for another asset, its cost is usually determined by reference to the fair market value of the consideration given. It may be appropriate to consider also the fair market value of the asset acquired if this is more clearly evident. An alternative accounting treatment that is sometimes used for an exchange of assets, particularly when the assets exchanged are similar, is

to record the asset acquired at the net book value of the asset given up; in each case an adjustment is made for any balancing receipt or payment of cash or other consideration.

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

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

(2) Goodwill.

(3) Livestock.

(4) Wasting assets or land (if it has unlimited useful life for the enterprise).

(c) As per para 7 and 8 of AS 13 on 'Accounting for Investments', there are two categories of investments, viz., Current Investments and Long Term Investments. According to para 14 of the standard, the carrying amount for current investments is the lower of cost and fair value whereas para 17 states that Long Term Investments are valued at cost less permanent diminutions in value of investment. For current investments, para 16 of the standard states that, any reduction to fair value and any reversals of such reductions are included in the profit and loss statement.

24. (a) Since Nidhi Ltd. is entitled to a CENVAT credit of Rs.1,500, excise duty payable on finished goods is notionally adjusted against excise duty paid on materials consumed. Thus, CENVAT related excise duty cannot be included as a part of the cost of inventory. The cost of inventory would thus be valued at Rs.13,500 (11,500 + 1,80,000 + 1,700 – 1,500) only.

(b) Cash Flow Statement

Cash flows from operating activities		(Rs. in lacs)
Net profit		60,000
Less: Exchange gain		(8,000)
Less: Profit on sale of investments		(12,000)
		40,000
Add: Depreciation on assets		11,000
Change in current assets and current liabilities		51,000
(-) Increase in debtors	(8,000)	
(+) Decrease in stock	12,000	
(-) Decrease in creditors	(6,000)	(2,000)
Net cash from operating activities		49,000

Cash flows from investing activities		
Sale of investments	70,000	
Purchase of fixed assets	(65,000)	
Net cash from Investing activities		5,000
Cash flows from financing activities		
Issue of preference shares	9,000	
Loan raised	4,500	
Redemption of Debentures	(5,700)	
Interest paid	(945)	
Dividend paid	(1,400)	
Net cash from financing activities		5,455
Net increase in cash & cash equivalents		59,455
Add: Opening cash and cash equivalents		12,341
Closing cash and cash equivalents		71,796

(c) In this situation, each asset will be treated as a "single contract not withstanding the fact that there is only one document of contract. Four contract accounts have to be recorded in the books of X Co. For each contract account, principles of revenue and cost recognition have to be applied separately, and net income determined for each asset.

25. (a) AS 9 on Revenue Recognition defines revenue as 'gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of the enterprise from the sale of goods, from the rendering of services and from the use by others of enterprise resources yielding interest, royalties and dividends'.

To recognise revenue AS 9 requires that revenue arises from ordinary activities and that it is measurable and there should be no uncertainty. As per para 9.2 of the Standard, where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made.

In the given case, TVSM company wants to suddenly recognise Insurance claim because it has increased over the previous year. But, there are uncertainties involved in the settlement of the claim. Also, the claim does not seem to be in the course of ordinary activity of the company.

Hence, TVSM company is not advised to recognise the Insurance claim as revenue.

(b) Since the amount spent increases the future performance of the asset, beyond its previously assessed level of performance, therefore, the amount of Rs.23,000 should be capitalized.

(c) As per paragraph 20 of AS 6 'Depreciation Accounting', the depreciable amount of a depreciable asset should be allocated on a systematic basis to each accounting period during the useful life of the asset. In the given case, the depreciation amount can be calculated as follows:

	Rs.
Cost of machinery	10,00,000
Less: Scrap value at the end of useful life	1,00,000
Amount to be written off during useful life of machinery	9,00,000
Useful life of the asset	5 years
Depreciation to be provided each year (Rs.9,00,000 / 5 years)	Rs.1,80,000

(d) As per para 32 of AS 13 on 'Accounting for Investments', any investment of long term period is shown at cost. Hence, the investment in Gold and Silver (purchased on 1st April 2005) shall continue to be shown at cost i.e., Rs.2,00,000 and Rs.1,50,000 respectively as their value have increased.

Also as per AS 13, for investment in shares - if the investment is for short-term period then the loss of Rs.3,00,000 is to be charged to profit & loss account for the year ended 31st March, 2008. If investment is of long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually.

Note: AS 1, 2, 3, 6, 7, 9, 10, 13 & 14 are applicable for November, 2010 Examination.