PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2016 EXAMINATION

A. <u>Applicable for May, 2016 examination</u>

Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 31st October, 2015 will be applicable for May, 2016 Examination.

B. Not applicable for May, 2016 examination

Ind ASs issued by the Ministry of Corporate Affairs are not applicable for the students appearing in May, 2016 Examination**.**

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. Ring Ltd. was registered with a nominal capital of ₹ 10,00,000 divided into shares of ₹ 100 each. The following Trial Balance is extracted from the books on 31st March, 2015:

Particulars	₹	*Particulars*	₹
Buildings	5,80,000	Sales	10,40,000
Machinery	2,00,000	Outstanding Expenses	4,000
Closing Stock	1,80,000	Provision for Doubtful Debts	6,000
Loose Tools	46,000	(1-4-2014)	
Purchases (Adjusted)	4,20,000	Equity Share Capital	4,00,000
Salaries	1,20,000	General Reserve	80,000
Directors' Fees	20,000	Profit and Loss A/c	50,000
Rent	52,000	(1-4-2014)	
Depreciation	40,000	Creditors	1,84,000
Bad Debts	12,000	Provision for depreciation:	
Investment	2,40,000	On Building 1,00,000	
Interest accrued on investment	4,000	On Machinery 1,10,000	2,10,000
Debenture Interest	56,000	14% Debentures	4,00,000
Advance Tax	1,20,000	Interest on Debentures	28,000
Sundry expenses	36,000	accrued but not due	

Debtors	2,50,000	Interest on Investments	24,000
Bank	60,000	Unclaimed dividend	10,000
	24,36,000		24,36,000

You are required to prepare statement of Profit and Loss for the year ending 31st March, 2015 and Balance sheet as at that date after taking into consideration the following information:

(a) Closing stock is more than opening stock by ₹ 1,60,000;

(b) Provide to doubtful debts @ 4% on Debtors

(c) Make a provision for income tax @30%.

(d) Depreciation expense included depreciation of ₹ 16,000 on Building and that of ₹ 24,000 on Machinery.

(e) The directors recommend a dividend @ 25% and transfer to General Reserve @ 10%.

(f) Bills Discounted but not yet matured ₹ 20,000.

2. The summarized Balance Sheet of Priya Ltd. is given below:

					(₹ in '000)
Liabilities	*31.3.14*	*31.3.15*	*Assets*	*31.3.14*	*31.3.15*
Share capital	500	500	Land & building	300	300
9% Debentures	200	160	Machinery (at cost)	164	180
Trade payables	230	216	Inventory	200	228
Profit and Loss A/c	40	54	Trade receivables	432	352
Depreciation fund	80	88	Cash and bank balances	120	110
Contingency reserve	140	110	Pre-paid expenses	4	6
Outstanding expenses	30	48			
	1,220	1,176		1,220	1,176

The following information is furnished:

(i) One old machinery which has original cost of ₹ 30,000 was sold for ₹ 10,000 in 2014-15. The accumulated depreciation in respect of the said machinery amounts to ₹ 16,000.

(ii) One new machinery was acquired for ₹ 46,000.

(iii) 9% Debentures were redeemed on 1.4.14 at a discount of 4% of their face value.

(iv) Dividend at 12% was declared and paid in cash.

(v) Income-tax liability of ₹ 30,000 paid was debited to contingency reserve. Ignore dividend distribution tax.

You are required to prepare Cash Flow Statement in accordance with the Accounting Standard 3.

Profit/Loss prior to Incorporation

3. From the following information, calculate the Ratio of Sales in each case separately.

(a) (i) Date of acquisition – 1st April, 2015; date of incorporation – 1st July, 2015 and date of closing the books of accounts – 31st March, every year.

(ii) The sales for the year ending on 31st March, 2016 were ₹ 24,00,000 of which ₹ 4,80,000 goods were sold during the first six months of the accounting period.

(b) (i) The accounts were made up to 31st December, 2015. The company was incorporated on 1st May, 2015 to take over a business from the preceding 1st January.

(ii) Total sales for the year were ₹ 12,00,000. It is ascertained that the sales for November and December are one and half times the average of those for the year, whilst those for February and April are only half the average.

(c) (i) Fema Ltd. was incorporated on 1st July, 2015 to take the existing business of X from 1stApril, 2015. Date of closing the books of account – 31st March, 2016.

(ii) Monthly sales in April 2015, February 2016 and March 2016 are double the average monthly sales for remaining months of the year.

Accounting for Bonus Issue

4. Following is the extract from the Balance Sheet of M/s. Hello Ltd. as at 31st March, 2015:

	(₹)
Authorised capital:	
50,000, 10% Preference shares of ₹ 10 each	5,00,000
2,00,000 Equity shares of ₹ 10 each	20,00,000
Issued and subscribed capital:	
40,000, 10% Preference shares of ₹ 10 each fully paid	4,00,000
1,80,000, Equity shares of ₹ 10 each, of which ₹ 7.50 paid up	13,50,000
Reserves and Surplus:	
General reserve	2,40,000
Capital reserve	1,50,000
Securities premium	30,000
Profit and loss account	3,00,000

On 1st April, 2015, the company has made a final call @ ₹ 2.50 each on 1,80,000 equity shares. The call money was received by 30th April, 2015. Thereafter the company decided to capitalize its reserves by issuing bonus shares at the rate of one share for every three shares held. Capital reserve includes ₹ 60,000 being profit on revaluation of plant and machinery.

Show necessary Journal Entries in the books of the company and prepare the extract of the Balance Sheet after bonus issue. Necessary assumption, if any, should form part of your answer.

Internal Reconstruction of a Company

5. The summarised Balance Sheet of M/s. Hema Ltd. as on 31-03-2015 is given below:

Particulars	₹	₹
1. Equity & Liabilities		
Share holder's funds: 1 lakh Equity shares of ₹ 10 each fully paid up	10,00,000	
4,000, 8% Preference shares of ₹ 100 each fully paid	4,00,000	14,00,000
2. Non- current liabilities: Long term borrowings 6% Debentures (secured by freehold property)	4,00,000	
Arrear interest	24,000	4,24,000
3. Current liabilities		
Trade payables	1,01,000	
Director's loan	3,00,000	4,01,000
		22,25,000
Assets		
1. Non- current Assets		
Fixed assets: Tangible assets		
Freehold property	5,50,000	
Plant and machinery	2,00,000	
Trade investment (at cost)	2,00,000	9,50,000
2. Current assets		
Trade receivables	4,50,000	
Inventories	3,00,000	7,50,000
3. Other assets		
Profit and loss account		5,25,000
		22,25,000

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(i) Preference shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each.

(ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd, equity shares of ₹ 2 each to be allotted.

(iii) Debentureholders agreed to take one freehold property at its book value of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(iv) Arrear debenture interest to be paid in cash.

(v) Remaining freehold property to be valued at ₹ 4,00,000.

(vi) Investment sold out for ₹ 2,50,000.

(vii) 2,25,000 of Director's loan to be waived and for the balance, equity shares of ₹ 2 each to be allotted.

(viii) 20% of Trade receivables, 40% of Inventories to be written off.

(ix) Company's contractual commitments amounting to ₹ 3,00,000 have been settled by paying 10% penalty of contract value.

Show the Journal Entries for giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme. Narrations may ignored.

Amalgamation of Companies

6. A Ltd. and B Ltd. were amalgamated on and from 1st April, 2015. A new company C Ltd. was formed to take over the business of the existing companies. The draft Balance Sheets of A Ltd. and B Ltd .as at 31st March, 2015 are given below:

					(₹ in lakhs)
Liabilities	*A Ltd.*	*B Ltd.*	*Assets*	*A Ltd.*	*B Ltd.*
Share capital:			Fixed Assets:		
Equity shares of ₹ 100 each	400	375	Land & Building	275	200
12% Preference shares of ₹ 100 each	150	100	Plant & Machinery	175	125
			Investments	75	25
Reserves and surplus:			Current Assets, Loans and Advances:		
Revaluation reserve	75	50	Inventory	175	125
General reserve	85	75	Debtors	125	150

Investment allowance reserve	25	25	Bills Receivables	25	25
			Cash and Bank balances	150	100
Profit and Loss Account	25	15			
Secured loan:					
10%Debentures (₹ 100 each)	30	15			
Current liabilities and provisions:					
Creditors	135	60			
Acceptance	75	35			
	1,000	750		1,000	750

Additional information:

(a) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.

(b) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value ₹ 100).

(c) 10% Debentureholders of A Ltd. and B Ltd. are discharged by C Ltd., issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(d) Investment allowance reserve is to be maintained for 4 more years.

(e) Liquidation expenses are:

A Ltd. ₹ 2,00,000

B Ltd. ₹ 1,00,000

It was decided that these expenses would be borne by C Ltd.

(f) All the assets and liabilities of A Ltd. and B Ltd. are taken over at book value.

(g) Authorised equity share capital of C Ltd. is ₹ 5,00,00,000, divided into equity shares of ₹ 10 each. After issuing required number of shares to the Liquidators of A Ltd. and B Ltd., C Ltd. issued balance shares to Public. The issue was fully subscribed.

Required:

Prepare the Balance Sheet of C Ltd. as at 1st April, 2015 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

Average Due Date

7. Find out Due date of Maturity, in case of following Bills of Exchange, where maturity period of the bill is one month:

   Date of Bill:

   (i) 26th January, 2016

   (ii) 23rd December, 2014

   (iii) 13th January, 2015 (day on which Bill of Exchange is at maturity, after including days of grade, declared as holiday due to some emergency),

   (iv) 13th July, 2015 (day on which Bill of Exchange is at maturity, after including days of grace, is Sunday).

Account Current

8. Mr. Abhinav has opened an overdraft account with a Bank on 1st April, 2015. He deposited ₹ 40,000 as cash on the same day. His other deposits and withdrawals for the month of April 2015 were as below:

	₹
Deposits:	
10th April,2015	60,000
18th April,2015	68,000
Withdrawals:	
5th April,2015	1,20,000
16th April,2015	80,000
25th April,2015	1,00,000

Bank charges interest @12% p.a. on debit balance. No interest allowed on credit balance. Prepare Account current for the month of April, 2015, in the books of Bank, by means of product of balances. Bank debits interest in account twice during the month i.e. 15th and 30th/31st (as the case may be) of a particular month. For the purpose of calculation of interest, year should be treated as of 365 days. Round off all the calculations to the nearest rupee.

Self Balancing Ledgers

9. From the following prepare General Ledger Adjustment account in Debtors Ledger and Debtors Ledger Adjustment account in General Ledger:

	₹
Balance as on 1.4.2015:	
Debit balances in Debtors ledger	2,46,200

Credit balances in Debtors ledger	3,400
Transactions during the month of April, 2015:	
Credit sales	9,74,900
Sales return	21,700
Cash received from debtors	8,62,100
Discount allowed to debtors	39,200
Bills receivable received from debtors	51,200
Bills receivable dishonoured	3,500
Bills payable given to suppliers	27,000
Credit balance in Debtors ledger on 30.4.2015	5,200

Financial Statements of Not for Profit Orgnisations

10. Doctor Dinesh after retiring from Govt. service, started private practice on 1st April, 2014 with ₹ 1,00,000 of his own and ₹ 1,50,000 borrowed at an interest of 12% per annum on the security of his life policies. His accounts for the year were kept on a cash basis and the following is his summarized cash account:

Receipts	₹	*Payments*	₹
Own capital	1,00,000	Medicines purchased	1,22,500
Loan	1,50,000	Surgical equipments	1,25,000
Prescription fees	3,30,000	Motor car	1,60,000
Visiting fees	1,25,000	Motor car expenses	60,000
Fees from lectures	12,000	Wages and salaries	52,500
Pension received	1,50,000	Rent of clinic	30,000
		General charges	24,500
		Household expenses	90,000
		Household Furniture	12,500
		Expenses on daughter's marriage	1,07,500
		Interest on loan	18,000
		Balance at bank	55,000
		Cash in hand	9,500

One-third of the motor car expense may be treated as applicable to the private use of car and ₹ 15,000 of salaries are in respect of domestic servants.

The stock of medicines in hand on 31st March, 2015 was valued at ₹ 47,500.

You are required to prepare his capital account and income and expenditure account for the year ended 31st March, 2015 and balance sheet as on that date. Ignore depreciation of fixed assets.

Accounts from Incomplete Records

11. Assets and Liabilities of Ms. Shreya, who runs a Beauty Saloon, as on 31-03-2014 and 31-03-2015 are as follows:

	31-03-2014 (₹)	*31-03-2015* (₹)
Assets:		
Machinery & Tools	25,000	30,000
Furniture & Fixtures	50,000	60,000
Stock of Consumables	60,000	1,35,000
Sundry Debtors	20,000	45,000
Cash at Bank	35,000	42,500
Cash in Hand	2,150	3,750
Liabilities:		
Loans (Principal)	50,000	40,000
Sundry Creditors	20,000	35,000

Depreciation on Machinery & Tools and Furniture & Fixture to be provided on W.D.V. method @ 10% p.a. during FY 2014-15. Shreya has purchased Machinery & Tools amounting to ₹ 5,000 on 01-07-2014. She has also purchased Furniture & Fixture amounting to ₹ 10,000 on 01-01-2015. Loan amount of Rs. 10,000 was partly paid by her on 31-03-2015. Interest on Loan to be provided @ 12 p.a. and same is unpaid as on 31-03-2015. No interest of earlier period is outstanding. During FY 2014-15, Shreya participated in a competition and won a prize of ₹ 20,000. Same is retained by her in the business. Monthly withdrawals of Shreya were ₹ 1,000 during FY 2014-15. Prepare Statement of Affairs and determine Profit for the FY ending as on 31-03-2015 by applying the method of the Capital Comparison.

Hire Purchase Transactions

12. On 1st April, 2012, X Ltd. sells a Trucks on hire purchase basis to X Transporters & Co. for a total purchase price of ₹ 18,00,000 payable as to ₹ 4,80,000 as down payment and the balance in three equal annual instalments of ₹ 4,40,000 each payable on 31st March 2013, 2014 and 2015.

The hire vendor charges interest @ 10% per annum.

You are required to ascertain the cash price of the truck for X Transporters & Co. Calculations may be made to the nearest rupee.

Investment Accounts

13. The following information is presented by Mr. Akash relating to his holding in 9% Government Bonds:

Opening Balance as on 01-01-2014 (Face Value) ₹ 60,000, Cost ₹ 59,000 (Face value of each unit is ₹ 100)

01-03-2014 purchased 100 units, ex-interest at ₹ 100

01-07-2014 sold 250 units, ex-interest out of original holding at ₹ 100

01-10-2014 Purchased 75 units at ₹ 98 cum interest.

01-11-2014 sold 150 units ex-interest at ₹ 99 out of original holdings.

Interest due dates are 30th September and 31st March, Mr. Akash closes his books every year by 31st December.

Show the Investment A/c as it would appear in his books. Mr. Akash was following FIFO Method.

Insurance claim for loss of stock

14. On 13th September, 2014 fire occurred in the premises of M/s DEF & Co. Most of the stocks were destroyed. Cost of stock salvaged being ₹ 40,000. In addition some stock was salvaged in damaged condition and its value in that condition agreed at ₹ 20,000. From the salvaged accounting records, the following information is available:

	₹
Stock of goods @ 10% lower than cost as on 31st March, 2014	8,64,000
Purchases (1.4.14 to 13.09.14)	35,29,900
Sales (1.4.14 to 13.09.2014)	46,93,200

Additional information:

(1) Sales upto 13th September, 2014, includes ₹ 70,000 for which goods had not been dispatched and ₹ 25,000 of goods sent on approval basis but approval for which not received.

(2) Purchases upto 13th September, 2014 did not include ₹ 60,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown. Further purchases include purchase of machinery costing ₹ 40,000.

(3) Past records show the gross profit rate of 25%.

(4) M/s DEF & Co. has insured their stock for ₹ 9,00,000.

Find out the value of loss of stock by applying the above points.

Issues in Partnership Accounts

15. The Balance Sheet of a Partnership Firm M/s AB & Co consisted of two partners A and B who were sharing Profits and Losses in the ratio of 5 : 3 respectively. The position as on 31-03-2015 was as follows:

Liabilities	₹	*Assets*	₹
A's Capital	4,10,000	Land & Building	3,80,000
B's Capital	3,30,000	Plant & Machinery	1,70,000
Profit & Loss *A/c*	1,12,000	Furniture	1,09,480
Trade Creditors	54,800	Stock	1,45,260
		Sundry debtors	60,000
		Cash at Bank.	42,060
	9,06,800		9,06,800

On the above date, C was admitted as a partner on the following terms:

(a) C should get 1/5th of share of profits.

(b) C brought ₹ 2,40,000 as his capital and ₹ 32,000 for his share of Goodwill.

(c) Plant and Machinery would be depreciated by 15% and Land & Buildings would be appreciated by 40%.

A provision for doubtful debts to be created at 5% on sundry debtors.

An unrecorded liability of ₹ 6,000 for repairs to Buildings would be recorded in the books of accounts.

(d) Immediately after C's admission, Goodwill brought by him would be adjusted among old partners. Thereafter, the capital accounts of old partners would be adjusted through the current accounts of partners in such a manner that the capital accounts of all the partners would be in their profit sharing ratio.

Prepare Revaluation A/c, Capital Accounts of the partners, New profit sharing ratio and Balance Sheet of the Firm after the admission of C.

Accounting in Computerised Environment

16. What are the advantages of spread-sheet software as an accounting tool?

Applicability of Accounting Standards

17. (a) What are the issues with which Accounting Standards deal?

AS 1 Disclosure of Accounting Policies

(b) XYZ Company is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claims/petitions in a Special Court. XYZ has accepted Inter-Corporate Deposits (ICDs) and, it is making its best efforts to settle the dues. There were claims at varied rates of interest, from lenders, from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest on the due date to date of repayment was affected in the financial statements. On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt", and the same has been disclosed by way of a note in the accounts instead of making a provision in the profit and loss accounts. State whether the treatment done by the Company is correct or not.

AS 2 Valuation of Inventories

18. (a) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2015 on weighted Average Basis.

Details of Purchases:

Date of purchase	Unit (Nos.)	Purchase cost per unit (₹)
01-03-2015	20	108
08-03-2015·	15	107
17-03-2015	30	109
25-03-2015	15	107

Details of issue of Inventory:

Date of Issue	Unit (Nos.)
03-03-2015	10
12-03-2015	20
18-03-2015	10
24-03-2015	20

Net realizable value of inventory as on 31st March, 2015 is ₹ 107.75 per unit. What will be the value of Inventory as per AS 2?

AS 3 Cash flow Statements

(b) Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities (iv) Cash Equivalents.

a. Purchase of Machinery.

b. Proceeds from issuance of equity share capital

c. Cash Sales.

d. Proceeds from long-term borrowings.

e. Proceeds from Trade receivables.

f. Cash receipts from Trade receivables.

g. Trading Commission received.

h. Purchase of investment.

i. Redemption of Preference Shares.

j. Cash Purchases.

k. Proceeds from sale of investment

l. Purchase of fixed asset.

m. Cash paid to suppliers.

n. Interim Dividend paid on equity shares.

o. Wages and salaries paid.

p. Proceed from sale of patents.

q. Interest received on debentures held as investment.

r. Interest paid on Long-term borrowings.

s. Office and Administration Expenses paid

t. Manufacturing Overheads paid.

u. Dividend received on shares held as investments.

v. Rent received on property held as investment.

w. Selling and distribution expense paid.

x. Income tax paid

y. Dividend paid on Preference shares.

z. Underwritings Commission paid.

aa. Rent paid.

bb. Brokerage paid on purchase of investments.

cc. Bank Overdraft

dd. Cash Credit

ee. Short-term Deposits

ff. Marketable Securities

gg. Refund of Income Tax received.

AS 6 Depreciation Accounting

19. (a) A computer costing ₹ 1.2 lakh is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years. Calculate depreciation as per the provisions of Accounting Standard 6 "Depreciation Accounting".

AS 7 Construction Contracts

(b) Five Star Construction Limited commenced a construction contract on 1st April, 2014. The Fixed Contract price agreed was ₹ 50,00,000. The company incurred ₹ 21,00,000 in 2014-15 for 40% work and received ₹ 19,00,000 as progress payment from the customer. The company estimated that a further ₹ 31,50,000 would incurred to complete it. What amount should be charged to revenue for the year 2014-15 as per AS 7? Show the extract of Profit & Loss A/c for the year 2014-15 in the books of the company.

AS 9 Revenue Recognition

20. (a) X Limited sold goods worth ₹ 13 Lakhs to Mr. Y. Mr. Y asked for a Trade Discount amounting to ₹ 1,06,000 and the same was agreed to by X Limited. Such discount was allowed in the ordinary course of business. The sale was effected and goods were dispatched. On receipt of goods, Mr. Y has found that goods worth ₹ 1,34,000 are defective. Mr. Y returned defective goods to X Limited and made payment amount to ₹ 10,60,000. The Accountant of X Limited booked the sale for ₹ 10,60,000.

Discuss the contention of the Accountant with reference to relevant Accounting Standard.

AS 10 Accounting for Fixed Assets

(b) XYZ Ltd. constructed a fixed asset and incurred the following expenses on its construction:

	₹
Materials	10,00,000
Direct Labour	3,00,000
(1/6th of the total labour time was chargeable to the construction)	
Direct Expenses	2,00,000
Office & Administrative Expenses	7,50,000
(5% is specifically attributable to construction)	
Depreciation on assets used for the construction of this asset	10,000

Calculate the cost of the fixed asset.

SUGGESTED ANSWERS / HINTS

1. **Ring Ltd.**

Profit and Loss Statement for the year ended 31st March, 2015

	Particulars	*Note No.*	*(₹ In lacs)*
I	**Revenue from operations**		10,40,000
II	**Other income**		24,000
III	**Total Revenue [I + II]**		10,64,000
IV	**Expenses:**		
	Cost of purchase [4,20,000+ 1,60,000]		5,80,000
	Changes in inventories [20,000-1,80,000]		(1,60,000)
	Employee Benefits Expense		1,20,000
	Finance Costs		56,000
	Depreciation and Amortization Expenses		40,000
	Other Expenses	**8**	1,24,000
	Total Expenses		7,60,000
V	**Profit before Tax (III-IV)**		3,04,000
VI	**Tax Expenses @ 30%**		(91,200)
VII	**Profit for the period**		2,12,800

Balance Sheet of Ring Ltd. as at 31ST March, 2015

Particulars	*Note No.*	*₹*
I EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital	1	4,00,000
(b) Reserves and Surplus	2	2,22,442
(2) Non-Current Liabilities		
(a) Long-term Borrowings (Debentures)		4,00,000
(3) Current Liabilities		
(a) Trade Payable (Sundry Creditors)		1,84,000
(b) Other Current Liabilities	3	42,000
(c) Short-Term Provisions	4	2,11,558
Total		14,60,000

II ASSETS		
(1) Non-Current Assets		
(a) Fixed Assets		
(i) Tangible Assets	5	5,70,000
(b) Non-current Investments		2,40,000
(2) Current Assets		
(a) Inventories	6	2,26,000
(b) Trade Receivables	7	2,40,000
(c) Cash and Cash equivalents		60,000
(d) Short Term Loans and Advances (Advance Payment of Tax)		1,20,000
(e) Other Current Assets		4,000
(Interest accrued on investments)		
Total		**14,60,000**

Note: There is a Contingent Liability for bills discounted but not yet matured amounting ₹ 20,000.

Notes to Accounts:

1.	**Share Capital**		
	Authorized Capital		
	10,000 Equity Shares of ₹ 100 each		10,00,000
	Issued Capital		
	4,000 Equity Shares of ₹ 100 each		4,00,000
	Subscribed Capital and fully paid		
	4,000 Equity Shares of ₹ 100 each		4,00,000
			4,00,000
2.	**Reserve and Surplus**		
	General Reserve [₹ 80,000 + ₹ 21,280]		1,01,280
	Balance of Statement of Profit & Loss Account		
	Opening Balance	50,000	
	Add: Profit for the period	2,12,800	
		2,62,800	
	Appropriations		
	Transfer to General Reserve @ 10%	(21,280)	

	Proposed Equity Divided [25% of ₹ 4,00,000]	(1,00,000)	
	Dividend Distribution Tax (W. N.1)	(20,358)	1,21,162
			2,22,442
3.	**Other Current Liabilities**		
	Unclaimed Dividend		10,000
	Outstanding Expenses		4,000
	Interest accrued on Debentures		28,000
			42,000
4.	**Short-Term Provision**		
	Provision for Tax		91,200
	Proposed Equity Dividend		1,00,000
	Dividend Distribution Tax		20,358
			2,11,558
5	**Tangible Assets**		
	Buildings	5,80,000	
	Less: Provision for Depreciation	1,00,000	4,80,000
	Plant and Equipment	2,00,000	
	Less: Provision for Depreciation	1,10,000	90,000
			5,70,000
6	**Inventories**		
	Closing Stock of Finished Goods	1,80,000	
	Loose Tools	46,000	2,26,000
7	**Trade Receivables**		
	Sundry Debtors	2,50,000	
	Less: Provision for Doubtful Debts	(10,000)	2,40,000
8.	**Other Expenses**		
	Rent		52,000
	Miscellaneous Expenses		36,000
	Directors' Fees		20,000
	Bad Debts		12,000
	Provision for Doubtful Debts (4% of ₹ 2,50,000 less ₹ 6,000)		4,000
			1,24,000

Working Note

Calculation of Dividend distribution tax

Particulars		₹
(i)	Grossing-up of dividend	
	Dividend distributed by Ring Ltd. 25% of 4,00,000	1,00,000
	Add: Increase for the purpose of grossing up of dividend [1,00,000 x (15/(100-15)]	17,647
	Gross dividend	1,17,647
(ii)	Dividend distribution tax @ 17.304% of ₹ 1,17,647	20,358

2. **Cash Flow Statement of Priya Ltd.**

for the year ended 31st March, 2015

		₹	₹
A. Cash flow from Operating Activities			
Net profit before tax (₹ 54,000 – ₹ 40,000 + ₹ 60,000)		74,000	
Add: Adjustment for depreciation (W.N.1)		24,000	
Interest on debentures (₹ 1,60,000 x 9%)		14,400	
Loss on sale of machinery (W.N.2)		4,000	
		1,16,400	
Less: Profit on redemption of debentures (Non Operating Income)		(1,600)	
		1,14,800	
*Less :*Income tax paid		(30,000)	
Operating profit before changes in Working Capital		84,800	
Add: Increase in outstanding expenses	18,000		
Decrease in trade receivables	80,000	98,000	
		1,82,800	
Less: Decrease in trade payables	14,000		
Increase in inventory	28,000		
Increase in prepaid expenses	2,000	(44,000)	
Net cash from operating activities			1,38,800
B. Cash flow from Investing Activities			
Sale of old machinery		10,000	

Purchase of machinery	(46,000)	
Net cash used in investing activities		(36,000)
C. Cash flow from Financing Activities		
Redemption of debentures (₹ 40,000 – ₹ 1,600)	(38,400)	
Payment of dividend	(60,000)	
Payment of interest on debentures	(14,400)	
Net cash used financing activities		(1,12,800)
Net decrease in cash and cash equivalents during the year		(10,000)
Cash and cash equivalents at the beginning of the year		1,20,000
Cash and cash equivalents at the end of the year		1,10,000

Working Notes:

1. Depreciation Fund

	₹		₹
To Machinery A/c	16,000	By Balance b/d	80,000
To Balance c/d	88,000	By Profit and Loss A/c (Current year depreciation)	24,000
	1,04,000		1,04,000

2. Machinery A/c

	₹		₹
To Balance b/d	1,64,000	By Depreciation Fund	16,000
To Bank (Purchased)	46,000	By Bank (realized on sale of old machinery	10,000
		By Profit and loss A/c (loss on sale) – Balancing Fig	4,000
		By Balance c/d	1,80,000
	2,10,000		2,10,000

3. (a) Sales of first 6 months = ₹ 4,80,000. Average sale of first 6 months = ₹ 4,80,000/6 = ₹ 80,000 per month. Pre-incorporation period consist of 3 months (i.e., April, May and June). The sales of those 3 months = ₹ 80,000 x 3 = ₹ 2,40,000. Sales of remaining 9 months = ₹ 24,00,000 – ₹ 2,40,000 = ₹ 21,60,000.

Therefore, the ratio of sales = ₹ 2,40,000 : ₹ 21,60,000 or 1: 9.

(b) Let the average of monthly sales = X. The sales of different months can be shown as follows:

Month	Jan	Feb	Mar.	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Sales	1x	0.5x	1x	0.5x	1x	1x	1x	1x	1x	1x	1.5x	1.5x

Date of incorporation is May, 2015

Pre incorporation period is from January to April i.e. 3 x

Post - incorporation period is from May to December i.e 9x

The ratio of Sales = 3x : 9x or 1:3.

(c) Let the average monthly sales be x. The sales of different months can be shown as follows:

Month	April	May	June	July	Aug.	Sept	Oct	Nov	Dec	Jan	Feb	March
Sales	2x	1x	1x	1x	1x	1x	1x	1x	1x	1x	2x	2x

Date of incorporation is 1 July, 2015

Pre incorporation period is from April to June i.e. 4 x

Post - incorporation period is from July to March i.e 11x

The ratio of Sales = 4x : 11x or 4:11

4. **In the books of M/s. Hello Ltd.**

Journal Entries

Date	*Particulars*		₹	₹
1.4.2015	Equity share final call A/c	Dr.	4,50,000	
	To Equity share capital A/c			4,50,000
	(Being the final call of ₹ 2.50 per share on 1,80,000 equity shares made)			
30.4.2015	Bank A/c	Dr.	4,50,000	
	To Equity share final call A/c			4,50,000
	(Being final call money on 1,80,000 shares received)			
30.4.2015	Securities premium A/c	Dr.	30,000	
	Capital reserve A/c (1,50,000 – 60,000)	Dr.	90,000	
	General reserve A/c	Dr.	2,40,000	
	Profit and loss A/c	Dr.	2,40,000	
	To Bonus to shareholders A/c			6,00,000
	(Being utilisation of reserves for bonus issue of one share for every three shares held)			
30.4.2015	Bonus to equity shareholders A/c	Dr.	6,00,000	
	To Equity share capital A/c			6,00,000
	(Being capitalization of the bonus shares issued)			

Extract of Balance Sheet (After bonus issue)

Particulars	*Notes No.*	₹
Equity & liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	28,00,000
(b) Reserves & Surplus	2	1,40,000

Notes to Accounts

		₹
1. Share Capital		
Authorised share capital:		
50,000, 10% Preference shares of ₹ 10 each		5,00,000
2,40,000, Equity shares of ₹ 10 each (refer W.N.)		24,00,000
Issued and subscribed capital:		
40,000, 10% Preference shares of ₹ 10 each fully paid		4,00,000
2,40,000, Equity shares of ₹ 10 each fully paid		24,00,000
(Out of the above, 60,000 equity shares of ₹ 10 each have been issued by way of bonus)		
		28,00,000
2. Reserves and Surplus:		
General reserve	2,40,000	
Less: Utilisation for issue of bonus shares	(2,40,000)	-
Capital reserve	1,50,000	
Less: Utilisation for issue of bonus shares	(90,000)	60,000
Securities premium	30,000	
Less: Utilisation for issue of bonus shares	(30,000)	-
Profit and loss A/c	3,00,000	
Less: Utilisation for issue of bonus shares	(2,40,000)	60,000
		1,20,000

Assumptions:

1. Capital Reserve collected in cash only can be utilized for the purpose of issue of bonus shares. Hence, capital reserve representing profit on revaluation of machinery has not been used for the purpose of issue of bonus shares. It is assumed that balance of capital reserve is collected in cash only.

2. It is also assumed that necessary resolutions have been passed and requisite legal requirements related to the issue of bonus shares have been complied with before issue of bonus shares.

Working Note:

On the basis of the above assumptions, the Authorised Capital should be increased as under:

Required for bonus issue	₹ 6,00,000
Less: Balance of authorised equity share capital (available)	(₹ 2,00,000)
Authorised capital to be increased	₹ 4,00,000
Total authorised capital after bonus issue (₹ 20,00,000 + ₹ 4,00,000) =	₹ 24,00,000

5. **In the books of Hema Ltd.**

Journal Entries

	Particulars		*Debit* ₹	*Credit* ₹
i	8% Preference share capital A/c (₹ 100 each)	Dr.	4,00,000	
	To 8% Preference share capital A/c (₹ 80 each)			3,20,000
	To Capital reduction A/c			80,000
ii	Equity share capital A/c (₹ 10 each)	Dr.	10,00,000	
	To Equity share capital A/c (₹ 2 each)			2,00,000
	To Capital reduction A/c			8,00,000
iii	Capital reduction A/c	Dr.	32,000	
	To Equity share capital A/c (₹ 2 each)			32,000
iv	(a) 6% Debentures A/c	Dr.	3,00,000	
	To Debenture holders A/c			3,00,000
	(b) Debenture holders A/c	Dr.	3,00,000	
	To Freehold property A/c			3,00,000
v	Accrued debenture interest A/c	Dr.	24,000	
	To Bank A/c			24,000
vi	Freehold property A/c	Dr.	1,50,000	
	To Capital reduction A/c			1,50,000
vii	Bank A/c	Dr.	2,50,000	
	To Trade investment A/c			2,00,000
	To Capital reduction A/c			50,000

vii	Director's loan A/c	Dr.	3,00,000	
	To Equity share capital A/c (₹ 2 each)			75,000
	To Capital reduction A/c			2,25,000
ix	Capital Reduction A/c	Dr.	7,65,000	
	To Profit and loss A/c			5,25,000
	To Trade receivables A/c			90,000
	To Inventories A/c			1,20,000
	To Bank A/c (10% of ₹ 3,00,000)			30,000
x	Capital Reduction A/c	Dr.	5,08,000	
	To Capital reserve A/c			5,08,000

Balance Sheet of Hema Ltd. (and reduced)

Particulars	*Notes No.*	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	6,27,000
b Reserves and Surplus	2	5,08,000
2 **Non-current liabilities**		
Long-term borrowings	3	1,00,000
3 **Current liabilities**		
a Trade Payables		1,01,000
Total		13,36,000
Assets		
1 **Non-current assets**		
a Fixed assets		
Tangible assets	4	6,00,000
2 **Current assets**		
a Inventories		1,80,000
b Trade receivables		3,60,000
c Cash and cash equivalents	5	1,96,000
Total		13,36,000

Note to Accounts

		₹
1.	**Share Capital**	
	1,53,500 Equity shares of ₹ 2 each	3,07,000
	(out of which 53,500 shares have been issued for consideration other than cash)	
	4,000, 8% Preference shares of ₹ 80 each fully paid up	3,20,000
	Total	6,27,000
2.	**Reserves and Surplus**	
	Capital Reserve	5,08,000
3.	**Long-term borrowings**	
	Secured	
	6% Debentures	1,00,000
4.	**Tangible assets**	
	Freehold property	4,00,000
	Plant and machinery	2,00,000
	Total	6,00,000
5.	**Cash and cash equivalents**	
	Cash at bank (2,50,000 – 24,000 –30,000)	1,96,000

6. Balance Sheet of C Ltd. as at 1st April, 2015

Particulars	*Notes No.*	*(₹ in Lakhs)*
EQUITY AND LIABILITIES		
1 Shareholders' funds		
a) Share capital	1	750
b) Reserves and Surplus	2	875
2 Non-current liabilities		
Long-term borrowings	3	30
3 Current liabilities		
Trade Payables	4	305
Total		1,960
ASSETS		
1 Non-current assets		
a) Fixed assets		
i) Tangible assets	5	775

	ii) Intangible assets	6	13
b)	Non-current investments	7	100
	Other non-current assets	8	50
2	**Current assets**		
a)	Inventories(175+125)		300
b)	Trade receivables	9	325
c)	Cash and cash equivalents	10	397
	Total		1,960

Notes to Accounts

		(₹ in Lakhs)
1.	**Share Capital**	
	Authorised share capital:	
	50,00,000 Equity shares of ₹ 10 each	500
	Issued and subscribed:	
	50,00,000 Equity shares of ₹ 10 each	500
	2,50,000 Preference shares of ₹ 100 each	250
	(Of the above shares 35,00,000 equity shares and all preference shares are allotted as fully paid up for consideration other than cash)	
	Total	750
2.	**Reserves and Surplus**	
	Securities premium (₹ 50 per Preference share on 2.5 Lakh Preference Shares + ₹ 20 per equity share on 35 Lakh equity shares issued to shareholders of A Ltd. & B Ltd. = ₹ 825 Lakhs)	825
	Investment allowance reserve (25+25)	50
	Total	875
3.	**Long-term borrowings**	
	Secured	
	15% Debentures	30
	Interest on Debentures of A Ltd is ₹ 3 Lakhs and of B Ltd is ₹ 1.5 Lakhs. Total int = ₹ 4.5 Lakhs. 15% debentures to be issued to equal interest of ₹ 4.5 Lakhs = ₹ 4.5 Lakhs / 15% = 30 Lakh 15% Debentures of ₹ 100 each = 30,000 debentures	

4.	**Trade Payables**		
	Acceptances (75+35)		110
	Creditors (135+60)		195
		Total	305
5.	**Tangible assets**		
	Land and building (275+200)		475
	Plant and machinery (175+125)		300
		Total	775
6.	**Intangible assets**		
	Goodwill (10+2+1)		13
7.	**Non-current investments**		
	Other non-current investments(75+25)		100
8.	**Other non-current assets**		
	Amalgamation adjustment account		50
9.	**Trade receivables**		
	Debtors (125+150)		275
	Bills receivables (25+25)		50
		Total	325
10	**Cash and cash equivalents**		
	Cash and bank (250+150-3)		397

Working Notes:

1.

Computation of Purchase Consideration			*₹ in lakhs*	
			A Ltd.	*B Ltd.*
(a)	Preference shareholders:			
	1,50,00,000/100 = 1,50,000 shares			
	Share capital = 1,50,000 shares × ₹ 100 each	150		
	Securities premium = 1,50,000 shares × ₹ 50 each	75	225	
	1,00,00,000/100 = 1,00,000 shares			
	Share capital = 1,00,000 shares × ₹ 100 each	100		
	Securities premium= 1,00,000 shares × ₹ 50 each	50		150
(b)	Equity shareholders:			
	4,00,00,000/100 × 5 = 20,00,000 shares			

	Share capital = 20,00,000 shares × ₹ 10 each 200		
	Securities premium=20,00,000 shares× ₹ 20 each <u>400</u>	600	
	3,75,00,000/100 × 4 = 15,00,000 shares		
	Share capital = 15,00,000 shares ×₹ 10 each 150		
	Securities premium = 15,00,000 shares ×₹ 20 each <u>300</u>		450
	Amount of purchase consideration	825	600
2.	**Calculation of number of debentures issued**	*₹ in lakhs*	
		A Ltd.	*B Ltd.*
	10% Debentures of ₹ 100 each	30	15
	15% Debentures to be issued to maintain same amount of interest:		
	Interest = ₹ 30,00,000 x 10% = ₹ 3,00,000		
	Value of 15% Debentures = $\frac{₹\,3,00,000}{15} \times 100$	20	
	Interest = ₹ 15,00,000 x 10%		
	Value of 15% Debentures = $\frac{₹\,1,50,000}{15} \times 100$		10
3.	**Net assets taken over**	*₹ in lakhs*	
		A Ltd.	*B Ltd.*
	Assets taken over		
	Land and building	275	200
	Plant and machinery	175	125
	Investments	75	25
	Inventory	175	125
	Debtors	125	150
	Bills receivable	25	25
	Cash and bank	150	100
		1,000	750
	Less: Liabilities taken over		
	Debentures	20	10
	Creditors	135	60
	Bills payable	<u>75</u>	<u>35</u>
		230	105

Net assets taken over	770	645
Purchase consideration	825	600
(Goodwill)/ Capital Reserve	(55)	45
Net goodwill		(10)

4. As the Liquidation expenses of A Ltd. and B Ltd., ₹ 2 lakhs and ₹ 1 lakhs respectively are borne by C Ltd. the same will be debited to Goodwill account in the books of C Ltd.

7. Due date of maturity:

(i) 29th February, 2016. Year 2016 being leap year, due date will be 29th February, 2016.

(ii) 25th January, 2015. Due date, after grace days, is 26th January, 2015, but since 26th January, 2015 is holiday, due date will be 25th January, 2015.

(iii) 17th February, 2015. Due date after grace days, is 16th February, 2015, but since due to some emergency, it is declared as holiday, due date will be 17th February, 2015.

(iv) 14th August, 2015. Due date after grace days, is 16th August,2015 but since 16th August,2015 is holiday(Sunday) and 15th August,2015 is also holiday, due date will be 14th August,2015.

8. In the books of Bank

Account Current of Mr. Abhinav for the month ending April 2015

Date	*Particulars*	*Dr.*	*Cr.*	*Dr. or Cr.*	*Balance*	*Days*	*Product*
2015							
1st April	By Cash	–	40,000	Cr.	40,000		–
5th April	To Cash	1,20,000	–	Dr.	80,000	5	4,00,000
10th April	By Cash	–	60,000	Dr.	20,000	5	1,00,000
15th April	To interest	164	–	Dr.	20,164	1	20,164
16th April	To Cash	80,000	–	Dr.	1,00,164	2	2,00,328
18th April	By Cash	-	68,000	Dr.	32,164	7	2,25,148
25th April	To cash	1,00,000	-	Dr.	1,32,164	5	6,60,820
30th April	To Interest A/c	364		Dr.	1,32,528	-	-

Working notes

1. **Interest from 1st April, 2015 to 15th April, 2015**

   (Products for the period x rate of interest)/365

(5,00,000 x 12/100)/365 = ₹ 164

2. **Interest from 16th April, 2015 to 30th April, 2015**

(Products for the period x rate of interest)/365

(11,06,460 x 12/100)/365 = ₹ 364

9.

General Ledger Adjustment Account in Debtors Ledger

Date		*Particulars*	₹	*Date*		*Particulars*	₹
1.4.2015	To	Balance b/d	3,400	1.4.2015	By	Balance b/d	2,46,200
1.4.2015 to 30.4.2015	To	Debtors ledger adjustment A/c:		1.4.2015 to 30.4.2015	By	Debtors ledger adjustment A/c:	
		Sales return	21,700			Sales	9,74,900
		Cash received	8,62,100			B/R dishonoured	3,500
		Discount allowed	39,200	30.4.2015	By	Balance c/d	5,200
		B/R received	51,200				
30.4.2015	To	Balance c/d (Bal. fig.)	2,52,200				
			12,29,800				12,29,800

Debtors Ledger Adjustment A/c in General Ledger

Date		*Particulars*	₹	*Date*		*Particulars*	₹
1.4.15	To	Balance b/d	2,46,200	1.4.15	By	Balance b/d	3,400
1.4.2015 to 30.4.15	To	General ledger adjustment A/c:		1.4.2015 to 30.4.15	By	General ledger adjustment A/c:	
		Sales	9,74,900			Sales return	21,700
		B/R dishonoured	3,500			Cash received	8,62,100
30.4.15	To	Balance c/d	5,200	30.4.15		Discount allowed	39,200
						B/R received	51,200

				By Balance c/d (Bal.fig.)	2,52,200
		12,29,800			12,29,800

10.

Income and Expenditure Account
for the year ended 31st March, 2015

	₹		₹
To Medicines consumed		By Prescription fees	3,30,000
Purchases 1,22,500		By Visiting fees	1,25,000
Less: Closing Stock (47,500)	75,000	By Fees from lectures	12,000
To Motor car expense (60,000 x 2/3)	40,000		
To Salaries (₹ 52,500 – ₹ 15,000)	37,500		
To Rent for clinic	30,000		
To General charges	24,500		
To Interest on loan	18,000		
To Excess of Income over expenditure	2,42,000		
	4,67,000		4,67,000

Capital Account
for the year ended 31st March, 2015

	₹		₹
To Drawings:		By Cash/bank	1,00,000
Motor car expenses	20,000	By Cash/bank (pension)	1,50,000
Household expenses	90,000	By Net income from practice (derived from income and expenditure a/c)	2,42,000
Marriage expenses	1,07,500		
To Salary of domestic servants	15,000		
To Household furniture	12,500		
To Balance c/d	2,47,000		
	4,92,000		4,92,000

Balance Sheet as on 31st March, 2015

Liabilities	₹	*Assets*	₹
Capital	2,47,000	Motor car	1,60,000
Loan	1,50,000	Surgical equipment	1,25,000

		Stock of medicines	47,500
		Cash at bank	55,000
		Cash in hand	9,500
	3,97,000		3,97,000

11. Statement of Affairs of Ms. Shreya as on 31.03.2014 and 31.03.2015

Liabilities	*31.03.2014* ₹	*31.03.2015* ₹	*Assets*	*31.03.2014* ₹	*31.03.2015* ₹
Capital (Balancing Figure)	1,22,150	2,27,125	Machinery & Tools	25,000	27,125
Loan	50,000	46,000	Furniture & Fixtures	50,000	54,750
Creditors	20,000	35,000	Stock	60,000	1,35,000
			Debtors	20,000	45,000
			Cash at Bank	35,000	42,500
			Cash in Hand	2,150	3,750
	1,92,150	3,08,125		1,92,150	3,08,125

Determination of Profit:

	₹
Capital Balance as on 31.03.2015	2,27,125
Less: Prize won, retained in business	20,000
	2,07,125
Add: Withdrawals (₹ 1,000 x 12)	12,000
	2,19,125
Less: Capital Balance as on 31.03.2014	1,22,150
Profit for the year ended 31st March, 2015	96,975

Working Notes:

1. **Written Down Value of Machinery and Tools**

	₹
W.D.V. as on 01.04.2014	25,000
Less: Depreciation on W.D.V. @ 10% p.a.	2,500
	22,500
Add: Addition during the year on 01.07.2014	5,000
	27,500

Less: Depreciation on Addition @ 10% p.a. (5,000 x 10/100x9/12)	375
W.D.V. of Machinery & tools as on 31.03.2015	27,125

2. **Written Down Value of Furniture and Fixtures**

	₹
W.D.V. as on 01.04.2014	50,000
Less: Depreciation on W.D.V. @ 10% p.a.	5,000
	45,000
Add: Addition during the year on 01.01.2015	10,000
	55,000
Less: Depreciation on Addition @ 10% p.a. (10,000 x 10/100x3/12)	250
W.D.V. of Furniture & Fixtures as on 31.03.2015	54,750

12. Ratio of interest and amount due = $\frac{\text{Rate of interest}}{100+\text{Rate of interest}}=\frac{10}{110}=1/11$

There is no interest element in the down payment as it is paid on the date of the transaction. Instalments paid after certain period includes interest portion also. Therefore, to ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

Calculation of Interest and Cash Price

No. of instalments	*Amount due at the time of instalment*	*Interest*	*Cumulative Cash price*
[1]	*[2]*	*[3]*	*(2-3) = [4]*
3rd	4,40,000	1/11 of ₹ 4,40,000 =₹ 40,000	4,00,000
2nd	8,40,000	1/11 of ₹ 8,40,000= ₹ 76,364	7,63,636
1st	12,03,636	1/11of ₹ 12,03,636= ₹ 1,09,421	10,94,215

Total cash price = ₹ 10,94,215 + 4,80,000 (down payment) =₹ 15,74,215.

13. **9% Central Government Bonds A/c in the books of Akash**

Date	*Particulars*	*Face Value*	*Interest*	*Amount*	*Date*	*Particulars*	*Face Value*	*Interest*	*Amount*
2014					2014				
Jan 01	To Balance b/d	60,000	1,350	59,000	Mar-31	By Bank A/c	-	3,150	-
Mar-01	To Bank A/c	10,000	375	10,000	Jul-01	By Bank A/c	25,000	563	25,000
Jul-01	To P & L A/c	-	-	417	Sep-30	By Bank A/c	-	2,025	-
Oct-01	To Bank A/c	7,500	-	7,350	Nov-01	By Bank A/c	15,000	112	14,850
Nov-01	To P & L A/c	-	-	100	Dec-31	By Balance c/d	37,500	844	37,017
Dec 31	To P & L A/c Transfer	-	4,969	-					
		77,500	6,694	76,867			77,500	6,694	76,867

Working Note:

Calculation of closing balance

Bonds in hand on 31.12.2014

	Face Value	Cost
From original holding		
(60,000 – 25,000 – 15,000)	20,000	19,667
(59,000/60,000 x 20,000)		
Purchased on 1st March	10,000	10,000
Purchased on 1st October	7,500	7,350
	37,500	37,017

14. **M/s DEF & CO.**

Memorandum Trading A/c
(1.4.14 to 13.9.14)

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening stock (Refer W.N.)	9,60,000	By Sales	45,98,200
To Purchases	35,49,900	By goods with customer	18,750
To Gross profit (25% of sales)	11,49,550	By Closing stock (bal. fig.)	10,42,500
	56,59,450		56,59,450

Computation of insurance claim

		₹
Stock on the date of fire (i.e. on 13.09.2014)		10,42,500
Less: Stock salvaged	40,000	
Agreed value of damaged stock	20,000	(60,000)
Loss of stock		9,82,500

Claim subject to average clause:

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

$$= 9{,}00{,}000/10{,}42{,}500 \times 9{,}82{,}500 = ₹\ 8{,}48{,}201$$

Working Notes:

1. **Calculation of original cost of the stock as on 31st March, 2014**

   Stock as on 31st March, 2014 was valued at 10% lower than cost.

   Hence, original cost of the stock would be ₹ 9,60,000 (8,64,000/90 × 100)

2. **Purchases for the period of 1.4.14 to 13.9.14**

	₹
Purchases	35,29,900
Add: purchases where goods have been received in godown although purchase invoice had not been received	60,000
Less: Purchase of machinery included in purchases	40,000
	35,49,900

3. **Sales for the period of 1.4.14 to 13.9.14**

	₹
Sales	46,93,200
Less: goods not been dispatched	70,000
Less: goods sent on approval basis but not yet confirmed	25,000
	45,98,200

4. **Goods with customer on 13.9.14**

Since no approval for sale has been received for the goods for ₹ 25,000

These should be valued at cost i.e. 25,000 – 25,000 x 25/100 = 18,750

15. **Revaluation Account**

	₹		₹
To Plant & Machinery (1,70,000 x 15%)	25,500	By Land & Building A/c	1,52,000
To Provision for Bad & Doubtful Debts (60,000 x 5%)	3,000		
To Outstanding Repairs to Building	6,000		
To A's Capital A/c (5/8)	73,438		
To B's Capital A/c (3/8)	44,062		
	1,52,000		1,52,000

Capital Accounts of Partners

	A	B	C		A	B	C
To A's Capital A/c	-	-	20,000	By Balance b/d	4,10,000	3,30,000	-
To B's Capital A/c			12,000	By Revaluation A/c	73,438	44,062	-
To B's Current A/c	-	68,062		By Profit & Loss A/c	70,000	42,000	-
To Balance c/d	6,00,000	3,60,000	2,40,000	By Bank	-	-	2,72,000
				By C's Capital A/c	20,000	12,000	-
				By A's Current A/c	26,562	-	-
	6,00,000	4,28,062	2,72,000		6,00,000	4,28,062	2,72,000

Calculation of New Profit Sharing Ratio and gaining ratio:

C's Share of Profit = 1/5 = 2/10

Remaining Share = 1 – 1/5 = 4/5

A's Share = 5/8 x 4/5 = 20/40 = 5/10

B's Share = 3/8 x 4/5 = 12/40 = 3/10

New Profit sharing Ratio = 5:3:2

Gaining ratio = 5:3 (same as old profit sharing ratio among old partners)

Balance sheet of AB & Co. as on 31.3.2015

Liabilities		₹	*Assets*		
Capital Accounts:			Land & Buildings		5,32,000
A	6,00,000		Plant & Machinery	1,70,000	
B	3,60,000		Less: Depreciation	25,500	1,44,500
C	2,40,000	12,00,000	Furniture		1,09,480
B's Current A/c		68,062	Stock		1,45,260
Trade Creditors		54,800	Sundry Debtors	60,000	
Outstanding Repairs to Building		6,000	*Less*: Provision	3,000	57,000
			Cash at Bank		3,14,060
			A's current A/c		26,562
		13,28,862			13,28,862

Working Note:

Required Balance of Capital Accounts

C's Capital after writing off Goodwill = 2,72,000 – 32,000 = 2,40,000

C's Share of Profit = 1/5

Thus Capital of the firm shall be = 2,40,000 x 5 = 12,00,000

A's Capital = 12,00,000 x 5/10 = 6,00,000 and

B's Capital = 12,00,000 x 3/10 = 3,60,000

16. Advantages of spreadsheet software as an accounting tool are:

1. It is simple to use and easy to understand.
2. Most of the common functions like doing calculations, setting formulas, macros, replication of cell contents, etc. can be easily done in a spreadsheet.
3. Grouping and regrouping of accounts can be done.
4. Presentation can be made in various forms including graphical presentations like bar diagram, histogram, pie-chart, etc.
5. Basic protection like restricted access and password protection of cell can be used to give security to the spread sheet data.

17. (a) Accounting Standards deal with the issue of

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

(ii) Measurement of these transactions and events,

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

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

(b) Para 17 of AS 1 'Disclosure of Accounting Policies' recognizes 'prudence' as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information. Also as per para 10 of the AS 1, 'accrual' is one of the fundamental accounting assumptions. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be replaced in a disadvantageous position for non-payment of interest in respect of overdue amount. From the aforesaid, it is apparent that the company has an obligation on account of the overdue interest. In this situation, the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. However, in respect of the overdue interest amounts, which are settled, the liability should be accrued to the extent of amounts settled. Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting. Therefore, the treatment, done by the company, of not providing the interest amount from due date to the date of repayment is not correct.

18. (a) Net Realisable Value of Inventory as on 31st March, 2015

= ₹ 107.75 x 20 units = ₹ 2,155

Value of inventory as per Weighted Average basis

<u>Total units purchased and total cost:</u>

01.03.2015	₹ 108 x 20 units = ₹ 2160
08.3.2015	₹ 107 x 15 units = ₹ 1605
17.03.2015	₹ 109 x 30 units = ₹ 3270
25.03.2015	₹ 107 x 15 units = ₹ 1605
Total	80 units = ₹ 8640

Weighted Average Cost = ₹ 8640/80 units = ₹108

Total Value = ₹ 108 x 20 units = ₹ 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2015 is, Cost or Net Realisable value whichever is lower i.e. ₹ 2,155.

(b) **(i)** Operating Activities: c, e, f, g, j, m, o, s, t, w, x, aa & gg.

(ii) Investing Activities: a, h, k, l, p, q, u, v, bb & ee.

(iii) Financing Activities: b, d, i, n, r, y, z, cc & dd.

(iv) Cash Equivalent: ff.

19. **(a)** Depreciation per year = ₹ 1,20,000 / 10 = ₹ 12,000

Depreciation on SLM charged for three years = ₹ 12,000 x 3 years = ₹ 36,000

Book value of the computer at the end of third year = ₹ 1,20,000 – ₹ 36,000

= ₹ 84,000.

Remaining useful life as per previous estimate = 7 years

Remaining useful life as per revised estimate = 5 years

Depreciation from the fourth year onwards = ₹ 84,000 / 5 = ₹ 16,800 per annum

(b) Total expected loss to be provided for Contract Price –Total Cost

= ₹ 50,00,000 –(21,00,000 + 31,50,000) = ₹ 2,50,000

Calculation for 2014-15 on 40% work

Contract Revenue	= ₹ 21,00,000
Contract Cost	= ₹ 21,00,000
Loss on contract	= ₹ 1,00,000
Expected loss recognized as per AS 7	= ₹ 2,50,000
Further provision required in respect of	
Expected Loss (₹2,50,000 - ₹1,00,000)	= ₹ 1,50,000

In the Books of Five Star construction Limited

Profit & Loss A/c (Extract) for the year ended 31st March 2015

	Amount (₹)		*Amount (₹)*
To Construction Costs (for 40% work)	21,00,000	By Contract Revenue	20,00,000
To Provision for Loss	1,50,000	By Net Loss	2,50,000
	22,50,000		22,50,000

20. (a) As per AS 9, "Revenue Recognition" is the inflow of cash, receivable or other consideration arising in the course of ordinary activities of an enterprise from the sale of Goods. However, the above is subject to trade discount and volume rebates received in the course of carrying on business which shall be deducted in ascertaining revenue since they represent a reduction of cost. Revenue is also subject to certain risks like damages on transfer of goods to the buyers' end.

In the given case, trade discount is to be deducted from ₹ 13,00,000 and gross sale shall be recognized at (₹ 13,00,000 - ₹ 1,06,000) = ₹ 11,94,000 and goods returned ₹ 1,34,000 are to be recorded in the form of sales return.

Thus the contention of the Accountant to book sale of ₹ 10,60,000 is not correct.

(b) Calculation of cost of fixed asset

	₹
Materials	10,00,000
Direct labour (1/6th of ₹ 3,00,000)	50,000
Direct expenses	2,00,000
Office and administrative expenses (5% ₹ 7,50,000)	37,500
Depreciation on assets	10,000
Total Cost of fixed asset	12,97,500