

PAPER – 1: ACCOUNTING

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

A. Applicable for November, 2016 examination

Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 30th April, 2016 will be applicable for November, 2016 Examination.

B. Not applicable for November, 2016 examination

I. Non-Applicability of Ind ASs for November, 2016 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS have not been made applicable for November, 2016 Examination.

II. Non-applicability of Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006 and Companies (Indian Accounting Standards) Rules, 2015

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 and Companies (Indian Accounting Standards) Rules, 2015 have not been made applicable for November, 2016 examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. (a) Prepare a Balance Sheet as at 31st March 2016, as per Schedule III of the Companies Act, 2013, from the following information of Kalyan Ltd.-

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	20,00,000	Investments (Non-current)	,50,000
Trade payables	22,90,000	Profit for the year	16,00,000
Other advances	7,44,000	Trade receivables	24,50,000
Cash and Bank Balances	19,20,000	Miscellaneous Expenses	1,16,000
Staff Advances	1,10,000	Loan from other parties	4,00,000
Provision for Taxation	5,10,000	Provision for Doubtful	

Securities Premium	9,50,000	Debts	40,000
Loose Tools	1,00,000	Stores	8,00,000
General Reserve	31,00,000	Fixed Assets (WDV)	1,13,00,000
Capital Work-in- progress	4,00,000	Finished Goods	15,00,000

Additional Information:-

- Share Capital consist of-
 - 60,000 Equity Shares of ₹ 100 each fully paid up.
 - 20,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
- The company proposed and declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%.
- Depreciate Assets by ₹ 10,00,000.

Managerial Remuneration – Effective Capital

- (b) The following extract of Balance Sheet of Star Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 2016

<i>Liabilities</i>	₹
Authorised capital:	
60,000, 14% preference shares of ₹100	60,00,000
6,00,000 Equity shares of ₹100 each	<u>6,00,00,000</u>
	<u>6,60,00,000</u>
Issued and subscribed capital:	
45,000, 14% preference shares of ₹ 100 each fully paid	45,00,000
3,60,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	2,88,00,000
Share suspense account	60,00,000
Reserves and surplus	
Capital reserves (₹ 4,50,000 is revaluation reserve)	5,85,000
Securities premium	1,50,000
Secured loans:	
15% Debentures	1,95,00,000
Unsecured loans:	
Public deposits	11,10,000
Cash credit loan from SBI (short term)	3,95,000
Current Liabilities:	
Trade Payables	10,35,000
Assets:	
Investment in shares, debentures, etc.	2,25,00,000
Profit and Loss account (Dr. balance)	<u>45,75,000</u>

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Star Ltd. is an investment company?

Cash flow statement

2. The following are the summarized Balance Sheets of Fan Ltd. as on 31st March 2015 and 2016:

<i>Liabilities</i>	<i>31-3-2015</i>	<i>31-3-2016</i>
	₹	₹
Equity share capital (₹ 10 each)	5,00,000	6,25,000
Capital reserve		5,000
Profit and loss A/c	2,00,000	2,40,000
Long term loan from the bank	2,50,000	2,00,000
Trade payables	2,50,000	2,00,000
Provision for taxation	<u>25,000</u>	<u>30,000</u>
	<u>12,25,000</u>	<u>13,00,000</u>
<i>Assets</i>	<i>₹</i>	<i>₹</i>
Land and building	2,00,000	1,90,000
Machinery	3,75,000	4,60,000
Investment	50,000	25,000
Inventory	1,50,000	1,40,000
Trade receivables	2,00,000	2,10,000
Cash in hand	1,00,000	70,000
Cash at bank	<u>1,50,000</u>	<u>2,05,000</u>
	<u>12,25,000</u>	<u>13,00,000</u>

Additional information:

- (1) Depreciation written off on land and building ₹ 10,000.
- (2) The company sold some investment at a profit of ₹ 5,000, which was credited to Capital Reserve.
- (3) Income-tax provided during the year ₹ 27,500.
- (4) During the year, the company purchased a machinery for ₹ 1,12,500. They paid ₹ 62,500 in cash and issued 5,000 equity shares of ₹ 10 each at par.

You are required to prepare a cash flow statement for the year ended 31st March 2016 as per AS 3 by using indirect method.

Profit/Loss prior to Incorporation

3. Lotus Ltd. was incorporated on 1st July, 2015 to acquire a running business of Feel goods with effect from 1st April, 2015. During the year 2015-16, the total sales were ₹ 48,00,000 of which ₹ 9,60,000 were for the first six months. The Gross profit of the company ₹ 7,81,600. The expenses debited to the Profit & Loss Account included:
- (i) Director's fees ₹ 60,000
 - (ii) Bad debts ₹ 14,400
 - (iii) Advertising ₹ 48,000 (under a contract amounting to ₹ 4,000 per month)
 - (iv) Salaries and General Expenses ₹ 2,56,000
 - (v) Preliminary Expenses written off ₹ 20,000
 - (vi) Donation to a political party given by the company ₹ 20,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2016.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Sona Ltd. as at 31st March, 2016

	₹
Authorised capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	<u>30,00,000</u>
	<u>33,00,000</u>
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Reserve (profit realized on sale of plant)	1,20,000
Securities premium	75,000
Profit and Loss Account	6,00,000

On 1st April, 2016, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2016. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four

shares held. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

Show necessary journal entries in the books of the company and prepare the extract of Notes to accounts of the balance sheet as on 30th April, 2016 after bonus issue.

Internal Reconstruction of a Company

5. The summarised Balance Sheet of Preet Limited as on 31st March 2016, was as follows:

<i>Liabilities</i>	(₹)	<i>Assets</i>	(₹)
Authorised and subscribed capital: 20,000 Equity shares of ₹ 100 each fully paid	20,00,000	Fixed Assets: Machineries	7,00,000
Unsecured loans: 15% Debentures	6,00,000	Current Assets: Inventory	5,06,000
Accrued interest	90,000	Trade receivables	4,60,000
Current Liabilities: Trade payables	1,04,000	Bank	40,000
Provision for income tax	72,000	Profit & loss A/c	11,60,000
	28,66,000		28,66,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- (i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.
- (ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
- (iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
- (iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.
- (v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- (vi) Balance of Profit and Loss account to be written off.
- (vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

Amalgamation of Companies

6. Following is the summarized Balance Sheets as at March 31, 2016:

Liabilities	Kanak Ltd.	Ronak Ltd.	Assets	(₹ '000)	
				Kanak Ltd.	Ronak Ltd.
Share capital:			Goodwill	60	—
Equity shares of ₹ 100 each	45,00	30,00	Other fixed assets	45,00	22,80
9% Preference shares of ₹ 100 each	15,00	1,200	Trade receivables	19,53	13,20
General reserve	540	510	Inventory	11,79	20,40
Profit and loss account	—	45	Cash at bank	78	390
12% Debentures of ₹ 100 each	18,00	600	Own debentures		
Trade payables	12,45	675	(Nominal value ₹ 6,00,000)	576	
			Discount on issue of debentures	6	
			Profit and loss account	<u>12,33</u>	<u> </u>
	<u>95,85</u>	<u>60,30</u>		<u>95,85</u>	<u>60,30</u>

On 1.4.2016, Kanak Ltd. adopted the following scheme of reconstruction:

- Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.
- Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.
- Own debentures of ₹ 2,40,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.
- Debenture holders of ₹ 8,40,000 agreed to accept one machinery of book value of ₹ 9,00,000 in full settlement.
- Trade payables, trade receivables and inventory were valued at ₹ 10,50,000, ₹ 17,70,000 and ₹ 10,80,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.
- The Company paid ₹ 45,000 as penalty to avoid capital commitments of ₹ 9,00,000.

On 2.4.2016 a scheme of absorption was adopted. Kanak Ltd. would take over Ronak Ltd. The purchase consideration was fixed as below:

- Equity shareholders of Ronak Ltd. will be given 50 equity shares of ₹ 10 each fully paid up, in exchange for every 5 shares held in Ronak Ltd.

- (b) Issue of 9% preference shares of ₹ 100 each in the ratio of 4 preference shares of Kanak Ltd. for every 5 preference shares held in Ronak Ltd.
- (c) Issue of one 12% debenture of ₹ 100 each of Kanak Ltd. for each 12% debenture in Ronak Ltd.

You are required to give Journal entries in the books of Kanak Ltd. and draw the resultant Balance Sheet as at 2nd April, 2016

Average Due Date

7. 'Mani' lent ₹ 50,000 to 'Prem' on 1st January, 2015. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2016. Calculate the average due date and interest @ 10% per annum.

Account Current

8. Following transactions took place between L and M during the month of April, 2016:

Date	Particulars	₹
1.4.2016	Amount payable by L to M	5,000
7.4.2016	Received acceptance of L to M for 2 months	2,500
10.4.2016	Bills receivable (accepted by M) on 7.2.2016 is honoured on this due date	5,000
10.4.2016	L sold goods to M (due date 10.5.2016)	7,500
12.4.2016	L received cheque from M (due date 15.5.2016)	3,750
15.4.2016	M sold goods to L (due date 15.5.2016)	3,000
20.4.2016	L returned goods sold by M on 15.4.2016	500
20.4.2016	Bill accepted by M is dishonoured on this due date	2,500

Prepare M's account in the books of L for the month of April, 2016, taking interest into account @ 10% p.a.

Self Balancing Ledgers

9. A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2016:

	(₹)
Debit balances in Debtors Ledger on 01-04-2016	1,79,100
Credit balances in Debtors Ledger on 01-04-2016	4,700
Transactions during the month of April, 2016 are:	
Total Sales (including Cash Sales, ₹ 50,000)	10,47,700

Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2016	4,900

Financial Statements of Not for Profit Organisations

10. From the following data, prepare an Income and Expenditure Account for the year ended 31st December, 2016, and Balance Sheet as at that date of the Ganesh Hospital:

Receipts and Payments Account for the year ended 31 December, 2016

<i>Receipts</i>	₹		<i>Payments</i>		₹
To Balance b/d			By Salaries :		
Cash	800		(₹ 7,200 for 2015)		31,200
Bank	<u>5,200</u>	6,000	By Hospital Equipment		17,000
To Subscriptions :			By Furniture purchased		6,000
For 2015		5,100	By Additions to Building		50,000
For 2016		24,500	By Printing and		2,400
For 2017		2,400	Stationery		
To Government Grant :			By Diet expenses		15,600
For building		80,000	By Rent and rates		
For maintenance		20,000	(₹ 300 for 2017)		2,000
Fees from sundry			By Electricity and water		
patients		4,800	charges		2,400
To Donations (not to be		8,000	By office expenses		2,000
capitalised)			By Investments		20,000
To Net collections from			By Balances :		
benefit shows		6,000	Cash	1,400	
			Bank	<u>6,800</u>	<u>8,200</u>
		<u>1,56,800</u>			<u>1,56,800</u>

Additional information :	₹
Value of building under construction as on 31.12.2016	1,40,000
Value of hospital equipment on 31.12.2016	51,000
Building Fund as on 1.1. 2016	80,000
Subscriptions in arrears as on 31.12.2015	6,500
Investments in 8% Govt. securities were made on 1st July, 2016.	

Accounts from Incomplete Records

11. The following is the Balance Sheet of Chirag as on 31st March, 2015:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	<u>8,500</u>
	<u>94,000</u>		<u>94,000</u>

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases
- On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.
- Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.
- Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500, and Cash withdrawn from Bank ₹ 12,000.
- Gross profit as per last year's audited accounts was ₹ 30,000.
- Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date.

Hire Purchase Transactions

12. Moon purchased a machine on Hire Purchase System. The total cost price of the machine was ₹ 15,00,000 payable 20% down and four annual installments of ₹ 4,20,000, ₹ 3,90,000, ₹ 3,60,000 and ₹ 3,30,000 at the end of the 1st, year 2nd year, 3rd year and 4th year respectively. Calculate the interest included in each year's installment assuming that the sales were made at the beginning of the year.

Investment Accounts

13. Mitthan holds 2,000, 15% Debentures of ₹ 100 each in Seema Industries Ltd. as on April 1, 2015 at a cost of ₹ 2,10,000. Interest is payable on June, 30 and December, 31 each year.

On May 1, 2015, 1,000 debentures are purchased cum-interest at ₹ 1,07,000. On November 1, 2015, 1,200 debentures are sold ex-interest at ₹ 1,14,600. On November 30, 2015, 800 debentures are purchased ex-interest at ₹ 76,800. On December, 31, 2015, 800 debentures are sold cum-interest for ₹ 1,10,000.

You are required to prepare the Investment Account showing value of holdings on March 31, 2016 at cost, using FIFO Method.

Insurance claim for loss of stock

14. Ram trader's godown caught fire on 29th August, 2016, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2015	3,55,250
Cost of stock on 31st March, 2016	3,95,050
Purchases during the year ended 31st March, 2016	28,39,800
Purchases from 1st April, 2016 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2016 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2016 to the date of fire	1,000
Sales for the year ended 31st March, 2016	40,00,000
Sales from 1st April, 2016 to the date of fire	22,68,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company.

Issues in Partnership Accounts

15. The following was the Balance Sheet of 'Kamal' and 'Rani', who were sharing profits and losses in the ratio of 2:1 on 31.12.2015:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Accounts		Plant and machinery	24,00,000
Kamal	20,00,000	Building	18,00,000
Rani	10,00,000	Sundry debtors	6,00,000
Reserves	18,00,000	Stock	8,00,000
Sundry creditors	8,00,000	Cash	2,00,000
Bills payable	<u>2,00,000</u>		
	<u>58,00,000</u>		<u>58,00,000</u>

They agreed to admit 'Nisha' into the partnership on the following terms:

- The goodwill of the firm was fixed at ₹ 2,10,000.
- That the value of stock and plant and machinery were to be reduced by 10%.
- That a provision of 5% was to be created for doubtful debts.
- That the building account was to be appreciated by 20%.
- There was an unrecorded liability of ₹ 20,000.
- Investments worth ₹ 40,000 (Not mentioned in the Balance Sheet) were taken into account.
- That the value of reserve, the values of liabilities and the values of assets other than cash are not to be altered.
- 'Nisha' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm.

Accounting in Computerised Environment

16. Write any four disadvantages of Pre-packaged Accounting Software.

AS 1 Disclosure of Accounting Policies

17. (a) Om Ltd. purchases goods on behalf of its customers for execution of work under a

works contract against which it receives full payment and necessary declaration form under Central Sales Tax Act to be passed on to the supplier. The company follows the practice of treating the same as its purchases and accordingly debits to its Profit and Loss Account. Give your views on the above.

AS 2 Valuation of Inventories

- (b) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

AS 6 Depreciation Accounting

18. (a) Meena Ltd. has an equipment purchased 2 year ago for ₹ 1,90,000. The residual value of the asset was estimated to be ₹ 10,000. The total useful life of the asset when purchased was 12 years. The company charges Depreciation as per Straight Line Method. Due to price adjustment, the cost of the asset is now increased by ₹ 15,000. What is the treatment for the increase in historical cost? Comment and calculate the revised depreciation for the current year.

AS 7 Construction Contracts

- (b) X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹ 490 lakhs. The agreement lays down values for each of the four outlets (₹ 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. Comment whether X Ltd., will treat it as a single contract or four separate contracts.

AS 9 Revenue Recognition

19. (a) Khetan Ltd. has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 4,500 for which they will be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for the current year. Comment.

AS 10 Accounting for Fixed Assets

- (b) Alex Ltd. intends to set up a solar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7,500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site. Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired.

AS 13 Accounting for Investments

20. (a) Give your comments on the following situations, each being independent of the other.
1. Current Investments are valued at ₹ 60 Lakhs, being the cost of acquisition, fair value of these investments on the Balance Sheet date is ₹ 48 Lakhs.
 2. Current investments were acquired at a cost of ₹ 86 lakhs whereas their fair market value as on the Balance Sheet Date was ₹ 90 lakhs. Due to insufficiency of profits from operations, the Company would like to recognize the profit on these investments for 'improving' its Financial Statements.

AS 14 Accounting for Amalgamations

- (b) How are the balances in profit and loss account treated in the books of transferee company?

SUGGESTED ANSWERS / HINTS

1. (a) **Balance Sheet of Kalyan Ltd. as at 31st March, 2016**

		Note	₹
I	EQUITY AND LIABILITIES:		
(1)	(a) Share Capital	1	80,00,000
	(b) Reserves and Surplus	2	49,32,212
(2)	Non-current Liabilities		
	Long term Borrowings-Secured Borrowings – Terms Loans		20,00,000
(3)	Current Liabilities		
	(a) Trade Payables	-	22,90,000
	(b) Other current liabilities - Loan from other parties		4,00,000
	(c) Short-term Provisions	3	<u>11,11,788</u>
	Total		1,87,34,000
II	ASSETS		
(1)	Non-current Assets		
	(a) Fixed Assets:		
	(i) Tangible Assets	4	1,03,00,000
	(ii) Capital WIP		4,00,000

	(b) Non- current Investments		4,50,000
(2)	Current Assets:		
	(a) Inventories	5	24,00,000
	(b) Trade Receivables	6	24,10,000
	(c) Cash and Cash Equivalents		19,20,000
	(d) Short-term Loans and Advances	7	<u>8,54,000</u>
	Total		1,87,34,000

Notes to accounts

			(₹)
1.	Share Capital		
	Authorized, Issued, subscribed & called up 60,000, Equity Shares of ₹ 100 each	60,00,000	
	20,000 10% Redeemable Preference Shares of 100 each	<u>20,00,000</u>	<u>80,00,000</u>
2.	Reserves and Surplus		
	Securities Premium Account	9,50,000	
	General reserve	31,00,000	
	Profit & Loss Balance		
	Opening balance		
	Profit for the period 16,00,000		
	Less: Miscellaneous Expenditure written off <u>(1,16,000)</u>		
		14,84,000	
	Less: Appropriations		
	Proposed dividend (5,00,000)		
	Dividend distribution tax <u>(1,01,788)</u>	<u>8,82,212</u>	<u>49,32,212</u>
3.	Short-term provisions		
	Provision for taxation	5,10,000	
	Proposed Dividend	5,00,000	
	Dividend Distribution tax [W.N]	<u>1,01,788</u>	<u>11,11,788</u>
4.	Tangible assets		
	Fixed Assets		
	Opening balance	1,13,00,000	

	Less: Depreciation	<u>(10,00,000)</u>	
	Closing balance		1,03,00,000
5.	Inventories		
	Finished Goods	15,00,000	
	Stores	8,00,000	
	Loose Tools	<u>1,00,000</u>	<u>24,00,000</u>
6.	Trade Receivables		
	Trade receivables	24,50,000	
	Less: Provision for Doubtful Debts	<u>(40,000)</u>	24,10,000
7.	Short term loans & Advances		
	Staff Advances	1,10,000	
	Other Advances	<u>7,44,000</u>	<u>8,54,000</u>

Working Note:**Calculation of Dividend distribution tax**

(i) Grossing-up of dividend:

		₹
Dividend distributed by Kalyan Ltd.		
Equity shares dividend	3,00,000	
Preference share dividend	<u>2,00,000</u>	5,00,000
<i>Add:</i> Increase for the purpose of grossing up of dividend 5,00,000 x [15 / (100-15)]		<u>88,235</u>
Gross dividend		<u>5,88,235</u>

(ii) Dividend distribution tax @ 17.304% 1,01,788

(b) **Computation of effective capital:**

	<i>Where Star Ltd. is a non-investment company</i>	<i>Where Star Ltd. is an investment company</i>
	₹	₹
Paid-up share capital —		
45,000, 14% Preference shares	45,00,000	45,00,000
3,60,000 Equity shares	2,88,00,000	2,88,00,000
Capital reserves	1,35,000	1,35,000
Securities premium	1,50,000	1,50,000

15% Debentures	1,95,00,000	1,95,00,000
Public Deposits	<u>11,10,000</u>	<u>11,10,000</u>
(A)	<u>5,41,95,000</u>	<u>5,41,95,000</u>
Investments	2,25,00,000	—
Profit and Loss account (Dr. balance)	<u>45,75,000</u>	<u>45,75,000</u>
(B)	<u>2,70,75,000</u>	<u>45,75,000</u>
Effective capital (A–B)	<u>2,71,20,000</u>	<u>4,96,20,000</u>

2. In the books of Fan Ltd.

Cash Flow Statement for the year ending 31st March, 2016

	₹	₹
I Cash flow from Operating Activities		
Net Profit before tax for the year (W.N.1)	67,500	
Add: Depreciation on machinery (W.N.2)	27,500	
Depreciation on land & building	<u>10,000</u>	
Operating profit before change in working capital	1,05,000	
Add: Decrease in Inventories	10,000	
Less: Increase in Trade receivables	(10,000)	
Less: Decrease in Trade payables	<u>(50,000)</u>	
Cash generated from Operations	55,000	
Less: Income tax paid (W.N.3)	<u>(22,500)</u>	
Net cash generated from operating activities		32,500
II Cash flow from Investing activities		
Purchase of machinery (1,12,500 – 50,000)	(62,500)	
Sale of investment (W.N. 4)	<u>30,000</u>	
Net cash used in investing activities		(32,500)
III Cash flow from financing activities		
Issue of equity shares (1,25,000-50,000)	75,000	
Repayment of long term loan	<u>(50,000)</u>	
Net cash generated from financing activities		<u>25,000</u>
Net increase in cash and cash equivalents		25,000
Cash and cash equivalents at the beginning of the year (1,00,000 + 1,50,000)		<u>2,50,000</u>
Cash and cash equivalents at the end of the year (70,000+2,05,000)		<u>2,75,000</u>

Working Notes:**1. Calculation of Net Profit before tax**

	₹
Increase in Profit & Loss (Cr.) balance	40,000
Add: Provision for taxation made during the year	<u>27,500</u>
	<u>67,500</u>

2. Calculation of Depreciation charged during the year**Machinery account**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	3,75,000	By Depreciation (Bal.fig.)	27,500
To Bank	62,500	By Balance c/d	4,60,000
To Equity share capital	<u>50,000</u>		<u> </u>
	<u>4,87,500</u>		<u>4,87,500</u>

3. Calculation of tax paid during the year**Provision for Taxation A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash (Bal.fig.)	22,500	By Balance b/d	25,000
To Balance c/d	<u>30,000</u>	By Profit and Loss A/c	<u>27,500</u>
	<u>52,500</u>		<u>52,500</u>

4. Calculation of sale value of investment sold**Investment A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	50,000	By Bank A/c (Bal.fig.)	30,000
To Capital reserve (Profit on sale of investments)	<u>5,000</u>	By Balance c/d	25,000
	<u>55,000</u>		<u> </u>
			<u>55,000</u>

3. Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

For the year ended 31st March, 2016

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
Gross Profit	7,81,600	Sales	78,160	7,03,440
Less: Directors' fee	60,000	Post		60,000
Bad debts	14,400	Sales	1,440	12,960
Advertising	48,000	Time	12,000	36,000
Salaries & general expenses	2,56,000	Time	64,000	1,92,000
Preliminary expenses	20,000	Post		20,000
Donation to Political Party	20,000	Post		20,000
Net Profit	3,63,200			3,62,480
Pre-incorporation profit transferred to Capital Reserve			720	

Working Notes:

1. Sales ratio

Particulars	₹
Sales for period up to 30.06.2015 (9,60,000 x 3/6)	4,80,000
Sales for period from 01.07.2015 to 31.03.2016 (48,00,000 – 4,80,000)	43,20,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 2015 to 30 June, 2015: 1st July, 2015 to 31st March, 2016

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

4. Journal Entries in the books of Sona Ltd.

		₹	₹
1-4-2016	Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated....)	5,40,000	5,40,000

20-4-2016	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
(For making provision for bonus issue of one share for every four shares held)				
Bonus to shareholders A/c	Dr.	6,75,000		
To Equity share capital A/c			6,75,000	
(For issue of bonus shares)				

**Extract of Notes to Accounts of the Balance Sheet as at 30th April, 2016
(after bonus issue)**

	₹
Authorised Capital	
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,67,500 Equity shares of ₹ 10 each (W.N.)	<u>36,75,000</u>
Issued and subscribed capital	
24,000 12% Preference shares of ₹ 10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹ 10 each, fully paid	33,75,000
(Out of above, 67,500 equity shares @ ₹ 10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	4,80,000

Working Note:

	₹
The authorized capital should be increased as per details given below:	
Existing authorized Equity share capital	30,00,000
Add: Issue of bonus shares to equity shareholders (25% of ₹ 27,00,000)	<u>6,75,000</u>
	<u>36,75,000</u>

5.

In the books of Preet Limited

Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c To Share Surrender A/c To Equity Share Capital (₹ 10) A/c (Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)	Dr.	20,00,000	
				10,00,000
				10,00,000
(ii)	15% Debentures A/c Accrued Interest A/c (proportionate 50%) To Reconstruction A/c (Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)	Dr. Dr.	3,00,000 45,000	
				3,45,000
(iii)	Trade payables A/c To Reconstruction A/c (Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)	Dr.	1,04,000	
				1,04,000
(iv)	Share Surrender A/c To 10% Preference Share Capital A/c To Equity Share Capital A/c To Reconstruction A/c (Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)	Dr.	10,00,000	
				2,00,000
				78,000
				7,22,000
(v)	Reconstruction A/c To Profit & Loss A/c	Dr.	11,71,000	
				11,60,000

To Capital Reserve A/c (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)	11,000
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Preet Limited (and reduced)

Balance Sheet as on 31st March, 2016

Particulars	Notes No.	₹
Equity and Liabilities		
1 Shareholders' funds		
a) Share capital	1	12,78,000
b) Reserves and Surplus	2	11,000
2 Non-current liabilities		
Long-term borrowings	3	3,00,000
3 Current liabilities		
a) Other current liabilities	4	45,000
b) Short-term provisions	5	<u>72,000</u>
Total		<u>17,06,000</u>
Assets		
1 Non-current assets		
a) Fixed assets		
i) Tangible assets	6	7,00,000
2 Current assets		
a) Inventories		5,06,000
b) Trade receivables		4,60,000
c) Cash and cash equivalents	7	<u>40,000</u>
Total		<u>17,06,000</u>

Notes to Accounts

	₹
1. Share Capital	
1,07,800, Equity shares of ₹ 10 each	10,78,000
20,000, 10% Preference shares of ₹ 10 each	<u>2,00,000</u>
	<u>12,78,000</u>

	(all the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares)	
2.	Reserves and Surplus	
	Capital Reserves	11,000
3.	Long-term borrowings	
	Unsecured	
	15% Debentures	3,00,000
4.	Other current liabilities	
	Accrued Interest on 15% Debentures	45,000
5.	Short-term provisions	
	Provision for income tax	72,000
6.	Tangible assets	
	Machineries	7,00,000
7.	Cash and cash equivalents	
	Balances with banks	40,000

6. In the Books of Kanak Ltd.

	Particulars	Dr.	Cr.
01.04.2016		Amount	Amount
		₹	₹
	Equity share capital A/c Dr.	45,00,000	
	To Equity share capital A/c		45,00,000
	(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)		
	Equity share capital A/c Dr.	22,50,000	
	To Capital reduction A/c		22,50,000
	(Being reduction of Equity capital by 50%)		
	Capital reduction A/c Dr.	40,500	
	To Bank A/c		40,500
	(Being payment in cash of 10% of arrear of preference dividend)		
	Bank A/c (2,400 x 98) Dr.	2,35,200	
	To Own debentures A/c (2,400 x 96)		2,30,400
	To Capital reduction A/c		4,800
	(Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c)		

12% Debentures A/c	Dr.	3,60,000	
To Own debentures A/c			3,45,600
To Capital reduction A/c			14,400
(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
12% Debentures A/c	Dr.	8,40,000	
Capital reduction A/c	Dr.	60,000	
To Machinery A/c			9,00,000
(Being machinery taken up by debenture holders for ₹ 8,40,000)			
Trade payables A/c	Dr.	1,95,000	
Capital reduction A/c (balancing figure)	Dr.	87,000	
To Trade receivables A/c			1,83,000
To Inventory A/c			99,000
(Being assets and liabilities revalued)			
Capital reduction A/c	Dr.	12,99,000	
To Goodwill A/c			60,000
To Discount on debentures A/c			6,000
To Profit and Loss A/c			12,33,000
(Being the above assets written off)			
Capital reduction A/c	Dr.	45,000	
To Bank A/c			45,000
(Being penalty paid for avoidance of capital commitments)			
Capital reduction A/c	Dr.	7,37,700	
To Capital reserve A/c			7,37,700
(Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)			
02.04.2016			
Business Purchase A/c	Dr.	39,60,000	
To Liquidators of Ronak Ltd.			39,60,000
(Being the purchase consideration payable to Ronak Ltd.)			
Fixed Assets A/c	Dr.	22,80,000	
Inventory A/c	Dr.	20,40,000	
Trade receivables A/c	Dr.	13,20,000	
Cash at Bank A/c	Dr.	3,90,000	
To Trade payables A/c			6,75,000
To 12% Debentures A/c of Ronak Ltd.			6,00,000

To Profit and Loss A/c			45,000
To General reserve A/c ₹ (5,10,000+2,40,000*)			7,50,000
To Business purchase A/c			39,60,000
(Being the take over of all assets and liabilities of Ronak Ltd. by Kanak Ltd.)			
Liquidators of Ronak Ltd. A/c	Dr.	39,60,000	
To Equity Share Capital			30,00,000
To 9% Preference share capital			9,60,000
(Being the purchase consideration discharged)			
12% Debentures of Ronak Ltd. A/c	Dr.	6,00,000	
To 12% Debentures A/c			6,00,000
(Being Kanak Ltd. issued their 12% Debentures in against of every Debentures of Ronak Ltd.)			

Balance Sheet of Kanak Ltd. as at 2.4.2016

<i>Particulars</i>	<i>Note No</i>	<i>Amount(₹)</i>
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	77,10,000
(b) Reserves and Surplus	2	20,72,700
(2) Non-current Liabilities		
(a) Long-term borrowings - 12% Debentures		12,00,000
(3) Current Liabilities		
(a) Trade payables		17,25,000
Total		1,27,07,700
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		58,80,000
(2) Current assets		
(a) Inventories		31,20,000
(b) Trade receivables		30,90,000
(c) Cash and cash equivalents		6,17,700
Total		1,27,07,700

* ₹ 2,40,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

Notes to Accounts

			₹
1	Share Capital		
	Equity Share Capital		52,50,000
	9% Preference share capital		<u>24,60,000</u>
			<u>77,10,000</u>
2	Reserves and Surplus		
	Profit and Loss A/c		45,000
	General Reserve		
	Share Capital of Ronak Ltd. (Equity + Preference)	42,00,000	
	Less: Share Capital issued by Kanak Ltd.	<u>39,60,000</u>	
	General reserve (resulted due to absorption)	2,40,000	
	Add: General reserve of Ronak Ltd.	5,10,000	
	General reserve of Kanak Ltd.	<u>5,40,000</u>	12,90,000
	Capital Reserve		<u>7,37,700</u>
			<u>20,72,700</u>

Working Notes:

1. Arrear dividend to Preference Shareholders

Preference Share Capital ₹ 15,00,000 @ 9% will yield dividend of ₹ 1,35,000 per year and for 3 years = ₹ 4,05,000. Out of this only 10% is paid and the balance is waived off. Hence, amount paid = ₹ 40,500.

2. Profit on redemption of own debentures

Own Debentures with Nominal Value of ₹ 2,40,000 sold for ₹ 98 per deb = 2,40,000 x 98/100 = ₹ 2,35,200.

Book Value = ₹ 5,76,000 / 6,00,000 X 2,40,000 = ₹ 2,30,400. Profit on own debentures sold = ₹ 2,35,200 – ₹ 2,30,400 = ₹ 4,800

Balance of Own Debentures = ₹ 5,76,000 – 2,30,400 = ₹ 3,45,600 which are cancelled

3. Purchase Consideration

Equity share capital 30,000 x 50/5 x 10 = 30,00,000

9% Preference share capital 12,000 x 4/5 x 100 = 9,60,000

₹ 39,60,000

7. 1st payment is made after 12 months from the date of loan.
 2nd payment is made after 18 months from the date of loan.
 3rd payment is made after 24 months from the date of loan.
 4th payment is made after 30 months from the date of loan.
 5th payment is made after 36 months from the date of loan.

Sum of the months =120

Average due date =

Date of loan + $\frac{\text{Sum of months from 1st January, 2016 to the date of each installment}}{\text{Number of installments}}$

$$= 1^{\text{st}} \text{ January, 2015} + \frac{120 \text{ months}}{5}$$

$$= 1^{\text{st}} \text{ January, 2015} + 24 \text{ months}$$

$$= 1^{\text{st}} \text{ January, 2017}$$

$$\text{Interest} = ₹ 50,000 \times 10/100 \times 2 \text{ years} = ₹ 10,000$$

8. 'M' In Account Current with 'L'
(Interest to 30th April, 2016 @ 10% p.a.)

Date	Particulars	Due Date	Amount ₹	Days	Product	Date	Particulars	Due Date	Amount ₹	Days	Product
2016		2016				2016		2016			
7 April	To Bills Payable	10 June	2,500	-	-	1 April	By Balance b/d		5,000	30	1,50,000
10 April	To Sales A/c	10 May	7,500	-	-	12 April	By Bank A/c (Cheque received dated 15.5.2016)	15 May	3,750	-	-
20 April	To Purchase Returns	15 May	500	-	-	15 April	By Purchase A/c (Invoice dated 15.5.2016)	15 May	3,000	-	-
20 April	To Bill Receivable A/c	20 April	2,500	10	25,000	30 April	By Red Ink Product as per contra (₹ 7,500 x 41)	10 June	-	41	1,02,500
30 April	To Red Ink Product as per contra (₹ 7,500 x 15)	15 May	-	15	56,250	30 April	By Red Ink Product as per contra (₹ 6,000 x 15)		-		
30 April	To Red Ink Product as per contra (₹ 6,000 x 15)	15 May	-	15	45,000	30 April	By Interest A/c [2,08,750 x 10/100]/ 365	10 May	-	10	75,000
30 April	To Balance of product				2,08,750	30 April	By Balance c/d	15 May	-	15	7,500
			<u>13,000</u>		<u>3,35,000</u>	30 April			<u>1,192.81</u>		<u>3,35,000</u>
									<u>13,000</u>		

No entry is required for bill matured on 10th April since party is not contracted.

9. General Ledger Adjustment Account in Debtors Ledger

Date	Particulars	₹	Date	Particulars	₹
01.04.2016	To Balance b/d	4,700	1.4.2016	By Balance b/d	1,79,100
01.04.2016	To Debtors ledger		01.04.2016	By Debtors ledger	
to	adjustment A/c :		to	adjustment A/c :	
30.4.2016	Cash received	8,62,850	30.4.2016	Credit sales	9,97,700
	Sales Returns	16,550		Cash paid for returns	3,000
	Bills receivable received	47,500		Bills receivable dishonoured	3,750
	Transfer to creditors ledger	8,000	30.04.2016	By Balance c/d	4,900
30.04.2016	To Balance c/d (bal.fig)	<u>2,48,850</u>			
		<u>11,88,450</u>			<u>11,88,450</u>

10.

Ganesh hospital

Income & Expenditure Account
for the year ended 31 December, 2016

Expenditure	₹	Income	₹
To Salaries	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Govt. Grants (Maintenance)	20,000
To Rent & Rates	1,700	By Fees, Sundry Patients	4,800
To Printing & Stationery	2,400	By Donations	8,000
To Electricity & Water-charges	2,400	By Benefit shows (net collections)	6,000
To Office expenses	2,000	By Interest on Investments	800
To Excess of Income over expenditure transferred to Capital Fund	<u>16,000</u>		
	<u>64,100</u>		<u>64,100</u>

Balance Sheet as at 31st Dec., 2016

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	<u>50,000</u>	1,40,000

Over Expenditure	<u>16,000</u>	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	<u>17,000</u>	51,000
Add : Govt. Grant	<u>80,000</u>	1,60,000	Furniture		6,000
Subscriptions received in advance		2,400	Investments- 8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		<u>2,27,700</u>			<u>2,27,700</u>

Working Notes:

(1) Balance sheet as at 31st Dec., 2015			
<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses :		Cash at Bank	5,200
Salaries payable	<u>7,200</u>	Cash in hand	<u>800</u>
	<u>1,36,500</u>		<u>1,36,500</u>
(2) Building			₹
Balance on 31 st Dec. 2016			1,40,000
Paid during the year			<u>(50,000)</u>
Balance on 31 st Dec. 2015			<u>90,000</u>
(3) Equipment			
Balance on 31 st Dec. 2016			51,000
Paid during the year			<u>(17,000)</u>
Balance on 31 st Dec. 2015			<u>34,000</u>
(4) Subscription due for 2015			
Receivable on 31 st Dec. 2015			6,500
Received in 2016			<u>(5,100)</u>
Still Receivable for 2015			<u>1,400</u>

11. **Trading and Profit and Loss Account**
For the year ending on 31st March, 2016

<i>Particulars</i>		₹	<i>Particulars</i>		₹
To Opening Stock		20,000	By Sales	1,80,000	
To Purchases (bal.fig.);		1,54,000	By Closing Stock	<u>30,000</u>	
To Gross Profit c/d (@20% on sales)		<u>36,000</u>		<u>2,10,000</u>	
		<u>2,10,000</u>			
To Sundry Business Expenses		20,000	By Gross Profit b/d	36,000	
To Depreciation on Building	1,625				
Furniture	250				
Motor	<u>1,800</u>	3,675			
To Net profit transferred to Capital A/c		<u>12,325</u>			
		<u>36,000</u>			<u>36,000</u>

Balance Sheet as at 31st March, 2016

<i>Liabilities</i>		₹	<i>Assets</i>		₹
Capital Account:			Building	32,500	
Opening Balance	48,000		Less: Depreciation	<u>(1,625)</u>	30,875
Add: Net profit	<u>12,325</u>		Furniture	5,000	
	60,325		Less: Depreciation	<u>(250)</u>	4,750
Less: Drawings	<u>(7,500)</u>	52,825	Motor Car	9,000	
Loan		15,000	Less: Depreciation	<u>(1,800)</u>	7,200
Sundry Creditors		47,500	Stock in trade		30,000
Outstanding Expenses		5,000	Sundry Debtors		21,000
			Cash at Bank		22,000
			Sundry Advances (Amount recoverable from Cashier)		<u>4,500</u>
		<u>1,20,325</u>			<u>1,20,325</u>

Working Notes:(i) **Total Debtors Account**

Particulars	₹	Particulars	₹
To Balance b/d	17,000	By Bank (₹ 1,40,000 – ₹ 35,000)	1,05,000
To Sales (80% of ₹ 1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	<u>21,000</u>
	<u>1,61,000</u>		<u>1,61,000</u>

(ii) **Total Creditors Account**

Particulars	₹	Particulars	₹
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	<u>47,500</u>	By Purchases	<u>1,54,000</u>
	<u>1,85,000</u>		<u>1,85,000</u>

(iii) **Cash Book**

Particulars	Cash ₹	Bank ₹	Particulars	Cash ₹	Bank ₹
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	-	By Drawings	-	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	-	1,37,500
To Cash (Contra)	-	71,500	By Bank (Contra)	71,500	-
To Bank (Contra)	12,000		By Cash (Contra)	-	12,000
			By Defalcation (Bal fig.)	4,500	-
			By Balance c/d (Bal fig.)		<u>22,000</u>
	<u>85,000</u>	<u>1,85,000</u>		<u>85,000</u>	<u>1,85,000</u>

(iv) Last year's Total Sales = Gross Profit x 100/20 = ₹ 30,000 x 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000 + 20% of ₹ 1,50,000 = ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 x 80% = ₹ 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = ₹ 1,80,000 – ₹ 36,000 = ₹ 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock
= 1,44,000 + ₹ 30,000 – ₹ 20,000 = ₹ 1,54,000

12. (a) Calculation of Interest for each year:

Interest for 1 st year	=	₹ 3,00,000 x 150/360 =	₹ 1,25,000
Interest for 2 nd year	=	₹ 3,00,000 x 108/360 =	₹ 90,000
Interest for 3 rd year	=	₹ 3,00,000 x 69/360 =	₹ 57,500
Interest for 4 th year	=	₹ 3,00,000 x 33/360 =	<u>₹ 27,500</u>
			<u>₹ 3,00,000</u>

Working Notes:

- Hire Purchase Price = Down Payment + Instalments
 $= ₹ 3,00,000 + (₹ 4,20,000 + ₹ 3,90,000 + ₹ 3,60,000 + ₹ 3,30,000)$
 $= 18,00,000$
- Total Interest = H.P. Price – Cash Price
 $= 18,00,000 - ₹ 15,00,000 = ₹ 3,00,000$
- Calculation of ratio of hire purchase price outstanding in the beginning of each year

A Year	B Outstanding Hire Purchase Price in the Beginning of each Year	C Instalment Paid	D = B - C Outstanding Hire Purchase Price at the End of each Year
I	15,00,000	4,20,000	10,80,000
II	10,80,000	3,90,000	6,90,000
III	6,90,000	3,60,000	3,30,000
IV	3,30,000	3,30,000	Nil

Ratio of Outstanding Hire Purchase Price at the beginning of year = 150:108:69:33

13.

Investment Account of Mitthan

For the year ended 31.3.2016

(Script: 15% Debentures in Seema Industries Ltd.)

(Interest payable on 30th June and 31st December)

Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹
1.04.15	To Balance A/c	2,00,000	7,500	2,10,000	30.06.15	By Bank A/c	-	22,500	
1.05.15	To Bank A/c	1,00,000	5,000	1,02,000	1.11.15	By Bank A/c	1,20,000	6,000	1,14,600
30.11.15	To Bank A/c	80,000	5,000	76,800	1.11.15	By Profit & Loss A/c	-	-	11,400
31.12.15	To Profit &			20,000	31.12.15	By Bank A/c	80,000	6,000	1,04,000

31.03.16	Loss A/c To Profit & Loss A/c (Bal. fig.)		37,250		31.12.15	By Bank A/c	-	13,500	-
					31.12.15	By Bank A/c	-	6,750	-
					31.3.16	By Bal. c/d	1,80,000	-	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

Working Notes:

(i) Accrued Interest as on 1st April, 2015 = ₹ 2,00,000 x $\frac{15}{100} \times \frac{3}{12}$ = ₹ 7,500

(ii) Accrued Interest as on 1.5.2015 = ₹ 1,00,000 x $\frac{15}{100} \times \frac{4}{12}$ = ₹ 5,000

(iii) Cost of Investment for purchase on 1st May = ₹ 1,07,000 – ₹ 5,000 = ₹ 1,02,000

(iv) Interest received as on 30.6.2015 = ₹ 3,00,000 x $\frac{15}{100} \times \frac{6}{12}$ = ₹ 22,500

(v) Accrued Interest on debentures sold on 1.11.2015

$$= ₹ 1,20,000 \times \frac{15}{100} \times \frac{4}{12} = ₹ 6,000$$

(vi) Accrued Interest = ₹ 80,000 x $\frac{15}{100} \times \frac{5}{12}$ = ₹ 5,000

(vii) Accrued Interest on sold debentures 31.12.2015 = ₹ 80,000 x $\frac{15}{100} \times \frac{6}{12}$ = ₹ 6,000

(viii) Sale Price of Investment on 31st Dec. = ₹ 1,10,000 – ₹ 6,000 = ₹ 1,04,000

(ix) Loss on Sale of Debenture on 1.1.2015

Sale Price of debenture	1,14,600
Less: Cost Price of debenture	
2,10,000	
$\frac{2,10,000}{2,00,000} \times ₹ 1,20,000$	<u>1,26,000</u>
Loss on sale	11,400

(x) Accrued interest as on 31.12.2015 = ₹ 1,80,000 x $\frac{15}{100} \times \frac{6}{12}$ = ₹ 13,500

(xi) Accrued Interest = ₹ 1,80,000 x $\frac{15}{100} \times \frac{3}{12}$ = ₹ 6,750

(xii) Cost of investment as on 31st March = ₹ 1,02,000 + ₹ 76,800 = ₹ 1,78,800

(xiii) Profit on debentures sold on 31st December

$$= ₹ 1,04,000 - (₹ 2,10,000 \times 800 / 2,000) = ₹ 20,000$$

14. Memorandum Trading Account for the period 1st April, 2016 to 29th August 2016

		₹			₹	
To	Opening Stock		3,95,050	By	Sales	22,68,000
To	Purchases	16,55,350		By	Closing stock (Bal. fig.)	4,41,300
	Less: Advertisement	(20,500)				
	Drawings	(1,000)	16,33,850			
To	Gross Profit [30% of Sales] [W N]		6,80,400			
			<u>27,09,300</u>			<u>27,09,300</u>

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	4,41,300
Less: Salvaged Stock	(54,000)
Add: Fire Fighting Expenses	<u>2,350</u>
Insurance Claim	<u>3,89,650</u>

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2016

		₹			₹
To	Opening Stock	3,55,250	By	Sales	40,00,000
To	Purchases	28,39,800	By	Closing stock	3,95,050
To	Gross Profit	<u>12,00,000</u>			
		<u>43,95,050</u>			<u>43,95,050</u>

Rate of Gross Profit in 2015-16

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = \frac{12,00,000}{40,00,000} \times 100 = 30\%$$

15. Memorandum Revaluation Account

	₹		₹
To Stock	80,000	By Building	3,60,000
To Plant & machinery	2,40,000	By Investments	40,000
To Provision for doubtful debts	30,000		
To Unrecorded liability	20,000		
To Profit transferred to Partners' Capital A/cs (in old ratio)			
Kamal = 20,000			
Rani = <u>10,000</u>	<u>30,000</u>		
	<u>4,00,000</u>		<u>4,00,000</u>
To Building	3,60,000	By Stock	80,000
To Investments	40,000	By Plant & machinery	2,40,000
		By Provision for doubtful debts	30,000
		By Unrecorded liability	20,000
		By Loss transferred to Partners' Capital A/cs (in new ratio)	
		Kamal = 15,000	
		Rani = 7,500	
		Nisha = <u>7,500</u>	<u>30,000</u>
	<u>4,00,000</u>		<u>4,00,000</u>

Partners' Capital Accounts

	Kamal	Rani	Nisha		Kamal	Rani	Nisha
To Memorandum Revaluation	15,000	7,500	7,500	By Balance b/d	20,00,000	10,00,000	-
To Reserve Fund	9,00,000	4,50,000	4,50,000	By Reserve	12,00,000	6,00,000	-
To Kamal (W.N.3)	-	-	35,000	By Nisha (W.N.3)	35,000	17,500	-
To Rani (W.N.3)	-	-	17,500	By Memorandum Revaluation A/c	20,000	10,000	
To Balance c/d (Refer W.N.2)	<u>23,40,000</u>	<u>11,70,000</u>	<u>11,70,000</u>	By Cash (Bal. Fig.)			16,80,000
	<u>32,55,000</u>	<u>16,27,500</u>	<u>16,80,000</u>		<u>32,55,000</u>	<u>16,27,500</u>	<u>16,80,000</u>

Balance Sheet of newly reconstituted firm as on 31.12.2015

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Accounts		Plant & Machinery	24,00,000
Kamal	23,40,000	Building	18,00,000
Rani	11,70,000	Sundry Debtors	6,00,000
Nisha	11,70,000	Stock	8,00,000
Reserve Fund	18,00,000	Cash (2,00,000 + 16,80,000)	18,80,000
Sundry Creditors	8,00,000		
Bills Payable	<u>2,00,000</u>		
	<u>74,80,000</u>		<u>74,80,000</u>

Working Notes:

1. Calculation of new profit and loss sharing ratio

Nisha will get 1/4th share in the new profit sharing ratio.

Therefore, remaining share will be $1 - 1/4 = 3/4$

Share of Kamal will be $3/4 \times 2/3 = 2/4$ i.e. $1/2$

Share of Rani will be $3/4 \times 1/3 = 1/4$

New ratio will be

Kamal : Rani : Nisha

$1/2 : 1/4 : 1/4$

2 : 1 : 1

2. Calculation of closing capital of Nisha

Closing capitals of Kamal & Rani after all adjustments are:

Kamal = ₹ 23,40,000

Rani = ₹ 11,70,000

Since Rani's capital is less than Kamal's capital, therefore Rani's capital is taken as base.

Hence, Nisha's closing capital should be ₹ 11,70,000 ($46,80,000 \times 1/4$) i.e. at par with Rani (as per new profit and loss sharing ratio)

3. Adjustment entry for goodwill*

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect	
Kamal	1,40,000	1,05,000	+ 35,000	-
Rani	70,000	52,500	+ 17,500	-
Nisha	-	<u>52,500</u>	-	<u>52,500</u>
	<u>2,10,000</u>	<u>2,10,000</u>	<u>52,500</u>	<u>52,500</u>

Adjustment entry will be:

Nisha's Capital A/c	Dr.	52,500	
To Kamal's Capital A/c			35,000
To Rani's Capital A/c			17,500

16. Disadvantage of Pre-packaged Accounting Software:

1. Lesser Flexibility: Business today is becoming more and more complex. A standard package may not be able to take care of these complexities i.e. it does not cover peculiarities of specific business. Therefore, customization may not be possible in such softwares.
2. Covers only few functional areas and only main reports are covered: Many pre-packaged accounting softwares do not cover all functional areas. For example, production process may not be covered by most pre-packaged accounting softwares. The demands for modern day business may make the management desire for several other reports for exercising management control. These reports may not be available in a standard package.
3. Lack of security: Any person can view data of all companies with common access password. Levels of access control as we find in many customised accounting software packages are generally missing in a pre-packaged accounting package.
4. Bugs in the software: Certain bugs may remain in the software which takes long time to be rectified by the vendor and is common in the initial years of the software.

17. (a) AS-1 "Disclosures of Accounting Policies", states that the accounting treatment and presentation in Financial Statements of transactions should be governed by their substance and not merely by the legal form. The treatment in the given case would depend on the terms of the Works Contract and also the substance of the agreement.

* As per para 36 of AS 10, 'Accounting for fixed Assets,' goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, the goodwill raised at the time of admission of Nisha is to be written off in new ratio among all partners including new partner, Nisha.

Accordingly, there can be two possibilities in the instant case, viz.

Situation 1

The Company acts as the agent of the customer.

Disclosure should be made to this effect that the material purchased belongs to the customer.

Where ownership of goods vests with the customers and the company merely purchases goods on behalf of its customers, it acts in the capacity of an agent for execution of works under a works contract for which it receives full payment.

Hence, these purchases cannot be treated as the purchases of the Company and so, the debit to its P&L A/c is not correct

Situation 2

The Company is the owner of the materials purchased in substance and has the right, (though a restricted one) to use the materials, for all practical purposes.

If the terms of Works Contract provide for factor linked payment by customer and in substance the materials acquired by the Company belongs to the company only, irrespective of the legal form of ownership, the Company is justified in debiting its P&L A/c.

- (b) As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

18. (a)

Depreciation amount per annum	$\frac{₹ (1,90,000 - 10,000)}{12 \text{ years}}$	=	₹ 15,000
Present book value of the equipment after two years	$₹ 1,90,000 - (₹ 15,000 \times 2 \text{ years})$	=	₹ 1,60,000
Revised depreciable value after price adjustment	$₹ 1,60,000 + ₹ 15,000 - ₹ 10,000$	=	₹ 1,65,000
Revised depreciation amount per annum	$\frac{₹ 1,65,000}{10 \text{ years}}$	=	₹ 16,500

Increase in historical cost will be considered as revaluation of the book value of the asset. This revaluation of the book value of the asset is change in accounting estimate and hence depreciation on the same has been calculated prospectively.

(b) As per para 7 of AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
- (c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a "single contract" even if there is one document of contract.

Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS -7.

19. (a) As illustrated in AS 9 'Revenue Recognition', revenue received or billed should be deferred and recognised either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription. Accordingly, in the given case the accounting treating adopted by Khetan Ltd. to treat the entire amount as revenue for the current year is not in accordance with AS 9. The revenue should be recognized on a straight line basis over the period of 3 years.

(b) Computation of value of land acquired

<i>Particulars</i>	<i>₹ in lakhs</i>
Purchase price @ ₹ 70,000 per acre for 7,500 acres	5,250.00
Stamp duty & registration charges @ 5%	262.5
Legal fees	5.00
Title guarantee insurance	2.00
Demolition expenses	50.00
Less: Sale of salvaged materials (net of tax) (43,57,500 x 100/105)	<u>(41.5)</u>
Value of land	<u>5,528</u>

20. (a) 1. As per AS 13 "Accounting for Investments", current investments should be carried at cost or fair value, whichever is lower. Here, the current Investment should be carried at fair value of ₹ 48 Lakhs, being the lower of ₹ 60 Lakhs

(cost) or ₹ 48 Lakhs (fair value). The difference of ₹ 12 Lakhs should be charged to profit and loss account.

2. Current investment should be carried at cost or fair value, whichever is lower. In the given case, the current investments should be carried at cost of ₹ 86 Lakhs, being the lower of ₹ 86 Lakhs (cost) or ₹ 90 Lakhs (fair value).

(b) (i) When amalgamation is in the nature of merger

Balance in Profit and Loss Account of the transferor company is

(a) Aggregated with the corresponding balance appearing in financial statements of the transferee company; Or

(b) Transferred to the general reserve, if any.

(ii) When amalgamation is in the nature of purchase

Balance in profit and loss account of the transferor company, whether debit or credit, loses its identity.