PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2015 EXAMINATION

A. Applicable for November, 2015 examination

(i) Companies Act, 2013

The relevant Sections of the Companies Act, 2013 notified up to 31st March, 2015 will be applicable for Nov., 2015 Examination.

(ii) Dividend Distribution Tax

(a) With effect from 1st Oct, 2014 dividend and income distribution tax is leviable on gross dividend / income and not on the net dividend / income distributed to shareholders and unit holders as per Income- tax Act, 1961.

(b) The rate of DDT is fifteen per cent (excluding surcharge of 12% plus secondary and higher education cess is (2+1) 3%).

B. Ind ASs issued by the Ministry of Corporate Affairs are not applicable for November, 2015 examination

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Financial Statements of Companies

1. From the following particulars furnished by Alpha Ltd., prepare the Balance Sheet as on 31st March 2015 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		*Debit ₹*	*Credit ₹*
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Call in Arrears		5,000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,50,000		
Finished Goods	10,00,000	12,50,000	
Provision for Taxation			6,40,000

Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			8,00,000
Loans & advances from related parties			2,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but not Due. The loan is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) The following appropriations have been proposed by the Board of directors out of profits for the year:

(a) Transfer ₹ 20,000 to general reserve

(b) Declared dividend of 5% on the paid up capital.

Cash Flow Statements

2. J Ltd. presents you the following information for the year ended 31st March, 2015:

		(₹ in lacs)
(i)	Net profit before tax provision	36,000
(ii)	Dividend paid	10,202
(iii)	Income-tax paid	5,100
(iv)	Book value of assets sold	222
	Loss on sale of asset	48
(v)	Depreciation debited to P & L account	24,000
(vi)	Capital grant received - amortized to P & L A/c	10

(vii)	Book value of investment sold	33,318
	Profit on sale of investment	120
(viii)	Interest income from investment credited to P & L A/c	3,000
(ix)	Interest expenditure debited to P & L A/c	12,000
(x)	Interest actually paid (Financing activity)	13,042
(xi)	Increase in working capital [Excluding cash and bank balance]	67,290
(xii)	Purchase of fixed assets	22,092
(xiii)	Expenditure on construction work	41,688
(xiv)	Grant received for capital projects	18
(xv)	Long term borrowings from banks	55,866
(xvi)	Provision for Income-tax debited to P & L A/c	6,000
	Cash and bank balance on 1.4.2014	6,000
	Cash and bank balance on 31.3.2015	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

Profit or Loss Pre and Post Incorporation

3. The partnership of Surya Agencies decided to convert the partnership into Private Limited Company named Sohna Company Pvt. Ltd. with effect from 1st January, 2014. The consideration was agreed at ₹ 2,34,00,000 based on firm's Balance Sheet as on 31st December, 2013. However, due to some procedural difficulties, the company could be incorporated only on 1st April, 2014. Meanwhile, the business was continued on behalf of the company and the consideration was settled on that day with interest at 12% p.a. The same books of accounts were continued by the company, which closed its accounts for the first time on 31st March, 2015 and prepared the following summarized Profit and Loss account:

		₹		₹
To	Cost of goods sold	3,27,60,000	By Sales	4,68,00,000
To	Salaries	23,40,000		
To	Depreciation	3,60,000		
To	Advertisement	14,04,000		
To	Discount	23,40,000		
To	Managing Director's remuneration	1,80,000		
To	Miscellaneous office expenses	2,40,000		
To	Office cum showroom rent	14,40,000		

To	Interest	19,02,000		
To	Profit	38,34,000		
		4,68,00,000		4,68,00,000

The company's only borrowing was a loan of ₹ 1,00,00,000 at 12% p.a. to pay the purchase consideration due to the firm and for working capital requirements. The company was able to double the monthly average sales of the firm from 1st April, 2014, but the salaries trebled from the date. It had to occupy additional space from 1st July, 2014 for which rent was ₹ 60,000 per month.

Prepare a statement showing apportionment of costs and revenue between pre-incorporation and post-incorporation periods.

Accounting for Bonus Issue

4. Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2015:

Particulars	*Amount*
4,500 Equity Shares of ₹100 each	4,50,000
Capital Reserve (including ₹40,000 being profit on sale of Plant)	1,00,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	45,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

Internal Reconstruction of a Company

5. The following is the summarized Balance Sheet of Rocky Ltd. as at March 31, 2015:

	₹ in lacs
Liabilities	
Fully paid equity shares of ₹ 10 each	500
Capital Reserve	6
12% Debentures	400
Debenture Interest Outstanding	48
Trade payables	165
Directors' Remuneration Outstanding	10
Other Outstanding Expenses	11

Provisions	33
	1,173
Assets	
Goodwill	15
Land and Building	184
Plant and Machinery	286
Furniture and Fixtures	41
Inventory	142
Trade receivables	80
Cash at Bank	27
Discount on Issue of Debentures	8
Profits and Loss Account	390
	1,173

The following scheme of internal reconstruction was framed, approved by the Tribunal, all the concerned parties and implemented:

(i) All the equity shares be converted into the same number of fully-paid equity shares of ₹ 2.50 each.

(ii) Directors agree to forego their outstanding remuneration.

(iii) The debentureholders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.

(iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of ₹ 2.50 each for ₹ 125 lacs.

(v) Trade payables are given the option of either to accept fully-paid equity shares of ₹ 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Trade payables for ₹ 65 lacs accept equity shares whereas those for ₹ 100 lacs accept ₹ 80 lacs in cash in full settlement.

(vi) The Assets are revalued as under:

	₹ in lacs
Land and building	230
Plant and Machinery	220
Inventory	120
Trade receivables	76

Pass Journal Entries for all the above mentioned transactions and draft the company's Balance Sheet immediately after the reconstruction.

Amalgamation of Companies

6. The summarized Balance Sheet of M/s. A Ltd. and M/s B Ltd. as on 31.03.2015 were is as under:

Liabilities	*A Ltd.* ₹	*B Ltd.* ₹	*Assets*	*A Ltd.* ₹	*B Ltd.* ₹
Share Capital:			Freehold Property	3,00,000	2,40,000
40,000 Equity Share			Plant & Machinery	60,000	40,000
of ₹ 10 each, Fully paid	4,00,000	-	Motor Vehicle Trade	30,000	20,000
30,000 Equity Shares			Receivables	2,00,000	80,000
of ₹ 10 each, Fully paid	-	3,00,000	Inventory	2,30,000	1,80,000
General Reserve	2,40,000	-	Cash at Bank	80,000	40,000
Profit & Loss Account	50,000	50,000			
Trade Payables	2,10,000	1,30,000			
6% Debentures (₹100)	-	1,20,000			
	9,00,000	6,00,000		9,00,000	6,00,000

M/s. A Ltd. and M/s. B Ltd. carry on business of similar nature and they agreed to amalgamate. A new Company, M/s. AB Ltd. is formed to take over the Assets and Liabilities of M/s. A Ltd. and M/s. B Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

(a) Goodwill of M/s. A Ltd. and M/s. B Ltd. is to be valued at ₹ 1,40,000 and ₹ 40,000 respectively.

(b) Plant & Machinery of M/s. A Ltd. are to be valued at ₹ 1,00,000.

(c) The Debentures of M/s. B Ltd. are to be discharged at premium of 5% by the issue of 10% Debentures of M/s. AB Ltd. at par (₹ 100 each).

You are required to:

(i) Compute the basis on which shares in M/s. AB Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of M/s. AB Ltd. is ₹ 10.

(ii) Draw up a Balance Sheet of M/s. AB Ltd. as on 1st April, 2015, when Amalgamation is completed.

(iii) Pass Journal entries in the Books of M/s. AB Ltd. for acquisition of M/s. A Ltd. and M/s. B Ltd.

Average Due Date

7. Harish has the following bills due on different dates. It was agreed to settle the total amount due by a single cheque payment. Find the date of the cheque.

   (i) ₹ 5,000 due on 5.3.2015

   (ii) ₹ 7,500 due on 7.4.2015

   (iii) ₹ 6,000 due on 17.7.2015

   (iv) ₹ 8,000 due on 14.9.2015

Account Current

8. From the following particulars prepare a account current, as sent by Mr. Ram to Mr. Laxman as on 31st October 2014 by means of product method charging interest @ 5% p.a.

2014	*Particulars*	*₹*
1st July	Balance due from Siva	750
15th August	Sold goods to Siva	1,250
20th August	Goods returned by Siva	200
22nd Sep	Siva paid by cheque	800
15th Oct	Received cash from Siva	500

Self – Balancing Ledgers

9. From the following prepare General Ledger Adjustment account in Sales 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 Organizations

10. Following is the Receipts and Payments Account of Mayur Club (not registered under Companies Act, 2013) for the year ended 31st March, 2015:

Receipts	₹	*Payments*	₹
Opening balance (1.4.2014)		Payments:	
Cash on hand	39,100	Sports materials	3,04,500
Cash at bank	50,000	Salaries	3,15,000
Receipts:		Equipment purchased on 1.10.2014	60,000
Subscriptions		Bank fixed deposits on 31.3.2015	1,50,000
For the year 2013-14	18,000	Rent	1,48,500
For the year 2014-15	9,63,000	Ground maintenance	22,120
For the year 2015-16	4,500	Insurance	38,400
Interest on bank		Stationery	3,450
Fixed deposits @10%	45,000	Sundry expenses	5,880
		Closing balance as on 31.3.2015	
		Cash on hand	31,750
		Cash at bank	40,000
	11,19,600		11,19,600

Following additional information is provided to you:

(i) The club has 220 members. The annual subscription is ₹ 4,500 per member.

(ii) Depreciation to be provided on furniture at 10% p.a. and on sports equipment at 15% p.a.

(iii) On 31st March, 2015, stock of sports material in hand (after members use during the year) is valued at ₹ 78,000 and stock of stationery at ₹ 3,150. Rent for 1 month is outstanding. Unexpired insurance amounts to ₹ 9,600.

(iv) On 31st March, 2014 the club had the following assets:

Furniture	₹	2,70,000
Sports equipment	₹	1,80,000
Bank fixed deposit	₹	4,50,000
Stock of stationery	₹	1,500

Stock of sports material	₹	73,500
Unexpired insurance	₹	8,400
Subscription in arrear	₹	22,500

Note: There was no liability on 31.3.2014.

You are required to prepare:

(i) Income and Expenditure Account; and

(ii) Balance Sheet as at 31st March, 2015.

Accounts from Incomplete Records

11. Following are the incomplete information of Moonlight Traders:

The following balances are available as on 31.03.2013 and 31.03.2014.

Balances	*31.03.2013*	*31.03.2014*
Land and Building	5,00,000	5,00,000
Plant and Machinery	2,20,000	3,30,000
Office equipment	1,05,000	85,000
Debtors (before charging for Bad debts)	?	2,25,000
Creditors for purchases	95,000	?
Creditors for office expenses	20,000	15,000
Stock	?	65,000
Long term loan from SBI @ 12%.	1,60,000	100,000
Bank	25,000	?

Other Information	In ₹
Collection from debtors	9,25,000
Payment to creditors for purchases	5,25,000
Payment of office expenses (excluding interest on loan)	42,000
Salary paid	32,000
Selling expenses	15,000
Cash sales	2,50,000
Credit sales (80% of total sales)	
Credit purchases	5,40,000
Cash purchases (40% of total purchases)	
GP Margin at cost plus 25%	

Discount Allowed	5,500
Discount Received	4,500
Bad debts (2% of closing debtors)	
Depreciation to be provided as follows:	
Land and Building	5%
Plant and Machinery	10%
Office Equipment	15%

Other adjustments:

(i) On 01.10.13 they sold machine having Book Value ₹ 40,000 (as on 31.03.2013) at a loss of ₹ 15,000. New machine was purchased on 01.01.2014.

(ii) Office equipment was sold at its book value on 01.04.2013.

(iii) Loan was partly repaid on 31.03.14 together with interest for the year.

Prepare Trading, P & L A/c and Balance Sheet as on 31.03.2014.

Hire -Purchase

12. A firm acquired two tractors under hire purchase agreements, details of which were as follows:

Date of Purchase	*Tractor A* *1st April, 2013* *(₹)*	*Tractor B* *1st Oct., 2013* *(₹)*
Cash price	14,000	19,000

Both agreements provided for payment to be made in twenty-four monthly instalments (of ₹ 600 each for Tractor A and ₹ 800 each for Tractor B), commencing on the last day of the month following purchase, all instalments being paid on due dates.

On 30th June, 2014, Tractor B was completely destroyed by fire. In full settlement, on 10th July, 2014 an insurance company paid ₹ 15,000 under a comprehensive policy. Any balance on the hire purchase company's account in respect of these transactions was to be written off.

The firm prepared accounts annually to 31st December and provided depreciation on tractors on a straight-line basis at a rate of 20 per cent per annum rounded off to nearest ten rupees, apportioned as from the date of purchase and up to the date of disposal.

You are required to record these transactions in the following accounts, carrying down the balances on 31st December, 2013 and 31st December, 2014:

(a) Tractors on hire purchase.

(b) Provision for depreciation of tractors.

(c) Disposal of tractors.

Investment Accounts

13. Smart Investments made the following investments in the year 2013-14:

12% State Government Bonds having face value ₹ 100

Date	*Particulars*
01.04.2013	Opening Balance (1200 bonds) book value of ₹ 126,000
02.05.2013	Purchased 2,000 bonds @ ₹ 100 cum interest
30.09.2013	Sold 1,500 bonds at ₹ 105 ex interest

Interest on the bonds is received on 30th June and 31st Dec. each year.

Equity Shares of X Ltd.	
15.04.2013	Purchased 5,000 equity shares @ ₹ 200 on cum right basis Brokerage of 1% was paid in addition (Face Value of shares ₹ 10)
03.06.2013	The company announced a bonus issue of 2 shares for every 5 shares held.
16.08.2013	The company made a rights issue of 1 share for every 7 shares held at ₹ 250 per share. The entire money was payable by 31.08.2013.
22.8.2013	Rights to the extent of 20% was sold @ ₹ 60. The remaining rights were subscribed.
02.09.2013	Dividend @ 15% for the year ended 31.03.2013 was received on 16.09.2013
15.12.2013	Sold 3,000 shares @ ₹ 300. Brokerage of 1% was incurred extra.
15.01.2014	Received interim dividend @ 10% for the year 2013-14
31.03.2014	The shares were quoted in the stock exchange @ ₹ 220

Prepare Investment Accounts in the books of Smart Investments. Assume that the average cost method is followed.

Insurance Claim

14. On 2.6.2014 the stock of Mr. Black was destroyed by fire. However, following particulars were furnished from the records saved:

	₹
Stock at cost on 1.4.2013	1,35,000
Stock at 90% of cost on 31.3.2014	1,62,000
Purchases for the year ended 31.3.2014	6,45,000
Sales for the year ended 31.3.2007	9,00,000
Purchases from 1.4.2014 to 2.6.2014	2,25,000
Sales from 1.4.2014 to 2.6.2014	4,80,000

Sales upto 2.6.2014 includes ₹ 75,000 being the goods not dispatched to the customers. The sales invoice price is ₹ 75,000.

Purchases upto 2.6.2014 includes a machinery acquired for ₹ 15,000.

Purchases upto 2.6.2014 does not include goods worth ₹ 30,000 received from suppliers, as invoice not received upto the date of fire. These goods have remained in the godown at the time of fire. The insurance policy is for ₹ 1,20,000 and it is subject to average clause. Ascertain the amount of claim for loss of stock.

Partnership - Admission of a Partner

15. Anuj, Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3 .2014 is as follows:

Liabilities	₹	₹	*Assets*	₹
Capital accounts:			Fixed assets:	
Anuj	3,75,000		Plant	7,87,000
Ayush	2,80,000		Current assets:	
Piyush	2,25,000	8,80,000	Stock	1,03,000
General Reserve		1,88,000	Debtors	1,56,000
Creditors		2,16,000	Bank FD	2,25,000
			Bank balance	13,000
		12,84,000		12,84,000

Anuj decided to retire with effect from 1.4.2014.

The remaining partners agreed to share profits and losses equally in future.

The following adjustments were agreed to be made upon retirement of Anuj.

(i) Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.

The average profits of the past 3 years were as follows:

Year ended	₹	
31.3.2014	3,30,000	(as per draft accounts)
31.3.2013	2,32,000	
31.3.2012	2,20,900	

The partners decided not to raise goodwill account in the books.

(ii) The assets were revalued as follows:

Plant to be depreciated by 10%

Creditors amounting to ₹ 10,000 were omitted to be recorded;

₹ 6,000 is to be written off from stock;

Provision for doubtful debts to be created @ 5% of the debtors;

Interest accrued on FD amounting to ₹ 9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3.2014 before calculation of goodwill.

(iii) Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a loan, carrying interest of 8% p.a.

(iv) Ayush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of ₹ 1,50,000.

You are required to prepare

(I) Capital accounts of partners as on 1.4.2014 giving effect to the above adjustments.

(2) Balance Sheet as on 1.4.2014 after Anuj's retirement.

Accounting in Computerized Environment

16. What are the advantages of customized accounting packages?

Applicability of Accounting Standards

17 M/s Omega & Co. (a partnership firm), had a turnover of ₹ 1.25 crores (excluding other income) and borrowings of ₹ 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2013. Advise the management of M/s Omega & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI.

AS 1 "Disclosure of Accounting Policies

18. (a) Jagannath Ltd. had made a rights issue of shares in 2014. In the offer document to its members, it had projected a surplus of ₹ 40 crores during the accounting year to end on 31st March, 2015. The draft results for the year, prepared on the hitherto

followed accounting policies and presented for perusal of the board of directors showed a deficit of ₹ 10 crores. The board in consultation with the managing director, decided on the following:

(i) Value year-end inventory at works cost (₹ 50 crores) instead of the hitherto method of valuation of inventory at prime cost (₹ 30 crores).

(ii) Provide depreciation for the year on straight line basis on account of substantial additions in gross block during the year, instead of on the reducing balance method, which was hitherto adopted. As a consequence, the charge for depreciation at ₹ 27 crores is lower than the amount of ₹ 45 crores which would have been provided had the old method been followed, by ₹ 18 cores.

(iii) Provide for permanent fall in the value of investments - which fall had taken place over the past five years - the provision being ₹ 10 crores.

As chief accountant of the company, you are asked by the managing director to draft the notes on accounts for inclusion in the annual report for 2014-2015.

AS 2 "Valuation of Inventories"

(b) CC Ltd., a Pharmaceutical Company, while valuing its finished stock at the year end wants to include interest on Bank Overdraft as an element of cost, for the reason that overdraft has been taken specifically for the purpose of financing current assets like inventory and for meeting day to day working expenses". State your comments on this treatment.

AS 6 "Depreciation Accounting"

19. (a) ABC Ltd. Purchased machine on 1-4-2011 for ₹ 2,00,000. The company charged depreciation at 10% on reducing balance method upto 2013-14. From 2014-15, the company decided to change depreciation method on straight line basis with estimated working life of 10 years and scrap value of ₹ 50,000. Compute the amount of depreciation to the charged to Profit and Loss Account for the year 2014-15.

AS 7 "Construction Contracts

(b) A contractor entered into a contract for building roads for ₹ 2 crores. After completing 60% of the contract he came to know that the cost of completing the contract would be ₹ 2.40 crores. The accountant transferred ₹ 0.24 crores i.e., 60% of total loss of ₹ 0.40 crores to Profit and Loss account in the current year. You are required to give your opinion in line with AS 7.

AS-10 "Fixed assets"

20. (a) Fire Ltd. purchased equipment for its power plant from Urja Ltd. during the year 2013-14 at a cost of ₹ 100 lacs. Fire Ltd. they paid only 90% and balance 10% was to be paid after one year on satisfactory performance of the equipment. During the

Financial year 2014-15, Urja Ltd. waived off the balance 10% amount which was credited to Profit and Loss account by Fire Ltd. as discount received. Is this accounting treatment correct? State in line with Accounting Standards.

AS 13 "Accounting for Investment"

(b) M/s. Naren Garments Company Limited invested in the shares of another company on 1st November, 2014 at a cost of ₹ 3,00,000. It also earlier purchased Gold of ₹ 3,50,000 and Silver of ₹1,50,000 on 1st April, 2014. Market value as on 31st March, 2015 of the above investments is as follows:

	₹
Shares	2,50,000
Gold	5,00,000
Silver	2,80,000

How the above investments will be shown in the books of accounts of M/s Naren Garments Company Limited for the year ending 31st March, 2015 as per the provisions of AS-13 Accounting for Investments"?

SUGGESTED ANSWERS / HINTS

1. **Alpha Ltd.**

Balance Sheet as on 31st March, 2015

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	49,95,000
	b	Reserves and Surplus	2	11,82,907
2		**Non-current liabilities**		
		Long-term borrowings	3	13,17,500
3		**Current liabilities**		
	a	Trade Payables		8,00,000
	b	Other current liabilities	4	37,500
	c	Short-term provisions	5	9,40,593
	d	Short-term borrowings		2,00,000
		Total		94,73,500

		Assets		
1		Non-current assets		
		Fixed assets		
		Tangible assets	6	56,25,000
2		Current assets		
	a	Inventories	7	12,50,000
	b	Trade receivables	8	10,00,000
	c	Cash and cash equivalents	9	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		94,73,500

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of ₹ 100 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	50,00,000	
	Less: Calls in arrears	(5,000)	49,95,000
	Total		49,95,000
2	Reserves and Surplus		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
	Proposed Dividend (Refer W N)	(2,49,750)	
	DDT on Proposed dividend (Refer W N)	(50,843)	1,12,907
	Total		11,82,907
3	Long-term borrowings		
	Secured Term Loan		

	State Financial Corporation Loan (7,50,000-37,500) (Secured by hypothecation of Plant and Machinery)		7,12,500
	Unsecured Loan		6,05,000
	Total		13,17,500
4	**Other current liabilities**		
	Interest accrued but not due on loans (SFC)		37,500
5	**Short-term provisions**		
	Provision for taxation	6,40,000	
	Proposed Dividend (Refer W N)	2,49,750	
	DDT on Proposed dividend (Refer W N)	50,843	9,40,593
6	**Tangible assets**		
	Land and Building	30,00,000	
	Less: Depreciation	(2,50,000)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500)	2,50,000
	Total		56,25,000
7	**Inventories**		
	Raw Materials		2,50,000
	Finished goods		10,00,000
	Total		12,50,000
8	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		10,00,000
9	**Cash and cash equivalents**		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Total		13,85,000

Working Note:

Calculation of grossing-up of dividend

Particulars	₹
Dividend distributed by Alpha Ltd. (5% of 49,95,000)	2,49,750
Add: Increase for the purpose of grossing up of dividend $\left[\frac{15}{100-15}\times 2,49,750\right]$	44,074
Gross dividend	2,93,824
Dividend distribution tax @ 17.304%	50,843

2. Cash Flow Statement as per AS 3

Cash flows from operating activities:		*₹ in lacs*
Net profit before tax provision		36,000
Add: Non cash expenditures:		
Depreciation	24,000	
Loss on sale of assets	48	
Interest expenditure (non operating activity)	12,000	36,048
		72,048
Less: Non cash income		
Amortisation of capital grant received	(10)	
Profit on sale of investments (non operating income)	(120)	
Interest income from investments (non operating income)	(3,000)	3,130
Operating profit		68,918
Less: Increase in working capital		(67,290)
Cash from operations		1,628
Less: Income tax paid		(5,100)
Net cash generated from operating activities		(3,472)
Cash flows from investing activities:		
Sale of assets (222 – 48)	174	
Sale of investments (33,318+120)	33,438	
Interest income from investments	3,000	
Purchase of fixed assets	(22,092)	

Expenditure on construction work	(41,688)	
Net cash used in investing activities		(27,168)
Cash flows from financing activities:		
Grants for capital projects	18	
Long term borrowings	55,866	
Interest paid	(13,042)	
Dividend paid	(10,202)	
Net cash from financing activities		32,640
Net increase in cash		2,000
Add: Cash and bank balance as on 1.4.2014		6,000
Cash and bank balance as on 31.3.2015		8,000

3 Statement showing calculation of profits for pre and post incorporation periods

for the year ended 31.3.15 (15 Months)

	Total (₹)	*Ratio*	*Pre* (₹)	*Post* (₹)
Gross profit	1,40,40,000	1:8	15,60,000	1,24,80,000
Less: Salaries	23,40,000	1:12	1,80,000	21,60,000
Depreciation	3,60,000	1:4	72,000	2,88,000
Advertisement	14,04,000	1:8	1,56,000	12,48,000
Discount	23,40,000	1:8	2,60,000	20,80,000
Managing director's remuneration	1,80,000	Post	-	1,80,000
Office cum showroom rent	14,40,000	Actual	1,80,000	12,60,000
Miscellaneous office expenses	2,40,000	1:4	48,000	1,92,000
Interest	19,02,000	Actual	7,02,000	12,00,000
Goodwill (bal. fig.)			38,000	--
Net profit (B.f.)			--	38,72,000

Note: Since the profits prior to incorporation are in the negative, they would be treated as goodwill.

Working Notes:

(1)	Calculation of Time Ratio	
	Pre-Incorporation Period	Post-Incorporation Period
	1st January, 2014 to 31st March, 2014	1st April, 2014 to 31st March, 2015

	(3 Months)	(12 Months)
	3:	12
	1:	4
(2)	**Calculation of Sales Ratio**	
	Pre-Incorporation Period	Post-Incorporation Period
	3 Months	12 Months
	3 x 1	12 x 2
	3:	24
	1:	8
(3)	**Calculation of Staff Salary Ratio**	
	Pre-Incorporation Period	Post-Incorporation Period
	3 Months	12 Months
	3 x 1	12 x 3
	3:	36
	1:	12
(4)	**Calculation of Interest**	
	Pre-Incorporation Period	Post-Incorporation Period
	2,34,00,000 x 3/12 x 12/100	1,00,00,000 x 12/100
	= ₹ 7,02,000	= ₹ 12,00,000

(5) **Calculation of Rent**

Rent on additional space

1 July 2014 to 31st March, 2015	=	9 Months		
Total additional rent	=	60,000 x 9 = ₹ 5,40,000		
Remaining rent on earlier space	=	14,40,000 – 5,40,000 = ₹ 9,00,000		
Rent per month	=	$\frac{9,00,000}{15}$	=	₹ 60,000 per month
Pre-Incorporation Period rent	=	60,000 x 3	=	1,80,000
Post-Incorporation Period rent	=	60,000 x 12	=	7,20,000
Additional rent			=	5,40,000
				12,60,000

(6) Calculation of Gross Profit

Trading Account

	₹		₹
To Cost of goods sold	3,27,60,000	By Sales	4,68,00,000
To Gross profit (Bal. fig.)	1,40,40,000		
	4,68,00,000		4,68,00,000

Note:

1. Pre incorporation period is 3 months upto 31st March 2014 and post incorporation period is of 12 months
2. As advertisement cost and discounts are directly related to sales, it is proper to assume that they would be incurred in the same ratio of time as Sales. Hence, 1 : 8
3 Since Managing Director is a position which is appointed in a company, it is proper to consider that his pay is incurred during the post incorporation period.
4. Interest on money borrowed to pay the purchase consideration is a post incorporation cost whereas the interest on purchase consideration for 3 months till payment will be pre incorporation cost.

4. Journal Entries in the books of Saral Ltd.

Capital Redemption Reserve A/c	Dr.	30,000	
Securities Premium A/c	Dr.	40,000	
Capital Reserve (Realized in cash*)	Dr	40,000	
General Reserve A/c	Dr.	40,000	
To Bonus to Shareholders			1,50,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	1,50,000	
To Equity Share Capital			1,50,000
(Being capitalization of Profit)			

* Capital reserve amounting ₹ 40,000 realised in cash can only be used for bonus issue.

5. Journal Entries

			₹ *in lacs*
		Dr.	*Cr.*
Equity Share Capital (₹ 10 each) A/c	Dr.	500	
To Equity Share Capital (₹ 2.50 each) A/c			125
To Capital Reduction A/c			375
(Conversion of all the equity shares into the same number of fully paid equity shares of ₹ 2.50 each as per scheme of Reconstruction)			
Director's Remuneration Outstanding A/c	Dr.	10	
To Capital Reduction A/c			10
(Outstanding remuneration foregone by the directors as per scheme of Reconstruction)			
12% Debentures A/c	Dr.	400	
Debenture Interest Outstanding A/c	Dr.	48	
To 13% Debentures A/c			400
To Capital Reduction A/c			48
(Conversion of 12% debentures into 13% debentures, Debenture holders forgoing outstanding debenture interest)			
Bank A/c	Dr.	125	
To Equity Share Application A/c			125
(Application money received for fully paid equity shares of ₹ 2.5 each from existing shareholders)			
Equity Share Application A/c	Dr.	125	
To Equity Share Capital (₹ 2.50 each) A/c			125
(Application money transferred to share capital)			
Trade payables A/c	Dr.	165	
To Equity Share Capital (₹ 2.50 each) A/c			65
To Bank A/c			80
To Capital Reduction A/c			20
(Trade payables for ₹ 65 lakhs accepting shares for full amount and those for ₹ 100 lakhs accepting cash equal to 80% of claim in full settlement)			

Land and Building A/c	Dr.	46	
To Capital Reduction A/c			46
(Appreciation made in the value of land and building as per scheme of reconstruction)			
Capital Reduction A/c	Dr.	505	
To Goodwill A/c			15
To Plant and Machinery A/c			66
To Inventory A/c			22
To Trade receivables A/c			4
To Discount on issue of Debentures A/c			8
To Profit and Loss A/c			390
(Writing off losses and reduction in the values of assets as per scheme of reconstruction—W.N. 1)			
Capital Reserve A/c	Dr.	6	
To Capital Reduction A/c			6
(Being the loss on reconstruction (balance in the Capital Reduction A/c) transferred to Capital Reserve)			

Note: In a scheme of Capital Reduction, Goodwill, Losses etc should be written off against the Capital Reduction Account whether or not it is mentioned in the question.

Balance Sheet of Rocky Ltd. (and Reduced) as on 31st March, 2015

Particulars	*Note No.*	*Amount*
		₹ in lacs
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	315
(2) Non-Current Liabilities		
(a) Long-term borrowings - 13% Debentures		400
(3) Current Liabilities		
(a) Other current liabilities		11
(b) Short-term provisions		33
Total		759

II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	2	491
(ii) Intangible assets	3	0
(2) Current assets		
(a) Current investments		
(b) Inventories		120
(c) Trade receivables		76
(d) Cash and cash equivalents(W.N.2)		72
Total		759

Notes to Accounts

			₹ in lacs
1	Share Capital		
	Equity Share Capital (₹2.50 each)	125	
	Add: Fresh issue	125	
	Add: Equity shares issued to trade payables	65	
	1,26,000 Fully paid equity shares of ₹ 2.50 each		315
	(26,000 shares have been issued for consideration other than cash)		
2	Tangible assets		
	(a) Land and Building	184	
	Add: Amount of appreciation under scheme of reconstruction	46	230
	(b) Plant and Machinery	286	
	Less: Amount written off under scheme of reconstruction dated.	(66)	220
	(c) Furniture and Fixtures		41
			491
3	Intangible assets		
	Goodwill	15	
	Less: Amount written off under scheme of reconstruction	15	-

Working Notes:

1. Capital Reduction Account (₹ in lacs)

		₹			₹
To	Goodwill	15	By	Equity Share Capital A/c	375
To	Plant and Machinery	66	By	Director's Remuneration Outstanding A/c	10
To	Inventory	22	By	Debenture Interest Outstanding A/c	48
To	Trade receivables	4	By	Trade payables	20
To	Discount on issue of		By	Capital Reserve (Balancing Figure)	6
	Debentures	8	By	Land and Building	46
To	Profit and Loss A/c	390			
		505			505

2. Cash at bank as on 31st March, 2015 (after reconstruction)

	₹ in lacs
Cash at bank (before reconstruction)	27
Add: Proceeds from issue of equity shares	125
	152
Less: Payment made to trade payables (80% of ₹ 100 Lakhs)	(80)
	72

6. (i) Calculation of Purchase consideration (or basis for issue of shares of AB Ltd.)

	A Ltd.	*BLtd.*
Purchase Consideration:	₹	₹
Goodwill	1,40,000	40,000
Freehold property	3,00,000	2,40,000
Plant and Machinery	1,00,000	40,000
Motor vehicles	30,000	20,000
Inventory	2,30,000	1,80,000
Trade receivables	2,00,000	80,000
Cash at Bank	80,000	40,000
	10,80,000	6,40,000
Less: Liabilities:		
6% Debentures (1,20,000 x 105%)	-	(1,26,000)

Trade payables	(2,10,000)	(1,30,000)
Net Assets taken over	8,70,000	3,84,000
To be satisfied by issue of shares of AB Ltd. @ ₹10 each	87,000	38,400

(ii) Balance Sheet AB Ltd. as at 1st April, 2015

		Particulars	Note No	Amount
				₹
		EQUITY AND LIABILITIES		
1		Shareholders' funds		
	(a)	Share capital	1	12,54,000
2		Non-current liabilities		
	(a)	Long-term borrowings	2	1,26,000
3		Current liabilities		
	(a)	Trade payables (2,10,000+1,30,000)		3,40,000
		Total		17,20,000
		ASSETS		
1		Non-current assets		
	(a)	Fixed assets		
	i	Tangible assets	3	7,30,000
	ii	Intangible assets	4	1,80,000
2		Current assets		
	(a)	Inventories (2,30,000+1,80,000)		4,10,000
	(b)	Trade receivables (2,00,000+80,000)		2,80,000
	(c)	Cash and cash equivalents (80,000+40,000)		1,20,000
		Total		17,20,000

Notes to accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	1,25,400 shares of ₹10 each	12,54,000	

	(All the above shares are issued for consideration other than cash)		
2.	**Long-term borrowings**		
	Secured		
	10% Debentures	1,26,000	
3.	**Tangible assets**		
	Freehold property		
	A Ltd.	3,00,000	
	B Ltd.	2,40,000	5,40,000
	Plant and Machinery		
	A Ltd.	1,00,000	
	B Ltd.	40,000	1,40,000
	Motor vehicles A Ltd.		
	A Ltd.	30,000	
	B Ltd.	20,000	50,000
			7,30,000
4.	**Intangible assets**		
	Goodwill		
	A Ltd.	1,40,000	
	B Ltd.	40,000	1,80,000

(iii) Journal Entries

In the books of AB Ltd.

Particulars		*Amount* (₹)	*Amount*(₹)
Business purchase account	Dr.	12,54,000	
To Liquidator of A Ltd. account			8,70,000
To Liquidator of B Ltd. account			3,84,000
(Being the amount of purchase consideration payable to liquidator of A Ltd. and B Ltd. for assets taken over)			
Goodwill	Dr.	1,40,000	
Freehold property	Dr.	3,00,000	
Plant and Machinery	Dr.	1,00,000	

Motor vehicles	Dr.	30,000	
Trade receivables	Dr.	2,00,000	
Inventory	Dr.	2,30,000	
Cash at Bank	Dr.	80,000	
To Trade payables			2,10,000
To Business purchase account			8,70,000
(Being assets and liabilities of A Ltd. taken over)			
Goodwill	Dr.	40,000	
Freehold property	Dr.	2,40,000	
Plant and Machinery	Dr.	40,000	
Motor vehicles	Dr.	20,000	
Trade receivables	Dr.	80,000	
Inventory	Dr.	1,80,000	
Cash at Bank	Dr.	40,000	
To Trade payables			1,30,000
To 6% Debentures of B Ltd.			1,26,000
To Business purchase account			3,84,000
(Being assets and liabilities of B Ltd. taken over)			
6% Debentures of B Ltd.	Dr.	1,26,000	
To 10% debentures			1,26,000
(Being issue of 10% debentures to debenture holders of B Ltd.			
Liquidator of the A Ltd. account	Dr.	8,70,000	
Liquidator of the B Ltd. account	Dr.	3,84,000	
To Equity share capital account			
(Being the allotment of equity shares of ₹ 10 each, as per the agreement for discharge of purchase consideration)			12,54,000

7. Calculation of number of days from the base date

Due date	*Amount (₹)*	*No. of days from 5.3.15*	*Product*
5.3.2015	5,000	0	0
7.4.2015	7,500	33	2,47,500

17.7.2015	6,000	134	8,04,000
14.9.2015	8,000	193	15,44,000
	26,500		25,95,500

Average due date = Base date + $\frac{\text{Sum of Product}}{\text{Sum of Amount}}$

$$= 5.3.2015 + \frac{25,95,500}{26,500} = 98 \text{ days (round off)}$$

The date of the cheque will be 98 days from the base date i.e.11.6.2015. So on 11th June, 2015, all bills will be settled by a single cheque payment.

8. **Laxman in Account Current with Ram as on 31st Oct, 2014**

Dr. *Cr.*

		₹	Days	Product (₹)			₹	Days	Product (₹)
01.07.14	To Bal. b/d	750	123	92,250	20.08.14	By Sales Returns	200	72	14,400
15.8.14	To Sales	1,250	77	96,250	22.09.14	By Bank	800	39	31,200
31.10.14	To Interest	18.48			15.10.14	By Cash	500	16	8,000
						By Balance of Products			1,34,900
					31.10.14	By Bal. c/d	518.48		
		2018.48		1,88,500			2018.48		1,88,500

$$\text{Interest} = ₹\ 1,34,900 \times \frac{5}{100} \times \frac{1}{365} = ₹\ 18.48$$

9. **In Sales Ledger**

General Ledger Adjustment Account

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 Sales ledger adjustment A/c:		1.4.2015 to 30.4.2015	By Sales 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	2,52,200			
	(Bal. fig.)				
		12,29,800			12,29,800

10. Mayur Club

(i) Income and Expenditure Account for the year ended 31.3.2015

Expenditure		₹	*Income*	₹
To Sports Material used			By Subscription (W.N.2)	9,90,000
Opening stock	73,500		By Interest on fixed deposit	45,000
Add: Purchases	3,04,500			
	3,78,000			
Less: Closing stock	78,000	3,00,000		
To Salaries		3,15,000		
To Rent	1,48,500			
Add: Outstanding (W.N.6)	13,500	1,62,000		
To Ground maintenance		22,120		
To Insurance	38,400			
Less: Unexpired on 31.3.15	9,600			
	28,800			
Add: Unexpired on 1.4.14	8,400	37,200		
To Stationery used				
Opening stock	1,500			
Add: Purchases	3,450			
	4,950			
Less: Closing Stock	3,150	1,800		
To Sundry expenses		5,880		
To Depreciation on				
Furniture	27,000			
Sports equipment	31,500	58,500		
To Excess of income over expenditure		1,32,500		
		10,35,000		10,35,000

Balance Sheet as at 31st March, 2015

Liabilities		₹	*Assets*		₹
Capital fund:			Equipments: Opening balance	1,80,000	
Opening balance (W.N.1)	10,95,000		*Add*: Addition	60,000	
Add: Excess of				2,40,000	
income over expenditure	1,32,500	12,27,500	*Less:* Depreciation (W.N.5)	31,500	2,08,500
Rent outstanding (W.N.6)		13,500	Furniture:	2,70,000	
Subscription received in advance for 2015-16		4,500	*Less*: Depreciation	27,000	2,43,000
			Sports material		78,000
			Stock of stationery		3,150
			Fixed deposit in bank		
			(4,50,000 + 1,50,000)		6,00,000
			Subscription in arrears:		
			For 2013-14 (W.N.3)	4,500	
			For 2014-15 (W.N.4)	27,000	31,500
			Prepaid insurance (unexpired)		9,600
			Cash on hand		31,750
			Cash at bank		40,000
		12,45,500			12,45,500

Working Notes:

1. Balance Sheet as at 31.3.2014

Liabilities	₹	*Assets*	₹
Capital fund (Bal. fig.)	10,95,000	Sports equipment	1,80,000
		Furniture	2,70,000
		Sports materials	73,500
		Stock of stationery	1,500
		Fixed deposits in bank	4,50,000

		Subscription in arrears	22,500
		Prepaid insurance (unexpired)	8,400
		Cash on hand	39,100
		Cash at bank	50,000
	10,95,000		10,95,000

		₹
2.	**Income on account of subscription**	
	220 members @ ₹ 4,500 each	9,90,000
3.	**Subscription still in arrears of 2013-2014**	
	Opening balance of subscription in arrears (as on 1.4.2014)	22,500
	Less: Arrears subscription of 2013-14 received during the year 2014-15	18,000
	Subscription of 2013-14 still in arrears as on 31.3.2015	4,500
4.	**Subscription in arrear on 31.3.2015**	
	Subscription for the year 2014-15	9,90,000
	Less: Subscription received for the year	9,63,000
	Subscription in arrears for 2014-15	27,000
5.	**Depreciation on sports equipment**	
	On ₹ 1,80,000 @ 15% for full year	27,000
	On ₹ 60,000 @ 15% for 6 months	4,500
	Total	31,500
6.	**Outstanding rent of 2014-2015**	
	Outstanding rent = $\frac{₹\,1,48,500}{11\text{ months}} \times 1\text{ month}$	13,500

11. In the Books of Moonlight Traders

Trading Account for the year ended 31.03.2014

	Particulars	₹		Particulars	₹
To	Opening Stock A/c (Bal. fig.)	1,65,000	By	Sales (W.N.1)	12,50,000
To	Purchases (W.N.2)	9,00,000	By	Closing Stock	65,000
To	Gross profit (12,50,000x25/125)	2,50,000			
		13,15,000			13,15,000

Profit and Loss Account for the year ended 31.03.2014

	Particulars		₹		*Particulars*	₹
To	Discount		5,500	By	Gross profit	2,50,000
To	Salaries Expenses	32,000		By	Discount	4,500
To	Office expenses (W.N.3)	37,000				
To	Selling expenses	15,000	84,000			
To	Interest on loan (12% on ₹1,60,000)		19,200			
To	Bad debts (2% of ₹2,25,000)		4,500			
To	Loss on sale of Machinery		15,000			
To	Depreciation:					
	Land & Building	25,000				
	Plant & Machinery(W.N 4b)	23,750				
	Office Equipment (W.N. 5)	12,750	61,500			
To	Net profit after tax		64,800			
			2,54,500			2,54,500

Balance sheet as on 31.3.2014

Liabilities	₹	₹	*Assets*	₹
Capital (W.N. 6)	8,95,500		Land and Building (5,00,000-25,000)	4,75,000
Add: Net Profit	64,800	9,60,300	Plant and Machinery (W.N.4a) (3,30,000-21,750)	3,08,250
Creditors for Purchases (W.N. 8)		1,05,500	Office Equipment (85,000-12,750)	72,250
Outstanding expenses		15,000	Debtors less Bad debts (W.N. 7)	2,20,500
Loan from SBI		1,00,000	Stock	65,000
			Bank Balance (W.N. 9)	39,800
		11,80,800		11,80,800

Working Notes:

1. Calculation of Total Sales

	₹
Cash Sales	2,50,000
Credit Sales (80% of total sales)	
Cash Sales (20% of total sales)	
Thus total Sales (250000 x 100/20)	12,50,000
Credit Sales (1250000 x 80/100)	10,00,000

2. Calculation of Total Purchases

	₹
Credit Purchases	5,40,000
Cash Purchases (40% of total purchases)	
Credit Purchases (60% of total purchases)	
Thus total Purchases (5,40,000 x 100/60)	9,00,000
Cash Purchases 9,00,000 x 40/100)	3,60,000

3. Office Expenses Account

	₹		₹
To Bank A/c	42,000	By Balance b/d	20,000
To Balance c/d	15,000	By Profit & loss A/c	37,000
	57,000		57,000

4. (a) Plant and Machinery Account

	₹		₹
To Opening balance	2,20,000	By Sale	40,000
To Purchases	1,50,000	By Closing Balance	3,30,000
	3,70,000		3,70,000

(b) Depreciation calculations on Plant & Machinery

		₹
Depreciation on	1,80,000 x 10% (for full year)	18,000
	1,50,000 x 10% x 3/12 (for 3 months)	3,750
	40,000 x 10% x 6/12 (for 6 months)	2,000
		23,750

(c) Sale of Machinery Account

	Amount (₹)		Amount (₹)
To Plant & Machinery	40,000	By Depreciation	2,000
		By Profit and Loss a/c	15,000
		By Bank	23,000
	40,000		40,000

5. Depreciation calculations on Office Equipments

	₹
Opening Balance	1,05,000
Less: Closing Balance	85,000
Sale of Office Equipments	20,000
Balance of Office Equipments after sale	85,000
Depreciation @15%	12,750

6. Opening Balance Sheet as on 31.03.2013

	₹		₹
Creditors	95,000	Land & Building	5,00,000
Creditor for Exp.	20,000	Plant & Machinery	2,20,000
Loan	1,60,000	Office Equipment	1,05,000
Capital (Bal. fig.)	8,95,500	Debtors	1,55,500
		Stock	1,65,000
		Bank	25,000
	11,70,500		11,70,500

7. Sundry Debtors A/c

	₹		₹
To Balance b/d	1,55,500	By Bank	9,25,000
To Sales	10,00,000	By Discount	5,500
		By Bad debts	4,500
		By Bal. c/d	2,20,500
	11,55,500		11,55,500

8. Sundry Creditors A/c

	₹		₹
To Bank	5,25,000	By Balance b/d	95,000
To Discount	4,500	By Purchases	5,40,000
To Balance c/d	1,05,500		
	6,35,000		6,35,000

9. Bank Account

	₹		₹
To Balance b/d	25,000	By Creditors	5,25,000
To Debtors	9,25,000	By Office Expenses	42,000
To Cash Sales	2,50,000	By Salary Expense	32,000
To Sale of Machinery (W.N. 4c)	23,000	By Selling Expenses	15,000
To Sale of equipment	20,000	By Purchases (cash)	3,60,000
		By Purchase of Machinery	1,50,000
		By Bank Loan & Interest.	79,200
		By Balance c/d	39,800
	12,43,000		12,43,000

12. Hire Purchase accounts in the buyer's books

(a) Tractors on Hire Purchase Account

2013			₹	*2013*			₹
April 1	To HP Co. - Cash price			Dec. 31	By Balance c/d		
	Tractor A		14,000		Tractor A	14,000	
Oct. 1	" HP Co. - Cash price				Tractor B	19,000	33,000
	Tractor B		19,000				
			33,000				33,000
2014			₹	2014			₹
Jan. 1	To Balance b/d			June 30	By Disposal of Tractor A/c - Transfer		19,000
	Tractor A	14,000		Dec. 31	By Balance c/d		14,000
	Tractor B	19,000	33,000				33,000
			33,000				
2015							
Jan. 1	To Balance b/d		14,000				

(b) Provision for Depreciation of Tractors Account

2013		₹	2013			₹
Dec. 31	To Balance c/d	3,050	Dec.31	By	P & L A/c:	
					Tractor A 2,100	
					Tractor B 950	3,050
		3,050				3,050
2014		**₹**	**2014**			**₹**
June30	To Disposal of Tractor account transfer	2,850	Jan. 1	By	Balance b/d	3,050
			Jun. 30	By	P & L A/c (Dep.)	
Dec. 31	To Balance c/d	4,900			Tractor B	1,900
			Dec. 31		Tractor A	2,800
		7,750				7,750
			2013			₹
			Jan.	1	By Balance b/d	4,900

(c) Disposal of Tractor Account

2014		₹	2014		₹
June30	To Tractors on hire purchase—Tractor B	19,000	June 30	By Provision for Depn. of Tractors A/c	2,850
			July 10	By Cash : Insurance	15,000
			Dec. 31	By P & L A/c : Loss	1,150
		19,000			19,000

13. In the books of Smart Investments

12% Govt. Bonds for the year ended 31st March, 2014

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
1.4.13	To Opening balance b/d	1,200	3,600	1,26,000	30.6.13	By Bank A/c (Interest) (3,200 x 100 x 12% x 6/12)	-	19,200	-
2.5.13	To Bank A/c	2,000	8,000	1,92,000	30.9.13	By Bank A/c	1,500	4,500	1,57,500
31.3.14	To P & L A/c (Interest)		27,400		31.12.13	By Bank A/c (Interest) (1,700 x 100 x 12% x 6/12)	-	10,200	-
	To P & L A/c (Profit on Sale)			8,437.50	31.3.14	By Bal. c/d	1,700	5,100	1,68,937.50
		3,200	39,000	3,26,437.50			3,200	39,000	3,26,437.50

Investments in Equity shares of X Ltd. for year ended 31.3.2014

Date	Particulars	Nos.	Income	Amount	Date	Particulars	Nos.	Income	Amount
15.4.13	To Bank A/c	5,000		10,10,000					
3.6.13	To Bonus Issue	2,000	-	-	16.9.13	By Bank (Dividend)	-	-	7,500
31.8.13	To Bank A/c	800		2,00,000	15.12.13	By Bank (Sale)	3,000	-	8,91,000
31.3.14	To P & L A/c		4,800	4,28,500	15.1.14	By Bank (interim dividend)		4,800	
					31.3.14	By Bal. c/d	4,800		7,40,000
		7,800	4,800	16,38,500			7,800	4,800	16,38,500

Working Notes:

1. Profit on sale of bonds on 30.9.13

   = Sales proceeds – Average cost

   Sales proceeds = ₹ 1,57,500

   Average cost = ₹ [(1,26,000+1,92,000) $\times$ 1,500/3,200] = 1,49,062.50

   Profit = 1,57,500– ₹ 1,49,062.50=₹ 8,437.50

2. Valuation of bonds on 31st March, 2014

   Cost = ₹ 3,18,000/3,200 x1,700 = 1,68,937.50

3. Cost of equity shares purchased on 15/4/2013

   = Cost + Brokerage

   = (5,000 $\times$₹ 200) + 1% of (5,000 $\times$ ₹ 200) = ₹ 10,10,000

4. Sale proceeds of equity shares on 15/12/2013

   = Sale price – Brokerage

   = (3,000 $\times$₹ 300) – 1% of (3,000 $\times$ ₹ 300) = ₹ 8,91,000.

5. Profit on sale of shares on 15/12/2013

   = Sales proceeds – Average cost

   Sales proceeds = ₹ 8,91,000

   Average cost = ₹ [(10,10,000+2,00,000-7,500) $\times$ 3,000/7,800]

   = ₹ [12,02,500 $\times$ 3,000/7,800] = 4,62,500

   Profit = ₹ 8,91,000 – ₹ 4,62,500=₹ 4,28,500.

6. Valuation of equity shares on 31st March, 2014

   Cost =₹ [12,02,500 $\times$ 4,800/7,800] = ₹ 7,40,000

   Market Value = 4,800 shares ×₹ 220 =₹ 10,56,000

   Closing stock of equity shares has been valued at ₹ 7,40,000 i.e. cost being lower than the market value.

Note: If rights are not subscribed for but are sold in the market, the sale proceeds are taken to the profit and loss statement as per para 13 of AS 13 “Accounting for Investments”

14. In the books of Mr. Black

Trading Account for the year ended 31.3.2014

	₹		₹
To Opening Stock	1,35,000	By Sales	9,00,000

To Purchases	6,45,000	By Closing Stock at cost $\left(1{,}62{,}000 \times \frac{100}{90}\right)$	1,80,000
To Gross Profit	3,00,000		
	10,80,000		10,80,000

Memorandum Trading A/c
for the period from 1.4.2014 to 02.06.2014

	₹		₹
To Opening Stock at cost	1,80,000	By Sales 4,80,000	
To Purchases 2,25,000 *Add:* Goods received but invoice not received 30,000 2,55,000		*Less:* Goods not dispatched 75,000	4,05,000
Less: Machinery 15,000	2,40,000	By Closing stock (Balancing figure)	1,50,000
To Gross Profit (Refer W.N.)	1,35,000		
	5,55,000		5,55,000

Calculation of Insurance Claim

Claim subject to average clause = $\left(\frac{\text{Actual loss of stock}}{\text{Value of stock on the date of fire}} \times \text{Amount of policy}\right)$

$$= 1{,}20{,}000 \times \left(\frac{1{,}50{,}000}{1{,}50{,}000}\right) = ₹\ 1{,}20{,}000$$

Working Note:

G.P. ratio = $\frac{3{,}00{,}000}{9{,}00{,}000} \times 100 = 33\frac{1}{3}\%$

Amount of Gross Profit = ₹ 4,05,000 x $33\frac{1}{3}\%$ = ₹ 1,35,000

15. Partners' Capital Accounts as on 1.4.2014

	Anuj	*Ayush*	*Piyush*		*Anuj*	*Ayush*	*Piyush*
To Anuj		22,950	68,850	By Balance b/d	3,75,000	2,80,000	2,25,000
To Revaluation Loss	37,400	37,400	18,700	By General Reserves	75,200	75,200	37,600
To Bank FD	2,34,000			By Ayush and Piyush	91,800		
To 8% Loan	2,70,600						
To Balance c/d*		3,03,450	3,03,450	By Cash (Bal. fig.)	-	8,600	1,28,400
	5,42,000	3,63,800	3,91,000		5,42,000	3,63,800	3,91,000

Balance Sheet as on 1.4.2014 after Anuj's retirement

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Anuj's Loan	2,70,600	Plant(90% of ₹ 7,87,000)	7,08,300
Creditors(2,16,000+10,000)	2,26,000	Stock (₹ 1,03,000 less ₹ 6,000)	97,000
Capital Accounts*:		Debtors(95% of ₹ 1,56,000)	1,48,200
Ayush	3,03,450	Bank Balance	1,50,000
Piyush	3,03,450		
	11,03,500		11,03,500

**Total of capital balances should be ₹ 6,06,900 which is proportioned to individual partners in their profit sharing ratio.*

Working Notes:

1. Profit / Loss on revaluation

Revaluation Account

	Amount (₹)		*Amount (₹)*
To Plant	78,700	By Interest on FD	9,000
To Creditors	10,000	By Loss on revaluation	93,500
To Inventory	6,000		
To Provision for doubtful debts	7,800		-
	1,02,500		1,02,500

2. Calculation of Goodwill

Goodwill Valuation

Profit of year ended	₹
31.3.2014 (₹ 3,30,000 less ₹ 93,500)	2,36,500
31.3.2013	2,32,000
31.3.2012	2,20,000
Total Profits	6,88,500

Average Profit = 6,88,500/3 = 2,29,500

Goodwill valued at 1 year purchase amounting ₹ 2,29,500.

3. Adjustment for goodwill among partners

Anuj's share of goodwill (2,29,500 x 2/5) = 91,800

Gaining ratio of Ayush and Piyush

Ayush	Piyush
$\frac{1}{2}-\frac{2}{5}$	$\frac{1}{2}-\frac{1}{5}$
$\frac{5-4}{10}=\frac{1}{10}$	$\frac{5-2}{10}=\frac{3}{10}$

Gaining Ratio = 1: 3

Entry for adjustment of goodwill

		₹	₹
Ayush's capital A/c	Dr.	22,950	
Piyush's capital A/c	Dr.	68,850	
To Anuj's capital A/c			91,800
(Being Anuj's share of goodwill debited to remaining partners in their gaining ratio)			

16. Following are the advantages of the customized accounting packages:

    1. The input screens can be tailor made to match the input documents for ease of data entry.
    2. The reports can be prepared as per the specification of the organization. Many additional MIS reports can be included in the list of reports.
    3. Bar-code scanners can be used as input devices suitable for the specific needs of an individual organization.
    4. The system can suitably match with the organizational structure of the company.

17. The question deals with the issue of Applicability of Accounting Standards to a non-corporate entity. For availment of the exemptions, first of all, it has to be seen that M/s Omega & Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 3 levels viz Level I, Level II (SMEs) and Level III (SMEs).

    An entity whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year, it falls under the category of Level I entities. Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

    (i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

As the turnover of M/s Omega & Co. is more than ₹ 1 crore, it falls under 1st criteria of Level II non-corporate entities as defined above. Even if its borrowings of ₹ 0.95 crores is less than ₹ 1 crores, it will be classified as Level II Non-Corporate Entity. In this case, AS 3, AS 17, AS 21, AS 23, AS 27 will not be applicable to M/s Omega & Co. Relaxations from certain requirements in respect of AS 15, AS 19, AS 20, AS 25, AS 28 and AS 29 are also available to M/s Omega & Co.

18. (a) As per AS 1, any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Accordingly, the notes on accounts should properly disclose the change and its effect.

Notes on Accounts:

(i) During the year inventory has been valued at factory cost, against the practice of valuing it at prime cost as was the practice till last year. This has been done to take cognizance of the more capital intensive method of production on account of heavy capital expenditure during the year. As a result of this change, the year-end inventory has been valued at ₹ 50 crores and the profit for the year is increased by ₹ 20 crores.

(ii) In view of the heavy capital intensive method of production introduced during the year, the company has decided to change the method of providing depreciation from reducing balance method to straight line method. As a result of this change, depreciation has been provided at ₹ 27 crores which is lower than the charge which would have been made had the old method and the old rates been applied, by ₹ 18 crores. To that extent, the profit for the year is increased.

(iii) The company has decided to provide ₹ 10 crores for the permanent fall in the value of investments which has taken place over the period of past five years. The provision so made has reduced the profit disclosed in the accounts by ₹ 10 crores.

(b) As per Accounting Standard 2 "Valuation of Inventories", cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. However, it makes clear that interest and other borrowing costs are usually not included in the cost of inventories because generally such costs are not related in bringing the inventories to their present location and condition. Therefore, the proposal of CC Ltd. to include interest on bank overdraft as an element of cost is not acceptable because it does not form part of cost of production.

19. (a) Depreciation charged by the company on reducing Balance method (from 2011-12) to 2013-14

Year	*Cost/WDV at the beginning of the year*	*Depreciation*		*WDV at the end of the year*
2011-12	2,00,000	2,00,000 x 10%	20,000	1,80,000
2012-13	1,80,000	1,80,000 x 10%	18,000	1,62,000
2013-14	1,62,000	1,62,000 x 10%	16,200	1,45,800

Depreciation charged on Straight Line Method (from 2011-12 to 2013-14)

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

$$= \frac{₹\,2,00,000 - ₹\,50,000}{10} = 15,000$$

Book Value of machine at the end of 2013-14 by Straight Line Method (SLM)

= ₹ 2,00,000 – [15,000 + 15,000 + 15,000] = ₹1,55,000

Depreciation to be charged in 2014-15

Particulars	*₹*
Book value of the machine as per Reducing Balance Method as on 2013-14	1,45,800
Less: Book value of the machine as per Straight Line Method as on 2013-14	(1,55,000)
Difference of Depreciation	(9,200)
Add: Depreciation for the year 2014-15 as per Straight Line Method	15,000
Depreciation charged to Profit and Loss Account in the year 2014-15	5,800

(b) As per AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately irrespective of the stage of completion.

In the given case the revenue that can be recognized for the contract i.e. ₹ 2 crore and the expected expense on the contract is ₹ 2.4 cores. 60% of the contract has been completed. Therefore as per AS 7 whole amount of expected loss i.e. ₹ 0.40 crores should be recognized as an expense immediately irrespective of the stage of completion of the contract. Therefore the action of accountant of transferring only ₹ 0.24 crores to the profit & loss a/c is wrong. He must transfer whole ₹ 0.40 crore to profit & loss a/c as an expense.

20. (a) According to AS 10 on Accounting for Fixed Assets, the cost of an asset may undergo changes subsequent to its acquisition on account of exchange fluctuation, price adjustment, changes in duty or similar factors. Such changes in price/cost needs to be adjusted with the cost of the asset.

In the give case, Fire Ltd., initially accounted for 100% amount i.e., ₹ 100 lacs as cost of fixed asset although they paid only ₹ 90 lacs and kept ₹ 10 lacs as payable to the credit of Urja Ltd. Now since the supplier has waived off the balance amount of ₹ 10 lacs, this should be treated as change in price and needs to be adjusted with the cost of asset as per AS 10.Therefore, the treatment given by Fire Ltd., in crediting ₹ 10 lacs as discount to Profit & Loss Account is completely wrong and needs to be corrected.

(b) As per AS 13 "Accounting for Investments", for Investments in shares – If the Investment is purchased with an intention to hold for short – term period then it will be shown at the realizable value of ₹ 2,50,000 as on 31st March, 2015.

If equity shares are acquired with an intention to hold for long-term period then it will continue to be shown at cost in the Balance Sheet of the Company. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of Investments.

As per the Standard, investment acquired for long term period shall be shown at cost. Gold and Silver are generally purchased with an intention to hold it for long term period until and otherwise given. Hence the investment in Gold and silver (purchases on 1st April 2014 shall continue to be shown at cost as on 31st March 2015 i.e. ₹ 3,50,000 and ₹1,50,000 respectively, though their realizable values have been increased. If held as short term then it should be valued at lower of cost or fair value (Market price)

Applicability of Pronouncements/Legislative Amendments/Circulars etc. for November, 2015 – Intermediate (IPC) Examination

Paper 1: Accounting

Accounting Standards

AS	1	:	Disclosure of Accounting Policies
AS	2	:	Valuation of Inventories
AS	3	:	Cash Flow Statements
AS	6	:	Depreciation Accounting
AS	7	:	Construction Contracts (Revised 2002)
AS	9	:	Revenue Recognition
AS	10	:	Accounting for Fixed Assets
AS	13	:	Accounting for Investments
AS	14	:	Accounting for Amalgamations

Note Regarding Applicability for Paper 1 :

The relevant notified Sections of the Companies Act, 2013 up to 31st March, 2015 and for other legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 30th April, 2015.

Non-Applicability of Ind ASs:

The Ministry of Corporate Affairs has notified Roadmap for applicability of Indian Accounting Standards (Ind AS) vide Notification No. G.S.R…….(E) dated 16 February, 2015, for compliance by the class of companies specified in the said roadmap. The notification has been uploaded on www.mca.gov.in along with the thirty nine (39) Indian Accounting Standards (Ind AS). **Students may note that these Ind ASs are not applicable for November, 2015 Examination.**

Paper 2: Business Laws, Ethics and Communication

The Companies Act, 2013 : The relevant sections of the Companies Act, 2013, notified up to 31st March, 2015 along with significant Rules/ Notifications/ Circulars/ Clarifications/ Orders issued by the Ministry of Corporate Affairs upto 30th April, 2015.