PAPER – 1: ACCOUNTING

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

A. Applicable for May, 2015 examination

Revision in the Criteria for classifying Level II Non-Corporate Entities

Due to recent changes in the enhancement of tax audit limit, the Council of the ICAI has recently decided to change the 1st criteria of Level II Non-Corporate Entities i.e. determination of SME on turnover basis from ₹ 40 lakhs to ₹ 1 Crore vide announcement "Revision in the Criteria for classifying Level II Non-Corporate Entities" issued by ICAI on 7th March, 2013. This revision is applicable with effect from the accounting year commencing on or after April 1, 2012.

Companies Act, 2013

The relevant Sections of the Companies Act, 2013 notified up to 30th September 2014 will be applicable for May, 2015 Examination.

B. Not applicable for May, 2015 examination

Ind ASs issued by the Ministry of Corporate Affairs

The MCA has hosted on its website 35 converged Indian Accounting Standards (Ind AS) without announcing the applicability date. These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards vis-à-vis IFRS. These Ind ASs are not applicable for the students appearing in May, 2015 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. (a) State under which head these accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:
   - (i) Share application money received in excess of issued share capital.
   - (ii) Share option outstanding account.
   - (iii) Unpaid matured debenture and interest accrued thereon.
   - (iv) Uncalled liability on shares and other partly paid investments.
   - (v) Calls unpaid.
   - (vi) Intangible Assets under development.
   - (vii) Money received against share warrant.

(b) The following extract of Balance Sheet of X Ltd. (a non-investment company) was obtained:

Balance Sheet (Extract) as on 31st March, 2015

Liabilities	₹
Authorised capital:	
15,000, 14% preference shares of ₹ 100	15,00,000
1,50,000 Equity shares of ₹ 100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of ₹ 100 each fully paid	15,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

You are required to compute Effective Capital as per the provisions of Schedule V to Companies Act, 2013.

(c) Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2015:

	Amount ₹ in lakhs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of ₹ 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013.

Cash Flow Statement

2. PQ Ltd. gives you the following summarized balance sheets. You are required to prepare Cash Flow Statement by using indirect method as per AS 3 for the year ended 31.03.2014:

Balance Sheet as on

Liabilities	*31st March 2013*	*31st March 2014*	*Assets*	*31st March 2013*	*31st March 2014*
	₹	₹		₹	₹
Capital	50,00,000	50,00,000	Plant & Machinery	27,30,000	40,70,000
Retained Earnings	26,50,000	36,90,000	Less: Depreciation	6,10,000	7,90,000
Debentures	–	9,00,000		21,20,000	32,80,000
Current Liabilities					
Trade Payables	8,80,000	8,20,000	Trade Receivables	23,90,000	28,30,000
Bank Loan	1,50,000	3,00,000	Less: Provision	1,50,000	1,90,000
Liability for expenses	3,30,000	2,70,000		22,40,000	26,40,000
Dividend payable	1,50,000	3,00,000	Cash	27,00,000	33,20,000
			Inventories	20,10,000	19,20,000
			Prepaid Expenses	90,000	1,20,000
	91,60,000	1,12,80,000		91,60,000	1,12,80,000

Additional Information:

(i) Net profit for the year ended 31st March, 2014, after charging depreciation ₹ 1,80,000 is ₹ 22,40,000.

(ii) Trade Receivables of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

(iii) PQ Ltd. declared dividend of ₹ 12,00,000 for the year 2013-2014.

Profit/Loss prior to Incorporation

3. Sneha Ltd. was incorporated on 1st July, 2013 to acquire a running business of Atul Sons with effect from 1st April, 2013. During the year 2013-14, the total sales were ₹ 24,00,000 of which ₹ 4,80,000 were for the first six months. The Gross profit of the company ₹ 3,90,800. The expenses debited to the Profit & Loss Account included:

(i) Director's fees ₹ 30,000

(ii) Bad debts ₹ 7,200

(iii) Advertising ₹ 24,000

(iv) Salaries and General Expenses ₹ 1,28,000

(v) Preliminary Expenses written off ₹ 10,000

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2014.

Accounting for Bonus Issue

4. Following items appear in the Trial Balance of Saral Ltd. (a listed Company) 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)	90,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 2 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Saral Ltd.

Internal Reconstruction of a Company

5. Following is the summarized Balance Sheet of M Ltd. as at 31st March, 2015:

Liabilities	₹	*Assets*	₹
15,000, 10% Preference shares of ₹ 100 each	15,00,000	Land & Buildings Plant & Machinery	15,00,000 10,00,000
35,000 Equity shares of ₹ 100 each	35,00,000	Inventory	6,00,000
Securities Premium account	1,00,000	Trade receivables	15,00,000
7% Debentures of ₹ 100 each	5,00,000	Cash at bank	1,00,000
Trade payables	12,50,000	Profit & Loss A/c	23,00,000
Loan from Director	1,50,000		
	70,00,000		70,00,000

No dividend on Preference shares has been paid for the last 5 years.

The following scheme of reorganization was duly approved by the Tribunal:

(i) Each Equity share to be reduced to ₹ 25.

(ii) Each existing Preference share to be reduced to ₹ 75 and then exchanged for 1 new 13% Preference share of ₹ 50 each and 1 Equity share of ₹ 25 each.

(iii) Preference shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity Shares of ₹ 25.

(iv) The Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of ₹ 50 each issued at par. One half (in value) of the debentureholders accepted Preference shares for their claims. The rest were paid cash.

(v) Contingent liability of ₹ 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the company.

(vi) 40,000 new Equity shares of ₹ 25 each are to be issued at par, payable in full on application. Shares were fully taken up.

(vii) Decrease the value of Plant and Machinery, Inventory and Trade receivables by ₹ 4,00,000, ₹ 1,00,000 and ₹ 1,50,000 respectively. Increase the value of Land and Buildings to ₹ 18,00,000.

(viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to ₹ 15,000.

Pass necessary Journal Entries to record the above transactions.

Amalgamation of Companies

6. P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The Balance Sheet of the companies as on 31.03.2014 were as under:

P Limited
Balance Sheet as at 31.03.2014

Particulars	*Amount (₹)*
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	1,40,000
(b) Reserves & Surplus	
Profit & Loss A/c	30,000
2. Non Current Liabilities	
8 % Secured Debentures	1,10,000
3. Current Liabilities	
Trade Payables	54,000
Total	3,34,000
II. Assets	
1. Non-current Assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,00,000

Plant & Machinery at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at bank	30,000
Total	3,34,000

Q Limited
Balance Sheet as at 31.03.2014

Particulars	*Amount (₹)*
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	2,50,000
(b) Reserves & Surplus	
General Reserve	1,20,000
Profit & Loss A/c	35,000
2. Current Liabilities	
Trade Payables	1,40,000
Total	5,45,000
II. Assets	
1. Non-current assets	
(a) Fixed Assets	
Building at cost less depreciation	1,90,000
Plant & Machinery at cost less depreciation	80,000
Furniture & Fixture at cost less depreciation	25,000
2. Current Assets	
(a) Inventories	50,000
(b) Trade Receivables	1,42,000
(c) Cash at bank	58,000
Total	5,45,000

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

(i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.

(ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.

(iii) The Trade receivables of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the trade payables are to be paid out of the proceeds thereof.

(iv) The debentures of P Ltd. are to be discharged by issue of 8% 11,000 debentures of PQ Ltd. at a premium of 10%.

You are required to:

(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.

(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation.

Average Due Date

7. Mehnaaz accepted the following bills drawn by Shehnaaz:

On 8th March, 2014, ₹ 4,000 for 4 months.

On 16th March, 2014, ₹ 5,000 for 3 months.

On 7th April, 2014, ₹ 6,000 for 5 months.

On 17th May, 2014, ₹ 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out the average due date.

Account Current

8. The following are the transactions that took place between Rohan & Sunil during the half year ended 30th June, 2014:

		₹
I	Balance due to Rohan by Sunil on 1 January, 2014	3,010
ii	Goods sold by Rohan to Sunil on 7 January, 2014	4,430
iii	Goods purchased by Rohan from Sunil on 16 February, 2014	6,480
iv	Goods returned by Rohan to Sunil on 18 February, 2014 (out of the purchases of 16 February, 2014)	560
v	Goods sold by Sunil to Rohan on 24th March, 2014	3,560
vi	Bill accepted by Rohan at 3 months on 22nd April, 2014	1,500
	Cash paid by Rohan to Sunil on 29th April, 2014	2,500
vii	Goods sold by Rohan to Sunil on 17th May, 2014	2,710
viii	Goods sold by Sunil to Rohan on 22nd June, 2014	2,280

Draw up an account current to be rendered by Sunil to Rohan charging interest @ 10% per annum.

Hire Purchase Transactions

9. Globus Ltd. acquired a delivery van on hire purchase on 01.04.2014 from Ganesh Enterprises. The terms were as follows:

Particulars	Amount (₹)
Hire Purchase Price	1,80,000
Down Payment	30,000
1st installment payable after 1 year	50,000
2nd installment after 2 years	50,000
3rd installment after 3 years	30,000
4th installment after 4 years	20,000

Cash price of van ₹ 1,50,000 and depreciation is charged at 10% WDV.

You are required to calculate Total Interest and Interest included in each installment

Self Balancing Ledgers

10. Prepare the General Ledger Adjustment Account as will appear in the Debtors' Ledger from the information given below:

	Dr.	*Cr.*
	₹	₹
Balances on 1.4.2013		
Debtors' Ledger	94,400	480
Transactions for the year ended 31.3.2014:		
Credit sales	2,24,000	
Received from debtors (in full settlement of ₹ 1,18,000)	1,16,400	
Returns from debtors	5,200	
Bills accepted by customers	40,200	
Bills receivables dishonoured	3,000	
Bills receivable discounted	10,000	
Bills receivable endorsed to creditors	8,000	
Endorsed bills dishonoured	2,000	
Bad debts written off	5,000	
Balance on 31.3.2014		
Debtors' ledger	760	

Financial Statements of Not for Profit Orgnisations

11. (a) Elite Club (not registered under the Companies Act, 2013) has 200 members with an annual subscription of ₹ 3,600 payable by every member. An analysis of subscriptions received by the club during the accounting year ended on 31st March, 2015 revealed the following:

	₹
For the year 2013-14	25,200
For the year 2014-15	6,98,400
For the year 2015-16	7,200
	7,30,800

On 31st March, 2015 it was noted that a sum of ₹ 3,600 was still in arrears for the year ended 31st March, 2014. Calculate the amount of subscriptions that will appear on the credit side of the Club's Income and Expenditure Account for the year ended 31st March, 2015. Also show how items relating to subscriptions will appear in the Balance Sheet dated 31st March, 2015.

(b) The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2015:

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

	₹		₹
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of furniture	2,500		
To Depreciation:			
Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-3-2014	*31-3-2015*
	₹	₹
Subscriptions in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	-	150

Book value of furniture sold is ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2014 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2015. Cash in hand amounted to ₹ 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2015.

Investment Accounts

12. A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 nos. of 13.5% Convertible Debentures of Face Value of ₹ 100 each of P Ltd. on 1st May 2014 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2014 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2014 the company sold 2,000 Debentures @ ₹ 103 each. On 31st December, 2014 the company received 10,000 equity shares of ₹ 10 each in P Ltd. on conversion of 20% of its holdings. The market value of the debentures and equity shares as at the close of the year were ₹ 106 and ₹ 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2014 on Average Cost Basis.

Accounts from Incomplete Records

13. From the following information in respect of Mr. X, prepare Trading and Profit and Loss Account for the year ended 31st March, 2015 and a Balance Sheet as at that date:

		31-03-2014	31-03-2015
		₹	₹
(1)	Liabilities and Assets:		
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000
	Prepaid expenses	12,000	14,000
	Cash on hand	4,000	3,000
	Bank Balance	20,000	9,500
(2)	Receipts and Payments during 2014-2015:		
	Collections from Debtors		
	(after allowing 2-1/2% discount)		11,70,000
	Payments to Creditors		
	(after receiving 2% discount)		7,84,000
	Proceeds of Bills receivable discounted at 2%		1,22,500
	Proprietor's drawings		1,40,000
	Purchase of furniture on 30.09.2014		20,000
	4% Government securities purchased at 96% on 1-10-2014		1,92,000
	Expenses		3,50,000
	Miscellaneous Income		10,000
(3)	Sales are effected so as to realize a gross profit of one third on the sale proceeds.		
(4)	Goods costing ₹ 18,000, were issued as samples to distributors.		
(5)	Purchases and Sales are made only on credit.		
(6)	During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. Of these, Bills amounting to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor.		
(7)	Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance of 9,500 on 31st March, 2015 (as shown above), is after taking the same into account.		

Insurance Claims for loss of Profit and Loss of Stock

14. (a) The premises of X Ltd. caught fire on 22nd January, 2015 and the stock was damaged. The value of goods salvaged was negligible. The firm made up accounts to 31st March each year. On 31st March, 2014 the stock at cost was ₹13,27,200 as against ₹ 9,62,200 on 31st March 2013.

Purchases from 1st April, 2014 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2013-2014 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively.

You are given the following further information:

(i) In July, 2014, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) The rate of gross profit is constant.

X Ltd. had taken an insurance policy of ₹ 5,50,000 which was subject to the average clause. From the above information, you are required to make an estimate of the stock in hand on the date of fire and compute the amount of the claim to be lodged to the insurance company.

(b) A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	₹
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 30,000.

Issues in Partnership Accounts

15. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2011. Initially both of them contributed ₹ 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2015 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2011.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	*2012*	*2013*	*2014*	*2015*
	₹	₹	₹	₹
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2015. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2015 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2015

Liabilities	₹	*Assets*	₹
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Chaplin.

16. A large size hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

17. (a) A company was classified as Non-SMC in 2013-14. In 2014-15 it has been classified as SMC. The management desires to avail the exemption or relaxations available for SMCs in 2014-15. However, the accountant of the company does not agree with the same. Comment.

(b) Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing balance	500 units
	₹ per unit
Cost price including excise duty	200
Excise duty (Cenvat credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished goods Y	
Closing Balance	1200 units
	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units.

Calculate the value of the closing stock, when Net Realizable Value of the Finished Goods Y is ₹ 400.

18. (a) On 01.04.2010 a machine was acquired at ₹ 4,00,000. The machine was expected to have a useful life of 10 years. The residual value was estimated at 10% of the original cost. At the beginning of the 4^{th} year, an attachment was made to the machine at a cost of ₹ 1,80,000 to enhance its capacity. The attachment was expected to have a useful life of 10 years and zero terminal value. During the same time the original machine was revalued upwards by ₹ 90,000 and remaining useful life was reassessed at 9 years and residual value was reassessed at NIL.

Find depreciation for the year 2013 – 14, if

(i) attachment retains its separate identity.

(ii) attachment becomes integral part of the machine.

(b) Mr. A purchased a machine on 01.04.2009 for ₹ 1,00,000. On 01.07.2010 he purchased another machine for ₹ 1,50,000. On 01.10.2011, he purchased the third machine for ₹ 2,00,000 and on 31.12.2012 he sold the second machine for ₹ 1,25,000. On 31.03.2014 he decided to change the method of charging depreciation from Straight Line Method @ 10% p.a. to Written Down Value Method @ 15%. Show Machine Account from 1.4.2009 to 31.3.2014.

19. (a) On 1^{st} December, 2014, "Sampath" Construction Company Limited undertook a

contract to construct a building for ₹ 108 lakhs. On 31st March, 2015 the company found that it had already spent ₹ 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹ 36.01 lakhs.

What is the provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2015 based on AS 7 "Accounting for Construction Contracts."

(b) The Board of Directors decided on 31.3.2014 to increase the sale price of certain items retrospectively from 1st January, 2014. In view of this price revision with effect from 1st January 2014, the company has to receive ₹ 15 lakhs from its customers in respect of sales made from 1st January, 2014 to 31st March, 2014. Accountant cannot make up his mind whether to include ₹ 15 lakhs in the sales for 2013-2014. Advise.

20. (a) On March 01, 2014, X Ltd. purchased ₹ 5 lakhs worth of land for a factory site. Company demolished an old building on the property and sold the material for ₹ 10,000. Company incurred additional cost and realized salvaged proceeds during the March 2014 as follows:

Legal fees for purchase contract and recording ownership	₹ 25,000
Title guarantee insurance	₹ 10,000
Cost for demolition of building	₹ 50,000

Compute the balance to be shown in the land account in balance sheet on March 31, 2014.

(b) X Ltd. on 1-1-2015 had made an investment of ₹ 600 lakhs in the equity shares of Y Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2015 became ₹ 200 lakhs as Y Ltd. lost a case of copyright. How will you recognize the reduction in financial statements for the year ended on 31-3-2015.

SUGGESTED ANSWERS / HINTS

1. (a) (i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

(vi) Fixed Assets

(vii) Shareholders' Fund / Money received against share warrants

(b) Computation of effective capital:

		₹
Paid-up share capital-		
15,000, 14% Preference shares		15,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
Public Deposits		3,70,000
	(A)	1,80,65,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,25,000
	(B)	90,25,000
Effective capital	(A–B)	90,40,000

(c) Note 6 (B) given under Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. ₹ 250 lakhs exceeds the total of all the reserves i.e. ₹ 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by ₹ 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

2. Cash flow Statement of PQ Ltd. for the year ended 31.3.2014

Cash flows from Operating activities	₹	₹
Net Profit	22,40,000	
*Add :*Adjustment for Depreciation (₹7,90,000 – ₹6,10,000)	1,80,000	
Operating profit before working capital changes	24,20,000	
Add: Decrease in Inventories (₹20,10,000 – ₹19,20,000)	90,000	
Increase in provision for doubtful debts (₹ 4,20,000 – ₹1,50,000)	2,70,000	
	27,80,000	
Less: Increase in Current Assets:		

Trade receivables (₹ 30,60,000 – ₹23,90,000)	6,70,000		
Prepaid expenses (₹ 1,20,000 – ₹90,000)	30,000		
Decrease in current liabilities:			
Trade payable (₹ 8,80,000 – ₹ 8,20,000)	60,000		
Expenses outstanding (₹ 3,30,000 – ₹2,70,000)	60,000	8,20,000	
Net cash from operating activities			19,60,000
Cash flows from Investing activities			
Purchase of Plant & Equipment (₹ 40,70,000 – ₹ 27,30,000)		13,40,000	
Net cash used in investing activities			(13,40,000)
Cash flows from Financing Activities			
Bank loan raised (₹ 3,00,000 – ₹ 1,50,000)		1,50,000	
Issue of debentures		9,00,000	
Payment of Dividend (₹ 12,00,000 – ₹ 1,50,000)		(10,50,000)	
Net cash used in financing activities			NIL
Net increase in cash during the year			6,20,000
Add: Cash and cash equivalents as on 1.4.2013			27,00,000
Cash and cash equivalents as on 31.3.2014			33,20,000

Note: Bad debts amounting ₹ 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and debtors as on 31.3.2014. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of debtors and provision for doubtful debts as appearing in the balance sheet on 31.3.2014.

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

For the year ended 31st March, 2014

Particulars	*Total Amount*	*Basis of Allocation*	*Pre-incorporation*	*Post-incorporation*
Gross Profit	3,90,800	Sales	39,080	3,51,720
Less: Directors' fee	30,000	Post		30,000
Bad debts	7,200	Sales	720	6,480

Advertising	24,000	Sales	2,400	21,600
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Net Profit	1,91,600			1,87,640
Pre-incorporation profit transfer to Capital Reserve			3,960	

Working Notes:

1. Sales ratio

Particulars	₹
Sales for period up to 30.06.2013 (4,80,000 × 3/6)	2,40,000
Sales for period from 01.07.2013 to 31.03.2014 (24,00,000 – 2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 2013 to 30 June, 2013: 1st July, 2013 to 31st March, 2014

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

4. Journal Entries

		₹	₹
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.	1,05,000	
P & L A/c	Dr.	10,000	
To Bonus to Shareholders			2,25,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated …….)			
Bonus to Shareholders A/c	Dr.	2,25,000	
To Equity Share Capital			2,25,000
(Being capitalization of Profit)			

5. In the books of M Ltd.

Journal Entries

	Particulars		*Dr. Amount (₹)*	*Cr. Amount (₹)*
1.	Equity Share Capital (₹ 100) A/c	Dr.	35,00,000	
	To Equity Share Capital (₹ 25) A/c			8,75,000
	To Capital Reduction A/c			26,25,000
	(Being Equity shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c)			
2.	10% Preference Share Capital (₹ 100) A/c	Dr.	15,00,000	
	To 10% Preference Share Capital (₹ 75) A/c			11,25,000
	To Capital Reduction A/c			3,75,000
	(Being Preference shares of ₹ 100 each reduced to ₹ 75 each and balance transferred to Capital Reduction A/c. Total Pref Shares = 15,000)			
3.	10% Preference Share Capital (₹ 75) A/c	Dr.	11,25,000	
	To 13% Preference Share Capital (₹ 50) A/c			7,50,000
	To Equity Share Capital A/c (₹ 25)			3,75,000
	(Being one new 13% Preference share of ₹ 50 each and one equity share of ₹ 25 each issued against 10% Preference Share of ₹ 75 each. Total Pref Shares = 15,000)			
4.	Capital Reduction A/c	Dr.	1,50,000	
	To Preference share dividend payable A/c			1,50,000
	(Being arrear of Preference share dividend payable for one year)			
5.	Preference share dividend payable A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Being Equity Shares of ₹ 25 each issued for arrears of Preference Share dividend)			
6.	7% Debentures A/c	Dr.	5,00,000	
	To Debenture holders A/c			5,00,000
	(Being balance of 7% Debentures transferred to Debenture holders A/c)			
7.	Debenture holders A/c	Dr.	5,00,000	

	To 13% Preference Share Capital A/c			2,50,000
	To Bank A/c			2,25,000
	To Capital Reduction A/c			25,000
	(Being 50% of Debenture holders opted to take 13% Preference shares at par and remaining took 90% cash payment for their claims)			
8.	Loan from Director A/c	Dr.	1,50,000	
	To Provision for Contingent Liability A/c			1,50,000
	(Being provison for contingent liability of ₹ 1,50,000 as it is payable and the same is adjusted against Loan from director A/c)			
9.	Bank A/c	Dr.	10,00,000	
	To Equity Share Application & Allotment A/c			10,00,000
	(Being application money received on 40,000 Equity shares @ ₹ 25 each)			
10.	Equity Share Application & Allotment A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Being application money transferred to capital A/c, on allotment)			
11.	Land & Buildings A/c	Dr.	3,00,000	
	To Capital Reduction A/c			3,00,000
	(Being value of Land & Buildings appreciated)			
12.	Expenses on Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of expenses on reconstruction)			
13.	Capital Reduction A/c	Dr.	31,75,000	
	To Plant & Machinery A/c			4,00,000
	To Inventory A/c			1,00,000
	To Trade receivables A/c			1,50,000
	To Profit & Loss A/c			23,00,000
	To Expenses on Reconstruction A/c			15,000
	To Capital Reserve A/c (bal fig)			2,10,000
	(Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)			

6. Calculation of Purchase Consideration

	P Ltd. (₹)	Q Ltd. (₹)
Assets taken over:		
Goodwill	50,000	1,50,000
Building	1,00,000	1,90,000
Plant & Machinery	25,000	80,000
Furniture & Fixtures	-	35,000
Inventories	1,35,000	50,000
Trade Receivables	-	1,42,000
Cash at Bank	-	58,000
	3,10,000	7,05,000
Less :Liabilities taken over		
8% Debentures	(1,21,000)	-
Trade Payables	-	(1,40,000)
Net Assets taken over	1,89,000	5,65,000
To be satisfied by issue of shares of PQ Ltd. of ₹ 10 each at par	18,900	56,500

PQ Limited

Balance Sheet as at 1st April, 2014

Particulars	*Note No.*	*Amount (₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	7,54,000
(b) Reserve & Surplus	2	11,000
(2) Non-current Liabilities		
(a) Long term borrowings	3	1,10,000
(3) Current Liabilities		
(a) Trade Payables		1,40,000
Total		10,15,000
II. Assets		
(1) Non-current assets		
Fixed Assets		

Tangible	4	4,30,000
Intangible	5	2,00,000
(2) Current Assets		
a) Inventories		1,85,000
b) Trade Receivables		1,42,000
c) Cash at Bank		58,000
Total		10,15,000

Notes to Accounts:

			₹
1	Share Capital		
	Authorized		
	1,00,000 shares of ₹ 10 each		10,00,000
	Issued, Subscribed and Paid up		
	75,400 shares of ₹ 10 each		7,54,000
	(All the above shares are allotted as fully paid up pursuant to scheme of amalgamation without payments being received in cash)		
2	Reserve & Surplus		
	Securities Premium Account		11,000
3	Long term borrowings		
	8 % Debentures		1,10,000
4	Tangible Fixed Assets		
	Building		
	P Ltd.	1,00,000	
	Q Ltd.	1,90,000	2,90,000
	Plant & Machinery		
	P Ltd.	25,000	
	Q Ltd.	80,000	1,05,000
	Furniture & Fixture		
	Q Ltd.		35,000
			4,30,000
5	Intangible Asset		
	Goodwill		
	P Ltd.	50,000	
	Q. Ltd.	1,50,000	2,00,000

Working Note:

Computation of Securities Premium

Debentures issued by PQ Ltd. to the existing debenture holders of P Ltd. at 10% premium.

Securities Premium = ₹ 1,10,000 x 10% = ₹ 11,000.

7. Calculation of number of days from base date

Transaction date	*Due date*	*Amount ₹*	*No. of days from Base date (Base date 19.6.2014)*	*Product*
8.3.2014	11.7.2014	4,000	22	88,000
16.3.2014	19.6.2014	5,000	0	0
7.4.2014	10.9.2014	6,000	83	4,98,000
17.5.2014	20.8.2014	5,000	62	3,10,000
		20,000		8,96,000

Average due date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2014 + ₹ 8,96,000 / ₹ 20,000

= 19.6.2014 + 45 days approximately = 3.8.2014

8. In the books of Sunil

Rohan in Account Current with Sunil

as on 30th June, 2014

Date 2014	Particulars	Amount ₹	Days	Interest ₹	Date 2014	Particulars	Amount ₹	Days	Interest ₹
Feb. 16	To Sales	6,480.00	134	237.90	Jan. 1	By Balance b/d	3,010.00	181	149.26
Mar. 24	To Sales	3,560.00	98	95.58	Jan. 7	By Purchases	4,430.00	174	211.18
June 22	To Sales	2,280.00	8	5.00	Feb 18	By Returns inward	560.00	132	20.25
June 30	To Balance of interest			107.08	Apr. 22	By B/R (maturing on 25 July, 2014)	1,500.00	(25)	(10.27)*
June 30	To Balance c/d	2,497.08			Apr. 29	By Cash	2,500.00	62	42.47
					May 17	By Purchases	2,710.00	44	32.67
					June 30	By Interest	107.08		
		14,817.08		445.56			14,817.08		445.56
					July 1	By Balance b/d	2,497.08		

* Interest on amount of Bill receivable maturing on 25th July, 2014 is a red ink interest.

Credit for the B/R is given on the date when it is received, but the amount will be received only on its maturity. Hence, the interest for the period for which the bill is to run after accounting period is shown as negative figure.

9. **Calculation of total Interest and Interest included in each installment**

Hire Purchase Price (HPP) = Down Payment + instalments

= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000

Total Interest = 1,80,000 – 1,50,000 = 30,000

Calculation of Ratio of HPP in beginning of each year

Year	*Outstanding HPP at beginning*	*Installment Paid*	*Outstanding balance at end*
1	1,50,000	50,000	1,00,000
2	1,00,000	50,000	50,000
3	50,000	30,000	20,000
4	20,000	20,000	-

Ratio of outstanding HPP at beginning for each year = 15:10:5: 2

Total Interest is of ₹ 30,000

I st Year	$= 30,000 \times \frac{15}{32} = 14,062$
II nd year	$= 30,000 \times \frac{10}{32} = 9,375$
III rd year	$= 30,000 \times \frac{5}{32} = 4,688$ (rounded off)
IV th year	$= 30,000 \times \frac{2}{32} = 1,875$

10. General Ledger Adjustment Account in Debtors' Ledger

Date	Particulars		₹	Date	Particulars		₹
1.4.2013	To Balance b/d		480	1.4.2013	By Balance b/d		94,400
1-4-2013 to 31-3-2014	To Debtor's ledger adjustment account:			1-4-2013 to 31-3-2014	By Debtors ledger adjustment account:		
	Bank	1,16,400			Sales	2,24,000	
	Discount	1,600			Bills receivable dishonoured	3,000	
	Returns	5,200					
	Bills receivable	40,200			Endorsed bills receivable dishonoured	2,000	2,29,000
	Bad debts Written off	5,000	1,68,400				
31.3.2014	To Balance c/d (balancing figure)		1,55,280	31.3.2014	By Balance c/d		760
			3,24,160				3,24,160

11. (a) Income and Expenditure Account

for the year ended 31st March, 2015 (An Extract)

		Income	₹
		Subscriptions (₹ 3,600 x 200 members)	7,20,000

Balance Sheet as on 31st March, 2015 (An Extract)

Liabilities	₹	*Assets*		₹
Subscription received in advance	7,200	Subscription in arrear:		
		For 2013-14	3,600	
		For 2014-15	21,600	25,200

Working Note:

Subscription due for 2014-15 (₹ 3,600 x 200)	₹ 7,20,000
Subscription received for 2014-15	₹ 6,98,400
Subscription in arrear for 2014-15	21,600

(b) Receipts and Payments Account

For the year ended 31-3-2015

To Subscription A/c (W.N.1)	67,050	By Balance b/d		
To Donation A/c	5,000	(Bank overdraft)		15,000
To Entrance Fees A/c	4,000	By Salary	19,500	
To Furniture A/c (Sale of furniture) (7,000 – 2,500)	4,500	*Add:* Outstanding of last year *Less:* Outstanding of this year	1,200 (350)	20,350
		By Rent	4,500	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(800)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		By Games & Sports		3,500

		By Miscellaneous Expenses		14,500
		By Sports Equipment		
		(Purchased) (W.N. 2)		5,000
		By Furniture (Purchased)(W.N.3)		8,000
		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			80,550

Working Notes:

1. Calculation of subscription received during the year 2014-2015

	₹	₹
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2014-2015	3,700	
Advance in 2013-2014	1,000	(4,700)
		63,300
Add: Arrears of 2013-2014	2,600	
Advance for 2015-2016	1,500	4,100
		67,400
Less: Written off during 2014-2015		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2014-2015

Sports Equipment A/c

	₹		₹
To Balance b/d	25,000	By Income & Expenditure A/c	6,000
To Receipts & Payments A/c	5,000	(Depreciation)	
(Purchases) (bal. fig.)		By Balance c/d	24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2014-2015

Furniture A/c

	₹		₹
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c	8,000	By Income & Expenditure A/c	2,500
(Purchases)(Bal.fig.)		(Loss on sale)	
		By Income & Expenditure A/c	

		(Depreciation)	3,100
		By Balance c/d	27,900
	38,000		38,000

12. Books of A Pvt. Ltd.

Investment in 13.5% Convertible Debentures in Pergot Ltd. Account

(Interest payable 31st March & 30th September)

Date	*Particulars*	*Nominal*	*Interest*	*Amount*	*Date*	*Particulars*	*Nominal*	*Interest*	*Amount*
		₹	₹	₹			₹	₹	₹
2014					2014				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313		Dec.31	By Equity share	1,10,000		1,12,108
					Dec.31	By Bank (See note1)		3,713	
					Dec.31	By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note 1: ₹ 3,713 received on 31.12.2014 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in P Ltd. Account

Date	*Particulars*	*Nominal*	*Amount*	*Date*	*Particulars*	*Nominal*	*Amount*
		₹	₹			₹	₹
2014				2014			
Dec 31	To 13.5% Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		1,00,000	1,12,108			1,00,000	1,12,108

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2014 for the month of April 2014, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625

2. Interest received on 30th Sept. 2014

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ₹ 50,625

3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2014 for April 2014 to July 2014 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Loss on Sale of Debentures

   Cost of acquisition

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000 = 2,03,833

   Less: Sale Price (2000 x 103) = 2,06,000

   Profit on sale = ₹ 2,167

5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2014

   1,10,000 x 13.5% x 3/12 = ₹ 3,713

6. Cost of Debentures converted to Equity Shares

   (₹ 5,19,375 + ₹ 2,45,000) x 1,10,000/7,50,000= ₹ 1,12,108

7. Cost of Balance Debentures

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 4,40,000/₹ 7,50,000 = ₹ 4,48,434

8. Interest on Closing Debentures for period Oct.-Dec. 2014 carried forward (accrued interest)

   ₹ 4,40,000 x 13.5% x 3/12 = ₹ 14,850

13. Trading and Profit and Loss Account of Mr. X

for the year ended 31st March, 2015

	Particulars	₹		*Particulars*	₹
To	Opening stock	1,60,000	By	Sales (W.N. 11)	13,71,000
To	Purchases (W.N.5) 9,12,000		By	Closing stock	1,40,000
	Less: Advertisement (18,000)	8,94,000			
To	Gross profit c/d	4,57,000			
		15,11,000			15,11,000
To	Expenses (W.N.7)	3,44,000	By	Gross profit b/d	4,57,000
To	Discount allowed (W.N.9)	32,500	By	Discount received (W.N.10)	16,000

To	Advertisement	18,000	By	Interest on Govt. Securities (W.N.8)	4,000
To	Depreciation on furniture (W.N.1)	13,000	By	Miscellaneous income	10,000
To	Net profit	79,500			
		4,87,000			4,87,000

Balance Sheet of Mr. X as on 31st March, 2015

Liabilities		₹	*Assets*	₹
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional capital (W.N.2)	1,72,000		4% Government Securities	1,92,000
			Accrued interest on Govt. securities (W.N.8)	4,000
Add: Profit during the year	79,500			
	6,27,500		Debtors (W.N.3)	2,99,000
Less: Drawings	(1,40,000)	4,87,500	Bills Receivable (W.N.4)	35,000
Creditors		3,00,000	Stock	1,40,000
Outstanding expenses		36,000	Prepaid expenses	14,000
			Cash on hand	3,000
			Bank balance	9,500
		8,23,500		8,23,500

Working Notes:

1. Furniture account

		₹			₹
To	Balance b/d	1,20,000	By	Depreciation (bal.fig.)	13,000
To	Bank	20,000	By	Balance c/d	1,27,000
		1,40,000			1,40,000

2. Cash and Bank account

		₹			₹
To	Balance b/d		By	Creditors	7,84,000
	Cash	4,000	By	Drawings	1,40,000
	Bank	20,000	By	Furniture	20,000
To	Debtors	11,70,000	By	4% Govt. securities	1,92,000
To	Bill Receivable	1,22,500	By	Expenses	3,50,000
To	Miscellaneous income	10,000	By	Balance c/d	

To	Additional Capital (bal.fig.)	1,72,000	Cash	3,000
			Bank	9,500
		14,98,500		14,98,500

3. Debtors account

		₹			₹
To	Balance b/d	3,20,000	By	Cash and Bank	11,70,000
To	Creditors (Bills receivable dishonoured)	8,000	By	Discount	30,000
To	Sales (W.N.11)	13,71,000	By	Bills Receivable	2,00,000
			By	Balance c/d (bal.fig.)	2,99,000
		16,99,000			16,99,000

4. Bills Receivable account

		₹			₹
To	Debtors	2,00,000	By	Bank	1,22,500
			By	Discount	2,500
			By	Creditors	40,000
			By	Balance c/d (bal. fig.)	35,000
		2,00,000			2,00,000

5. Creditors account

		₹			₹
To	Bank	7,84,000	By	Balance b/d	2,20,000
To	Discount	16,000	By	Debtors (Bills receivable dishonoured)	8,000
To	Bills receivable	40,000	By	Purchases (bal.fig.)	9,12,000
To	Balance c/d	3,00,000			
		11,40,000			11,40,000

6. Balance Sheet as on 1st April, 2014

Liabilities	₹	*Assets*	₹
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing figure)	3,76,000	Stock	1,60,000

		Prepaid expenses	12,000
		Cash	4,000
		Bank balance	20,000
	6,36,000		6,36,000

7. Expenses incurred during the year

		₹
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on 31.3.2015	36,000	
Prepaid expenses as on 31.3.2014	12,000	48,000
		3,98,000
Less: Outstanding expenses as on 31.3.2014	40,000	
Prepaid expenses as on 31.3.2015	14,000	(54,000)
Expenses incurred during the year		3,44,000

8. Interest on Government securities

$$\left(\frac{1{,}92{,}000}{96\%} \times 4\% \times \frac{6}{12}\right) = ₹\ 4{,}000$$

Interest on Government securities receivables for 6 months = ₹ 4,000.

9. Discount allowed

		₹
Discount to Debtors	$\left(\frac{11{,}70{,}000}{97.5\%} \times 2.5\%\right)$	30,000
Discount on Bills Receivable	$\left(\frac{1{,}22{,}500}{98\%} \times 2\%\right)$	2,500
		32,500

10. Discount received

		₹
Discount to Creditors	$\left(\frac{7{,}84{,}000}{98\%} \times 2\%\right)$	16,000

11. Credit sales

Cost of Goods sold = Opening stock + Net purchases – Closing stock

= ₹ 1,60,000 + ₹ (9,12,000 – 18,000) – ₹ 1,40,000 = ₹ 9,14,000

Sales price = ₹ 9,14,000 x $\frac{3}{2}$ = ₹ 13,71,000

14. (a) Memorandum Trading Account from 1st April, 2014 to 22nd January, 2015

		₹		₹
To Opening Stock		13,27,200	By Sales	49,17,000
To Purchases	34,82,700		By Stock on 22nd January,	
Less : Cost of goods used for advertising	(1,00,000)	33,82,700	2015- Balancing figure	7,76,300
To Gross Profit				
20% of sales (Working Note)		9,83,400		
		56,93,300		56,93,300

Stock in hand on date of fire = ₹ 7,76,300.

Computation of claim for loss of stock

	₹
Stock on the date of fire i.e. on 22nd January, 2015	7,76,300
As the value of goods salvaged was negligible, therefore Loss of stock	7,76,300

Since policy amount is less than claim amount, claim will be restricted to policy amount only. Therefore, claim of ₹ 5,50,000 should be lodged by X Ltd. to the insurance company

Working Note:

Trading Account for the year ended on 31st March, 2014

	₹		₹
To Opening Stock	9,62, 200	By Sales	52,00,000
To Purchases	45,25,000	By Closing Stock	13,27,200
To Gross Profit	10,40,000		
	65,27,200		65,27,200

Rate of gross profit to sales = 10,40,000 /52,00,000 x 100 = 20%.

(b) Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100$$

$$= \frac{45,000+90,000}{4,50,000} \times 100 = 30\%$$

Calculation of policy amount to cover loss of profit

	₹
Turnover in the last financial year	4,50,000
Add: 25% increase in turnover	1,12,500
	5,62,500
Gross profit on increased turnover (5,62,500 x 30%)	1,68,750
Add: Additional standing charges	30,000
Policy Amount	1,98,750

Therefore, the trader should go in for a loss of profit policy of ₹ 1,98,750.

15. (i) Profit and Loss Adjustment Account*

	₹		₹
To Expenses not provided for (years 2012-2015)	1,10,000	By Income not considered (for years 2012-2015)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		1,10,000

(ii) Partners' Capital Accounts

	Laurel ₹	*Hardy* ₹	Chaplin ₹		*Laurel* ₹	*Hardy* ₹	*Chaplin* ₹
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d	1,29,500	1,89,500	63,800	By Cash	-	-	63,800
	2,11,500	2,11,500	63,800		2,11,500	2,11,500	63,800
				By Balance b/d	1,29,500	1,89,500	63,800

* It is assumed that expenses and incomes not taken into account in earlier years were fully ignored.

(iii) Balance Sheet of LH & Co.
as on 1.4.2015
(After admission of Chaplin)

Liabilities	₹	*Assets*	₹
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		7,19,800

Working Notes:

1. Computation of Profit and Loss distributed among partners

		₹
Profit for the year ended	31.3.2012	1,40,000
	31.3.2013	2,60,000
	31.3.2014	3,20,000
	31.3.2015	3,60,000
Total Profit		10,80,000

	Laurel	*Hardy*	Total
	₹	₹	₹
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by ₹ 60,000 and Hardy to be credited by ₹ 60,000.

2. Capital brought in by Chaplin

	₹
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of ₹ 3,19,000)	63,800

16. The proposals will be evaluated and vendor will be selected considering the following criteria:
    1. Quantum of services provided and whether the same matches with the requirements of the hospital.
    2. Reputation and background of the vendor.
    3. Comparative costs of the various propositions.
    4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
    5. Assurance of quality, confidentiality and secrecy.
    6. Data storage and processing facilities.

17. (a) As per Rule 5 of the Companies (Accounting Standards) Rules, 2006, an existing company, which was previously not an SMC and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of accounting standards available to an SMC until the company remains an SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions available with the SMCs for the year ended 31st March, 2015.

    (b) Working Notes:

Raw Material X	₹
Cost Price	200
Less: Cenvat Credit	(10)
	190
Add: Freight Inward	20
Unloading charges	10
Cost	220
Finished goods Y	₹
Materials consumed	220
Direct Labour	60
Direct overhead	40
Fixed overheads (₹ 2,00,000/20,000 units)	10
Cost	330

If Net Realisable Value of the Finished Goods Y is ₹ 400

NRV is greater than the cost of Finished Goods Y i.e. ₹ 330

Hence, Raw Material and Finished Goods are to be valued at cost

Value of Closing Stock:

	Qty	Rate	Amount (₹)
Raw Material X	500	220	1,10,000
Finished Goods Y	1,200	330	3,96,000
Total Cost of Closing Stock			5,06,000

18. (a) Depreciation of Original Machine

		₹
Original cost of Machine as on 01.04.2010		4,00,000
Less: Residual Value 10%		(40,000)
Depreciable Value		3,60,000
Useful life	10 Years	
Depreciation per year		36,000
Depreciation for 3 Years		1,08,000
Written down value at the beginning of 4th year (as on (4,00,000 – 1,08,000)	01.04.2013)	2,92,000
Add: Revaluation		90,000
Total Book Value after revaluation		3,82,000
Reassessed remaining useful life	9 Years	
Depreciation per year from 2013-14		42,444

Depreciation of Attachment

		₹
Original cost of Attachment as on 01.04.2013		1,80,000
Useful life	10 Years	
Depreciation per year from 2013-14		18,000

Depreciation for the year 2013-14

(i) **If Attachment retains its separate identity:**

Depreciation of Original Machine	₹ 42,444
Depreciation of Attachment	₹ 18,000
Total Depreciation for 2013-14	₹ 60,444

(ii) **If Attachment becomes integral part of the Machine:**

Total value of Machine as on 01.04.2013

Original Machine at revalued cost (W.N.1)	₹ 3,82,000
Cost of attachment	₹ 1,80,000
	₹ 5,62,000
Useful life	9 Years
Depreciation for 2013-14	₹ 62,444

Note:

Since, upward revaluation of the machine and reassessment of remaining useful life had been made at the beginning of the 4th year, it is implied that depreciation for the 3rd year has been charged on the basis of old calculation & remaining useful life of 9 years is to be calculated from the beginning of the 4th year onwards.

(b) Machine Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
01.04.2009	To Bank	1,00,000	31.03.2010	By Depreciation	10,000
				By Balance c/d	90,000
		1,00,000			1,00,000
01.04.2010	To Balance b/d	90,000	31.03.2011	By Depreciation	21,250
01.07.2010	To Bank	1,50,000		By Balance c/d	2,18,750
		2,40,000			2,40,000
01.04.2011	To Balance b/d	2,18,750	31.03.2012	By Depreciation	35,000
01.10.2011	To Bank	2,00,000		By Balance c/d	3,83,750
		4,18,750			4,18,750
01.04.2012	To Balance b/d	383,750	31.12.2012	By Bank	125,000
31.12.2012	To Profit on Sale	12,500	31.03.2013	By Depreciation	41,250
				By Balance c/d	2,30,000
		3,96,250			3,96,250
01.04.2013	To Balance b/d	2,30,000	31.03.2014	By Profit & Loss A/c.	33,300
				By Depreciation (1,96,700 x 15%)	29,505
				By Balance c/d	1,67,195
		2,30,000			2,30,000
01.04.2014	To Balance b/d	1,67,195			

Working Note 1: Depreciation charged under old method:

Particulars	₹	₹
Purchase of first machine	1,00,000	
Depreciation for 4 years (1,00,000 x 10% x 4)		40,000
Purchase of third machine	2,00,000	
Depreciation for 1.5 years (2,00,000 x 10% x 1.5)		30,000
Total Depreciation charged		70,000

Working Note 2: Depreciation to be charged under new method:

Year	*Opening WDV* ₹	*Purchases* ₹	*Balance* ₹	*Depreciation* ₹	*Closing WDV* ₹
2009-10	---	1,00,000	1,00,000	15,000	85,000
2010-11	85,000	---	85,000	12,750	72,250
2011-12	72,250	2,00,000	2,72,250	40,838	2,31,412
2012-13	2,31,412	---	2,31,412	34,712	1,96,700
		Total Depreciation		1,03,300	

19. (a) Calculation of foreseeable loss for the year ended 31st March, 2015 (as per AS 7 "Construction Contracts")

	(₹ in lakhs)
Cost incurred till 31st March, 2015	83.99
Prudent estimate of additional cost for completion	36.01
Total cost of construction	120.00
Less: Contract price	(108.00)
Foreseeable loss	12.00

According to para 35 of AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of ₹12 lakhs is required to be provided for in the books of Sampath Construction Company for the year ended 31st March, 2015.

(b) Price revision was effected during the current accounting period 2013-2014. As a result, the company stands to receive ₹ 15 lakhs from its customers in respect of sales made from 1st January, 2014 to 31st March, 2014. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognised in 2013-2014 vide para 10 of AS 9.

20. (a) Calculation of the cost for Purchase of Land

		(₹ in lakhs)
Cost of Land		5,00,000
Legal Fees		25,000
Title Insurance		10,000
Cost of Demolition	50,000	
Less: Salvage value of Material	(10,000)	40,000
Cost of the Asset		5,75,000

(b) X limited invested ₹ 600 lakhs in the equity shares of Y Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by X Limited only for 3 months (from 1.1.2015 to 31.3.2015), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2015 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be included in the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.

Here, Y Limited lost a case of copyright which drastically reduced the realisable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by ₹ 200 lakhs and shown the investments at ₹ 100 lakhs, considering the downfall in the value of shares as decline other than temporary. The reduction of ₹ 200 lakhs* in the carrying value of long term investment will be included in the profit and loss account.

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* *If one assumes that the decline in the value of long term investment is temporary and Y Limited will overcome this downfall in short period by filing a case against this decision of government, with strong arguments. In such a case, long term investment will be shown at cost.*