

PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2013 EXAMINATION

A. Applicable for November, 2013 examination

(i) 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 the ICAI on 7th March, 2013. This revision is applicable with effect from the accounting year commencing on or after April 1, 2012.

(ii) Revised Schedule VI

The Ministry of Corporate Affairs (MCA) has revised Schedule VI to the Companies Act, 1956 on 28th February, 2011 pertaining to the preparation of Balance Sheet and Statement of Profit and Loss under the Companies Act, 1956. This revised Schedule VI has been framed as per the existing non-converged Accounting Standards notified under the Companies (Accounting Standards), Rules, 2006. The Revised Schedule VI has come into force for the Balance Sheet and Statement of Profit and Loss prepared for the financial year commencing on or after 1.4.2011.

B. Not applicable for November, 2013 examination

Ind ASs issued by the Ministry of Corporate Affairs

The MCA has placed 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 standards shall be applied for all companies falling under Phase I to Phase III as prescribed under the roadmap issued by the core group. **These Ind ASs are not applicable for the students appearing in November, 2013 Examination.**

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies – Schedule VI

1. (a) Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2013:

	<i>Amount ₹ in lakhs</i>
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 Revised Schedule VI to the Companies Act, 1956.

- (b) Sumedha Ltd. took a loan from bank for ₹ 10,00,000 to be settled within 5 years in 10 equal half yearly instalments with interest. First instalment is due on 30.09.2013 of ₹ 1,00,000. Determine how the loan will be classified in preparation of Financial Statements of Sumedha Ltd. for the year ended 31st March, 2013 according to Revised Schedule VI.

Managerial Remuneration

2. Kumar Ltd., a non investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(₹ in lakhs)
Paid up equity share capital	120
Paid up Preference share capital	20
Reserves (including Revaluation reserve ₹ 10 lakhs)	150
Securities premium	40
Long term loans	40
Deposits repayable after one year	20
Application money pending allotment	720
Accumulated losses not written off	20
Investments	180

Kumar Ltd. has only one whole-time director, Mr. X. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Part II of Schedule XIII, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years.

Cash Flow Statements

3. Bell Co. Ltd. submits the following information pertaining to year 2012-2013. Using the given data, you are required to prepare Cash Flow Statement for the year ended 31st March, 2013 by indirect method.

	(₹ in millions)
Opening balance of cash and cash equivalents	1.55
Additional shares issued	6.50

Capital expenditure	9.90
Proceeds from assets sold	1.60
Dividend paid	0.50
Loss from disposal of assets	1.20
Net profit for the year	3.30
Increase in Accounts Receivable	1.50
Redemption of 4.5% debentures	2.50
Depreciation and Amortization	0.75

Accounting for Bonus Issue

4. Following items appear in the Trial Balance of X Ltd. as at 31st March 2013:

	₹
Authorised share capital:	
3,00,000 equity shares of ₹ 10 each	30,00,000
Issued and Subscribed share capital:	
80,000 Equity Shares of ₹ 10 each, ₹ 7.50 paid up	6,00,000
1,20,000 Equity Shares of ₹ 10 each	12,00,000
Capital Redemption Reserve	2,60,000
Plant Revaluation Reserve	20,000
Securities Premium Account	1,20,000
General Reserve	2,00,000
Profit & Loss Account	1,00,000
Capital Reserve (including ₹ 50,000 being profit on sale of machinery)	1,50,000
Remaining balance of capital reserve is on account of non-cash items.	

The company decided to convert the partly paid equity shares into fully paid shares by way of bonus and to issue fully paid-up bonus shares to the holders of fully paid up shares in the same ratio.

You are required to pass the necessary journal entries assuming that there should be minimum reduction in free reserves.

Profit or Loss Pre and Post Incorporation

5. A Ltd. was incorporated on 1st May, 2012 to take over the running business of M/s Om from 1st January, 2012. The accounts of A Ltd. were made up to 31st December, 2012

and Draft Trading and Profit and Loss Account were as follows:

<i>Particulars</i>	₹	<i>Particulars</i>	₹
To Opening Stock	1,40,000	By Sales	12,00,000
To Purchases	9,10,000	By Closing Stock	1,50,000
To Gross Profit c/d	<u>3,00,000</u>		
	<u>13,50,000</u>		<u>13,50,000</u>
To Rent, Rates and Insurance	18,000	By Gross Profit b/d	3,00,000
To Interest	6,000		
To Director's Fees	20,000		
To Salaries	51,000		
To Office Expenses	42,000		
To Travelers' Commission	12,000		
To Discounts	5,000		
To Advertisement	10,000		
To Bad Debts	3,000		
To Depreciation	15,000		
To Debenture Interest	4,500		
To Net Profit	<u>1,13,500</u>		
	<u>3,00,000</u>		<u>3,00,000</u>

It is ascertained that the sales of November and December are one and half times the average of those for the year while sales for February and April are only half the average.

You are required to show the apportionment of year's profit between the pre and post-incorporation periods.

Internal Reconstruction of a Company

6. Following is the summarized Balance Sheet of Max Ltd. as at March 31, 2013.

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Share capital:		Goodwill	20,000
Equity shares of ₹ 100 each	15,00,000	Other fixed assets	15,00,000
9% Preference shares of ₹ 100 each	5,00,000	Trade receivables	6,51,000
General reserve	1,80,000	Inventory	3,93,000
Profit and loss account	-	Cash at bank	26,000
12% Debentures of ₹ 100 each	6,00,000	Own debentures	1,92,000
Trade payables	4,15,000	(Nominal value ₹ 2,00,000)	
		Profit and loss account	<u>4,13,000</u>
	<u>31,95,000</u>		<u>31,95,000</u>

On 1.4.2013, Max Ltd. adopted the following scheme of reconstruction:

- (i) Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.
- (ii) Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.
- (iii) Own debentures of ₹ 80,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.
- (iv) Debentureholders of ₹ 2,80,000 agreed to accept one machinery of book value of ₹ 3,00,000 in full settlement.
- (v) Trade payables, trade receivables and inventory were valued at ₹ 3,50,000, ₹ 5,90,000 and ₹ 3,60,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.
- (vi) The Company paid ₹ 15,000 as penalty to avoid capital commitments of ₹ 3,00,000.

You are required to give Journal entries for reconstruction in the books of Max Ltd.

Amalgamation of Companies

7. Hari Ltd. and Narayan Ltd. are to be amalgamated into Hari Narayan Ltd. The new company is to take over all the assets and liabilities of the amalgamating companies.

Assets and Liabilities of Hari Ltd. are to be taken over at book values in exchange of shares in Hari Narayan Ltd. Three shares in the new company are to be issued at a premium of 20% for every two shares of Hari Ltd.

The approved scheme for Narayan Ltd. is as follows:

1. 10% Preference shareholders are to be allowed two 15% Preference shares of ₹ 100 each in Hari Narayan Ltd. for three Preference shares held in Narayan Ltd.
2. The Debentures of Narayan Ltd. are to be paid off at 5% discount by the issue of debentures of Hari Narayan Ltd. at par.
3. The Equity shareholders of Narayan Ltd. are to be allowed as many shares at par in Hari Narayan Ltd. as will cover the balance on their account and for this purpose, plant and machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.

The summarised Balance Sheets of the two companies prior to amalgamation are as follows:

<i>Liabilities</i>	<i>Hari Ltd.</i>	<i>Narayan Ltd.</i>	<i>Assets</i>	<i>Hari Ltd.</i>	<i>Narayan Ltd.</i>
	₹	₹		₹	₹
Equity shares of ₹ 10 each	6,40,000	12,50,000	Plant and Machinery	12,80,000	20,00,000

10% Preference shares of ₹ 100 each	-	7,50,000	Trade receivables	1,52,000	1,25,000
General Reserves	8,80,000	-	Inventory	1,00,000	1,50,000
Secured Debentures	-	5,00,000	Cash and Bank Balance	1,08,000	1,00,000
Trade payables	1,20,000	2,25,000	Profit and Loss Account	-	3,50,000
	<u>16,40,000</u>	<u>27,25,000</u>		<u>16,40,000</u>	<u>27,25,000</u>

You are required to show the Journal Entries and the Balance Sheet of the amalgamated company immediately after amalgamation.

Average Due Date

8. (a) Ketan had accepted bills payable to Mitesh, falling due on different dates. The details of bills are as follows:

<i>Date of bill</i>	<i>Amount</i>	<i>Usance of bill</i>
10th April 2012	₹ 4,000	for 4 months
18th April 2012	₹ 5,000	for 3 months
25th May 2012	₹ 3,000	for 6 months
5th June 2012	₹ 6,000	for 3 months

On 1st July, it was agreed that these bills should be withdrawn and that Ketan should accept on that day two bills, one for ₹ 10,000 due in 4 months and the other for the balance with interest, due in 6 months. Calculate the amount of the second bill taking interest @ 10% p.a. Take 365 days in year 2012-2013 for calculation purposes.

Account Current

- (b) On 1st January, 2013, X's account in Y's ledger showed a debit balance of ₹ 5,000. The following transactions took place between Y and X during the quarter ended 31st March, 2013:

2013			₹
Jan.	11	Y sold goods to X	6,000
Jan.	24	Y received a promissory note from X due after 3 months	5,000
Feb.	01	X sold goods to Y	10,000
Feb.	04	Y sold goods to X	8,200

Feb.	07	X returned goods to Y	1,000
March	01	X sold goods to Y	5,600
March	18	Y sold goods to X	9,200
March	23	X sold goods to Y	4,000

Accounts were settled on 31st March, 2013 by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March, 2013, taking interest into account @ 10% per annum. Calculate interest to the nearest multiple of a rupee.

Self – Balancing Ledgers

9. The following information is extracted from a set of books of Mr. Vasu for the year ended 31st December, 2012:

	₹
Sales	11,26,000
Purchases	6,44,000
Returns outward	15,200
Cash received from debtors	3,68,400
Bills payable accepted	2,40,000
Returns inward	33,600
Cash paid to creditors	3,60,000
Bills receivable received	3,20,000
Discounts received	8,400
Bad debts written off	24,000
Discount allowed	21,600

The total of the sales ledger balances on 1st Jan, 2012 was ₹ 6,41,600 and that of the purchases ledger balances on the same date was ₹ 3,72,800.

Prepare Sales Ledger and Purchases Ledger Adjustment Accounts in the General Ledger from the above information.

Financial Statements of Not-For-Profit Organizations

10. The following informations were obtained from the books of Mumbai Club as on 31.3.2013:
- (i) Donations received for building and library room ₹ 1,00,000
 - (ii) Other revenue income and actual receipts:

	<i>Revenue income</i>	<i>Actual receipts</i>
	₹	₹
Entrance fees	8,500	8,500
Subscription	10,000	9,500
Locker rents	300	300
Sundry income	800	530
Refreshment account	-	8,000

(iii) Other revenue expenditure and actual payments:

	<i>Revenue expenditure</i>	<i>Actual payments</i>
	₹	₹
Land	-	5,000
Furniture	-	65,000
Salaries	2,500	2,400
Maintenance of playgrounds	1,000	500
Rent	4,000	4,000
Refreshment account	-	4,000

Donations amounting ₹ 10,000 were utilized for the purchase of library books. Full amount of entrance fees is to be taken as income for the year. Depreciation at 10% p.a. was to be provided for the whole year on furniture and library books.

You are required to prepare Receipts and Payments Account, Income and Expenditure Account for the year ended 31.3.2013 and a Balance Sheet as at 31.3.2013 on mercantile basis assuming that Mumbai Club is not registered under Companies Act, 1956.

Accounts from Incomplete Records

11. From the following information in respect of Mr. X, prepare Trading and Profit and Loss Account for the year ended 31st March, 2013 and a Balance Sheet as at that date:

		<i>31-03-2012</i>	<i>31-03-2013</i>
		₹	₹
(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 2012-2013:		
	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 30.09.2012		20,000
	4% Government securities purchased at 96% on 1-10-2012		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 31 st March, 2013 (as shown above), is after taking the same into account.		

Hire -Purchase

12. (a) A Ltd. purchases a plant on hire purchase basis for ₹ 1,00,000 (cash price ₹ 86,000) and makes the payment in the following order:

Down payment	₹ 20,000,
1 st instalment after one year	₹ 40,000;
2 nd instalment after two years	₹ 20,000;
Last instalment after three years.	

You are required to calculate: (i) total interest and (ii) interest included in each instalment.

- (b) Shyam purchased from Rang Ltd. a colour T.V set on 1st October, 2011 on the hire purchase system. The cash price of the T.V set was ₹ 15,000. Term of payment were ₹ 1,150 down payment and half yearly instalments of ₹ 4,000 each, over two years. The first instalment was to be paid on 31st March, 2012. Rate of interest was 12% p.a. Shyam could not pay the second instalment due on 30th September, 2012 and as a consequence, Rang Ltd. repossessed the T.V set after fulfilling legal formalities. Prepare Shyam's Account and Goods Repossessed Account in Rang Ltd.'s books. Assume that the estimated value of the T.V set at the time of repossession was ₹ 12,000 and after an expenditure of ₹ 850 on repairs and repacking, the company resold it on 6th December, 2012 for cash to one of its employees at a special discount of 10 percent on cash price i.e. for ₹ 13,500. Rang Ltd. closes its books of accounts every year on 31st March.

Investment Accounts

13. On 1st May 2012, Sumedha purchased 5,000, 13.5% Convertible Debentures in X Ltd. of face value of ₹ 100 each @ 105 ex-interest. Interest on Debentures is payable each year on 31st March and 30th September. The accounting year is the calendar year. The following other transactions were entered into during 2012:

August 1	Purchased ₹ 2,50,000 Debentures @ 107 cum interest.
Oct. 1	Sale of ₹ 2,00,000 Debentures @ 103.
Dec. 31	Receipt of 10,000 Equity shares in X Ltd. of ₹ 10 each on conversion of 20% of the Debentures held. Further, it also received interest on Debentures converted in cash at the time of conversion.

The market price of a Debenture and an Equity share in X Ltd. as on 31st Dec., 2012 was ₹ 106 and ₹ 15.

Sumedha held the Debentures as current assets. You are required to prepare Debenture Investment account in the books of Sumedha on Average cost basis.

Insurance Claim for Loss of Stock

14. The premises of X Ltd. caught fire on 22nd January, 2013 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, 2012 the stock at cost was ₹13,27,200 as against ₹ 9,62,200 on 31st March 2011.

Purchases from 1st April, 2012 to the date of fire were ₹ 34,82,700 as against ₹45,25,000 for the full year 2011-2012 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively.

You are given the following further information:

- (i) In July, 2012, 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.

Partnership: Admission and Retirement of a partner

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

On 1.9.2012, it was decided to retire X on health grounds and admit A, son of X, as a partner with 1/5th share in Profit and Loss. Other decisions taken on this date were as follows:

- (a) Firm's fixed capital to be raised to ₹ 3,00,000 and partners to maintain fixed capital in profit sharing ratio. Hence forth, interest on capital shall be paid @ 10% per annum.
- (b) No commission to be paid to Z from 1.9.2012.
- (c) Goodwill is assessed at ₹ 60,000 not to be shown in the books.
- (d) X was paid ₹ 50,000 in cash on retirement.
- (e) Balance claim payable to X was to be credited to A's fixed capital account and current account.
- (f) Profit for the accounting year 2012-13 before interest on capital, Z's commission and depreciation was ₹ 1,80,000. Depreciation for the year amounted to ₹ 18,500 (inclusive of depreciation of ₹ 6,000 upto 1.9.2012).

You are required to prepare:

- (i) Profit and Loss Appropriation account of the firm for the year ended 31st March, 2013.
- (ii) Partners' Current accounts.

Accounting in Computerized Environment

16. "Spread sheet is a very valuable accounting tool." Explain the significance of spread sheets keeping in view the current business requirements.

Applicability of AS

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) X Limited has sold its building for ₹ 50 lakhs to the purchaser who has paid the full price. Company has given possession to the purchaser. The book value of the building is ₹ 35 lakhs. As at 31st March, 2013, documentation and legal formalities are pending. The company has not recorded the sale. It has shown the amount received as advance. Do you agree with this accounting treatment done by X Ltd.? If not, then suggest the correct accounting treatment in this regard.

AS 2 "Valuation of Inventories"

- (b) U.S.A Ltd. purchased raw material @ ₹ 400 per kg. Company does not sell raw material but uses it in production of finished goods. The finished goods in which raw material is used are expected to be sold at below cost. At the end of the accounting year, company is having 10,000 kg of raw material in stock. As the company never sells the raw material, it does not know the selling price of raw material and hence cannot calculate the realizable value of the raw material for valuation of inventories at the end of the year. However replacement cost of raw material is ₹ 300 per kg. How will you value the inventory of raw material?

AS 3 "Cash Flow"

19. (a) Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities.

a	Rent received on property held as investment.
b	Selling and distribution expense paid.
c	Income tax paid.
d	Dividend paid on Preference shares.
e	Underwriting Commission paid.
f	Rent paid.
g	Brokerage paid on purchase of investments.
h	Long term Bank loan.
i	Refund of Income Tax.

AS 6 “Depreciation Accounting” and AS 10 “Accounting for Fixed Assets”

- (b) Value Ltd. acquired a plant on 1.4.2004 for ₹ 100 lakhs. The company charges straight line depreciation on the basis of estimated useful life of the asset as 10 years and scrap value at the end as 2.5% of the cost. At the beginning of the 5th year, the asset was revalued upward by 40% of the written down value and the revaluation profit was transferred to Revaluation Reserve. While charging depreciation after revaluation, estimated remaining useful life was assumed to be 6 years and scrap realisation was expected to be 2.5% of the revalued figure. No additional depreciation was adjusted through Revaluation Reserve account. At the beginning of the 8th year the company found the asset useless and accordingly, decided to retire it. On the date of retirement the estimated realisable value of the asset is ₹ 3,80,000. Ascertain the loss on retirement of the asset to be charged to statement of profit and loss.

AS 7 “Construction Contracts”

20. (a) Lucky Ltd., has signed at 31st Dec., 2012, the Balance Sheet date, a contract where the total revenue is estimated at ₹ 15 crores and total cost is estimated at ₹ 20 crores. No work began on the contract. Is contractor required to give any accounting effect for the year ended 31st December, 2012 in his accounts?

AS-9 “Revenue Recognition”

- (b) Jay Ltd. purchased goods on credit from Parkash Ltd. for ₹ 250 crores for export. The export order was cancelled. Jay Ltd. decided to sell the same goods in the local market with a price discount. Parkash Ltd. was requested to offer a price discount of 15%. The Chief Accountant of Parkash Ltd. wants to adjust the sales figure to the extent of the discount requested by Jay Ltd. Discuss whether this treatment is justified.

SUGGESTED ANSWERS / HINTS

1. (a) Note 6 (B) given under Part I of Schedule VI 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.
- (b) As per Revised Schedule VI, a liability shall be classified as current when it satisfies any of the following criteria:

- (i) it is expected to be settled in the company's normal operating cycle;
- (ii) it is held primarily for the purpose of being traded;
- (iii) it is due to be settled within twelve months after the reporting date; or
- (iv) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

In the given case, instalments due on 30.09.2013 and 31.03.2014 will be shown under the head 'other current liabilities' as per criteria (c).

Therefore, in the balance sheet as on 31.3.2013, ₹ 8,00,000 (₹ 1,00,000 x 8 instalments) will be shown under the heading 'Long term Borrowings' and ₹ 2,00,000 (₹ 1,00,000 x 2 instalments) will be shown under the heading 'Other Current Liabilities' as current maturities of loan from bank.

2. Calculation of effective capital and maximum amount of monthly remuneration

	(₹ in lakhs)
Paid up equity share capital	120
Paid up Preference share capital	20
Reserve excluding Revaluation reserve (150- 10)	140
Securities premium	40
Long term loans	40
Deposits repayable after one year	<u>20</u>
	380
Less: Accumulated losses not written off	(20)
Investments	<u>(180)</u>
Effective capital for the purpose of managerial remuneration	<u>180</u>

Since Kumar Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of scale in which maximum ceiling limit is of ₹ 2,00,000 per month.

Effective capital of the company is less than ₹ 5 crores but more than ₹ 1 crore, therefore maximum remuneration payable to the Managing Director should be @ ₹ 1,00,000 per month.

So, maximum remuneration payable to the Managing Director for the year (₹ 1,00,000 x 12) = ₹ 12,00,000

Note: Revaluation reserve, and application money pending allotment are not included while computing effective capital of Kumar Ltd.

3.

Bell Co. Ltd.

Cash Flow Statement for the year ended 31st March, 2013

	₹ in millions	₹ in millions
Cash flows from operating activities		
Net profit	3.30	
<i>Add:</i> Depreciation and amortization	0.75	
Loss from disposal of assets	<u>1.20</u>	
Operating profit before working capital changes	5.25	
<i>Less:</i> Increase in accounts receivables	<u>(1.50)</u>	
Net cash generated from operating activities		3.75
Cash flows from investing activities		
Capital expenditure	(9.90)	
Proceeds from sale of fixed assets	<u>1.60</u>	
Net cash used in investing activities		(8.30)
Cash flows from financing activities		
Proceeds from issue of additional shares	6.50	
Dividend paid	(0.50)	
Redemption of 4.5% debentures	<u>(2.50)</u>	
Net cash generated from financing activities		<u>3.50</u>
Net decrease in cash and cash equivalents		(1.05)
Cash and cash equivalents at beginning of the period		<u>1.55</u>
Cash and cash equivalents at end of the period (Balancing figure)		<u>0.50</u>

4.

In the books of X Ltd.

Journal Entries

		₹	₹
(i)	Equity Share Final Call A/c To Equity Share Capital A/c (Being the final call of ₹ 2.50 each on 80,000 equity shares due to make them fully paid up as per Board's resolution dated.....)	Dr. 2,00,000	2,00,000
(ii)	Capital Reserve A/c General Reserve A/c	Dr. Dr.	50,000 1,50,000

	To Bonus to Shareholders A/c (Being the transfer of ₹ 50,000 from Capital Reserve and ₹ 1,50,000 from General Reserve to make the partly paid up shares fully paid up)			2,00,000
(iii)	Bonus to Shareholders A/c	Dr.	2,00,000	
	To Equity Share Final Call A/c (Being the amount due on final call adjusted from Bonus to Shareholders A/c)			2,00,000
(iv)	Capital Redemption Reserve A/c	Dr.	2,60,000	
	Securities Premium A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	20,000	
	To Bonus to Shareholders A/c (Being the bonus declared by issuing 1 bonus share for every 3 shares held as per general body's resolution dated ...)			4,00,000
(v)	Bonus to Shareholders A/c	Dr.	4,00,000	
	To Equity Share Capital A/c (Being the issue of 40,000 shares of ₹ 10 each by way of bonus)			4,00,000

Notes:

- Capital Redemption Reserve and Securities Premium can be utilized to issue fully paid-up Bonus Shares but not for converting partly paid shares into fully paid shares.
 - Plant Revaluation Reserve cannot be utilized to issue bonus shares.
 - Capital Reserve realised in cash amounting ₹ 50,000 can only be used for issue of bonus shares.
 - Ratio of Bonus declared is ₹ 2.50 for every ₹ 7.50 paid-up share i.e. 1/3rd or 1 share for every 3 shares. Hence, the amount of Bonus issue in the same ratio will be = $(1,20,000 \times 1/3) \times ₹ 10 = ₹ 4,00,000$.
5. **Statement showing Apportionment of Profit between Pre and Post-incorporation Periods**

Particulars	Basis	Total	Pre-incorporation	Post-incorporation
			1.1.2012 to 30.4.2012	1.5.2012 to 31.12.2012
			(4 months)	(8 months)
Gross Profit (A)	Sales (1:3)	3,00,000	75,000	2,25,000

Less: Expenses (B)				
Rent, Rates and Insurance	Time	18,000	6,000	12,000
Interest	Time	6,000	2,000	4,000
Director's Fees	(W.N.2)	20,000	-	20,000
Salaries	Time	51,000	17,000	34,000
Office Expenses	Time	42,000	14,000	28,000
Travellers' Commission	Sales	12,000	3,000	9,000
Discount	Sales	5,000	1,250	3,750
Advertisement	Sales	10,000	2,500	7,500
Bad Debts	Sales	3,000	750	2,250
Depreciation	Time	15,000	5,000	10,000
Debenture Interest	(W.N.2)	4,500	-	4,500
		<u>1,86,500</u>	<u>51,500</u>	<u>1,35,000</u>
Net Profit (A-B)		1,13,500	23,500	90,000
			Capital Profit	Net Profit

Working Notes:**(1) Ratio of Sales**

Gross profit is apportioned in the ratio of sales which is calculated as follows:

<i>Pre-incorporation period</i>	<i>Weight</i>	<i>Post-incorporation</i>	<i>Weight</i>
January	1	May	1
February	½	June	1
March	1	July	1
April	½	August	1
		September	1
		October	1
		November	1½
		December	1½
	<u>3</u>		<u>9</u>

Therefore, sales ratio = 3:9 or 1:3

- (2) Directors' fees and Debenture interest are paid in case of company only. Therefore, they are charged to the post-incorporation period only.

6.

Journal Entries
In the Books of Max Ltd.

<i>Particulars</i>	<i>Dr.</i>	<i>Cr.</i>
<i>01.04.2013</i>	<i>Amount</i>	<i>Amount</i>
	₹	₹
Equity share capital (₹ 100) A/c Dr.	15,00,000	
To Equity share capital (₹ 10) A/c		15,00,000
(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each by resolution in the general meeting dated.....)		
Equity share capital A/c Dr.	7,50,000	
To Capital reduction A/c		7,50,000
(Being reduction of capital by 50% as per the scheme of reconstruction)		
Capital reduction A/c Dr.	13,500	
To Bank A/c		13,500
(Being payment in cash of 10% of arrear of preference dividend)		
Bank A/c (800 debentures x ₹ 98) Dr.	78,400	
To Own debentures A/c		76,800
To Capital reduction A/c		1,600
(Being profit on sale of own debentures transferred to capital reduction A/c)		
12% Debentures A/c Dr.	1,20,000	
To Own debentures A/c		1,15,200
To Capital reduction A/c		4,800
(Being profit on cancellation of own debentures transferred to capital reduction A/c)		
12% Debentures A/c Dr.	2,80,000	
Capital reduction A/c Dr.	20,000	
To Machinery A/c		3,00,000
(Being machinery taken up by debentureholders for ₹ 2,80,000)		
Trade payables A/c Dr.	65,000	

Capital reduction A/c	Dr.	29,000	
To Trade receivables A/c			61,000
To Inventory A/c			33,000
(Being assets and liabilities revalued)			
Capital reduction A/c	Dr.	4,33,000	
To Goodwill A/c			20,000
To Profit and Loss A/c			4,13,000
(Being Goodwill and Profit & loss (Dr.) balance written off)			
Capital reduction A/c	Dr.	15,000	
To Bank A/c			15,000
(Being penalty paid for avoidance of capital commitments)			
Capital reduction A/c	Dr.	2,45,900	
To Capital reserve A/c			2,45,900
(Being the balance of capital reduction account transferred to capital reserve account)			

7. **In the books of Hari Narayan Ltd. (Amalgamated Company)**
Journal Entries

	Particulars	Debit	Credit
		₹	₹
1.	Business Purchase A/c To Liquidators of Hari Ltd. To Liquidators of Narayan Ltd. (Being purchase of business of Hari Ltd. and Narayan Ltd. - Refer Working Note)	Dr. 25,12,000	11,52,000 13,60,000
2.	Plant and Machinery A/c Trade receivables A/c Inventory A/c Cash and Bank A/c To Trade payables A/c To General Reserve A/c (8,80,000 – 5,12,000) To Business Purchase A/c (Being assets and liabilities of Hari Ltd. taken over)	Dr. 12,80,000 Dr. 1,52,000 Dr. 1,00,000 Dr. 1,08,000	1,20,000 3,68,000 11,52,000

3.	Plant and Machinery A/c	Dr.	17,00,000	
	Trade receivables A/c	Dr.	1,25,000	
	Inventory A/c	Dr.	1,35,000	
	Cash and Bank A/c	Dr.	1,00,000	
	To Debentures of Narayan Ltd. A/c (95% of ₹ 5,00,000)			4,75,000
	To Trade payables A/c			2,25,000
	To Business Purchase A/c			13,60,000
	(Being assets and liabilities of Narayan Ltd. taken over)			
4.	Liquidator of Hari Ltd. A/c	Dr.	11,52,000	
	To Equity Share Capital A/c			9,60,000
	To Securities Premium A/c			1,92,000
	(Being equity shares issued at 20% premium to shareholders of Hari Ltd.)			
5.	Liquidators of Narayan Ltd. A/c	Dr.	13,60,000	
	To Equity Share Capital A/c			8,60,000
	To 15% Preference Share Capital A/c			5,00,000
	(Being issue of shares to discharge purchase consideration)			
6.	Debentures of Narayan Ltd. A/c	Dr.	4,75,000	
	To Debentures A/c			4,75,000
	(Being own debentures issued against debentures of Narayan Ltd.)			

Balance Sheet of Hari Narayan Ltd. after amalgamation

Particulars	Note No.	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	23,20,000
(b) Reserves and Surplus	2	5,60,000
(2) Non-current Liabilities		
Long-term borrowings	3	4,75,000
(3) Current Liabilities		
Trade payables		3,45,000
Total		37,00,000

1.	<p>II. Assets</p> <p>(1) Non-current assets</p> <p style="padding-left: 20px;">Fixed assets</p> <p style="padding-left: 40px;">Tangible assets</p> <p>(2) Current assets</p> <p style="padding-left: 20px;">(a) Inventories</p> <p style="padding-left: 20px;">(b) Trade receivables</p> <p style="padding-left: 20px;">(c) Cash and cash equivalents</p> <p style="text-align: right;">Total</p>	4	<p>29,80,000</p> <p>2,35,000</p> <p>2,77,000</p> <p>2,08,000</p> <p>37,00,000</p>
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Notes to Accounts

		₹
1.	Share Capital	
	Equity shares of ₹ 10 each	18,20,000
	Preference shares of ₹ 10 each	<u>5,00,000</u>
		<u>23,20,000</u>
2.	Reserves and surplus	
	General Reserve	3,68,000
	Securities Premium	<u>1,92,000</u>
		<u>5,60,000</u>
3.	Long-term Borrowings	
	Secured Debentures	4,75,000
4.	Tangible Assets	
	Plant and Machinery	29,80,000

Working Note:

Computation of Purchase Consideration

- A. For Hari Ltd., the Payment Method is applied for determining the Purchase Consideration. Hence, the amalgamation is accounted under Pooling of Interests method.

Number of shares to be issued by Hari Narayan Ltd. to Hari Ltd.'s shareholders = 64,000 x 3/2 = 96,000 shares.

Since, the issue price is ₹ 12 per share, the Purchase Consideration is 96,000 x 12 = ₹ 11,52,000.

- B. For Narayan Ltd., the Net Assets Method is applied for determining the Purchase Consideration. Since, the assets are not taken over at book value, the amalgamation is accounted under Purchase method.

		₹
Assets taken over:		
Plant and Machinery	(20,00,000 less 15%)	17,00,000
Trade receivables		1,25,000
Inventory	(1,50,000 less 10%)	1,35,000
Cash and Bank balance		<u>1,00,000</u>
Total Assets		20,60,000
Less: Liabilities		
Trade payables		(2,25,000)
Secured Debentures		<u>(4,75,000)</u>
Net Purchase Consideration		<u>13,60,000</u>
Discharge by issue of		
Preference Shares to preference shareholders	(7,50,000 x 2/3)	5,00,000
Equity Shares to equity shareholders (bal. fig.)	(13,60,000-5,00,000)	<u>8,60,000</u>
		<u>13,60,000</u>

8. (a) **Calculation of Average Due Date**
Taking Base Date as 21.07.2012

<i>Date of bill</i>	<i>Usance of bill</i>	<i>Due Date</i>	<i>Amount</i>	<i>Number of Days from Base Date</i>	<i>Product</i>
			₹		₹
10.4.2012	4 months	13.08.2012	4,000	23	92,000
18.4.2012	3 months	21.07.2012	5,000	0	0
25.5.2012	6 months	28.11.2012	3,000	130	3,90,000
5.6.2012	3 months	8.09.2012	<u>6,000</u>	49	<u>2,94,000</u>
			<u>18,000</u>		<u>7,76,000</u>

$$\text{Average Due Date} = 21\text{st July} + \frac{7,76,000}{18,000}$$

$$= 21.7.2012 + 43 \text{ days} = 2.09.2012.$$

Since two new bills will be drawn, their due dates will be as follows :

First Bill- 1.7.2012 + 4 months = 4.11.2012; and

Second Bill- 1.7.2012+ 6 months = 4.1.2013.

Interest to be charged in respect of the above bills:

1st bill = Interest will be charged on ₹ 10,000 @ 10% p.a. for 63 days (2.09.2012 to 4.11.2012)

$$= ₹ 10,000 \times 10\% \times 63/365 = ₹ 172.60$$

2nd bill = Interest will be charged on ₹ 8,000 (₹ 18,000 - 10,000) @ 10% p.a. for 124 days (2.09.2012 to 4.1.2013)

$$= ₹ 8,000 \times 10\% \times 124/365 = ₹ 271.78.$$

Therefore, the value of the two bills:

First bill = ₹ 10,000

Second bill = ₹ (8,000+ 172.60+ 271.78)

$$= ₹ 8,444.38$$

(b)

In the books of Y

X in Account Current with Y

(Interest to 31st March, 2013 @ 10% p.a)

Date	Particulars	Amount	Days	Product	Date	Particulars	Amount	Days	Product
2011		₹		₹	2011		₹		₹
Jan.1	To Balance b/d	5,000	90	4,50,000	Jan.24	By Promissory Note (due date 27 th April)	5,000	(27)	(1,35,000)
Jan. 11	To Sales	6,000	79	4,74,000	Feb. 1	By Purchases	10,000	58	5,80,000
Feb. 4	To Sales	8,200	55	4,51,000	Feb. 7	By Sales Return	1,000	52	52,000
Mar. 18	To Sales	9,200	13	1,19,600	Mar. 1	By Purchases	5,600	30	1,68,000
Mar. 31	To Interest	219			Mar. 23	By Purchases	4,000	8	32,000
					Mar. 31	By Balance of Products			7,97,600
					Mar. 31	By Bank	3,019		
		28,619		14,94,600			28,619		14,94,600

Working Note:

Calculation of interest:

$$\text{Interest} = \frac{7,97,600}{365} \times \frac{10}{100} = ₹ 219 \text{ (approx.)}$$

9. **Sales Ledger Adjustment Account**

2012		₹	2012		₹
Jan. 1	To Balance b/d	6,41,600	Dec. 31	By General ledger adjustment A/c-	
Dec. 31	To General ledger adjustment A/c- Sales	11,26,000		Cash	3,68,400
				Returns inward	33,600
				Bills receivable	3,20,000
				Bad debts	24,000
				Discounts allowed	21,600
			Dec. 31	By Balance c/d	<u>10,00,000</u>
		<u>17,67,600</u>			<u>17,67,600</u>

Purchases Ledger Adjustment Account

2012		₹	2012		₹
Dec. 31	To General ledger adjustment A/c:		Jan. 1	By Balance b/d	3,72,800
	Cash	3,60,000	Dec. 31	By General ledger adjustment A/c:	
	Returns outward	15,200		Purchases	6,44,000
	Bills payable	2,40,000			
	Discounts received	8,400			
Dec. 31	To Balance c/d	<u>3,93,200</u>			
		<u>10,16,800</u>			<u>10,16,800</u>

10. **Mumbai Club**

Receipts and Payments Account
for the year ended 31st March, 2013

Receipts	₹	Payments	₹
To Donations for building and library room	1,00,000	By Land	5,000

To Entrance fees	8,500	By Furniture	65,000
To Subscription	9,500	By Salaries	2,400
To Locker rents	300	By Maintenance of playgrounds	500
To Sundry income	530	By Rent	4,000
To Refreshment account	8,000	By Refreshment	4,000
		By Library books	10,000
		By Balance c/d	<u>35,930</u>
	<u>1,26,830</u>		<u>1,26,830</u>

**Income and Expenditure Account
for the year ended 31st March, 2013**

Expenditure	₹	₹	Income		₹
To Salaries	2,400		By Entrance fees		8,500
<i>Add: Outstanding</i>	<u>100</u>	2,500	By Subscription	9,500	
To Maintenance of playgrounds	500		<i>Add: Outstanding</i>	<u>500</u>	10,000
<i>Add: Outstanding</i>	<u>500</u>	1,000	By Locker rents		300
To Rent		4,000	By Sundry Income	530	
To Depreciation on Furniture	6,500		<i>Add: Outstanding</i>	<u>270</u>	800
Library books	<u>1,000</u>	7,500	By Refreshment account		4,000
To Surplus-excess of income over expenditure		8,600	(8,000-4,000)		
		<u>23,600</u>			<u>23,600</u>

**Balance Sheet of Mumbai Club
as on 31st March, 2013**

Liabilities	₹	Assets	₹
Capital fund (surplus)	8,600	Land	5,000
Building & library room fund	1,00,000	Furniture	65,000
Creditors for expenses:		<i>Less: Depreciation (6,500)</i>	58,500
Salaries outstanding	100	Library book	10,000

Maintenance of playgrounds <u>500</u>	600	Less: Depreciation (1,000)	9,000
		Bank balance	35,930
		Subscription receivable	500
		Sundry income	
		receivable	<u>270</u>
	<u>1,09,200</u>		<u>1,09,200</u>

11. **Trading and Profit and Loss Account of Mr. X**
for the year ended 31st March, 2013

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	<u>4,57,000</u>		
	<u>15,11,000</u>		<u>15,11,000</u>
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	<u>79,500</u>		
	<u>4,87,000</u>		<u>4,87,000</u>

Balance Sheet of Mr. X as on 31st March, 2013

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
Add: Profit during the year	<u>79,500</u>	Accrued interest on Govt. securities (W.N.8)	4,000
	6,27,500	Debtors (W.N.3)	2,99,000
Less: Drawings	<u>(1,40,000)</u>	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	<u>9,500</u>
	<u>8,23,500</u>		<u>8,23,500</u>

Working Notes:

1. Furniture account

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

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	<u>9,500</u>
	<u>14,98,500</u>		<u>14,98,500</u>

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.)	<u>2,99,000</u>
	<u>16,99,000</u>		<u>16,99,000</u>

4. Bills Receivable account

	₹		₹
To Debtors	2,00,000	By Bank	1,22,500
		By Discount	2,500
		By Creditors	40,000

	<u>2,00,000</u>	By Balance c/d (bal. fig.)	35,000
			<u>2,00,000</u>

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	<u>3,00,000</u>		<u> </u>
	<u>11,40,000</u>		<u>11,40,000</u>

6. Balance Sheet as on 1st April, 2012

<i>Liabilities</i>	₹	<i>Assets</i>	₹
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	<u>20,000</u>
	<u>6,36,000</u>		<u>6,36,000</u>

7. Expenses incurred during the year

		₹
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on 31.3.2013	36,000	
Prepaid expenses as on 31.3.2012	<u>12,000</u>	<u>48,000</u>
		3,98,000
Less: Outstanding expenses as on 31.3.2012	40,000	
Prepaid expenses as on 31.3.2013	<u>14,000</u>	<u>(54,000)</u>
Expenses incurred during the year		<u>3,44,000</u>

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	$\left(\frac{1,22,500}{98\%} \times 2\% \right)$	<u>2,500</u>
		<u>32,500</u>

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

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

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

12. (a) (i) Total interest = Hire Purchase price – Cash price = ₹ 1,00,000 – ₹ 86,000 = ₹ 14,000

(ii) Hire purchase price outstanding at the beginning of each year

		₹
	Hire purchase price	1,00,000
	Less: Down payment	<u>(20,000)</u>
(a)	Hire Purchase Price outstanding at the beginning of the 1 st year	80,000
	Less: 1 st instalment	<u>(40,000)</u>
(b)	Hire Purchase price outstanding at the beginning of the 2 nd year	40,000
	Less: 2 nd instalment	<u>(20,000)</u>
(c)	Hire Purchase Price outstanding at the beginning of the 3 rd year	20,000
	Less: 3 rd instalment	<u>(20,000)</u>
		Nil

Ratio of (a) : (b) : (c) = 80:40:20 or 4:2:1

Amount of interest included in instalments:

1 st instalment	4/7 x ₹ 14,000	₹ 8,000
2 nd instalment	2/7 x ₹ 14,000	₹ 4,000
3 rd instalment	1/7 x ₹ 14,000	₹ 2,000

(b) **Shyam's Account in the books of Rang Ltd.**

		₹			₹
2011 Oct. 1	To Sales Account – Cash price	15,000	2011 Oct. 1	By Bank – down payment	1,150
2012 Mar.31	To Interest A/c - on ₹ 13,850 @ 12% p.a. for six months	831	2012 Mar.31	By Bank - First instalment	4,000
		<u>15,831</u>		By Balance c/d	<u>10,681</u>
2012 Apr. 1	To Balance b/d	10,681	2012 Sept.30	By Goods Repossessed A/c: estimated value of T.V. set on repossession	12,000
2012 Sept.30	To Interest A/c – on ₹ 10,681 @ 12% p.a. for six months	641			
2012 Sept.30	To Profit & Loss A/c – Profit on repossession of T.V. set	678			
		<u>12,000</u>			<u>12,000</u>

Goods Repossessed Account

		₹			₹
2012 Sept.30	To Shyam Restaurant - Estimated value of T.V. set on repossession	12,000	2012 Dec. 6	By Cash – Sale proceeds	13,500
	To Bank expenses on repairs, repacking etc.	850			
2012 Dec.6	To Profit & Loss Account - Profit on resale	650			
		<u>13,500</u>			<u>13,500</u>

13.

In the books of Sumedha
 Debenture Investment Account
 for the year ending on 31-12-2012
 (Scrip: 13.5% Convertible Debentures in X Limited)
 (Interest payable on 31st March and 30th September)

<i>Date</i>	<i>Particulars</i>	<i>Nominal Value</i>	<i>Interest</i>	<i>Cost</i>	<i>Date</i>	<i>Particulars</i>	<i>Nominal Value</i>	<i>Interest</i>	<i>Cost</i>
2012		₹	₹	₹	2012		₹	₹	₹
1.05.2012	To Bank A/c	5,00,000	5,625	5,25,000	30.09.2012	By Bank A/c (₹	-	50,625	-
1.08.2012	To Bank A/c	2,50,000	11,250	2,56,250		7,50,000 x 13.5% x 6/12)			
31.12.2012	To P&L A/c (Interest)	-	52,313	-	1.10.2012	By Bank A/c	2,00,000	-	2,06,000
					1.10.2012	By P & L A/c (loss on sale of debentures)			2,333
					31.12.2012	By Equity shares in X Ltd.	1,10,000	-	1,14,583
					31.12.2012	By Bank A/c (Interest on convertible debentures)	-	3,713	-
					31.12.2012	By Balance c/d	<u>4,40,000</u>	<u>14,850</u>	<u>4,58,334</u>
Total		<u>7,50,000</u>	<u>69,188</u>	<u>7,81,250</u>	Total		<u>7,50,000</u>	<u>69,188</u>	<u>7,81,250</u>

Working Notes

1. Cost of Debentures purchased on 1st August, 2012
= 107% of ₹ 2,50,000 - ₹ 11,250 (Interest) = ₹ 2,56,250
2. Cost of Debentures sold on 1st October, 2012
= (₹ 5,25,000 + ₹ 2,56,250) x 2,00,000 / 7,50,000 = ₹ 2,08,333
3. Loss on sale of Debentures = ₹ 2,08,333 - ₹ 2,06,000 = ₹ 2,333
4. Cost of Debentures converted
= (₹ 5,25,000 + ₹ 2,56,250) x 1,10,000 / 7,50,000 = ₹ 1,14,583
5. Cost of Debentures in hand on 31st December, 2012
= (₹ 5,25,000 + ₹ 2,56,250) x 4,40,000 / 7,50,000 = ₹ 4,58,334 (approx.)
6. Interest on Debentures converted = ₹ 1,10,000 x 13.5% x 3/12 = ₹ 3,713
7. Closing balance of Debentures has been valued at cost (₹ 4,58,334) being lower than the market value ₹ 4,66,400 (₹ 4,400 x 106)

14. Memorandum Trading Account from 1st April, 2012 to 22nd January, 2013

		₹		₹
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	2013- Balancing figure	7,76,300
To Gross Profit 20% of sales (Working Note)		<u>9,83,400</u>		
		<u>56,93,300</u>		<u>56,93,300</u>

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 22 nd January, 2013	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, 2012

	₹		₹
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	<u>10,40,000</u>		<u> </u>
	<u>65,27,200</u>		<u>65,27,200</u>

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

15.

Profit & Loss Appropriation Account

for the year ended 31st March, 2013

	For the period			For the period	
	1.4.12 to 31.8.12	1.9.12 to 31.3.13		1.4.12 to 31.8.12	1.9.12 to 31.3.13
	₹	₹		₹	₹
To Interest on capital (W.N.3)	7,500	17,500	By Net Profit	75,000	1,05,000
To Depreciation	6,000	12,500			
To Z's Commission (W.N.4)	5,591	-			
To Transfer to current A/c					
X	22,364	-			
Y	22,363	40,000			
Z	11,182	20,000			
A	-	15,000			
	<u>75,000</u>	<u>1,05,000</u>		<u>75,000</u>	<u>1,05,000</u>

Partners' Current Accounts

(From 1.4.12 to 31.8.12)

	X	Y	Z		X	Y	Z
	₹	₹	₹		₹	₹	₹
To X	-	16,000	8,000	By X's capital A/c (Transfer)	80,000	-	-
To Cash	50,000	-	-	By Interest on Capital	3,000	3,000	1,500

To A's Capital A/c	60,000	-	-	By Commission	-	-	5,591
To A's Current A/c	19,364	-	-	By Y	16,000	-	-
To Balance c/d		9,363	10,273	By Z	8,000		
				By P/L Appropriation Account	22,364	22,363	11,182
	<u>1,29,364</u>	<u>25,363</u>	<u>18,273</u>		<u>1,29,364</u>	<u>25,363</u>	<u>18,273</u>

Partners' Current Accounts

(From 1.9.12 to 31.3.13)

	Y ₹	Z ₹	A ₹		Y ₹	Z ₹	A ₹
To Y	-	-	8,000	By Balance b/d	9,363	10,273	
To Z	-	-	4,000	By X's Current A/c	-	-	19,364
To Balance c/d	66,696	38,940	25,864	By Interest on Capital	9,333	4,667	3,500
				By A	8,000	4,000	-
				By P/L Appropriation A/c	40,000	20,000	15,000
	<u>66,696</u>	<u>38,940</u>	<u>37,864</u>		<u>66,696</u>	<u>38,940</u>	<u>37,864</u>

Working Notes:

- New Profit sharing ratio and proportionate partners' capital as per new ratio:

Fixed capital of the firm ₹ 3,00,000

New profit sharing ratio:

A is given 1/5 share

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

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

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

New ratio

$$\begin{array}{ccc} Y & Z & A \\ \frac{8}{15} & : & \frac{4}{15} & : & \frac{3}{15} \text{ or } 8:4:3 \end{array}$$

Fixed capital of partners in profit sharing ratio will be

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

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

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

2. Goodwill adjustment at the time of retirement of X

	X ₹	Y ₹	Z ₹
Goodwill as per old ratio 2:2:1	24,000	24,000	12,000
Less : Goodwill in new ratio 2:1	<u>—</u>	<u>(40,000)</u>	<u>(20,000)</u>
	<u>24,000</u>	<u>(16,000)</u>	<u>(8,000)</u>

Goodwill adjustment at the time of admission of A

	Y ₹	Z ₹	A ₹
Goodwill in 2:1 (before admission)	40,000	20,000	—
Less : Goodwill in 8:4:3	<u>(32,000)</u>	<u>(16,000)</u>	<u>(12,000)</u>
	<u>8,000</u>	<u>4,000</u>	<u>(12,000)</u>

3. Interest on partners' capital

For the period from 1.4.2012 to 31.8.2012 (5 months)

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

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

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

$$\text{Total} = \underline{\underline{₹ 7,500}}$$

For the period from 1.9.2012 to 31.3.2013 (7 months)

$$\begin{aligned} \text{Y's capital } ₹ 1,60,000 \times 10\% \times \frac{7}{12} &= ₹ 9,333 \\ \text{Z's capital } ₹ 80,000 \times 10\% \times \frac{7}{12} &= ₹ 4,667 \\ \text{A's capital } ₹ 60,000 \times 10\% \times \frac{7}{12} &= ₹ 3,500 \\ \text{Total} &= \underline{₹ 17,500} \end{aligned}$$

4. Commission payable to Z

$$\text{Profit for the period 01.04.2012 to 31.8.2012} = 1,80,000 \times \frac{5}{12} = ₹ 75,000$$

Less: Depreciation for the period	₹ 6,000	
Interest on capital for the period	<u>₹ 7,500</u>	<u>(₹ 13,500)</u>
		<u>₹ 61,500</u>

Commission to Z @ 10%

Net profit before commission = ₹ 61,500

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

= ₹ 55,909

Commission @ 10% = ₹ 5,591

16. Spread sheets are used in various areas of current business requirements. Some of its important advantages as an accounting tool are as follows:

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

From the above discussion, it may be concluded spread sheet is a very valuable accounting tool.

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).

If an entity whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year, it does not fall 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 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) Although legal title has not been transferred, the economic reality and substance is that the rights and beneficial interest in the immovable property have been transferred. Therefore, recording of disposal by the transferor would in substance represent the transaction entered into.

In view of this, X Ltd. should record the sales and recognize the profit of ₹ 15 lakhs in its Statement of Profit and Loss. It should remove building account from its balance sheet. Further, in its 'Notes to Accounts', X Ltd. should disclose the following:

"Building has been sold and full consideration has been received and possession of the same has been handed over to the buyer. However, documentation and legal formalities are pending as on 31.3.2013."

- (b) As per Para 24 of AS 2 (Revised) "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net

realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. Therefore, in this case, USA Ltd. will value the stock of raw material at ₹ 30,00,000 (10,000 kg. @ ₹ 300 per kg.).

19. (a) (i) Operating Activities: b, c, f & i.
 (ii) Investing Activities: a, g .
 (iii) Financing Activities: d, e, h.
- (b) Table showing computation of net loss on retirement of a revalued asset of Value Ltd.

Particulars	₹
Original cost	1,00,00,000
Less: SLM depreciation up to 4th year $\left(\frac{100,00,000 - 2,50,000}{10 \text{ years}} \right) \times 4 \text{ years}$	<u>39,00,000</u>
Net book value at the end of 4th year or at the beginning of 5th year	61,00,000
Add: Revaluation profit (credited to Revaluation Reserve)	<u>24,40,000</u>
Revised carrying amount	85,40,000
Revised residual value (2.5% of 85,40,000) = 2,13,500	
Less: Depreciation for 5 th , 6 th and 7 th years $\left(\frac{85,40,000 - 2,13,500}{6 \text{ years}} \right) \times 3 \text{ years}$	<u>(41,63,250)</u>
Net book value at the end of 7 th year or at the beginning of 8th year	43,76,750
Net realizable value on date of retirement	<u>3,80,000</u>
Loss on retirement of plant	39,96,750
Less: Revaluation reserve	<u>(24,40,000)</u>
Net loss charged to Statement of Profit and Loss	<u>15,56,750</u>

20. (a) As per para 35 of AS 7 'Construction Contracts', when it is probable that total contract cost will exceed total contract revenue, the expected loss should be recognised as an expense immediately. The amount of such loss is determined irrespective of whether or not work has commenced on the contract. Thus, Lucky Ltd. should recognize loss amounting ₹ 5 crores for the year ended 31st December,

2012. The contract should be reviewed at the end of the each accounting period till completion for additional losses to be incurred, if any.

- (b) Parkash Ltd. had sold goods to Jay Ltd. on credit worth for ₹ 250 crores and the sale was completed in all respects. Jay Ltd's decision to sell the same in the domestic market at a discount does not affect the amount recorded as sales by Parkash Ltd. The price discount of 15% offered by Parkash Ltd. after request of Jay Ltd. was not in the nature of a discount given during the ordinary course of trade because otherwise the same would have been given at the time of sale itself. Now, as far as Parkash Ltd is concerned, there appears to be an uncertainty relating to the collectability of the debt, which has arisen subsequent to the time of sale therefore, it would be appropriate to make a separate provision to reflect the uncertainty relating to collectability rather than to adjust the amount of revenue originally recorded. Therefore, such discount should be written off to the profit and loss account and not shown as deduction from the sales figure.