(All Batches)

DATE: 09.02.2017 **MAXIMUM MARKS: 100** **TIMING: 3 Hours**

Advanced Accounting (ANSWER SHEET)

Q. No. 1 is compulsory.
Wherever necessary suitable assumptions should be made by the candidates.
Working notes should form part of the answer.
Candidates are also required to answer any five questions from the remaining six questions.

Answer 1(a) (5 Marks): As per para 13 of AS 4, assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date. **1M**

Though the theft, by the cashier Rs. 6,00,000, was detected after the balance sheet date (before approval of financial statements) but it is an additional information materially affecting the determination of the cash amount relating to conditions existing at the balance sheet date.
Therefore, it is necessary to make the necessary adjustments in the financial statements of the company for the year ended 31st March, 2012 for recognition of the loss amounting Rs. 6,00,000. **2M**

If embezzlement of cash comes to the notice of company management only after approval of financial statements by board of directors of the company, then the treatment will be done as per the provisions of AS 5. This being extra ordinary item should be disclosed in the statement of profit and loss as a part of loss for the year ending March, 2013. The nature and the amount of prior period items should be separately disclosed on the statement of profit and loss in a manner that its impact on current profit or loss can be perceived. **2M**

Answer 1(b) (5 Marks):

In the books of Company
Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)	
01.3.2013 to 31.3.2013	Bank A/c Employees compensation expenses A/c To Equity share capital A/c To Securities premium A/c (Being allotment to employees 4,800 shares of Rs. 10 each at a premium of Rs. 130 at an exercise price of Rs. 50 each)	Dr. Dr.	2,40,000 4,32,000	 48,000 6,24,000	**2M**
31.3.2013	Profit and Loss A/c To Employees compensation expense A/c (Being transfer of employees compensation exp.)	Dr.	4,32,000	 4,32,000	**1M**

Working Note:

1. Employee Compensation Expenses = Discount between Market Price and option price = Rs.140 – Rs. 50 = Rs. 90 per share = Rs. 90 × 4,800 = Rs. 4,32,000/- in total.

(1M)

2. The Employees Compensation Expense is transferred to Securities Premium Account.
3. Securities Premium Account = Rs. 50 – Rs. 10 = Rs. 40 per share + Rs. 90 per share on account of discount of option price over market price = Rs. 130 per share = Rs. 130 × 4,800 = Rs. 6,24,000/- in total.

(1M)

Answer 1(c) (5 Marks):

			Dr. (Rs.)	Cr. (Rs.)	
1st April 2012	Own debentures A/c	Dr.	49,450		
	To Bank A/c			49,450	**(½M)**
	(Being own debentures purchased ex-interest)				
1st Sept. 2012	Own debentures A/c	Dr.	29,250		
	Interest on own debentures A/c	Dr.	1,000		
	$(30{,}000 \times 8\% \times \frac{5}{12})$				
	To Bank A/c			30,250	**(½M)**
	(Being own debentures purchased cum-interest)				
30th Sept. 2012	Interest on debentures A/c	Dr.	12,000		
	To Bank A/c			8,800	
	To Interest on own debentures A/c			3,200	**(1M)**
	(Being interest @ 8% paid on Rs. 2,20,000 & adjustment of interest on Rs. 50,000 & Rs. 30,000 own debentures)				
31st March, 2013	Interest on debentures A/c	Dr.	12,000		
	To Bank A/c			8,800	
	To Interest on own debentures			3,200	**(1M)**
	(Being interest @ 8% paid on Rs. 2,20,000 & adjustment of interest on Rs. 80,000 own debentures for 6 months)				
31st March, 2013	8% Debentures A/c	Dr.	80,000		
	To Own debentures A/c			78,700	
	To Profit on cancellation of debentures A/c			1,300	
	(Being cancellation of own debentures)				
31st March, 2013	Interest on own debentures A/c	Dr.	5,400		
	To Profit and Loss A/c (3,200 + 3,200 – 1,000)			5,400	
	(Being total interest paid on own debentures credited to P&L A/c)				
31st March, 2013	Profit and Loss A/c (12,000 + 12,000)	Dr.	24,000		**(½×4 = 2M)**
	To Interest on debentures A/c			24,000	
	(Being total interest paid on debentures transferred to P&L A/c)				
31st March, 2013	Profit on cancellation of debentures A/c	Dr.	1,300		
	To Capital reserve A/c			1,300	
	(Being profit on cancellation of debentures transferred to Capital Reserve A/c)				

Answer 1(d) (5 Marks):

(i) Computation of annual lease payment to the lessor

	Rs.	
Cost of equipment	10,00,000	
Unguaranteed residual value	1,00,000	
Present value of residual value after third year @ 10% (Rs. 1,00,000 × 0.7513)	75,130	**1(M)**
Fair value to be recovered from lease payments (Rs. 10,00,000 – Rs. 75,130)	9,24,870	**1(M)**
Present value of annuity for three years is 2.4868		
Annual lease payment = Rs. 9,24,870/ 2.4868	3,71,911.70	**1(M)**

(3 Mark)

The present value of lease payment i.e., Rs. 9,24,870 equals 92.48% of the fair market value i.e., Rs. 10,00,000. As the present value of minimum lease payments substantially covers the initial fair value of the leased asset and lease term (i.e. 3 years) covers the major part of the life of asset (i.e. 5 years). Therefore, it constitutes a finance lease.

(ii) Computation of Unearned Finance Income

	Rs.	
Total lease payments (Rs. 3,71,911.70 x 3)	11,15,735	
Add: Unguaranteed residual value	1,00,000	
Gross investment in the lease	12,15,735	
Less: Present value of investment (lease payments and residual value) (Rs. 75,130 + Rs. 9,24,870)	(10,00,000)	**1(M)**
Unearned finance income	2,15,735	**1(M)**

(2 Mark)

Answer 2 (16 Marks):

In the Books of Shah

Trading and Profit and Loss Account for the year ended 31st March, 2011

Particulars	**H.O.**	**Branch**	**Total**		**HO.**	**Branch**	**Total**
	Rs.	**Rs.**	**Rs.**		**Rs.**	**Rs.**	**Rs.**
To Purchases	9,84,750	–	9,84,750	By Sales	6,40,000	4,10,000	10,50,000
To Cost of processing	25,250	–	25,250	By Goods sent to Branch	4,62,000	–	–
To Goods received from H.0.	–	4,40,000	–	By Stock shortage	–	8,000	7,272.5
To Gross profit c/d	1,70,000	82,000	2,51,272.5	By Goods in transit			22,000
				By Closing stock			
				Processed goods	28,000	1,04,000	1,32,000
				Unprocessed goods	50,000		50,000
	11,80,000	5,22,000	12,61,272.5		11,80,000	5,22,000	12,61,272.5
To Admn. Exp.	69,500	7,500	77,000	By Gross profit b/d	1,70,000	82,000	2,51,272.5
To Selling Exp.	25,000	3,100	28,100				
To Stock shortage	–	8,000	7,272.5				
To Stock reserve	11,454.5	–	11,454.5				
To Net profit	64,045.5	63,400	1,27,445.5				
	1,70,000	82,000	2,51,272.5		1,70,000	82,000	2,51,272.5

(5 Marks)

(3 Marks)

Balance Sheet as at 31st March, 2011

Liabilities		Rs.	Assets		Rs.
Capital	1,55,000		Debtors		
Add: Net profit	1,27,445.5		H.O.		1,54,800
	2,82,445.5		Branch		56,800
Less: Drawings	(27,500)	2,54,945.5	Closing stock:		
Creditors:			Processed goods		
H.O.	3,00,700		H.O.	28,000	
Branch	5,400	3,06,100	Branch	1,04,000	
				1,32,000	
			Less: Stock reserve	9,454.5	1,22,545.5
			Unprocessed goods		50,000
			Bank Balance		
			H.O.		76,000
			Branch		38,750
			Goods in transit	22,000	
			Less: Stock reserve	2,000	20,000
			Cash in transit		42,150
		5,61,045.5			5,61,045.5

(5 Marks)

Working Notes:

1. **Calculation of closing stock:**

Stock at Head Office

		Rs.
Cost of goods processed Rs (9,84,750 + 25,250 — 50,000)		9,60,000
Less: Cost of goods sent to Branch		
$4,62,000 \times \frac{50}{55}$	4,20,000	
Cost of goods sold $6,40,000 \times \frac{50}{62.5}$	5,12,000	9,32,000
Stock of processed goods with H.O.		28,000

(1M)

Stock at Branch:

		Rs.
Goods received from H.O. (at invoice price)		4,40,000
Less: Invoice value of goods sold		
$4,10,000 \times \frac{50}{62.5}$	3,28,000	
Invoice value of stock shortage $10,000 \times \frac{50}{62.5}$	8,000	(3,36,000)
Stock at Branch at invoice price		1,04,000
Less: Stock Reserve $1,04,000 \times \frac{5}{55}$		(9,454.5)
Stock of processed goods with Branch (at cost)		94,454.5

(1M)

2. **Stock Reserve:**

	Rs.
Unrealised profit on Branch stock $\left(1,04,000 \times \frac{5}{55}\right)$	9,454.5
Unrealised profit on goods in transit $\left(22,000 \times \frac{5}{55}\right)$	2,000
	11,454.5

(1M)

Answer 3 (16 Marks): **In the Books of M/s LMS**

Statement of Piecemeal Distribution

(Under Higher Relative Capital Method)

Particulars	Amount Available Rs.	Creditors Rs.	Bank Loan Rs.	L's Loan Rs.	Capital A/cs L Rs.	Capital A/cs M Rs.	Capital A/cs S Rs.	
Balance due		1,00,000	2,50,000	5,00,000	7,50,000	5,00,000	2,50,000	
1st Installment (including Cash and bank balances)	2,50,000							
Less: Liquidator's Expenses and fees	(50,000)	**(1M)**						
	2,00,000							
Less: Payment to Creditors and repayment of Bank Loan in the ratio of 2:5	(2,00,000)	(57,143)	(1,42,857)	—	—	—	—	**(1M)**
Balance Due		42,857	1,07,143	5,00,000	7,50,000	5,00,000	2,50,000	
2nd Installment	7,50,000							
Less: Payment to Creditors and repayment of Bank Loan in full settlement	(1,50,000)	(42857)	(1,07,143)	—	—	—	—	**(1M)**
Balance Due	6,00,000	Nil	Nil	5,00,000	7,50,000	5,00,000	2,50,000	
Less: Repayment of L's Loan	(5,00,000)	—	—	5,00,000	—	.	—	**(1M)**
Balance Due	1,00,000	—	—	—	7,50,000	5,00,000	2,50,000	
Less: Payment to Mr. L towards relative higher capital (W.N.-I)	(1,00,000)	—	—	—	(1,00,000)	—	—	**(1M)**
Balance Due	Nil			Nil	6,50,000	5,00,000	2,50,000	
3rd Installment	7,50,000	—	—	—				
Less: Payment to Mr. L towards higher relative capital(W.N.2)	(1,50,000)	—	—	—	(1,50,000)	—	—	**(1M)**
Balance Due	6,00,000	—	—	—	5,00,000	5,00,000	2,50,000	
Less: Payment to Mr. L & Mr. M towards excess capital (W.N. 1&2)	(5,00,000)	—	—	—	2,50,000	2,50,000	Nil	**(1M)**
Balance Due	1,00,000	—	—	—	2,50,000	2,50,000	2,50,000	
Less: Payment to all the partners equally	(1,00,000)	—	—	—	(33,333.5)	(33,333.5)	(33,333)	**(1M)**
Balance due					2,16,666.5	2,16,666.5	2,16,667	
4th Installment	15,00,000	—	—	—				
Less: Payment to all the partners equally	(15,00,000)	—	—	—	(5,00,000)	(5,00,000)	(5,00,000)	**(1M)**
Realisation profit credited to Partners					2,83,333.5	2,83,333.5	2,83,333	
5th Installment	15,00,000	—	—	—				
Less: Payment to all partners equally	(15,00,000)	—	—	—	5,00,000	5,00,000	5,00,000	**(1M)**
Realisation profit credited to partners					7,83,333.5	7,83,333.5	7,83,333	

Working Notes:

1. Scheme of payment of surplus amount of Rs.1,00,000 out of second Installment:

		Capital Accounts L Rs.	Capital Accounts M Rs.	Capital Accounts S Rs.
Balance	: (i)	7,50,000	5,00,000	2,50,000
Profit sharing ratio	: (ii)	1	1	1
Capital taking S's Capital	: (iii)	2,50,000	2,50,000	2,50,000
Excess Capital	: (iv) = (i) — (iii)	5,00,000	2,50,000	
Profit Sharing Ratio		1	1	
Excess capital taking M's Excess Capital as base	: (v)	2,50,000	2,50,000	
Higher Relative Excess	: (iv) — (v)	2,50,000	—	

(4M)

So Mr. L should got Rs. 2,50,000 first which will bring down his capital account balance from Rs. 7,50,000 to Rs. 5,00,000. Accordingly, surplus amounting to Rs.1,00,000 will be paid to Mr. L towards higher relative capital.

2. Scheme of payment of Rs. 7,50,000 realised in 3rd Instalment:

(i) Payment of Rs.1,50,000 will be made to Mr. L to discharge higher relative capital. This makes the higher capital of both Mr. Land Mr. M Rs.2,50,000 as compared to capital of Mr. S.

(ii) Payment of Rs.2,50,000 each of Mr. L & Mr. M to discharge the higher capital.

(iii) Balance Rs.1,00,000 equally to L, M and S, i.e. Rs.33,333.5, Rs.33,333.5 and Rs.33,333 respectively.

(2M)

Answer 4(a) (8 Marks):

Sencom Limited Debenture Account

2012		**Rs.**	**2012**		**Rs.**
Dec. 31	To Balance c/d	75,000	Jan. 1	By Balance b/d	75,000
2013			2013		
Mar. 31	To Own Debenture A/c	22,500	Jan. 1	By Balance b/d	75,000
	To Balance c/d	52,500			
		75,000			75,000
			Apr.1	By balance b/d	52,500

(1M)

Own Debenture Investment Account

2012		**Nominal Cost (Rs.)**	**Interest (Rs.)**	**Cost (Rs.)**	**2012**		**Nominal Cost (Rs.)**	**Interest (Rs.)**	**Cost (Rs.)**
Mar. 1	To Bank	12,500	260.5	12,362.5	Mar.31	By Debenture Interest A/c	–	312.5	–
Sept.1	To Bank	10,000	208.5	9,854	Sept.30				
Dec.31	To P&L A/c		687.5		Dec.31	By Debenture Interest A/c	–	562.5	–
						By Debenture Interest A/c	–	281.5	–
						By Balance c/d	22,500	–	22,216.5
		22,500	1,156.5	22,216.5			22,500	1,156.5	22,216.5
2013					**2013**				
Jan. 1	To Balance b/d	22,500		22,216.5	Mar. 1	By Debenture Interest A/c	–	281.5	–
Mar.31	To Capital Reserve (Profit on cancellation)	–	–	283.5		By 5% Deb. A/c	22,500	–	22,500
	To P&L A/c	–	281.5	–					
		22,500	281.5	22,500			22,500	281.5	22,500

(2M) **(1M)**

Debenture Interest Account

2012		**Rs.**	**2012**		**Rs.**
Mar. 31	To Bank (on Rs. 62,500 @ 5% for 6 months)	1,562.5	Jan.	By Accrued Interest (on Rs. 75,000@5% for 3 months)	937.5
	To Interest on own Debentures	312.5	Dec.31	By P&L A/c	3,750
Sept.30	To Bank (on Rs. 52,500 @ 5% for 6 months)	1,312.5			
	To Interest on own Debentures	562.5			

(3M)

Dec. 31	To Interest accrued (on Rs. 52,500 for 3 months)	656			
	To Interest on own debentures (on Rs. 22,500 for 3 months)	281.5			
		4,687.5			4,687.5
2013			**2013**		
Mar. 31	To Bank (on Rs. 52,500 for 6 months)	1,312.5	Jan. 1	By Interest Accrued	656
	To Interest on own debentures (on Rs. 22,500 for 3 months)	281.5	Mar.31	By P&L A/c	938 **(1M)**
		1,594			1,594

Answer 4(b) (8 Marks):

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA:

Revenue Account for the year ended 31 March, 2012

	Particulars	Schedule	Current year (Rs. Lakhs)	Previous year (Rs.lakhs)
1	Premium earned (net)	1	120.00	
2	Profit/Loss on sale/redemption of investments		-	
3	Others		-	
4	Interest, Dividend & Rent-Gross (20+10)		30.00	
	Total (A)		150.00	
1	Claims Incurred (Net)	2	68.00	
2	Commission	3	7.50	
3	Operating expenses related to insurance business	4	32.50	
	Total (B)		108.00	
	Operating Profit /(Loss) from Marine Business (C) = (A-B)		42.00	
	Appropriations			
	Transfer to Shareholder's Account		-	
	Transfer to Catastrophe Reserve		-	
	Transfer to other Reserves (to be specified)		-	
	Total (C)		42.00	

(1M)

Form B - PL

Name of the Insurer: New India Insurance Company Ltd.

Registration No. and date of registration with the IRDA:

Profit & Loss Account
for the year ended 31 March, 2012

	Particulars	Schedule	Current year (Rs. Lakhs)	Previous year (Rs. Lakhs)
1	Operating Profit from marine insurance		42.00	
2	Income from investments		-	
3	Other Income		-	
	Total (A)		42.00	

4	Provision (other than taxation) Diminution in the value of investment in shares 4.00 Less: increment in the value of investment in govt. securities 10.00		(6.00)	
5.	Other expenses			
	Total (B)		(6.00)	
	Profit before tax A–B [i.e. 42 — (-6)]		48.00	
	Loss: Provision for taxation		(27.30)	
	Total		20.70	
	Appropriations		Nil	
	Balance of P&L bought forward from last year		20.00	
	Balance carried forward to Balance Sheet		40.70	

(2M)

Schedule 1 Premium Earned (Net)

Particulars	**Current year (Rs. Lakhs)**	**Previous year (Rs. Lakhs)**
Premium from direct business	100.00	
Add: Premium on re-insurance accepted	10.00	
	110.00	
Less: Premium on re-insurance ceded	(20.00)	
Net Premium	90.00	
Adjustment for change in reserve		
for unexpired risk [(opening) 120–(Closing) 90]	30.00	
	120.00	

(1M)

Schedule 2 Claims incurred (Net)

Particulars	**Current Year (Rs. Lakhs)**	**Previous Year (Rs. Lakhs)**
Claims paid		
Direct	50.00	
Add: Reinsurance accepted	8.00	
	58.00	
Less: Reinsurance ceded	10.00	
Net Claims paid	48.00	
Add: Claims outstanding at the end of the year	15.00	
	108.00	
Less: Claims outstanding at the beginning of the year	(40.00	
Total claims incurred	68.00	

(1M)

Schedule 3 Commission

Particulars	**Current Year (Rs. Lakhs)**	**Previous Year (Rs. Lakhs)**
Commission paid : Direct	10.00	
Add: Re-insurance accepted	2.50	

	12.50	
Less: Commission on reinsurance ceded	(5.00)	
Net Commission	7.50	

(1M)

Schedule 4 **Operating Expenses**

Particulars	**Current Year (Rs. in Lakhs)**	**Previous Year (Rs. in Lakhs)**
Expenses of Management	10.00	
Bad Debts	20.00	
Other expenses	2.50	
	32.50	

(1M)

Working Note:

Provision for income tax:	**Rs in lakhs**
Income (excluding revaluation)	36.00
Add: Tax deducted at source	6.00
	42.00
Provision @ 65% of 42.00 lakhs	27.30
Less: Tax deducted at source	(6.00)
	21.30

(1M)

Answer 5 (16 Marks):

Assets					**Rs.**	
Assets not specifically pledged (as per list A)					60,000	
Trade debtors					74,000	
Stock in trade					1,30,000	
Plant					4,000	
Tools					30,000	
Patents					5,000	
Unpaid calls					3,03,000	**(1M)**
Assets specifically pledged (as per list B)						
	Estimated Realisation (Rs.)	**Due to Secured Creditors (Rs.)**	**Deficiency Ranking as Unsecured Creditors (Rs.)**	**Surplus carried to the last column (Rs.)**		
Investments	1,70,000	1,90,000	20,000		**(1M)**	
Land & Building	1,30,000	80,000		50,000	**(1M)**	
	3,00,000	2,70,000				
	Estimated surplus from assets specifically pledged				50,000	
	Estimated total assets available for preferential creditors, debenture holders and unsecured creditors				3,53,000	**(1M)**
	Summary of Gross Assets:					
	Gross realisable value of –					
	assets specifically charged			3,00,000		

	other assets	3,03,000	
		6,03,000	
	Estimated total assets available for preferential creditors, debenture holders, bank overdraft and unsecured creditors brought forward		3,53,000 **(1M)**

(5M)

Gross Liabilities (Rs.)	Liabilities	Rs.	Rs.
2,50,000	Secured creditors (as per List B) to the extent to which claims are estimated to be covered by assets specifically pledge		
22,000	Preferential creditors as per list C		22,000
	Estimated balance of assets available for Debenture holders, Bank & unsecured creditors		3,31,000
1,02,500	Debenture holders secured by a float charge as per list D		(1,02,500)
	Surplus as regards debenture holders		2,28,500
	Unsecured creditors as per list E		
	Estimated unsecured balance of claim of creditors partly secured on		
	Specific assets	20,000	
	Trade creditors	2,65,500	
2,92,500	Outstanding expenses	7,000	2,92,500
	Estimated deficiency as regards creditors being the difference between gross liabilities and gross assets		
6,67,000			64,000
	Issued & Called up Capital		
	3,000 Equity shares or Rs. 100 each, Rs. 80 paid	2,40,000	
	6% 1,000 preference shares of Rs. 100 each fully called	1,00,000	3,40,000
	Estimated Deficiency as regards members as per list H		4,04,000

(4M)

***Note:** For the purpose of section 530(1)(b) of the Companies Act, 1956, the term "employee" shall include officers and other administrative staff members but it shall not include workmen and managing director. In fact, section 530(8)(bb) clearly states that the expression 'employee' does not include a workman. Also section 2(26) read with the explanation to section 269 concludes that a managing director is not an ordinary employee and hence he should not be considered as an employee for the purpose of section 530. The Secretary of a Company, being an officer, is to be included within the definition of 'employee' for the purpose of section 530.

Note:

(i) The above is subject to cost to winding up estimated at Rs. 15,000 and to any surplus in deficiency on trading realisation of assets.

(ii) There are 3,000 shares unpaid @ Rs. 20 per share liable to be called up.

List H – Deficiency Account

A. Item contributing to Deficiency:

			Rs.	
1.	Excess of capital & liabilities over assets on 1-1-2010		Nil	
2.	Net dividend & bonuses during the period Jan. – Dec. 2010		29,700	**½M**
3.	Net trading losses after charging depreciation, taxation, interest on debentures, etc., during the same period (Rs. 1,09,000 + Rs. 1,31,300)		2,40,300	**½M**
4.	Losses other than trading losses written off or for which provision has been made in the books during same period – stock loss.		40,000	**½M**
5.	Estimated losses now written off or for which provision has been made for the purpose of preparing the statements:		40,000	**½M**
		Rs.		
	Plant	70,000		
	Tools	16,000		
	Patents	20,000		
	Stock	13,000		
	Investments	10,000		
	Debtors	30,000	1,59,000	**½M**
6.	Other reducing items contributing to deficiency		NIL	
			4,69,000	

B. Items reducing deficiency:

7.	Excess of assets over capital and liabilities on 1st Jan. 2008	15,000	**½M**
8.	Net trading profit during the period 1st Jan. 2006 to 31st Dec. 2008	40,000	**½M**
9.	Profit & Incomes other than trading profit during the same period		
10.	Other items Deficiency – Profit expected on Land & Building	10,000	**½M**
		65,000	
	Deficiency as shown by the statement of Affairs (A) – (B)	4,69,000	
		4,04,000	
		(4M)	

Working Notes:

(1)Trial Balance to ascertain the amount of loss for 2012

	Dr. (Rs.)	Cr. (Rs.)
Land & Building	1,20,000	
Plant	2,00,000	
Tools	20,000	
Patents	50,000	
Stock	87,000	
Investments	1,80,000	
Debtors	90,000	
Equity Capital		2,40,000
6% Preference share capital		95,000
5% Debentures		1,00,000
Interest Outstanding		2,500
Mortgage on Land & Building		80,000
Trade Creditors		2,65,500

Owing for Wages			20,000
Secretary's Salary			3,000
Managing Director's Salary			6,000
Bank Overdraft			1,90,000
Profit & Loss Account on 1-1-2010	**(1M)**	1,23,700	
		8,70,700	
Loss for the year (balancing figure)	**(1M)**	1,31,300	-
		10,02,000	10,02,000

(2M)

Reserve & Surplus Account

2007		Rs.	2007		Rs.
Dec.31	To P&L A/c (Transfer)	25,000	Dec.31	By Balance b/d	40,000
2008			2008		
	To Dividend Eq. Preference	24,000	Dec.31	By Profit for the year	40,000
2009		5,700	2009		
	To Profit & Loss A/c (Loss)	1,09,000	Dec.31	By Balance c/d	1,23,700
	To Loss of Stock	40,000			
		2,03,700			2,03,700

(1M)

Answer 6 (16 Marks):

M/s D, B and R

Departmental Trading and Profit & Loss Account

for the six months ended 31-3-2013

	A	B	C	Total		A	B	C	Total
To Op. Stock	37,890	24,000	20,000	81,890	By Sales **(½)**	1,80,000	1,30,000	90,000	4,00,000
To Purchases **(½)**	1,40,700	80,600	44,400	2,65,700	By Transfer **(1)**	10,700	600	–	11,300
To Transfer **(1)**	–	–	11,300	11,300	By Cl. Stock	45,100	22,300	21,600	89,000
To Wages **(1)**	–	–	12,000	12,000					
To Gross profit c/d **(1)**	57,210	48,300	23,900	1,29,410					
	2,35,800	1,52,900	1,11,600	5,00,300		2,35,800	1,52,900	11,16,000	5,00,300
To Salaries & Wages:					By Gross profit				
General Office **(½)**	12,000	8,000	4,000	24,000	b/d	57,210	48,300	2,39,000	1,29,410
Showroom **(½)**	4,000	8,000	–	12,000	By Discount				
Advertising **(1)**	1,080	780	540	2,400	Received. **(1)**	400	250	150	800
To Rent **(1)**	2,400	2,400	6,000	10,800					
To Discount Allowed **(1)**	540	390	270	1,200					
To Sundry Exp. **(1)**	5,400	3,900	2,700	12,000					
To Depreciation **(1)**	250	250	250	750					
To Net Profit c/d	31,940	24,830	10,290	67,060					
	57,610	48,550	24,050	1,30,210		57,610	48,550	24,050	1,30,210

(12M)

Note: Gross profit of Department A is 30% of Sales price (including transfer to Department C).

There is some unrealised profit only on inter departmental stock. 30% of Rs. 5,700 is as stock reserve. This will be debited to Profit and Loss Appropriation Account.

Profit and Loss Appropriation Account

	Rs.	Rs.		Rs.
To Stock Reserve (See Note)**(1M)**		1,710	By Net Profit transferred	

To D: 75% of Profit of			from Profit & Loss A/c	67,060
Deptt. A	23,955			
50% of Combined profits	7,527	31,482	**(1M)**	
To B: 75% of Profit of				
Deptt. B	18,623			
25% on Combined profits	3,763	22,386	**(1M)**	
To R: 75% of Profit of				
Deptt. C	7,718			
25% of Combined profits	3,764	11,482	**(1M)**	
		67,060		67,060

(4M)

Answer 7(a) (4 Marks):

Value	Due Date	Days after 31.3.2013	Rate of discount	Discount Amount
18,25,000	5.6.2013	(30+31+5) = 66	12%	39,600
50,00,000	12.6.2013	(30+31+12) = 73	12%	1,20,000
28,20,000	25.6.2013	(30+31+25) = 86	14%	93,021
40,60,000	6.7.2013	(30+31+30+6) = 97	16%	1,72,633
1,37,05,000	Rebate on bills discounted on 31.3.2013			4,25,254

(1M)

In the books of X Bank Ltd.
Journal Entries

		Rs.	Rs.	
(i)	Rebate on bills discounted Account Dr.	2,21,600		
	To Discount on bills Account		2,21,600	**1M**
	(Being opening balance of rebate on bills discounted account transferred to discount on bills account)			
(ii)	Discount on bills Account Dr.	4,25,254		
	To Rebate on bills discounted Account		4,25,254	**1M**
	(Being provision made on 31st March, 2013)			
(iii)	Discount on bills Account Dr.	8,52,996		
	To Profit and loss Account		8,52,996	**1M**
	(Being transfer of discount on bills, of the year, to profit and loss account)			

Credit to Profit and Loss A/c will be as follows: Rs. (10,56,650 + 2,21,600 – 4,25,254) = Rs. 8,52,996

Answer 7(b) (4 Marks):
In the books of Head Office - LMN:

Mumbai Branch Account (At invoice price)

Particulars	Amount (Rs.)	Particulars		Amount (Rs.)
To Balance b/d:		By Stock Reserve (opening)		10,000
Stock	40,000	By Remittances		
Debtors	25,000	Cash Sales	1,20,000	
Cash in hand	1,000	Cash from Debtors	65,000	1,85,000
Furniture	4,000	By Goods sent to Branch (loading)		45,000

To Goods sent to branch		1,80,000	By Goods returned by branch (Returns to HO)	6,000
To Goods returned by branch (loading)		1,500	By Balance c/d:	
To Bank (Exp. paid by Head Office):			Stock	35,000
Salary	4,000		Debtors	28,450
Staff Welfare	750		Cash (Rs.1,000–Rs.700)	300
Telephone	1,200	5,950	Furniture (Rs.4,000–Rs.400)	3,600
To Stock Reserve (closing)		8,750		
To Profit Transferred to General Profit & Loss A/c		47,150		
		3,13,350		3,13,350

(¼×12 = 3M)

Working Note: **Debtors Account**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	25,000	By Cash A/c	65,000
To Sales A/c (Credit)	70,000	By Sales Return	1,250
		By Discount allowed	300
		By Balance c/d	28,450
	95,000		95,000

Note: It is assumed that goods returned by branch are at invoice price. **(1M)**

Answer 7(c) (4 Marks):

Journal in the books of Z Ltd.

Year	Particulars		Rs. (Dr.)	Rs. (Cr.)
1st	Fixed Assets Account	Dr.	50,00,000	
	To Bank Account			50,00,000
	(Being Fixed Assets purchased)			
	Bank Account	Dr.	10,00,000	
	To Deferred Government Grant Account			10,00,000
	(Being grant received from the government)			
	Depreciation Account	Dr.	9,00,000	
	To Fixed Assets Account			9,00,000
	(Being Depreciation charged on SLM)			
	Profit & Loss Account	Dr.	9,00,000	
	To Depreciation Account			9,00,000
	(Being depreciation transferred to P/L A/c)			
	Deferred Government Grants Account	Dr.	2,00,000	
	To Profit & Loss Account			2,00,000
	(Being proportionate government grant taken to P&L A/c)			
2nd	Depreciation Account	Dr.	9,00,000	
	To Fixed Assets Account			9,00,000
	(Being depreciation charged on SLM)			

	Profit & Loss Account To Depreciation Account (Being Depreciation Transferred to P/L A/c)	Dr.	9,00,000	9,00,000
	Deferred Government Grant Account To Profit & Loss Account (Being proportionate government grant taken to P&L A/c)	Dr.	2,00,000	2,00,000

(½×8 = 4M)

Answer 7(d) (4 Marks):

(i) Computation of average accumulated expenses

		Rs.
Rs.2,00,000 x 12/12	=	2,00,000
Rs.2,50,000 x 9/12	=	1,87,500
Rs.4,50,000 x 6/12	=	2,25,000
Rs.1,20,000 x 1/12	=	10,000
		6,22,500

(1M)

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (Rs.)	Rate of interest	Amount of Interest (Rs.)
5,00,000	11%	= 55,000
9,00,000	13%	= 1,17,000
14,00,000		1,72,000
Weighted average rate of interest $\left(\frac{1,72,000}{14,00,000} \times 100\right)$		= 12.285% (approx)

(1M)

(iii) Interest on average accumulated expenses

		Rs.
Specific borrowings (Rs. 1,00,000 x 10%)	=	10,000
Non-specific borrowing (Rs.5,22,500 x 12.285%)	=	64,189
Amount of interest to be capitalized	=	74,189

(1M)

(iv) Total expenses to be capitalized for building

	Rs.
Cost of building Rs. (2,00,000+2,50,000+4,50,000+1,20,000)	10,20,000
Add: Amount of interest to be capitalized	74,189
	10,94,189

(v) Journal Entry

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
31.12.2012	Building account To Bank Account (Being amount of cost of building and borrowing cost thereon capitalized)	Dr.	10,94,189	10,94,189

(1M)

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