Paper 1 - Accounting

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

Time: 3 Hours **Marks: 100**

Detailed Solution

Q.1 (a) Raw materials inventory of a company includes certain material purchased at Rs. 100 Per kg.The price of the material is on decline and replacement cost of the inventory at the year end is Rs. 75 per kg. It is possible to convert the material into finished product at conversion cost of Rs. 125.
Decide whether to make the product or not to make the product if selling price is (i) Rs. 175 and (ii) Rs. 225. Also find out the value of inventory in each case.

Answer: 1 (a) According to AS 2 '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. But 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 realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.
(I) when the selling price be Rs. 175
Incremental Profit= Rs.175 – Rs.125 = Rs. 50
Current price of the material = Rs.75
Therefore, it is better not to make the product. Raw material inventory would be valued at net realisable value i.e. 75 because the selling price of the finished product is less than Rs.225 (100 + 125) per kg.
(ii) When the selling price be Rs.225
Incremental Profit = Rs. 225 – Rs.125 = Rs.100
Current price of the raw material Rs.75
Therefore, it is better to make the product
Raw material inventory would be valued at Rs.100 per kg because the selling price of the finished product is not less than Rs.225

Q. 1(b) From the following particulars of Ganga Limited, you are required to calculate the managerial remuneration in the following situations
(I) There is only one whole time director.
(ii) There are two whole time directors.
(iii) There are two whole time directors, a part-time director and manager

Net profit before provision for income-tax and managerial remuneration, but after depreciation and provision for repairs	8,70,410
Depreciation provided in the books	3,10000
Provision for repairs of machinery during the year	25,000
Depreciation allowable under Schedule XIV	2,60,000
Actual expenditure incurred on repairs during the year	15,000

(Nov. 1995, 6 Marks)

Answer:
(a) Sections 198 and 309 of the Companies Act, 1956 provide the maximum percentage of profit that can be paid as managerial remuneration by a public company to its managerial personnel. Profit for this purpose is to be computed in
the manner as specified in Section 349.

Computation of Profit u/s 349 of the Companies Act, 1956

	Rs.	Rs.
Net Profit before provision for income and managerial remuneration, but after depreciation and provision for repairs		8,70,410
Add :Depreciation Provision	3,10,000	
Provision for Repairs to Machinery	25,000	3,35,000

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		12,05,410
less: Depreciation allowable under Schedule XIV	2,60,000	
Actual Expenditure incurred on Repairs	15,000	2,75,000
Profit as per Section 349		9,30,410

Computation of Managerial Remuneration

(i) If there is only one whole-time director

Managerial Remuneration =5% of Rs. 9,30,410

=Rs. 46,520.50

(ii) If there are two whole-time directors

Managerial Remuneration = 10% of Rs. 9,30,410

= Rs. 93,041

(iii) If there are two whole-time directors, a part-time director and a manager

Managerial Remuneration = 11% of Rs. 9,30,410

= Rs. 1,02,345.10

Q. 1 (c) R had the following bills receivable and bills payable against S. Calculate average due date when the payment can be made or received without any loss or gain of interest to either party.

Bills Receivable			Bills Payable		
Date of the Bill	Amount (Rs.)	Tenure in months	Date of the Bill	Amount (Rs.)	Tenure in months
1.6.08	9,000	3	29.5.08	6,000	2
5.6.08	7,500	3	3.6.08	9,000	3
9.6.08	10,000	1	10.6.08	10,000	2
12.6.08	8,000	2	13.6.08	7,000	2
20.6.08	12,000	3	27.6.08	11,000	1

Holiday intervening in the period 15th August, 2008, 16th August, 2008, and 6th September, 2008

(Nov. 2008) (4 Marks)

Answer:

Calculation of Average Due Date (taking base date as 12th July, 2008)

Date	Due date including days of grace	Amount (Rs.)	No. of Days from July 12	Products (Rs.)	Remarks
1.6.08	4.9.08	9,000	54	4,86,000	B.R.
5.6.08	8.9.08	7,500	58	4,35,000	
9.6.08	12.7.08	10,000	0	0	
12.6.08	14.8.08	8,000	33	2,64,000	
20.6.08	23.9.08	12,000	73	8,76,000	
		46,500		20,61,000	
29.5.08	1.8.08	6,000	20	1,20,000	
3.6.08	5.9.08	9,000	55	4,95,000	B.P.
10.6.08	13.8.08	10,000	32	3,20,000	
13.6.08	14.8.08	7,000	33	2,31,000	
27.6.08	30.7.08	11,000	18	1,98,000	
		43,000		13,64,000	

Difference of Products = Rs. 20,61,000 – Rs. 13,64,000 = Rs. 6,97,000

Difference of Amount = Rs. 46,500 – Rs. 43,000 = Rs. 3,500

Average Due Date = Base Date $+ \frac{Difference of products}{Difference of Amount}$

= July 12 + $\frac{6,97,000}{3,500}$

= July 12 + 199.14 or 199 days

= 27th January, 2009

Note: (i) B/R of 12.6.08 (ii) B/P of 3.6.08 & (iii) B/P of 13.6.08 - Due date changed due to holidays

Q. 1(d) Write a short note on "Red – link Interest".

Answer: **Red Ink Interest:** Sometimes, the due date of the transactions fall beyond the date of settlement i.e. the date on which the account current is prepared, in such cases, the days are counted from the settlement date to the date of transaction. These days are written with a negative sign in the days column or with a positive sign on the opposite side where the transaction does not appears The

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products were written with Red Ink. So the interest on such products is called as Red Ink Interest. This Red Ink Interest is treated as a negative interest.

Q. 2 The following were the Balance Sheets of P Ltd. and V Ltd as at 31st March, 2001:

Liabilities	P Ltd. (Rs. in lakhs)	V Ltd. (Rs. In lakhs)
Equity Share Capital (Fully paid shares of Rs. 10 each)	15,000	6,000
Securities Premium	3,000	-
Foreign Projects Reserve	-	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	-	1,000
Bills Payable	120	-
Sundry Creditors	1,080	463
Sundry Provisions	1,830	702
	33,400	12,500
Assets		
Land and Buildings	6,000	-
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Stock	7,862	4,041
Debtors	2,120	1,020
Cash at Bank	1,114	609
Bills Receivable	-	80
Cost of issue of Debentures	-	50
	33,400	12,500

All the bills receivable held by V Ltd were P Ltd's acceptances.
On 1st April, 2001 P Ltd. took over V Ltd in an amalgamation in the nature of merger It was agreed that in discharge of consideration for the business, P Ltd would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd would be converted into 13% debentures in P Ltd of the same amount and denomination. Expenses of amalgamation amounting to Rs.1 lakh were borne by P Ltd
You are required to:
(i) Pass journal entries in the books of P Ltd. and
(ii) Prepare P Ltd Balance Sheet immediately after the merger (16 Marks)

Ans.

Books of P Ltd.
Journal Entries **(Rs. in Lacs)**

		Dr.	Cr.
Business Purchase A/c	Dr.	9,000	
To Liquidator of Y Ltd.			9,000
(Being business of Y Ltd: taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Stock	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 – 3,000)			200
To Profit and Loss A/c (825 – 50)			775
To 12% Debentures			1,000
To Sundry Creditors			463
To Sundry Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
General Reserve A/c	Dr.	1	

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To Bank A/c		1
(Liquidation expenses paid by P Ltd.)		
12%Debentures A/c of V Ltd. Dr.	1,000	
To 13% Debentures A/c		1,000
(12% debentures discharged by issue of 13% debentures)		
Bills Payable A/c Dr.	80	
To Bills Receivable A/c		80
(Cancellation of mutual owing on account of bills)		

Balance Sheet of P Ltd. as at 1st April, 2012 (after merger)

		Particulars		Notes	Rs. (in Lakhs)
		Equity and Liabilities			
1		**Shareholders' funds**			
	a	Share capital		1	24,000
	b	Reserves and Surplus		2	16,654
2		**Non-current liabilities**			
	a	Long-term borrowings		3	1,000
3		**Current liabilities**			
	a	Trade Payables (1,543 + 40)			1,583
	b	Short-term provisions			2,532
			Total		**45,769**
		Assets			
1		**Non-current assets**			
	a	Fixed assets			
		Tangible assets		4	29,004
2		Current assets			
	a	Inventories			11,903
	b	Trade receivables			3,140
	c	Cash and cash equivalents			1,722
			Total		**45,769**

Notes to accounts

			Rs.
1.	**Share Capital**		
	Equity share capital		
	Authorised, issued, subscribed and paid up		
	24 crores equity shares of Rs. 10 each		24,000
	(Of the above shares, 9 crores shares have been issued for consideration other than cash)		
		Total	**24,000**
2.	**Reserves and Surplus**		
	General Reserve		9,699
	Securities Premium		3,000
	Foreign Project Reserve		310
	Surplus (Profit and Loss Account)		3,645
		Total	**16,654**
3.	**Long-term borrowings**		
	Secured		
	13% Debentures		1,000
4.	**Tangible assets**		
	Land & Buildings		6,000
	Plant & Machinery		19,000
	Furniture & Fittings		4,004
		Total	**29,004**

Working Notes:

1. Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration Rs. 6,000 lacs $\times \frac{3}{2}$ = Rs. 9,000 lacs.

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Note: The question is silent regarding the treatment of fictitious assets and therefore they are not transferred to the amalgamated company. Thus the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

Q. 3 A trader keeps his books of account under single entry system. On 31st March, 2000 his statement of affairs stood as follows:

Liabilities	**Rs.**	**Assets**	**Rs.**
Trade Creditors	5,80,000	Furniture, Fixtures and Fittings	1,00,000
Bills Payable	1,25,000	Stock	6,10,000
Outstanding Expenses	45,000	Trade Debtors	1,48,000
Capital Account		Bills Receivable	60,000
	2,50,000	Unexpired Insurance	2,000
		Cash in Hand and at Bank	80,000
	10,00,000		10, 00,000

The following was the summary of Cash-book for the year ended 31st March, 2001:

Receipts	**Rs.**	**Payments**	**Rs.**
Cash in Hand and at		Payment to Trade Creditors	75,07 000
Bank on 1st April, 2000	80,000	Payments for Bills Payable	8,15,000
Cash Sales	73,80,000	Sundry Expenses paid	6,20,700
Receipts from Trade Debtors	15,10,000	Drawings	2,40,000
Receipts for Bills Receivable	3,40,000	Cash in Hand and at Bank on 31st March, 2001	1,27,300
	93,10,000		93,10,000

Discount allowed to trade debtors and received from trade creditors amounted to Rs. 36,000 and Rs. 28,000 respectively. Bills endorsed amounted to Rs. 15,000. Annual Fire Insurance premium of Rs. 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balances method You are also informed about the following balances as on 31st March, 2001.

	Rs.
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000
The trader maintains a steady gross profit ratio of 10% on sales.	

Prepare Trading and Profit and Loss Account for the year ended 31 March 2001 and Balance Sheet as at that date. (16 Marks)

Ans.

Trading and Profit and Loss Account
for the year ended 31st March, 2001

	Rs.		**Rs.**
To Opening Stock	6,10,000	By Sales	
To Purchases (as per W. N. 3)	84,10,000	Cash 73,80,000	
To Gross profit c/d		Credit (as per W.N.2)	93,00,000
(10% of 93,00,000)	9,30,000	19,20,000	
		By Closing stock	6,50,000
To Sundry expenses (as per W. N. 6)	99,50,000		99,50,000
To Discount allowed	5,80,700	By Gross profit b/d	9,30,000
To Depreciation (15% Rs.	36,000	By Discount received	28,000
1,00,000)	15,000		
To Net Profit			
	3,26,300		9,58,000
	9,58,000		

Balance Sheet as at 31st March, 2001

Liabilities		**Amount Rs.**	**Assets**		**Amount Rs.**
Capital			Furniture & Fittings	1,00,000	
Opening Balance	2,50,000		**Less :** Depreciation		85,000
Less: Drawing	2,40,000		Stock	15,000	6,50,000
			Trade debtors		1,52,000
Add: Net profit for the	10,000	3,36,300	Bills Receivable		75,000
year	3,26,300	1,40,000	Unexpired insurance		2,000
Bills payable		6,10,000	Cash in hand & at bank		1,27,300

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Trade creditors Outstanding expenses		5,000 10,91,300			10,91,300

Working Notes:

1. Bills Receivable Account

	Rs.		Rs.
To Balance b/d	60,000	By cash	3,40,000
To Trade debtors	3,70,000	By Creditors (Bills endorsed)	15.000
		By Balance c/d	75,000
	4,30,000		4,30,000

2. Trade Debtors Account

	Rs.		Rs.
To Balance b/d	1,48,000	By Cash/Bank	15,10,000
To Credit sales (Balancing figure)	19,20,000	By Discount allowed	36,000
		By Bills receivable	3,70,000
		By Balance c/d	1,52,000
	20,68,000		20,68,000

3. Memorandum Trading Account

	Rs.		Rs.
To Opening stock	6,10,000	By Sales	93,00,000
To purchases (Balancing figure)	84,10,000	By Closing Stock	6,50,000
To Gross Profit (10% on sales)	9,30,000		
	99,50,000		99,50,000

4. Bills Payable Account

	Rs.		Rs.
To Cash/Bank	8,15,000	By balance b/d	1,25,000
To Balance c/d	1,40,000	By creditors (Balancing figure)	8,30,000
	9,55,000		9,55,000

5. Trade Creditors Account

	Rs.		Rs.
To Cash/Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases (as calculated inW.N.3)	84,10,000
To Bills receivable	15,000		
To Bills Payable	8,30,000		
To Balance c/d (balancing figure)	6,10,000		
	89,90,000		89,90,000

6. Computation of sundry expenses to be charged to Profit & Loss A/c

	Rs.
Sundry expenses paid (as per cash book)	6,20,700
Add: Prepaid expenses as on 31-3-2000	2,000
	6,22,700
Less: Outstanding expenses as on 31 -3-2000	45,000
	5,77,700
Add: Outstanding expenses as on 31-3-2001	5,000
	5,82,700
Less: Prepaid expenses as on 31-3-2001 (Insurance paid till July, 2001)	2,000
	5,80,700

Q. 4(a) Gaama Investment Company holds 1,000, 15% debentures of Rs. 100 each in Beta Industries Ltd. as on April 1, 2009 at a cost of Rs. 1,05,000. Interest is payable on June, 30 and December, 31 each year.

On May 1, 2009, 500 debentures are purchased cum-interest at Rs. 53,500. On November 1, 2009, 600 debentures are sold ex-interest at Rs. 57,300. On November 30, 2009, 400 debentures are purchased ex-interest at Rs, 38,400. On December 31, 2009, 400 debentures are sold cum-interest for Rs. 55,000.

Prepare the investment account showing value of holdings on March 31, 2010 at cost, using FIFO method. (8 marks)

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Ans. **In the books of Gaama Investments Ltd.**

Investment Account (15% Debentures in Beta Industries Ltd.)

Date	*Particulars*	*Nominal Value Rs.*	*Interest Rs.*	*Cost Rs.*	*Date*		*Particulars*	*Nominal Value Rs.*	*Interest Rs.*	*Cost Rs.*
1.04.09	To Balance b/d (W.N.1)	1,00,000	3,750	1,05,000	30.06.09	By	Bank A/c (W.N.3)	-	11,250	-
1.05.09	To Bank A/c (W.N.2)	50,000	2,500	51,000	1.11 09	By	Bank A/c (W.N.4)	60,000	3,000	57,300
30.11.09	To Bank A/c (W.N.5)	40,000	2,500	38,400	1.11.09	By	Profit & Loss A/c			
31.12.09	To Profit & Loss A/c (W.N.12)						(W.N.11)			5,700
	To Profit & Loss A/c			10,000	31.12.09	By	Bank A/c			
31.03.10		-	18,625				(W.N. 6 & 7)	40,000	3,000	52,000
					31.12.09	By	Bank A/c (W.N.8)	-	6,750	-
					31.03.10	By	Bank A/c (W.N.9&10)	90,000	3,375	89,400
		1,90,000	**27,375**	**2,04,400**				**1,90,000**	**27,375**	**2,04,400**

Working Notes:

1. Accrued interest as on 1.4.09 $= \text{Rs. } 1{,}00{,}000 \times \frac{15}{100} \times \frac{3}{12} = \text{Rs. } 3{,}750$

2. Accrued interest $= \text{Rs. } 50{,}000 \times \frac{15}{100} \times \frac{4}{12} = \text{Rs. } 2{,}500$

   Cost of investment for purchase on 1.5.09

   $= \text{Rs. } 53{,}500 - \text{Rs. } 2{,}500 = \text{Rs. } 51{,}000$

3. Interest received $= \text{Rs. } 1{,}50{,}000 \times \frac{15}{100} \times \frac{6}{12} = \text{Rs. } 11{,}250$

4. Accrued interest $= \text{Rs. } 60{,}000 \times \frac{15}{100} \times \frac{4}{12} = \text{Rs. } 3{,}000$

5. Accrued interest $= \text{Rs. } 40{,}000 \times \frac{15}{100} \times \frac{5}{12} = \text{Rs. } 2{,}500$

6. Accrued interest $= \text{Rs. } 40{,}000 \times \frac{15}{100} \times \frac{6}{12} = \text{Rs. } 3{,}000$

7. Sale price of investment on 31.12.09

   $= \text{Rs. } 55{,}000 - \text{Rs. } 3{,}000 = \text{Rs. } 52{,}000$

8. Accrued interest $= \text{Rs. } 90{,}000 \times \frac{15}{100} \times \frac{6}{12} = \text{Rs. } 6{,}750$

9. Accrued interest $= \text{Rs. } 90{,}000 \times \frac{15}{100} \times \frac{3}{12} = \text{Rs. } 3{,}375$

10. Cost of investment as on 31.3.10 = Rs. 51.000 + Rs. 38,400 = Rs. 89,400

11. Loss on debentures sold on 1.11.2009:

		Rs.
Sales price of debentures		57,300
Less: Cost of investment sold	$= \frac{\text{Rs. } 1{,}05{,}000}{1{,}000} \times 600$	63,000
Loss on sale		(5,700)

12. Profit on debentures sold on 31.12.2009:

Sales price of debentures		52,000
Less: Cost of investment sold	$= \frac{\text{Rs. } 1{,}05{,}000}{1{,}000} \times 400$	42,000
Profit on Sale		10,000

Q. 4(b) On account of a fire on 15 June, 2002 in the business house of a company, the working remained disturbed up to 15 Dec., 2002 as a result of which, it was not possible to affect any sales. The company had taken out an insurance policy with an average clause against consequential losses for Rs. 1,40,000 and a period of 7 months has been agreed upon as indemnity period. An increase of

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25% was marked in the current year's sales as compared to last year The company incurred an additional expenditure of Rs. 12,000 to make sales possible and made a saving of Rs. 2,000 in the insured standing charges.
Ascertain the claim under the consequential loss policy keeping the following additional information in view:

	Rs.
Actual sales from 15 June, 2002 to 15 Dec., 2002	70,000
Sales from 15 June, 2001 to 15 Dec., 2001	2,40,000
Net profit for last Financial year	80,000
Insured standing charges for the last Financial year	70,000
Total standing charges for the last Financial year	1,20,000
Turnover for the last Financial year	6,00,000
Turnover for one year 16 June 2001 to 15 June 2002	5,60 000

(8 Marks)

Answer:

(1) Calculation of Short Sales:	**Rs.**
Sales for the period 15.6.2001 to 15.12.2001	2,40,000
Add: 25% increase in sales	60,000
Estimated sales in current period	3,00,000
Less: Actual sales from 15.6.2002 to 15.12.2002	70,000
Short Sales	2,30,000
(2) Calculation of Gross Profit	
Gross Profit = $\frac{Net\ \text{Profit} + \text{Insured Standing Charges}}{Turnover} \times 100$	
= $\frac{Rs.80,000 + Rs.70,000}{Rs.6,00,000} \times 100 = \frac{Rs.1,50,000}{Rs.6,00,000} \times 100$ = 25%	
(3) Calculation of Loss of Profit	
Rs. 2,30,000 x 25% = 57,500	= Rs. 12,000
(4) Calculation of claim for increased cost of working	
Least of the following:	
(i) Actual expense	
$\times \frac{\text{Net Profit} + \text{Insured Standing Charges}}{\text{Net profit} + \text{Total Standing Charges}}$	
(ii) Expenditure	
= Rs. 12,000 $\times \frac{Rs.80,000 + Rs.70,000}{Rs.80,000 + Rs.1,20,000}$	
(iii) Gross profit on sales generated due to additional expenses = Rs.	
70,000 x 25%	= Rs. 9,000
Rs. 9,000 being the least, shall be the increased cost of working.	
(5) Calculation of Total Loss of Profit:	= Rs. 17,500
Loss of profit	
Add: Increased cost of working	**Rs.**
	57,500
Less: Saving in standing charges	9,000
	66,500
(6) Calculation of Insurable amount : Adjusted sales x G.P. rate	2,000
Turnover from 16.06.2002 to 15.06.2002	64,500
Add: 25% increase	**Rs.**
Adjusted Sales	5,60,000
Insurable Rs. 7,00,000 x 25%	1,40,000
(7) Total claim for consequential loss of profit :	7,00,000
Total claim = $\frac{\text{Insured amount}}{\text{Insurable Amount}} \times \text{Total loss of profit}$	= Rs. 1,75,000
Total claim = $\frac{1,40,000}{1,75,000}$ x 64,500 = 51,600	

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Alternatively claim for increased cost of working can also be calculated applying following method (first three calculations will be the same as in the earlier alternative): **(4) Calculation of claim for increased cost of working:** Least of the following: (i) Actual expense (ii) Expenditure $\times \dfrac{\text{Gross profit on adjusted Turnover}}{\text{Gross profit as abobove} + \text{Uninsured Standing Charges}}$ = Rs. 12,000 $\times \left[\dfrac{\frac{25}{100} \times Rs.7{,}00{,}000}{\left(\frac{25}{100} \times Rs.7{,}00{,}000 + Rs.50{,}000\right)} \right]$	= Rs. 12,000
(iii) Gross profit on sales generated due to additional expenditure =25% x Rs. 70,000 Rs. 9,333 being the least, shall be the increased cost of working.	Rs. 9,333 Approx = Rs. 17,500
Where Adjusted Turnover: Turnover from 16.06.2001 to 15.06.2002 **Add:** 25% increase	**Rs.** 5,60,000 1,40,000 7,00,000
(5) Calculation of Total Loss of Profit Loss of Profit **Add:** Increased cost of working **Less:** Saving in insured standing charges	**Rs.** 57,500 9,333 66,833 2,000 64,833
(6) Calculation of Insurable amount : Adjusted Turnover x G.P. rate = Rs. 7,00,000 x 25% = Rs. 1,75,000 **(7) Total claim for consequential loss of profit:** = $\dfrac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$ = $\dfrac{\text{Rs.}1{,}40{,}000}{\text{Rs.}1{,}75{,}000} \times \text{Rs.}64{,}833 = \text{Rs.}51{,}866.40$	

Q. 5 Amit and Sumit are partners sharing profits and tosses in the ratio of 3:2. Their Balance Sheet as on 31st March 2011 is given below:

Liabilities	Amount Rs.	Assets		Amount Rs.
Capital Accounts:		Land & Building		3,20,000
Amit	1,76,000	Investment (Market value Rs. 55,000)		50,000
Sumit	2,54,000	Debtors	3,00,000	
Loan from Puneet	3,00,000	Less: Provision for		
General Reserve	30,000	doubtful debts	10,000	2,90,000
Employer's Provident Fund	10,000	Stock		1,10,000
Creditors	50,000	Cash at Bank		50,000
Total	**8,20,000**	**Total**		**8,20,000**

They decided to admit Puneet as a new partner from 1st April, 2011 on the following terms:

1. Amit will give 1/3rd of his share and Sumit will give 1/4th of his share to Puneet.
2. Puneet's loan account will be converted into his capital.

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3. The Goodwill of the firm is valued at Rs. 3,00,000. Puneet will bring his share of Goodwill in cash and the same was immediately withdrawn by the partners.
4. Land and building was found undervalued by Rs. 1,00,000.
5. Stock was found overvalued by Rs. 60,000.
6. Provision for doubtful debts will be made equal to 5% of debtors.
7. Investments are to be valued at their market price.

It was decided that the total capital of the firm after admission of new partner would be Rs. 10,00,000. Capital accounts of partners will be readjusted on the basis of their profit sharing ratio and excess or deficiency will be adjusted in cash.

You are required to prepare:

a) Revaluation A/c.
b) Partner's Capital A/c.
c) Balance Sheet of the firm after admission of new partner. (16 marks)

Answer: **Revaluation A/c**

Particulars	**Amount**	**Particulars**	**Amount**
To Stock	60,000	By Land & building	1,00,000
To Provision for doubtful debts	5,000	By Investments	5,000
To Profit transferred to			
Amit's capital A/c	24,000		
Sumit's capital A/c	16,000		
	1,05,000		1,05,000

Partners' Capital Account

Particular	**Amount**			**Particular**	**Amount**		
	Amit	**Sumit**	**Puneet**		**Amit**	**Sumit**	**Puneet**
To Amit's capital A/c	—	—	60,000	By Balance b/d	1,76,000	2,54,000	—
To Puneet's capital A/c	—	—	30,000	By Puneets' Loan A/c	—	—	3,00,000
To Bank A/c	60,000	30,000	—	By Puneet's capital A/c	60,000	30,000	—
To Balance c/d	4,00,000	3,00,000	3,00,000	By Bank A/c (W.N.2)	—	—	90,000
				By Revaluation A/c	24,000	16,000	—
				By General reserve	18,000	12,000	—
				By Bank	1,82,000	18,000	—
	4,60,000	**3,30,000**	**3,90,000**		**4,60,000**	**3,30,000**	**3,90,004**

Balance Sheet
(After admission of a new partner - Puneet)
(As on 1st April 2011)

Liabilities		**Amount**	**Assets**		**Amount**
Capital accounts			Land and building (3,20,000+1,00,000)		4,20,000
Amit	400,000		Investments		55,000
Sumit	300,000				
Puneet	300,000	10,00,000	Debtors	3,00,000	
Creditors		50,000	**Less:** Provision for doubtful debts	(15,000)	2,85,000
Employers' Provident Fund*		10,000	Stock (1,10,000 - 60,000)		50,000
			Cash at bank (W.N.3)		2,50,000
		10,60,000			**10,60,000**

Working Notes:

(1) Calculation of incoming partner's share, new profit sharing ratio and sacrificing ratio.

	Amit	**Sumit**
Old profit sharing ratio	3/5	2/5
Surrendered by old partners	3/5x1/3=1/5	2/5x1/4 =1/10
Remaining share	3/5-1/5=2/5	2/5 -1/10=3/10

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* Employer's Provident Fund is current liability as it is assumed to be representing employer's contributionto provident fund which is yet to be deposited. Puneet's total share in profits = 1/5 + 1/10 =3/10 New profit sharing ratio of Amit: Sumit: Puneet = 2/5 : 3/10 : 3/10 = 4:3:3 Sacrificing ratio of Amit: Sumit is 1/5:1/10 : or 2:1

(2) Calculation of Share of goodwill be old partners

Goodwill of the firm was 3,00,000

Share of Puneet in goodwill = Rs. 3,00,000 x $\frac{3}{10}$ = Rs. 90,000

Goodwill will be distributed among the old partners in their sacrificing ratio of 2:1 i.e. ` 60,000 by Amit and 30,000 by Sumit.

(3) Calculation of Closing Balance of Bank Account after admission. Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	50,000	By Amit's capital A/c	60,000
To Puneet's capital A/c	90,000	By Sumit's capital A/c	30,000
To Sumit's capital A/c	18,000	By Balance c/d	2,50,000
To Amit's capital A/c	1,82,000		
	3,40,000		3,40,000

Q. 6 The Balance Sheet of New Light Ltd for the years ended 31st March, 2001 and 2002 are as follows:

Liabilities	31st March 2001(Rs.)	31st March 2002 (Rs.)	Assets	31st March 2001 (Rs.)	31st March 2002 (Rs.)
Equity share capital	12,00,000	l6,00,000	**Fixed Assets**	32,00,000	38,00,000
10% Preference			Less: Depreciation	9,20,000	11,60,000
share capital	4,00,000	2,80,000		22,80,000	26,40,000
Capital Reserve	-	40,000	Investment	4,00,000	3,20,000
General Reserve	6,80,000	8,00,000	Cash	10,000	10,000
Profit and Loss A/c	2,40,000	3,00,000	Other current	11,10,000	13,10,000
9% Debentures	4,00,000	2,80,000	assets	80,000	40,000
Current liabilities	4,80,000	5,20,000	Preliminary		
Proposed dividend	1,20,000	1,44,000	expenses		
Provision for Tax	3,60,000	3,40,000			
Unpaid dividend	-	16,000			
	38,80,000	43,20,000		38,80,000	43,20,000

Additional information:

(1) The company sold one fixed asset for Rs. 1,00,000, the cost of which was Rs. 2,00,000 and the depreciation provided on it was Rs. 80,000.
(2) The company also decided to write off another fixed asset costing Rs. 56,000 on which depreciation amounting to Rs. 40,000 has been provided.
(3) Depreciation on fixed assets provided Rs. 3,60,000.
(4) Company sold some investment at a profit of Rs. 40,000, which was credited to capital reserve.
(5) Debentures and preference share capital redeemed at 5% premium.
(6) Company decided to value stock at cost, whereas previously the practice was to value stock at cost less 10% The stock according to books on 31.3.2001 was Rs. 2,16,000. The stock on 31.3.2002 was correctly valued at Rs. 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

(16 Marks)

Ans.

New Light Ltd.

Cash Flow Statement for the year ended 31st March, 2002

A. Cash Flow from operating activities	**Rs.**	**Rs.**
Profit after appropriation		
Increase in profit and loss A/c after inventory adjustment		
[Rs. 3,00,000— (Rs. 2,40,000 + Rs. 24,000)]	36,000	
Transfer to general reserve	1,20,000	
Proposed dividend	1 ,44,000	
Provision for tax	3,40,000	
Net profit before taxation and extraordinary item	6,40,000	
Adjustments for:		
Preliminary expenses written off	40,000	
Depreciation	3,60,000	

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	Loss on sale of fixed assets	20,000	
	Write off Decrease in value of fixed assets	16,000	
	Premium on redemption of preference share capital	6,000	
	Premium on redemption of debentures	6,000	
	Operating profit before working capital changes	10,88,000	
	Increase in current liabilities (Rs. 5,20,000—Rs. 4,80,000)	40,000	
	Increase in other current assets [Rs. 13,10,000 - (Rs. 11,10,000 + Rs. 24,000)]	(1,76,000)	
	Cash generated from operations	9,52,000	
	Income taxes paid	(3,60,000)	
	Net Cash from operating activities		6,17,200
B.	**Cash Flow from investing activities**		
	Purchase of fixed assets	(8,56,000)	
	Proceeds from sale of fixed assets	1,00,000	
	Proceeds from sale of investments	1,20,000	
	Net Cash from investing activities		(6,36,000)
C.	**Cash Flow from financing activities**		
	Proceeds from issuance of share capital	4,00,000	
	Redemption of preference share capital (Rs. 1 ,20,000 + Rs. 6,000)	(1,26,000)	
	Redemption of debentures (Rs. 1,20,000 + Rs. 6,000)	(1,26,000)	
	Dividend paid	(1,04,000)	
	Net Cash from financing activities	25,200	18,200
	Net increase/decrease in cash and cash equivalent during the year		Nil
	Cash and cash equivalent at the beginning of the year		10,000
	Cash and cash equivalent at the end of the year		10,000

Working Notes:

1. Revaluation of stock will increase opening stock by Rs. 24,000.

   $\frac{2,16,000}{90} \times 10$ = Rs. 24,000.

   Therefore, opening balance of other current assets would be as follows:
   Rs. 11,10,000+Rs. 24,000=Rs. 11,34,000
   Due to under valuation of stock, the opening balance of profit and loss account be increased by Rs. 24,000.
   The opening balance of profit and loss account after revaluation of stock will be Rs. 2,40,000 + Rs. 24,000 = Rs. 2,64,000.

2. Investment Account

	Rs.		Rs.
To Balance b/d	4,00,000	By Bank A/c (balancing figure being investment sold)	1,20,000
To Capital reserve A/c (Profit on sale of investment)	40,000	By Balance c/d	3,20,000
	4,40,000		4,40,000

3. Fixed Assets Account

	Rs.		Rs.	Rs.
To Balance b/d	32,00,000	By Bank A/c (sale of assets)	1,00,000	
To Bank A/c (balancing figure being assets purchased)	8,56,000	By Accumulated depreciation A/c	80,000	
		By Profit and loss A/c (loss on sale of assets)	20,000	2,00,000
		By Accumulated depreciation A/c	40,000	
		By Profit and loss A/c (assets written off)	16,000	56,000
		By Balance c/d		38,00,000
	40,56,000			40,56,000

4. Accumulated Depreciation Account

	Rs.		Rs.
To Fixed assets A/c	80,000	By Balance b/d	9,20,000

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To Fixed assets A/c	40,000	By Profit and loss A/c	
To Balance c/d	11,60,000	(depreciation for the period)	3,60,000
	12,80,000		12,80,000

5. Unpaid dividend is taken as non-current item and dividend paid is shown at Rs. 1,04,000 (Rs. 1,20,000—Rs. 16,000).

Note: Alternatively, unpaid dividend can be assumed as current liability and hence, dividend paid can be shown at Rs. 1,20,000. Due to this assumption cash flow from operating activities would be affected. The cash flow from operating activities will increase by Rs. 16,000 to Rs. 6,08,000 and cash flow from financing activities will get reduced by Rs. 16,000 to Rs. 28,000.

Q.7 Answer any four of the following:

(a) What is the difference between the Sectional and Self – balancing system ?

Answer:

(i) Under Sectional balancing system only one trial balance is prepared in General Ledger while under self balancing system, separate trial balance is prepared in each ledger.

(ii) Under sectional balancing system, Total Debtors account and Total Creditors account are memorandum accounts and not the part of double entry system but under self balancing system adjustment accounts are the parts of double entry system.

(iii) Under sectional balancing system, arithmetical accuracy of Sales Ledger and Bought Ledger can be checked by preparing Total Debtors account and Total Creditors account while under self balancing arithmetical accuracy of each ledger can be checked by preparing trial balance of each ledger.

(iv) Under sectional balancing system, Total Debtors account and Total Creditors account are opened in General Ledger while under Self Balancing System, adjustment accounts are opened in General Ledger, Sales Ledger and bought ledger.

Q. 7(b) Describe, with reference to Accounting Standard - 7 on Accounting for construction contracts, the methods which may be used for recognising revenue on construction contracts.

Answer

Accounting for Construction Contract is based on AS-7 Two methods of accounting are generally followed by the contractors for recognising revenue on construction contracts.

The two methods are

1 Percentage of completion method

2 The completed contract method

1. Percentage of Completion Method:— In this method, revenue is recognised as the contract activity progresses or is based on the stage of completion reached The cost actually incurred in reaching the stage of completion are compared with this revenue, resulting in the reporting of results which can be attributed to the proportion of work completed In reality revenue is recognised only when it is realised, but under this method, the revenue is recognised as the work progress even though in certain cases It may not be realized.

2. Completed Contract Method — In this method, revenue is recognised only when the work is completed or substantially completed. During the course of the contract, costs and progress payments received are accumulated but revenue will not be recognised until the contract activity is substantially completed.

In both the methods, provisions are made for losses for the stage of completion reached on the contract and provisions are also made for losses on the remainder of the contract.

For the purpose of accounting ,it is important to combine the contract made with single customers or with several customers. If the contract covers a number of projects and if the costs and revenues of such individual projects can be known within the terms of the overall contract each such project may be treated as equivalent to a separate contract.

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Q. 7(c) Explain the ' Accounting of Revaluation of Assets' with reference to AS- 10.

Answer: Accounting of Revaluation of Assets :— An enterprise may revalue any particular class Of fixed assets. Such revaluation is made by making appraisal by competent valuers.

The revalued amounts of fixed assets are presented in financial statements, either by restating both the gross book value and accumulated depreciation so that net book value equal to net revalued amount or by restating the net book value by adding therein the net increase on account of revaluation.

Profit on revaluation of fixed assets is credited to Revaluation Reserve Account and Loss on revaluation is charged to Profit and Loss A/c. If increase in the book value of asset is the reversal of previously recorded decrease, which was charged to P&L A/c, such increase to the extent of previous decrease should be credited to Profit and Loss A/c. if decrease in book value of assets is related to

previous increase, such decrease, to the extent of previous increase, will be adjusted against Revaluation Reserve.

Q. 7(d) X Co. Limited purchased goods at the cost of Rs. 40 lakhs in October. 2005. Till March, 2006 75% of the stocks were sold. The company wants to disclose closing stock at Rs. 10 lakhs. The expected sale value is Rs. 11 lakhs and a commission at 10% on sale is payable to the agent. Advise, what is the correct closing stock to be disclosed as at 31.03.2006.

Answer: As per As -2 that is valuation of inventories, inventories are valued at cost or net realisabie value whichever is lower. Cost of inventories comprised cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present position and location. NRV is the estimated selling price in ordinary course of business less estimated cost of completion and cost necessary to make the sale.

In the instance case, cost of closing stock that forms 25% of Rs. 40 lakhs is Rs. 10 lakhs and NRV is Rs.9.9 Iakhs (i.e. Rs.11 lakhs - 10% of commission on sale)

X Co. Ltd. should disclose closing stock at Rs.9.9 lakhs which is lower of cost of Rs.10 lakhs. Commission of 10% is to be deducted as it is estimated cost necessary to make sale.

Q. 7(e) Sony Pharma ordered 12,000 kg. of certain material at Rs. 80 per unit. The purchases price includes excise duty Rs. 4 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to Rs. 77,400. Normal transit loss is 3%. The company actually received 11,600 kg. and consumed 10,100 kg. of material. Compute cost of inventory under AS – 2 and abnormal loss

Answer: Purchase price (12,000kg x Rs. 80)	9,60,000
Less: CENVAT credit (12,000 kg x Rs 4)	48,000
	9,12,000
Add. Fright	77,400
Total material cost	9,89,400
Number of units after normal loss = 97% of 12,000 Kgs.	11,640 Kgs.
Normal cost per kg. (9,89,400 / 11,640) = Rs. 85	

Value of closing stock under As 2 = (11,600 kgs. – 10,100 kgs.) x Rs. 85 =Rs. 1,27,500

Abnormal loss = (11,640 kgs. – 11,600 kgs.) x Rs. 85 = Rs. 3,400

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