All BATCHES

DATE: 04.03.2017 **MAXIMUM MARKS: 100** **TIMING: 3 Hours**

ACCOUNT

Q. No. 1 is compulsory.
Wherever necessary suitable assumptions should be made by the candidates.
Working notes should form part of the answer.

Answer 1:

(a) As per 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 cost 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. In the given case, selling price of product X is Rs. 300 and total cost per unit for production is Rs. 320. Hence the valuation will be done as under: **2M**

(i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at Rs. 90 per unit. **1M**

(ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost Rs. 320 (Rs. 260 + additional cost Rs. 60) or Net estimated selling price Rs. 240 (Estimated selling price Rs. 300 per unit less additional cost of Rs. 60). **1M**

(iii) 1,500 units of finished product X will be valued at NRV of Rs. 300 per unit since it is lower than cost Rs. 320 of product X. **1M**

Valuation of Total Inventory as on 31.03.2015:

	Units	**Cost (Rs.)**	**NRV/ Replacement cost**	**Value = units x cost or NRV whichever is less (Rs.)**
Raw material A	600	120	90	54,000
Partly finished goods	500	260	240	1,20,000
Finished goods X	1,500	320	300	4,50,000
Value of Inventory				6,24,000

(5 Marks)

(b) According to para 12 of AS 6 'Deprecation Accounting', there are several methods of allocating depreciation over the useful life of the assets. The management of a business selects the most appropriate method(s) based on various important factors e.g., (i) type of asset, (ii) the nature of the use of such asset and (iii) circumstances prevailing in the business. A combination of more than one method is sometimes used. A company may adopt different methods of depreciation for different types of assets, provided the same methods are followed consistently. Thus Narmada Ltd. can continue to charge depreciation for the acquired unit as per straight line method. The statute governing an enterprise may provide the basis for computation of the depreciation. For example, the Companies Act lays down the rates of depreciation in respect of various assets. Where the management's estimate of the useful life of an asset of the enterprise is shorter than that envisaged under the provisions of the relevant statute, the depreciation provision is appropriately computed by applying a higher rate. **5M**

Therefore, in the given case, the Company can charge higher rates of depreciation based on its estimate of the useful life of machinery, provided that such estimate is not less than the rate prescribed by the Companies Act, for that class of assets. However, such higher depreciation rates and/or the reduced useful lives of the assets should be disclosed by way of notes to the accounts in the Financial Statements.

(5 Marks)

(c) As per AS 9 „Revenue Recognition", revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods. However, trade discounts and volume rebates given in the ordinary course of business should be deducted in determining revenue. Revenue from sales should be recognized at the time of transfer of significant risks and rewards. If the delivery of the sales is not subject to approval from customers, then the transfer of significant risks and rewards would take place when the sale is affected and goods are dispatched. **2M**

In the given case, if trade discounts allowed by M/s. Moon Ltd. are given in the ordinary course of business, M/s. Moon Ltd. should record the sales at Rs. 5,97,000 (i.e. Rs. 6,50,000 – Rs. 53,000) and goods returned worth Rs. 67,000 are to be recorded in the form of sales return. However, when trade discount allowed by M/s. Moon Ltd. is not in the ordinary course of business, M/s. Moon Ltd. should record the sales at gross value of Rs. 6,50,000. Discount of Rs. 53,000 in price and return of goods worth Rs. 67,000 are to be adjusted by suitable provisions. M/s Moon Ltd. might have sent the credit note of Rs. 1,20,000 to Mr. Star to account for these adjustments. In both the cases, the contention of the accountant to book the sales for Rs. 5,30,000 is not correct. **3M**

(5 Marks)

(d) As per AS 13, where investments are reclassified from current to long -term, transfers are made at the lower of cost and fair value at the date of transfer.

(1) In the first case, the market value of the investment is Rs. 25 lakhs, which is higher than its cost i.e. Rs. 20 lakhs. Therefore, the transfer to long term investments should be carried at cost i.e. Rs. 20 lakhs. **1½M**

(2) In the second case, the market value of the investment is Rs. 6.5 lakhs, which is lower than its cost i.e. Rs. 15 lakhs. Therefore, the transfer to long term investments should be carried in the books at the market value i.e. Rs. 6.5 lakhs. The loss of Rs. 8.5 lakhs should be charged to profit and loss account.
As per AS 13, where long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. **2M**

(3) In the third case, the book value of the investment is Rs. 12 lakhs, which is lower than its cost i.e. Rs. 18 lakhs. Here, the transfer should be at carrying amount and hence this re - classified current investment should be carried at Rs. 12 lakhs. **1½M**

(5 Marks)

Answer 2: (16 Marks)

(i) **Journal Entries**

			Rs.	Rs.
(i)	Equity share capital (Rs. 50) A/c	Dr.	60,00,000	
	To Equity share capital (Rs. 10)* A/c			8,00,000

* Holding interpreted as number of shares i.e. number of newly issued shares computed as 2/3rd of 1,20,000 = 80,000

	To 9% Preference share capital A/c (25,000 x Rs.8)		2,00,000
	To 10% Debentures A/c (3,500 x Rs. 80)		2,80,000
	To Capital Reduction A/c		47,20,000
	(Being payment made in lieu of equity share capital of Rs. 50 each by issue of equity shares of Rs. 10 each, 9% Preference share capital and 10% Debentures as per reconstruction scheme)		
(ii)	9% Preference Share capital (Rs. 10) A/c Dr.	40,00,000	
	To 9% Preference Share Capital (Rs. 8) A/c		32,00,000
	To Capital Reduction A/c		8,00,000
	(Being 9% preference share capital of Rs. 10 each reduced to Rs. 8 each as per reconstruction scheme)		
(iii)	Bank A/c Dr.	16,00,000	
	To Equity Share Capital (Rs. 10) A/c		16,00,000
	(Being preference share holders subscribed for 2 new equity shares of 10 each against every 5 shares)		
(iv)	(a) Provision for Taxation A/c Dr.	75,000	
	To Capital Reduction A/c		9,000
	To Taxation Liability A/c		66,000
	(Being liability for taxation settled)		
	(b) Taxation Liability A/c Dr.	66,000	
	To Bank A/c		66,000
	(Being liability for taxation paid)		
(v)	Trade payables A/c Dr.	1,00,000	
	To Equity share capital A/c (7,000 x Rs. 10)		70,000
	To Capital Reduction A/c		30,000
	(Being payment made to creditors in shares to the extent of 70% as per reconstruction scheme)		
(vi)	Trade Payables A/c Dr.	5,00,000	
	To 9% Preference share capital A/c (43,750xRs.8)		3,50,000
	To Bank A/c		1,20,000
	To Capital Reduction A/c		30,000
	(Being payment made to creditors in shares and cash as per reconstruction scheme)		
(vii)	Capital Reduction A/c Dr.	26,000	
	To Bank A/c		26,000
	(Being contractual commitment settled by payment of 4% penalty)		
(viii)	7% Debentures A/c Dr.	23,00,000	
	To Plant & Machinery A/c		22,00,000
	To Capital Reduction A/c		1,00,000
	(Being 7% debentures holders settled through charge of plant & machinery as per reconstruction scheme)		
(ix)	8% Debentures A/c (34,000 x Rs. 50) Dr.	17,00,000	
	To 10% Debentures A/c (17,000 x Rs. 80)		13,60,000
	To Capital Reduction A/c		3,40,000

11M

	(Being conversion of 8% debentures to 10% debentures at one for every two debentures held by them as per reconstruction scheme)		
(x)	Capital Reduction A/c Dr.	12,30,000	
	To Land & building A/c		3,75,000
	To Profit and Loss A/c		2,15,000
	To Trade receivables A/c		4,50,000
	To Inventories A/c		1,90,000
	(Being amount of Capital Reduction utilized in writing off Profit & loss Dr. bal., Land & building, Current Assets, Inventories through capital reduction account)		
(xi)	Capital Reduction A/c Dr.	47,73,000	
	To Capital Reserve A/c		47,73,000
	(Being balance in capital reduction account transferred to capital reserve account)		

(ii) Balance Sheet of M/s Clean Ltd. (as reduced) as on 31.3.2015

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share Capital	1	62,20,000
	b	Reserves and Surplus	2	47,73,000
2		**Non-current liabilities**		
	a	Long-term Borrowings	3	16,40,000
		Total		**1,26,33,000**
		Assets		
1		**Non-current assets**		
	a	Fixed Assets		
		Tangible Assets	4	71,25,000
	b	Investments		16,50,000
2		**Current assets**		
	a	Inventories	5	7,60,000
	b	Trade Receivables	6	13,50,000
	c	Cash and Cash equivalents		17,48,000
		Total		**1,26,33,000**

Notes to accounts:

		Rs.
1.	**Share Capital** **Equity share capital** Issued, subscribed and paid up 2,47,000 equity shares of Rs. 10 each (out of which 7,000 equity shares have been issued for	24,70,000

	consideration for other that cash)		
	Preference share capital		12
	Issued, subscribed and paid up		
	4,68,750 Preference shares of Rs. 8 each		37,50,000
	(out of which 43,750 equity shares have been issued for consideration for other that cash)		62,20,000
2.	**Reserves and Surplus**		
	Capital Reserve		47,73,000
3.	**Long-term borrowings**		
	Secured		
	20,500 10% Debentures of Rs. 80 each		16,40,000
4.	**Tangible assets**		
	Land & building	75,00,000	
	Adjustment under scheme of reconstruction	(3,75,000)	71,25,000
5.	**Inventories**	9,50,000	
	Adjustment under scheme of reconstruction	(1,90,000)	7,60,000
6.	**Trade receivables**	18,00,000	
	Adjustment under scheme of reconstruction	(4,50,000)	13,50,000

(½×6 = 3 Marks)

Working Notes:

1. **Cash at Bank Account**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Balance b/d	3,60,000	By Taxation liability	66,000
To Equity Share capital A/c	16,00,000	By Trade Payables A/c	1,20,000
		By Penalty A/c	26,000
		By Balance c/d (bal. fig.)	17,48,000
	19,60,000		19,60,000

1M

2. **Capital Reduction Account**

Particulars	**Rs.**	**Particulars**	**Rs.**
To Land & building A/c	3,75,000	By Equity Share Capital A/c	47,20,000
To Machinery A/c	2,15,000	By 9% Pref. share capital	8,00,000
To Trade receivables A/c	4,50,000	By 7% Debentures	1,00,000
To Inventories A/c	1,90,000	By Provision for tax	9,000
To Bank	26,000	By Trade Payables (30,000 + 30,000)	60,000
To Capital Reserve (bal. fig.)	47,73,000	By 8% Debentures	3,40,000
	60,29,000		60,29,000

1M

Answer 3: (16 Marks)

Corrected Receipts and Payments Account of Highend Club for the year ended 31st March, 2013

Receipts		**Amount Rs.**	**Payments**	**Amount Rs.**
To bal. b/d		9,000	By Printing & Stationery	21,000
To annual subscription	9,18,000		By Telephone expenses	45,000
Less: Receivable on 31.3.2013	(54,000)		By Garden upkeep	55,000

Add: Advance received for year 2013-14	18,000		By Electricity charges	36,000
Add: Receivable as on 31.3.2012	36,000		By Repairs and maintenance	72,000
Less: Advance received on 31.3.2012	(18,000)	9,00,000	(1,26,000 - 54,000)	
To sale of furniture (90,000 - 36,000)		54,000	By Sports material	54,000
To Sale of old newspaper		36,000	By bal. c/d	26,11,000
To Entrance fee		68,000		
To Donation for building		18,00,000		
To Interest on investments		27,000		
		28,94,000		28,94,000

5M

Income & Expenditure Account of Highend Club for the year ended 31 st March, 2013:

Expenditure	**Amount Rs.**	**Income**	**Amount Rs.**
To Printing and Stationery expenses (W.N.1)	22,000	By Subscription	9,18,000
To Repairs and Maintenance		By Entrance fee	
(1,26,000 -54,000)	72,000	(50% of 68,000)	34,000
To Telephone expenses	45,000	By Sale of old newspapers	36,000
To Sports material (W.N. 2)	1,51,200	By Interest on investments	27,000
To Garden upkeep	55,000		
To Electricity charges (W.N. 3)	39,200		
To Loss on sale of furniture	36,000		
To Excess of surplus over expenditure	5,94,600		
	10,15,000		10,15,000

5M

Balance sheet of Highed Club as on 31st March, 2013

Liabilities		**Amount Rs.**	**Assets**		**Amount Rs.**
Capital Fund (W.N. 4)	10,58,700		Furniture	3,60,000	
Add: Entrance fee capitalized†	34,000		Less: sale	(90,000)	2,70,000
Add: Surplus	5,94,600	16,87,300	5% investments		5,40,000
Building fund		18,00,000			
Outstanding Electricity charges		3,200	Cash in hand		26,11,000
Outstanding printing and stationary exp.		2,500	Subscription receivable		54,000
Subscription received in advance		18,000			
		35,11,000			35,11,000

3M

Working Notes:

1. **Printing and Stationary expenses for the year**

	Rs.
Amount paid	21,000
Add: Outstanding as on 31.3.2013	2,500
	23,500
Less: Outstanding as on 31.3.2012	(1,500)
	22,000

½M

† Alternatively, Entrance fees may be shown separately as liability without being added to Capital Fund.

2. Sports material consumed

Stock as on 1.4.2012	1,33,200
Add: Purchases	54,000
	1,87,200
Less: Stock as on 31.3.2013	(36,000)
	1,51,200

3. Electricity charges for the year

Amount paid	36,000
Add: Outstanding as on 31.3.2013	3,200
	39,200

4. Calculation of value of investments

Interest on 5% investments = Rs. 27,000

Value of Investment = Rs. 27,000 x 100 /5 = Rs. 5,40,000

(½×3 = 1½M)

5. Balance Sheet as on 1st April, 2012

Liabilities	Rs.	Assets	Rs.
		Furniture	3,60,000
Capital fund (balancing fig.)	10,58,700	Sports material	1,33,200
Subscription received in advance	18,000	Subscription receivables	36,000
Outstanding printing and stationary charges	1,500	Investments	5,40,000
		Cash in hand	9,000
	10,78,200		10,78,200

1M

Answer 4: (16 Marks)

Sony Ltd. Trading A/c
for the period 1.1.2014 to 31.3.2014

	Rs.		Rs.
To Opening stock	90,000	By Sales	2,50,000
To Purchases	3,00,000	By Closing stock	2,60,000
To Manufacturing expenses	70,000	(balancing figure)	
To Gross profit (20%* of Rs. 2,50,000)	50,000		
	5,10,000		5,10,000

Stock destroyed by fire	**2,60,000
Amount of fire policy	3,00,000

As the value of stock destroyed by fire is less than the policy value, the entire claim will be admitted.

4M

Calculation of loss of profit:

Computation of short sales:

	Rs.
Average sales for the period 1.4.2013 to 30.6.2013 (W.N.1) (Rs. 7,82,610/3)	2,60,870
Add: Increasing trend of sales (15%)	39,130
	3,00,000
Less: Sales during the period 1.4.2014 to 30.6.2014	87,500
Short sales	2,12,500

3M

* G.P. of 2013	25%	
Less: Decrease in trend	5%	20%

Computation of G.P. Ratio:

Gross profit ratio $= \frac{\text{Net profit} + \text{Incurred standing charges}}{\text{sales}} \times 100$

$= \frac{\text{Rs. } 50{,}000 + \text{Rs. } 50{,}000}{10{,}00{,}000} \times 100 \quad = \quad 10\%$ **1M**

Less: Decreasing trend in G. P. 5%

5%

Loss of profit = 5% of Rs, 2,12,500 = Rs. 10,625 **1M**

Amount allowable in respect of additional expenses:

Least of the following:

(i) Actual expenditure Rs. 60,000

(ii) G.P. on sales generated by additional expenses 5% of Rs. 87,500 Rs. 4,375

(assumed that entire sales during disturbed period is due to additional expenses)

(iii) Additional expenses x $= \frac{\text{G.P. on annual turnover}}{\text{G. P. on annual turnover} + \text{Uninsured standing charges}}$ **2M**

Rs. 60,000 x $\frac{57{,}500}{57{,}500 + 1{,}30{,}000}$ = 18,400 (approx)

Least i.e. Rs. 4,375 is admissible

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*G.P. on annual turnover:

Adjusted annual turnover:

	Rs.
Average turnover for the period 1.4.2013 to 31.12.2013 (W.N.1)	7,82,610
Turnover for the period 1.1.2014 to 31.3.2014	2,50,000
	10,32,610
Add: Increase in trend 15% (of Rs. 7,82,610)(W.N.2)	1,17,390
	11,50,000
Gross profit on annual turnover (5% of Rs. 11,50,000)	57,500

2M

As the gross profit on annual turnover (Rs. 57,500) is less than policy value (Rs.1,00,000), average clause is not applicable.

Insurance Claim to be submitted:

	Rs.
Loss of stock	2,60,000
Loss of profit	10,625
Additional expenses	4,375
	2,75,000

1M

Note: According to the given information standing charges include administrative expenses (Rs. 80,000) and finance charges (Rs. 1,00,000). Insured standing charges being Rs. 50,000, uninsured standing charges would be Rs. 1,30,000. **1M**

Working Note:

	Rs.
1. Break up of sales for the year 2013:	
Sales of the last quarter of 2013 (Rs. 2,50,000 x 100/115)	2,17,390*(approx.)
Sales for the remaining three quarters of 2013 Rs. (10,00,000-2,17,390)	7,82,610

*Sales for the last quarter of 2013 is computed on the basis of sales of the first quarter of 2014.

2. The increase in trend of sales has been applied to the sales of 2013 only, as the sales figure of the first quarter of 2014 was already trend adjusted.

(½×2=1M)

Answer 5:

(a) Hire Purchase accounts in the buyer's books

(i) Tractors on Hire Purchase Account

2011			**Rs.**	**2011**		**Rs.**	**Rs.**
April 1	To HP Co.–Cash price Tractor A		14,000	Dec. 31	By Balance c/d Tractor A	14,000	
Oct. 1	” HP Co. – Cash Price Tractor B		19,000		Tractor B	19,000	33,000
			33,000				33,000
2012			**Rs.**	**2012**			**Rs.**
Jan. 1	To Balance b/d			June 30	By Disposal of Tractor A/c Transfer		19,000
	Tractor A	14,000			By Balance c/d		14,000
	Tractor B	19,000	33,000	Dec. 31			
			33,000				33,000
2013							
Jan. 1	To Balance b/d		14,000				

1½M (2011) **1½** (2012)

(ii) Provision for Depreciation of Tractors Account

2011		**Rs.**	**2011**		**Rs.**	**Rs.**
Dec.31	To Balance c/d	3,050	Dec.31	By P & L A/c:		
				Tractor A	2,100	
				Tractor B	950	3,050
		3,050				3,050

1M

2012		**Rs.**	**2012**		**Rs.**
June30	To Disposal of Tractor A/c— Transfer	2,850	Jan. 1	By Balance b/d	3,050
			Jun. 30	By P & L A/c (Depn. for Tractor B)	1,900
Dec.31	To Balance c/d	4,900	Dec.31	By P & L A/c (Depn. for Tractor A)	2,800
		7,750			7,750
			2013		**Rs.**
			Jan. 1	By Balance b/d	4,900

3M

(iii) **Disposal of Tractor Account**

2011		Rs.	2011		Rs.
June30	To Tractors on hire purchase—Tractor B	19,000	June30	By Provision for Depn. of Tractors A/c	2,850
			July 10	By Cash : Insurance	15,000
			Dec.31	By P & L A/c : Loss	1,150
		19,000			19,000

3M

(10 Marks)

(b)Creditors Ledger Adjustment Account

2015		Rs.	2015		Rs.
March 1	To Balance (X, P)	2,400	March 1	By Balance (R) b/d:	1,000
March 31	To General Ledger Adj. A/c (In Bought Ledger)		March 31	By G.L. Adjust A/c (in Bought ledger)	
	Bank (X, R, Y & A)	8,750			
	Returns	1,250		Purchases	10,500
	Discount	350	March 31	Bank (Refund) (P)	2,000
March 31	To Balance c/d (B)	2,000	April. 1	By Balance c/d (Y,Q)	1,250
		14,750			14,750
April 1	To Balance b/d (Y, Q)	1,250		By Balance b/d (B)	2,000

4M

Working Notes:

(1) Purchases:		
1.3.2015	X	2,000
14.3.2015	A	4,000
27.3.2015	Y	2,500
30.3.2015	B	2,000
		10,500
(2) Payments:		
2.3.2015	X	1,600
13.2.2015	R	1,000
13.2.2015	Y	3,000
26.3.2015 (Rs. 3,500 - 10%)	A	3,150
		8,750

1M

1M

(6 Marks)

Answer 6: (16 Marks)

(i) **Revaluation Account**

	Rs.			Rs.
To Premises	10,000	By Plant and Machinery		6,000
To Provision for Doubtful Debts	1,200	By Loss on revaluation transferred to Capital Accounts:		
To Outstanding Expenses	5,000			
To Stocks	4,000	Manish (40%)	6,160	
To Provision for Professional Charges	1,200	Jatin (35%)	5,390	
		Paresh (25%)	3,850	15,400
	21,400			21,400

3M

(ii) **Capital Accounts of Partners**

Particulars	Manish Rs.	Jatin Rs.	Paresh Rs.	Particulars	Manish Rs.	Jatin Rs.	Paresh Rs.
To Revaluation A/c (Loss)	6,160	5,390	3,850	By Balance B/d	90,000	50,000	30,00
				By Current A/c	12,000	8,000	6,000
To Goodwill (written in new profit sharing ratio)	48,000	–	32,000	By Goodwill (in old profit sharing	32,000	28,000	20,000

3M

To Personal A/c To Balance c/d	– 79,840	80,160 –	– 20,150	Ratio)			
	1,34,000	86,000	56,000		1,34,000	86,000	56,000

(iii) Jatin's Personal Account

	Rs.		Rs.
To Bank Account (50% of old loan)	15,000	By Capital Account (Balance transferred)	80,610
To Loan Account (transferred)	80,000	By Loan Account (old loan)	30,000
To Balance c/d	15,610		
	1,10,610		1,10,610

2M

(iv) Balance Sheet of Manish and Paresh (As on 1st January, 2012)

Liabilities		Rs.	Assets		Rs.
Capital Accounts:			Fixed Assets		
Manish	79,840		Plant and Machinery	86,000	
Paresh	20,150	99,990	**Less:** Depreciation	28,000	58,000
Jatin's Loan A/c		80,000	Premises	75,000	
Current Liabilities and Provisions:			**Less:** Written off	10,000	65,000
Bills Payable	8,000		Current Assets Cash in Hand &		
SundryCreditors(30,000+ 5,000)	35,000		at Bank (67,000 - 15,000)		52,000
Jatin's dues Provision for	15,610		Sundry Debtors	34,000	
Professional charges	1,200	59,810	**Less:** Provision for Doubtful	7,200	
			Debts		26,800
			Stock in Trade		38,000
		2,39,800			**2,39,800**

4M

Working Notes:

1. Profit for the year ending 31st December, 2011

	Rs.	Rs.
As per draft accounts		1,88,200
Less: Premises written off	10,000	
Provision for Doubtful debts	1,200	
Outstanding Expenses	5,000	
Stock	4,000	20,200
		1,68,000

2M

2. Valuation of Goodwill

Profit for the year ending 31st Dec.2011 (after adjustment)	1,68,000
Profit for the year ending 31st Dec.2010	1,68,000
Profit for the year ending 31st Dec.2009	1,44,000
	4,80,000
Average Profits before partner's salaries	1,60,000
Less Partners' Salaries (notional)	80,000
Super Profit and Goodwill (one year's purchase)	80,000

2M

Answer 7: Any Four (4 × 4 = 16 Marks)

(a) Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilise the expertise of the outsourced party.

Advantages

(i) Saving of Time: The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.

(ii) Expertise of the third party: The organisation is able to utilise the expertise of the third party in undertaking the accounting work.

(iii) Maintenance of data: Storage and maintenance of the data is in the hand of professional people.

(½×4=2M)

(iv) Economical: The organisation is not bothered about people leaving the organisation in key accounting positions. The proposition is proving to be economically and more sensible as they do not have train the people again. Hence, the training cost is saved.1.

Disadvantages

1. **Lack of security & confidentiality*:*** The data of the organisation is handed over to a third party. This raises two issues, one of security and second of confidentiality. There have been instances of information leaking out of the third party data centres.
2. **Inadequate services provided :** The third party is unable to meet the standards desirable.
3. **High cost*:*** The *cost* may ultimately be higher than initially envisaged.
4. **Delay in obtaining services*:*** The third party service providers are catering to number of clients thereby processing as per priority basis.

(½×4=2M)

(b) Schedule III to the companies Act does not require that the amounts for which WIP have been completed at the beginning and at the end of the accounting period should be disclosed in the statement of profit and loss. Therefore, the non-disclosure in the financial statements by the company may not amount to violation of Schedule III if the differences between opening and closing WIP are not material.

Note: Students may note that the questions based on preparation of Statement of Profit and Loss, Balance Sheet (including statement of changes in equity) and explanatory notes as per Schedule III have been given in this Unit. However, questions requiring preparation of cash Flow statements have been separately given in the next unit of this chapter.

(4 Marks)

(c)

Solid Ltd.
Journal Entries

2015			Dr. Rs.	Cr. Rs.
April 1	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Final call of Rs. 2 per share on 90,000 equity shares due as per Board's Resolution dated....)			
April 20	Bank A/c	Dr.	1,80,000	
	To Equity Share Final Call A/c			1,80,000
	(Final Call money on 90,000 equity shares received)			
	Securities Premium A/c	Dr.	20,000	
	General Reserve A/c	Dr.	1,60,000	
	Profit and Loss A/c	Dr.	45,000	
	To Bonus to Shareholders A/c			2,25,000
	(Bonus issue @ one share for every four shares held by utilising various reserves as per Board's Resolution dated...) by utilising various reserves as per Board's Resolution dated...)			
April 20	Bonus to Shareholders A/c	Dr.	2,25,000	
	To Equity Share Capital A/c			2,25,000
	(Capitalisation of profit)			

(4 Marks)

(d)

Calculation of Average Due Date
Taking 10th August as the base date

Date of bill	Term	Due date	No. of days from 10th August 2013	Amount Rs.	Product Rs.
August 10, 2013	3 months	Nov. 13, 2013	95	6,000	5,70,000
October 23,2013	60 days	Dec. 25, 2013	137	5,000	6,85,000
December 04, 2013	2 months	Feb. 07, 2014	181	4,000	7,24,000
January 14, 2014	60 days	Mar. 18, 2014	220	2,000	4,40,000
March 08, 2014	2 months	May 11, 2014	274	3,000	8,22,000
				20,000	32,41,000

Average due date $= \dfrac{\text{Total of product}}{\text{Total of amount}} = \dfrac{32{,}41{,}000}{20{,}000} = 162 \text{ days}$

= 162 days after August 10, 2013 i.e. January 19, 2014.

(4 Marks)

(e)

Mr. Paul In Account Current with Mr. Singh
(Interest to 31st August, 2014 10% p.a.)

Date	Particulars L.F	Due Date	Amount Rs.	Days	Interest	Date	Particulars L.F	Due Date	Amount Rs.	Days	Interest
2014						2014					
June 11	To Sales A/c	June 11	1,020	81	82,620	June 15	By Cash A/c	June 15	500	77	38,500
June 20	To Sales A/c	June 20	650	72	46,800	Aug.8	By Cash A/c	Aug.8	1,100	23	25,300
July 7	To Sales A/c	July 7	700	55	38,500	Aug.31	By Balance of				
Aug. 31	To Interest A/c		28.53				product				
	(104120 / 365) x (10 / 100)					Aug. 31	Balance c /d		798.53		1,04,120
			2398.537		167920				2398.53		167920
Sept.	To Balance b/d		98.53								

(4 Marks)

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