CA-IPCC

NOV. - 2014 (ATTEMPT) GROUP-1

Total number of questions : 7 | Time allowed : 3 hours | Maximum Marks : 100 | Date : 08-11-2014

PAPER-1

EXAMINATION
PAPER WITH SOLUTION

SUBJECT : ACCOUNTS

NOTE 1. Question No. 1 is compulsory. Answer any five questions from the remaining six questions.
2. Working notes should form part of the answers.

Disclaimer Clause : These solutions are prepared by expert faculty team of RESONANCE. Views and answers provided may differ from that would be given by ICAI due to difference in assumptions taken in support of the answers. In such case answers as provided by ICAI will be deemed as final.

1. (a) In the books of Optic Fiber Ltd., plant and machinery stood at ₹ 6,32,000 on 1..4.2013. However on scrutiny it was found that machinery worth ₹ 1,20,000 was included in the purchases on 1.6.2013. On 30.6.2013 the company disposed a machine having book value of ₹ 1,89,000 on 1.4.2013 at ₹ 1,75,000 in part exchange of a new machine costing ₹ 2,56,000. The company charges depreciation @ 20% WDV on plant and machinery.

You are required to calculate :

(i) Depreciation to be chareged to P/L

(ii) Book value of Plant and Machinery A/c as on 31.3.2014

(iii) Loss on exchange of machinery.

Sol. (a) (i) Calculation of depreciation amount to be charged to P/L

(1) *On Balance as on 01.04.2013*

[(6,32,000 - 1,89,000) × 20%] ₹ 88,600

(2) *On Purchase made on 01.06.2013*

$$\left[1{,}20{,}000 \times \frac{20}{100} \times \frac{10}{12}\right]$$ ₹ 20,000

(3) *On new machine exchanged for old machine on 30.06.2013*

$$\left[2{,}56{,}000 \times \frac{20}{100} \times \frac{9}{12}\right]$$ ₹ 38,400

(4) *On old machine given in exchange for new machine*

$$\left[1{,}89{,}000 \times \frac{20}{100} \times \frac{3}{12}\right]$$ ₹ 9,450

Total **₹ 1,56,450**

(ii) Calculation of book value of Plant & Machinery A/c as on 31.03.2014

	Opening balance as on 01.04.2013	₹ 6,32,000
	Add: New machinery purchased for cash on 01.06.2013	₹ 1,20,000
	Add: New machinery purchased on exchange on 30.06.2013	₹ 2,56,000
Less:	Sale of old machine in exchange of new machine on 30.06.2013	(₹ 1,89,000)
		₹ 8,19,000
Less:	Depreciation charged during the year (as calculated above)	(₹ 1,56,450)
	Closing balance as on 31.03.2014	**₹ 6,62,550**

(iii) Calculation of loss on exchange of old machinery

	WDV of old machine given in exchange as on 30.06.2013 *(₹ 1,89,000 - ₹ 9,450)*	₹ 1,79,550
Less:	New machine purchased in exchange of old machine	(₹ 1,75,000)
	Loss on exchange of new machine	**₹ 4,550**

1. (b) Santa Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March 2014 issue was made in February 2014. The magazine was published on its scheduled date. It received ₹ 2,40,000 on 10.3.2014 and ₹ 60,000 on 10.4.2014 for the March 2014 issue.

Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2014. What will be the treatment if the publication is delayed till 2.4.2014 ?

Sol. (b) As per para AS 9 on *"Revenue Recognition"*, Revenue should be recognised when the service is completed. For advertising agencies, media commissions will normally be recognised when the related advertisement or commercial appears before the public and the necessary intimation is received by the agency.

Therefore, income from advertisement shall be recognised on 15.03.2014 for the year ending 31.03.2014.

IN THE BOOKS OF SARITA PUBLICATIONS

Journal Entries

			Dr.	Cr.
2014				
Mar 10	Bank A/c	*Dr.*	2,40,000	
	To Advance for advertisement space (sale) A/c			2,40,000
	(Being advance received from advertisers amounting to 80% of ` 3 lakhs for booking advertisement space)			
Mar 15	Advertisement space (sale) A/c	*Dr.*	3,00,000	
	To Profit and Loss A/c			3,00,000
	(Being revenue recognised in Profit and Loss Account on 15.03.2014)			
Mar 31	Advance for advertisement space (sale) A/c	*Dr.*	2,40,000	
	To Advertisement space (sale) A/c			2,40,000
	(Being advance received for advertisement space adjusted against the income recognised in P&L A/c.)			

The balance of amount ₹ 60,000 which was actually received on 10.04.2014 shall be shown under the head "Accrued income on advertisements" in the Balance Sheet as on 31.03.2014.
But if the publication is delayed till 02.04.2014, then no income shall be recognised in the P&L A/c for the year ending 31.03.2014 and "Advance for advertisement space (sale) A/c" amounting ₹ 2,40,000 shall be shown in the liabilities side of balance sheet as on 31.03.2014 as unearned Income.

1. **(c)** Capital Cables Ltd., has a normal wastage of 4% in the production process. During the year 2013-14 the Company used 12,000 MT of raw material costing ₹ 150 per MT.
At the end of the year 630 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books. Explain in the context of AS 2 the treatment of normal loss and abnormal loss and also find out the amount of abnormal loss if any.

Sol. **(c)** As per para 13 of AS 2 (Revised), abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.
In this case, normal waste is 480 MT and abnormal waste is 150 MT (630 MT - 480 MT).
Treatment of Normal Loss : The cost of 480 MT will be included in determining the cost of inventories (finished goods) at the year end.
Treatment of Abnormal Loss : The cost of abnormal waste amounting to ₹ 22,500 (150 MT × ₹ 150) will be charged to the profit and loss statement.

1. **(d)** Blue-chip Equity Investments Ltd ., wants to re-classify its investments in accordance with AS 13.
- **(i)** Long term investments in Company A, costing ₹ 8.5 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 6.5 lakhs to recogni`e a permanent decline in value. The fair value on date of transfer is ? 6.8 lakhs.
- **(ii)** Long term investments in Company B, costing ₹ 7 lakhs are to be re-classified as current. The fair value on date of transfer is : 8 lakhs and book value is ₹ 7 lakhs.
- **(iii)** Current investment in Company C, costing ₹ 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 12 lakhs.
- **(iv)** Current investment in Company D, costing ₹ 15 lakhs are to be re-classified as long term. The market value on date of transfer is ₹ 14lakhs.

Sol. **(d)** As per para 23 of AS 13 "Accounting for Investments", where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.
Also, as per para 24, 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.
- **(i)** The book value of the investment is ₹ 6.5 lakhs, which is lower than its cost i.e. ₹ 8.5 lakhs. Therefore, such investments shall be reclassified as current investment and should be carried at cost and carrying amount whichever is less, i.e. ₹ 6.5 lakhs.
- **(ii)** In the second case also, the long term investments in Company B will be classified at the lower of cost and carrying amount i.e. ₹ 7 lakhs.

(iii) In the third case, the market value of the investment is ₹ 12 lakhs, which is higher than its cost i.e. ₹ 10 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹ 10 lakhs.

(iv) In the fourth case, the market value of the investment is ₹ 14 lakhs, which is lower than its cost i.e. ₹ 15 lakhs. Therefore, the transfer to long term investments should be made in the books at the market value i.e. ₹ 14 lakhs. The loss of ₹ 1 (15 – 14) lakh should be charged to profit and loss account.

Note : *Wherever used, it is assumed that the market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller.*

2. The following information relates to Country Sports Club for the year ended 31.3.2014. You are required to prepare the Receipts and Payments Account for the year ended 31 .3.2014 and Balance Sheet as on that date. **[16 Marks]**

Expenditure	**₹**	**Income**	**₹**
To Salaries	3,36,000	By Subscription	8,40,000
To Repairs and maintenance	88000	By Receipts for annual sports 3,25,000 Less : expenses for sports 2,75,000	50,000
To Ground upkeep	1,66,500	By Entrance fees.,	1,80,000
To Electricity charges	82,600	By Interest on 10% government bond	12,000
To Sports material used	1,48,000	By Rent on hire of club ground	84,000
To Printing and stationery	42,200	By Profit on sale of sports material	10,500
To Groundsman wages	80,000	By Sale of old newspaper	3,500
To Depreciation	1,36,000		
To Pri₹es distributed (net of fund income)	4,000		
To Surplus carried to capital fund	96,700		
	11,80,000		**11,80,000**

Additional information :

(a)

	Balance as on 1.4.2013 (₹)	**Balance as on 31.3.2014 (₹)**
Fixed assets (net block)	6,36,000	7,20,000
Stock of sports material	1,24,000	1,38,000
Investment in 10% government bond	1,20,000	1,20,000
Subscription received in advance	64,000	72,000
Outstanding subscriptions	1,24,000	88,000
Outstanding repairs expenses	13,500	24,500
Creditors for sports material	78,600	62,500
Salary paid in advance	32,000	28,000
Prize fund	2,40,000	2,40,000
Prize fund investments	2,36,000	2,36,000
Bank balance	54,500	?

(b) During the year the club purchased sports material of ₹ 1,80,000, out of which 75% was credit purchase.

(c) 25% of the entrance fees is to be capitalized.

(d) As per the Club's policy any excess of expense for prizes distributed over prize fund income is to be charged to income and expenditure a/c and vice versa :-

prize fund income earned during the year ₹ 36,000

prizes distributed during the year ₹ 40,000

(e) Interest on Government bond is received half yearly on 30th June and 31st December each year.

Sol. 2 **<u>In the Books of Country Sports Club</u>**

Receipts and Payments A/c

for the year ended 31.03.2014

	Particulars	Amount (in ₹)		Particulars	Amount (in ₹)
To	Balance b/d		By	Salaries	3,32,000
	(Bank balance)	54,500		***[working note (iv)]***	
To	Subscription received	8,84,000	By	Repairs and Maintanance	77,000
	[working note (i)]			***[working note (v)]***	
To	Annual sports receipts	3,25,000	By	Upkeep of ground	1,66,500
To	Entrance fees received	2,40,000	By	Electricity charges	82,600
	(1,80,000 × 100/75)		By	Annual sports expenses	2,75,000
To	Interest on 10% Govt. bonds		By	Creditors for sports materials	1,51,100
	30th June ₹ 6,000		By	Sports materials purchased	45,000
	31st Dec. ₹ 6,000	12,000		***[working note (i)]***	
To	Rent received of club ground	84,000	By	Printing & Stationery	42,200
To	Sale of sports material	28,500	By	Groundsman wages	80,000
	[working note (ii)]		By	Amount of prizes distributed	40,000
To	Sale of old newspaper	3,500	By	Purchase of fixed assets	2,20,000
To	Prize found income	36,000	By	Balance c/d	1,56,100
		16,67,500			**16,67,500**

Balance Sheet of Country Sports Club

as on 31.03.2014

LIABILITIES		Amount	ASSETS	Amount
Capital Fund			Fixed assets (Net)	7,20,000
Opening balance ***[w.note (vi)]***	9,33,400		Investment in 10% Govt. funds	1,20,000
Add : Surplus	96,700		Prize Fund Investments	2,36,000
Add : Entrance fees capitalised	60,000	10,90,100	Outstanding subscription	88,000
Prize fund		2,40,000	Stock of Sports materials	1,38,000
Creditors for Sports material		62,500	Accured Income on Govt. bords	3,000
Suscription received in advance		72,000	Prepaid salary	28,000
Outstanding repair expenses		24,500	Bank Balance	1,56,100
		14,89,100		**14,89,100**

WORKING NOTE :

(i) *<u>Calculation of amount of subscription received</u>*

<u>Subscription A/c (2013-14)</u>

Particulars	Amount	Particulars	Amount
To Outstanding Subs.*(beg.)*	1,24,000	By Subs received in advance *(beg.)*	64,000
To Income & Expenditure A/c	8,40,000	By Cash/bank A/c ***(bal. fig.)***	8,84,000
To Subs. received in advance *(end)*	72,000	By Outstanding Subs. A/c *(end)*	88,000
	10,36,000		**10,36,000**

(ii) *<u>Calculation of sale proceeds of sports materials and amount paid to creditors</u>*

<u>Creditors for Sports Material A/c</u>

Particulars	Amount	Particulars	Amount
To Bank A/c ***(bal. fig.)***	1,51,100	By Balance b/d.	78,600
To Balance c/d	62,500	By Purchase of Sports materials	1,35,000
	2,13,600		**2,13,600**

Sports Materials A/c

Particulars		Amount	Particulars	Amount
To Balance b/d *(Opening Stock)*		1,24,000	By Balance b/d *(sale)* ***(bal.fig.)***	28,500
To Purchase			By Sports materials consumed	1,48,000
Cash	45,000		By Balance c/d *(Closing stock)*	1,38,000
Credit	1,35,000	1,80,000		
To Income & Exp. A/c *(Profit on sale)*		10,500		
		3,14,500		**3,14,500**

(iii) *Calculation of Purchase of Fixed Assets*

Fixed Assets A/c (Net block)

Particulars	Amount	Particulars	Amount
To Balance b/d	6,36,000	By Depreciation A/c	1,36,000
To Bank A/c *(Purchase)****(bal. fig.)***	2,20,000	By Balance c/d	7,20,000
	8,56,000		**8,56,000**

(iv) *Calculation of Salaries paid*

Salaries A/c

Particulars	Amount	Particulars	Amount
To Advance salary *(beg.)*	32,000	By Income & Expenditure A/c	3,36,000
To Bank A/c ***(bal. fig.)***	3,32,000	By Salary in advance *(end)*	28,000
	3,64,000		**3,64,000**

(v) *Calculation of repair & maintanance expences paid*

Repairs & Maintenance Exp. A/c

Particulars	Amount	Particulars	Amount
To Bank A/c ***(bal. fig.)***	77,000	By Outstanding repairs A/c *(beg.)*	13,500
To Outstanding repairs *(end)*	24,500	By Income & expenditure A/c	88,000
	1,01,500		**1,01,500**

(vi) *Calculation of Opening Capital Fund*

Statement of affairs
as on 01.04.2013

Liabilities	*Amount*	*Assets*	*Amount*
Capital Fund ***(bal. fig.)***	9,33,400	Fixed assets (Net)	6,36,000
Prize fund	2,40,000	Investment in 10% Govt. bonds	1,20,000
Creditors for sports Materials	78,600	Stock of Sports materials	1,24,000
Subscription recd. in advance	64,000	Outstanding subscirption	1,24,000
Outstarding repair exp.	13,500	Prepaid salary	32,000
		Prize fund Investments	2,36,000
		Bank Balance	54,500
		Accured income on Govt. bonds (3 months)	3,000
	13,29,500		**13,29,500**

3. **(a)** Prepare Cash flow for Gamma Ltd., for the year ending 31.3.2014 from the following information :

(1) Sales for the year amounted to ₹ 135 crores out of which 60% was cash sales.

(2) Purchases for the year amounted to ₹ 55 crores out of which credit purchase was 80%.

(3) Administrative and selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹ 22 crores.

(4) The Company redeemed debentures of ₹ 20 crores at a premium of 10%. Debenture holders were issued equity shares of ₹15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was ₹ 1.5 crores.

(5) Dividend paid during the year amounted to ₹ 10 crores. Dividend distribution tax @ 17% was also paid.

(6) Investment costing ₹ 12 crores were sold at a profit of ₹ 2.4 crores.

(7) ₹ 8 crores was paid towards income tax during the year.

(8) A new plant costing ₹ 21 crores was purchased in part exchange of an old plant. The book value of the old plant was ₹ 12 crores but the vendor took over the old plant at a value of ₹ 10 crores only. The balance was paid in cash to the vendor.

(9) The following balances are also provided

	₹ in crores 1.4.2013	₹ in crores 31.3.2014
Debtors	45	50
Creditors	21	23
Bank	6	

[6 Marks]

Sol. 3 (a)

CASH FLOW STATEMENT (Direct Method)
for year ending 31.03.2014

		(₹ in crores)
[A] *Cash Flow From Operating Activities*		
Cash Sales *(135 Cr. × 60%)*		81
Cash received from Customers ***[working note (i)]***		49
Cash purchases *(55 Cr. × 20%)*		(11)
Cash paid to Suppliers & Employees (42 + 22)		(64)
Cash paid for Administration & selling expenses		(18)
		37
Taxes paid		(8)
	TOTAL [A]	**29**
[B] *Cash Flow From Investing Activities*		
Proceeds from Sale of Investment		14.4
Payment for purchase of new Machine (in exchange for old machine)		(11)
	TOTAL [B]	**3.40**
[C] *Cash Flow From Financing Activities*		
Payment for redemption of debenture		(7)
Payment of dividend		(10)
Payment of dividend distribution tax		(1.7)
Interest paid on debenture		(1.5)
	TOTAL [C]	**(20.20)**
Increase in Cash & Cash Equivalent	***[A+B+C]***	*12.20*
Add : Cash & Cash equivalent at the beginning		*6.00*
Cash & Cash equivalat at the end		*18.20*

WORKING NOTE :

(i) *Calculation of amount received from customers*

Debtors A/c (2013-14)

Particulars	**Amount**	**Particulars**	**Amount**
To Balance b/d	45 Cr.	By bank A/c)	49 Cr.
To Sales (Credit)	54 Cr.	By Balance c/d	50 Cr.
	99 Cr.		**99 Cr.**

(ii) *Calculation of Payment made to suppliers*

Creditors A/c (2013-14)

Particulars	**Amount**	**Particulars**	**Amount**
To Bank A/c ***(bal. fig.)***	42 Cr.	By Balance b/d	21 Cr.
To Balance c/d	23 Cr.	By Purchases (Credit)	44 Cr.
	65 Cr.		**65 Cr.**

3. **(b)** From the following particulars furnished by Elegant Ltd., prepare the Balance Sheet as on 31st March 2014 as required by Part I, revised Schedule VI of the Companies Act. **[10 Marks]**

Particulars		**Debit**	**Credit**
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Call in Arrears		5000	
Land & Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Stock :	2,50,000		
Raw Materials	10,00,000	12,50,000	
Finished Goods			
Provision for Taxation			3,40,000
Sundry Debtors		10,00,000	
Advances		2,13,500	
Proposed Dividend			3,00,000
Profit & Loss Account			5,00,000
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Preliminary expenses		66,500	
Unsecured Loan			6,05,000
Sundry Creditors (for Goods and Expenses)			10,00,000

The following additional information is also provided :

(i) Preliminary expenses included ₹ 25,000 Audit Fees and ₹ 3,500 for out of pocket expenses paid to the Auditors.

(ii) 10000 Equity shares were issued for consideration other than cash.

(iii) Debtors of ₹ 2,60,000 are due for more than 6 months.

(iv) The cost of the Assets were :
Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(v) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is inclusive of ₹ 37,500 for Interest Accrued but riot Due. The loan is secured by hypothecation of Plant & Machinery.

(vi) Balance at Bank includes ₹ 10,000 with Global Bank Ltd., which is not a Scheduled Bank.

Sol. 3 (b)

Elegant Ltd.
Balance Sheet

Particulars	**Notes No.**	**As on 31.03.2014**	**As on 31.03.2013**
I. EQUITY & LIABILITIES			
1. Share holders fund			
(a) Share capital	1	49,95,000	
(b) Reserve and surplus	2	14,83,500	
2. Share application money pending allotment		Nil	
3. Non Current Liabilities			
(a) Long terms borrowings	3	13,17,500	
4. Current Liabilities			
(a) Trade paybles	4	10,00,000	
(b) other current liabilities	5	37,500	
(c) Short term Provisions	6	6,40,000	
Total		**94,73,500**	

		Note	₹
II	**ASSETS**		
	1. Non Current Assets		
	(a) *Fixed Assets*		
	Tangible	**7**	56,25,000
	2. Current Assets		
	(a) Inventories	**8**	12,50,000
	(b) Trade receivable	**9**	10,00,000
	(c) Cash & cash equivalents	**10**	13,85,000
	(d) Short term loans and advance	**11**	2,13,500
	Total		**94,73,500**

NOTES :

(1) Share Capital

			₹
Equity share capital			
Issued, subscribed & called up			
50,000 Equity shares of ₹ 100 each		50,00,000	
(Out of above 10,000 equity share issued for consideration for other than cash)			
Less: Calls in arrears		(5,000)	49,95,000
		Total	**49,95,000**

(2) Reserve & Surplus

General Reserve			10,50,000
P&L A/c (given)	5,00,000		
Less : Preliminary Expenses	(38,000)		
Less : Audit fees	(25,000)		
Less : Out of pocket exp.	(3,500)		4,33,500
		Total	**15,21,500**

(3) Long term borrowings

Loan from State Finance Corporation (₹ 7,50,000 - ₹ 37,500)		7,12,500
(Secured by hypothecation of Plant & Machinery)		
Unsecured loan		6,05,000
	Total	**13,17,500**

(4) Trade payables

Creditors for goods & expenses		10,00,000
	Total	**10,00,000**

(5) Other Current Liabilities

Intrest due on loan from State Finance Corporation		37,500
	Total	**37,500**

(6) Short Term Provision

Provision for tax		3,40,000
Proposed dividend		3,00,000
	Total	**6,40,000**

(7) Tangible fixed assets

(i) Building (at cost)	30,00,000		
Less : Provision for dep.	2,50,000		27,50,000
(ii) Plant & Machinery (at cost)	35,00,000		
Less : Provision for dep.	8,75,000		26,25,000
(iii) Furniture (at cost)	3,12,500		
Less : Provision for dep.	62,500		2,50,000
		Total	**56,25,000**

(8) Inventories

Stock :		
Raw material		2,50,000
Finished goods		10,00,000
	Total	**12,50,000**

(9) Trade receivables

Debts outstanding for a period exceeding six months		2,60,000
Other debts		7,40,000
	Total	**10,00,000**

(10) Cash and Cash Equivalents

Cash in hand		1,50,000
Cash at bank		
- with Scheduled Banks		12,25,000
- With Global Bank Ltd. (Non-Sceduled bank)		10,000
	Total	**13,85,000**

(11) Advances

Advances		2,13,500
	Total	**2,13,500**

As per para 56 of AS 26 “Accounting for Intangible Assets”, Preliminary Expenses are not shown in the Balance Sheet.

4. **(a)** The Balance Sheet of Vaibhav Ltd. as on 31st March 2014 is as follows : **[12 Marks]**

Liabilities	**₹**	**Assets**	**₹**
Equity Shares of ₹ 100 each	2,00,00,000	Fixed Assets	2,50,00,000
6% Cumulative Preference Shares of ₹ 100 each	1,00,00,000	Investments (Market Value ₹ 19,00,000)	20,00,000
5% Debentures of ₹ 100 each	80,00,000	Current Assets	2,00,00,000
Sundry Creditors	1,00,00;000	P & L A/c	12,00,000
Provision for taxation	2,00,000		
TOTAL	**4,82,00,000**	**TOTAL**	**4,82,00,000**

The following scheme of Internal Reconstruction is sanctioned :

(i) All the existing equity shares are reduced to ₹ 40 each,

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of Interest on Debentures is increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) Fixed assets are to be written down by 20%.

(v) Current assets are to be revalued at ₹ 90,00,000.

(vi) Investments are to be brought to their market value.

(vii) One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.

(viii) The taxation liability is to be settled at ₹ 3,00,000.

(ix) It is decided to write off the debit balance of Profit & Loss A/c Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

Sol. 4 (a) **IN THE BOOKS OF VAIBHAV LTD.**

Journal Entries

S.No.	Particulars		Debit	Credit
(i)	₹ 100 Equity Share Capital A/c	Dr.	2,00,00,000	
	To ₹ 40 Equity Share Capital A/c			80,00,000
	To Capital Reduction A/c			1,20,00,000
	(Being the existing equity shares reduced to 2,00,000 equity shares of ₹ 40 each fully paid up)			
(ii)	₹ 100, 6% Cumm. Preference Share Capital A/c	Dr.	1,00,00,000	
	To ₹ 60, 6 % Cumm. Preference Share Capital A/c			60,00,000
	To Capital Reduction A/c			40,00,000
	(Being the existing Preference shares reduced to 1,00,000 Preference share of ₹ 60 each fully paid up)			
(iii)	₹ 100, 5% Debentures A/c	Dr.	80,00,000	
	To ₹ 70, 6 % Debentures A/c			56,00,000
	To Capital Reduction A/c			24,00,000
	(Being the rate of interest on debentures raised from 5% to 6% and debentures reduced to ₹ 70 each fully paid up.)			
(iv)	Sundry Creditors A/c	Dr.	40,00,000	
	To ₹ 40 Equity Share Capital A/c			24,00,000
	To Capital Reduction A/c			16,00,000
	(Being the 40% of total claim foregone by creditor of ₹ 40,00,000 and balance converted into equity shares.)			
(v)	Provision for taxation A/c	Dr.	2,00,000	
	Capital Reduction A/c	Dr.	1,00,000	
	To Bank A/c			3,00,000
	(Being the taxation liability paid out of Provision for tax & balance debited to Capital Reduction A/c)			
(vi)	Capital Reduction A/c	Dr.	1,99,00,000	
	To P&L A/c (Dr. bal.)			12,00,000
	To Fixed Assets A/c			50,00,000
	To Current Assets A/c			1,07,00,000
	To Investments A/c			1,00,000
	To Capital Reserve A/c ***(bal. fig.)***			29,00,000
	(Being the debit balance of P&L A/c and other assets written off and balance tranfered to Capital Reserve A/c)			

BALANCE SHEET OF VAIBHAV LTD.
as on 01.04.2014 *(as reduced)*

PARTICULARS	NOTES	CURRENT YEAR
EQUITY & LIABILITIES		
1. Shareholders funds		
(a) *Shares Capital*		
2,60,000 Equity shares of ₹ 40 each fully paid up		1,04,00,000
1,00,000 6 % cum. Preference shars of ₹ 60 each fully paid up		60,00,000
(b) *Reserve & Surplus*		
Capital Reserve(arising out of reconstruction)		29,00,000
2. Share Application money pending allotment		Nil
3. Non- Current Liabilities		
80,000, 6% debentures of ₹ 70 each fully paid up		56,00,000
4. Current Liabilities		
(a) *Trade Payables*		
Sundry Creditors		60,00,000
	Total	**3,09,00,000**
ASSETS		
1. Non- Current Assets		
(a) *Fixed Assets*		
Net tangible Assets		2,00,00,000
Long term Investments		19,00,000
2. Current Assets		
Current Assets		90,00,000
	Total	**3,09,00,000**

4. (b) From the following particulars, prepare the Creditors' Ledger Adjustment Account as would appear in the General Ledger of Mr. Sathish for the month of March 2014. **[4 Marks]**

Date	Particulars
1	Purchase from Mr. Akash ₹ 7,500
3	Paid ₹ 3,000 after adjusting the initial advance in full to Mr. Akash
10	Paid ₹ 2,500 to Mr. Dev towards the purchases made in February in full
12	Paid advance to Mr. Giridhar ₹ 6,000
14	Purchased goods from Mr. Akash ₹ 6,200
20	Returned goods worth ₹ 1,000 to Mr. Akash
24	Settled the balance due to Mr. Akash at a discount of 5%
26	Goods purchased from Mr. Giridhar against the advance paid already
29	Purchased from Mr. Nathan ₹ 3,500
30	Goods returned to Mr. Prem ₹ 1,200. The goods were originally purchased for cash in the month of February 2014.

Sol. 4 (b)

IN THE BOOKS OF MR. SATISH
In the General Ledger
Creditors Ledger Adjustment A/c
for the month of March 2014

Particulars	Amount	Particulars	Amount
To Balance b/d (opening advance to Akash)	4,500	By Balance b/d (amount due to Dev)	2,500
To General Ledger Adjustment A/c :		*By General Ledger Adjustment A/c :*	
Cash Paid **[working note(ii)]**	16,440	Purchases **[working note(i)]**	23,200
Purchase return (1,000+ 1,200)	2,200		
Discount recd. (5,200 × 5%)	260		
To Balance C/d	3,500	By Balance c/d (Dr. balance of Mr. Prem)	1,200
	26,900		**26,900**

Working Note :

(i) *Purchase during March 2014*

Mr. Akash	₹ 7,500
Mr. Akash	₹ 6,200
Mr. Girdhar	₹ 6,000
Mr. Nathan	₹ 3,500
	₹ 23,200

(ii) *Cash paid during March 2014*

Mr. Akash (after settlement of previous advance)	₹ 3,000
Mr. Dev	₹ 2,500
Mr. Girdhar (Advance)	₹ 6,000
Mr. Akash (Settlement after discount at 5%)	₹ 4,940
	₹ 16,440

5. (a) A fire occurred in the premises of M/s Kailash & Co. on 30th September 2013. From the following particulars relating to the period from . 1st April 2013 to 30th September 2013, you are required to ascertain the amount of claim to be filed with the Insurance Company for the loss of stock. The company has taken an Insurance policy.for ₹ 75,000 which is subject to average clause. The value of goods salvaged was estimated at ₹27,000. The average rate of Gross Profit was 20% throughout the period. **[8 Marks]**

	Particulars	Amount in ₹
i.	Opening Stock	1,20,000
ii.	Purchases made	2,40,000
iii.	Wages paid (including wages for the installation of a machine ₹ 5,000)	75,000
iv.	Sales	3,10,000
v.	Goods taken by the Proprietor (Sale Value)	25,000
vi.	Cost of goods sent to Consignee on 20th September 2013, lying unsold with them	18,000
vii.	Free Samples distributed - Cost	2,500

Sol. 5 (a) **IN THE BOOKS OF KAILASH & CO.**

(i) Calculation of Closing Stock as on 30th Sep.' 2013

Trading A/c

for the period 01.04.2013 to 30.09.2013

Particulars	Amount	Particulars	Amount
To Opening Stock	1,20,000	By Sales	3,10,000
To Purchase	2,40,000	By Drawings (Cost of goods drawn by proprietor) *[25,000 × 80%]*	20,000
To Wages (excluding wages paid on installation of machine)	70,000	By Cost of goods sent on consignment	18,000
To Gross profit c/d *[3,10,000 × 20%]*	62,000	By Cost of free samples distributed	2,500
		By Closing stock ***(bal. fig.)***	1,41,500
	4,92,000		**4,92,000**

(ii) Calcultion of Net claim

	Average stock (closing stock)	₹ 1,41,500
Less :	Value of goods solvaged	(₹ 27,000)
	Loss of Stock	₹ 1,14,500

Since, Policy Amount (i.e. ₹ 75,000) **<** Average Stock (i.e. ₹ 1,41,500) therefore, Average clause shall apply.

or, ***Net Claim*** $= \dfrac{\text{Policy amount}}{\text{Average Stock}} \times \text{Loss of stock}$

$= \dfrac{₹75{,}000}{₹1{,}41{,}500} \times ₹1{,}14{,}500 =$ ***₹ 60,689***

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Target → / ↓ Particulars	CA-IPCC (Group-II) May-2015	CA-FINAL May-2015	CA-FINAL Nov-2015
COURSE COMMENCEMENT	26-Nov-2014	01-Dec-2014	03-Dec-2014
SUBJECTS TO BE TAUGHT	**GROUP-II:** (1) Advance Accounting (2) Auditing & Assurance (3) Strategic Mgmt. (4) Info. Technology	**GROUP-I:** (1) Financial Reporting (2) Strategic Financial Management (3) Advance Auditing (4) Corporate Law **GROUP-II:** (1) Advance Mgmt. Accounting (2) ISCA (3) Direct Tax (4) Indirect Tax	
COURSE END	21-Feb-2015	30-Apr-2015	23-May-2015

ADMISSION ANNOUNCEMENT | Academic Session: 2015-16

S.NO.	COURSE	TARGET	COURSE COMM.
1.	CA-CPT	June-2015	1-Apr-2015
2.	CA-IPCC	Nov-2015	1-Apr-2015
3.	CA-Final	Nov-2015	27-May-2015
4.	CS-Foundation	Dec-2015	6-Apr-2015
5.	CS-Executive	Dec-2015	6-Apr-2015
6.	CS-Professional	Dec-2015	6-Apr-2015
7.	B.Com - I, II & III Year	2016	6-Jul-2015
8.	M.Com - Prev. & Final	2016	24-Aug-2015
9.	XI-CBSE	2016	6-Apr-2015
10.	XII-CBSE	2016	9-Mar-2015
11.	XI-RBSE	2016	6-Jul-2015
12.	XII-RBSE	2016	2-Feb-2015
13.	CLAT	2016	6-Jul-2015

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5. **(b)** On 1st April 2014, Hasan has 20,000 equity shares of Vayu Ltd., at a book value of ₹ 20 per share (face value of 10 each). He provides the following information : **[8 Marks]**

(i) On 10th June 2014, he purchased another 5,000 shares in Vayu Ltd., @ ₹ 15 per share.

(ii) On 1 st August 2014, Vayu Ltd., issued one bonus share for every five shares held by the shareholders.

(iii) On 31st August 2014, the directors of Vayu Ltd., announced a rights issue which entitle the shareholders to subscribe two shares for every six shares held @ of ₹ 15 per share. The shareholders can transfer their rights in full or in part.

Hasan sold 1 /4th of his right shares holding to Harsh for a consideration of ₹ 3 per share and subscribed the rest on 31st of October 2014.

Prepare Investment A/c in the books of Hasan as on 31st October 2014.

Sol. 5. (b)

IN THE BOOKS OF HASAN

Investment A/c

(Equity shares in Vayu Ltd.)

as on 31.10.2014

Date	**Particulars**	**No. of shares**	**Cost**	**Date**	**Particulars**	**No. of shares**	**Cost**
2014				***2014***			
April 1	To balance b/d	20,000	4,00,000	Oct.31	By bank A/c *(sale of right) [2500 × 3]*	-	7,500
June10	To bank A/c *(Purchases)*	5,000	75,000	Oct.31	By balance c/d	37,500	5,80,000
Aug.1	To bonus shares *(1 share for 5 shares)*	5,000	-				
Oct.31	To bank A/c *(right shares subscribed) [7,500 × ₹15]*	7,500	1,12,500				
		37,500	**5,87,500**			**37,500**	**5,87,500**

Assumption : *It has been assumed that the shares were originally purchasd for cum-right price.*

6. Anuj, Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3.2014 is as follows : **[16 Marks]**

Liabilities	**₹**	**₹**	**Assets**	**₹**
Capital account			Fixed assets	
Anuj	3,75,000		Plant	7,87,000
Ayush	2,80,000			
Piyush	2,25,000	8,80,000		
General Reserve		1,88,000	Current assets	
Creditors		2,16,000	Stock	1,03,000
			Debtors	1,56,000
			Bank FD	2,25,000
			Bank balance	13,000
		12,84,000		**12,84,000**

Anuj decided to retire with effect from 1.4.2014.

The remaining partners agreed to share profits and losses equally in future.

The following adjustments were agreed to be made upon retirement of Anuj :

(i) Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.

The average profits of the past 3 years were as follows :

Year ended	**₹**	
31.3.2014	3,30,000	(as per draft accounts)
31.3.2013	2,32,000	
31.3.2012	2,20,000	

The partners decided not to raise goodwill account in the books.

(ii) The assets were revalued as follows :
Plant to be depreciated by 10%;
Creditors amounting to ₹ 10,000 were omitted to be recorded;
₹ 6,000 is to be written off from stock;
Provision for doubtful debts to be created @ 5% of the debtors;
Interest accrued on FD amounting to ₹ 9,000 was omitted to be recorded.
The above adjustments were to be made from the profit for the year ended 31.3.2014 before calculation of goodwill.

(iii) Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a loan carrying interest of 8% p.a.

(iv) yush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of ₹ 1,50,000.

You are required to prepare
(1) Capital accounts of partners as on 1.4.2014 giving effect to the adjustments.
(2) Balance Sheet as on 1.4.2014 after Anuj's retirement.

Sol. **IN THE BOOKS OF THE FIRM**

Partners' Capital Accounts as on 01.04.2014

Particulars	Anuj	Ayush	Piyush	Particulars	Anuj	Ayush	Piyush
To Revolution A/c (loss)	37,400	37,400	18,700	By balance b/d	3,75,000	2,80,000	2,25,000
To Anuj's Cap. A/c	–	22,950	68,850	By Ayush's Capital A/c	22,950	–	–
To Bank FD A/c	2,25,000	–	–	By Piyush's Capital A/c	68,850	–	–
To Intt. Accounts on bank FD	9,000			By General Reserve	75,200	75,200	37,600
To 8% Anuj loan A/c	2,70,600			By bank A/c (bal. fig.)	–	13,600	13,34,400
To balance c/d		3,08,450	3,08,450				

BALANCE SHEET of Ayush & Piyush (after Anuj's retirement)
as on 31.03.2014

Capital A/c			*Fixed Assets*	
Ayush	3,08,450		Plant	7,08,300
Piyush	3,08,450	6,16,900 *(bal.fig.)*	*Current Assets*	
8% Anuj's Loan		2,70,600	Stock	97,000
Creditars		2,16,000	Debtors	1,48,200
			Bank Balance	1,50,000
		11,03,500		**11,03,500**

WORKING NOTE :

(i) Calculation of Correct Profit for the year ending 31.03.2014

Revaluation A/c
as on 01.04.2014

Particulars	Amount	Particulars		Amount
To Plant A/c	78,700			
To Creditors A/c (omitted)	10,000	By Interest Accound of F.D.		9,000
To Stock A/c (written off)	6,000	(Omitted)		
To Provision for doubtful debts	7,800	By partner's Capital A/c		
(1,56,000 × 5%)		Anuj	37,400	
		Ayush	37,400	
		Piyush	18,700	93,500
	3,39,000			3,39,000

(ii) Calculation of Goodwill

		Year ended		
		31.03.2012	**31.03.2013**	**31.03.2014**
	Profits (as given)	₹ 2,20,000	₹ 2,32,000	₹ 3,30,000
Less :	Amount adjusted as per revaluation A/c	—	—	(₹ 93,500)
		₹ 2,20,000	₹ 2,32,000	₹ 2,36,500

Average Profit $\frac{(2,20,000 + 2,32,000 + 2,36,500)}{3}$ ₹ 2,29,500

Goodwill = Average profit × No. of purchase years
= ₹ 2,29,500 × 1
= ₹ 2,29,500.

Ayush's Capital A/c	Dr.	22,950	
Piyush's Capital A/c	Dr.	68,850	
To Anuj's Capital A/c			91,800

(Being the Anuj's share of Goodwill credited to his account and debited to Ayush's & Piyush's Capital A/c in their gaining ratio i.e. 1 : 3)

7. Answer any four from the following :

(a) From the following information state the amount to be capitalized as per AS 10. Give the explanations for your answers.

₹ 5 lakhs as routine repairs and ₹ 1 lakh on partial replacement of a part of a machine.

₹ 10 lakhs on replacement of part of a machinery which will improve the efficiency of a machine.

[4 Marks]

Sol. 7 (a) As per para 12.1 of AS 10 on *"Accounting for Fixed Assets"*, expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity.
Hence, in the given case, Repairs amounting ₹ 5 lakhs and Partial replacement of part of a machine amounting ₹ 1 lakhs should be charged to profit and loss statement. But ₹ 10 lakhs incurred for replacement of part of a machinery which will improve the efficiency of a machine should be capitalized.

7. (b) What are the advantages of customized accounting software ? **[4 Marks]**

Sol. 7 (b) **Advantages of a customised accounting package**

(i) The functional areas which are not covered in pre-packaged software gets computerised.

(ii) The input screens can be tailor made to match the input documents for ease of data entry.

(iii) It provides many MIS reports as per the specification of the organisation. The reports can be as per the specification of the organisation.

(iv) It facilities the use of Bar-Code scanners as input devices suitable for the specific needs of an individual organisation.

(v) It can suitably match with the organisational structure of the company.

7. (c) What are the differences between Hire Purchase and Installment System ? **[4 Marks]**

Sol. 7 (c) **Distinction between hire purchase agreement and instalment purchase agreement.**
Hire Purchase agreement differs from Instalment Purchase agreement in the following respects:

Basic of Distinction	**Hire Purchase Agreement**	**Installment Purchase Agreement**
Governing Statute	It is govrned by Hire Purchase Act 1972.	It is governed by the Sale of Goods Act 1930.
Nature of Contact	It is an agreement of hiring.	It is an agreement of sale.
Passing of Title (Ownership)	The title to goods passes on the payment of last installment.	The title to goods passes immediately as in the case of usual sale.
Right to Return goods	The hire purchaser may return goods without further payment, except for accrued installment.	Unless seller defaults, goods are not returnable.
Seller's right to repossess	The seller may take possession of the goods if hire purchaser is in default.	The seller can sue for price if the buyer is in default. But, he can not take possession of the goods.

7. (d) From the following particulars prepare a current account, as sent by Mr. Rain to Mr. Siva as on 31st October 2014 by means of product method charging interest @ 5% p.a. **[4 Marks]**

2014	**Particulars**	**₹**
1st July	Balance due from Siva	750
15th August	Sold goods to Siva	1250
20th August	Goods returned by Siva	200
22nd Sep	Siva paid by cheque	800
15th Oct	Received cash from Siva	500

Sol. 7 (d) Mr. Siva in current Account with Mr. Ram as on 31 Oct. 2014

Dr.									**Cr.**
Date	**Particulars**	**Amt (₹)**	**Days**	**Product**	**Date**	**Particulars**	**Amt (₹)**	**Days**	**Product**
2014					**2014**				
1 Jul.	To Balance b/d	750	123	92,250	20 Aug.	By Sales return	200	72	14,400
15 Aug.	To Sales A/c	1,250	77	96,250	22 Sep.	By Bank	800	39	31,200
					15 Oct.	By Cash A/c	500	16	8,000
					31 Oct.	By Bal. of Products	–	–	1,34,900
31 Oct.	To Interest	18.48	–	–	31 Oct.	By Bal. c/d	518.48	–	–

$[134900 \times \frac{5}{100} \times \frac{1}{36}]$

7. (e) Kishanlal has made the following sales to Babulal. He allows a credit period of 10 days beyond which he charges interest @ 12% per annum. **[4 Marks]**

Date of Sales	**Amount (₹)**
26-05-14	12,000
18-07-14	18,000
02-08-14	16,500
28-08-14	9,500
09-09-14	15,500
17-09-14	13,500

Babulal wants to settle his accounts on 30-9-2014. Calculate the interest payable by him using Average Due Date (ADD). If Babulal wants to save interest of ₹ 588, how many days before 30.9.2014 does he,have to make payment ? Also find the payment date in this case.

Sol. 7 (e) <u>CALCULATION OF AVERAGE DUE DATE</u>

Let the base date is 05-06-2014

Date of Sales	**Amounts (₹)**	**Due date**	**Days**	**Product**
26-05-14	12,000	05-06-14	0	0
18-07-14	18,000	28-07-14	53	9,54,000
02-08-14	16,500	12-08-14	68	1,12,200
28-08-14	9,500	07-09-14	94	8,93,000
09-09-14	15,500	17-09-14	106	16,43,000
17-09-14	13,500	27-09-14	114	15,39,000
	85,000			**61,51,000**

Average Due date = Base date $\pm \frac{\text{Total of product}}{\text{Total of Amount}}$

$= 05.06.2014 \pm \frac{6151000}{85000}$

= 05.06.2014 + 72.36 days

= 05.06.2014 + 72 days

= 16.08.2014

<u>Calculation of interest payable by Babu Lal if accounts seftled on 30-09-2014</u>

Interest Amount= $85000 \times \frac{R}{100} \times \frac{Days}{365}$

$$= \quad 85000 \times \frac{R}{100} \times \frac{(\text{Settlement Date} - \text{ADD})}{365}$$

$$= \quad 85000 \times \frac{12}{100} \times \frac{45}{365}$$

$= \quad$ 1257.53 Ans.

<u>If Babulal wants to save Interest of ₹588 then settlement date will be :</u>

No. of days to save the interest of ₹ 588 $= \quad 85000 \times \frac{R}{100} \times \frac{Days}{365}$

$$= \quad 85000 \times \frac{12}{100} \times \frac{Days}{365}$$

= 21 days before the due date.

Date of Payment = Average Due Date - 21 days
= 16.08.2014 - 21 days
= 26.07.2014