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Solved Scanner Appendix

IPCC Group-I (Old Syllabus)
(Solution of May - 2018 & Question - Solution of November - 2018)

Paper - 1 : Accounting

Chapter - 1 : Accounting Standards

2018 - May [1] {C} (b)

(i) **False; As per AS 1 "Disclosure of Accounting Policies",** certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) **False; As per AS 1,** if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) **True;** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

(iv) **False;** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(v) **True; As per AS 1,** there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.

2018 - May [1] {C} (d)

As per AS 10 Property, Plant and Equipment

Bearer plant is a plant that

(a) is used in the production or supply of agricultural produce;

(b) is expected to bear produce for more than a period of twelve months; and

(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

(d) The following are **not bearer plants**:

(i) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);

(ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and

(iii) annual crops (for example, maize and wheat).

When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

Biological Asset is a living animal or plant.

2018 - May [7] (c)

Re-classification will be done on the following basis:

(i) As per AS 13, where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. In this case, fair value is ₹ 37,000 which is lower than the cost of ₹ 39,000. The reclassification of current investment as long-term investments will be made at ₹ 37,000.

(ii) As per 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. The carrying / book value of the long term investment is same as cost i.e. ₹ 16 lakhs. Hence this long term investment will be reclassified as current investment at book value of ₹ 16 lakhs only.

2018 - Nov [1] {C} (a), (b), (c)

(a) Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of ₹ 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at ₹ 49,500 per month after adding 10% profit margin.

The machine was purchased at ₹ 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. ₹ 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

Also, payment under the invoice was due in 5 months. However, the Company made the payment in 3rd month. The company operates on Bank Overdraft @ 14% p.a.

Ascertain the amount at which the Machinery should be capitalized under AS 10. **(5 marks)**

(b) Goods worth ₹ 6,62,500 were sold on 31.10.2017 by X Ltd. to Y Ltd. Y Ltd. requested for a trade discount of 8 % which was agreed by X Ltd. The sale was effected and goods were dispatched. However, on receipt of the goods, Y Ltd. found that goods worth ₹ 77,500 were damaged. Consequently, Y Ltd. returned the damaged goods to X Ltd. and made the due payment amounting to ₹ 5,32,000. The accountant of X Ltd. booked the sale for ₹ 5,32,000.

Discuss the above treatment by the accountant with reference to applicable Accounting Standard. **(5 marks)**

(c) M/s Action Construction Company Ltd. undertook a fixed price construction contract to construct a building within 3 years time for ₹ 10,000 lakhs.

A summary of the financial data during the construction period is as follows:

(₹ in lakhs)

	Year-1	**Year-2**	**Year-3**
Initial amount for revenue agreed in contract	10,000	10,000	10,000
Variation in Revenue (+)	_	500	1,000
Contract costs incurred upto the reporting date	2,415	6,375	8,500
Estimated profit for whole contract	1,950	2,000	2,500

The variation in cost and revenue in year 2 and 3 has been approved by customer.

Determine the stage of completion of contract and amount of revenue, expenses and profit or loss to be recognised in the statement of Profit and Loss for three years as per AS-7 (Revised). **(5 marks)**

Answer:

(a) Computation of Cost of Machinery

Particulars		₹
Purchase Price (W.N.1)		1,41,37,500
Add: Site Preparation Cost	(Given)	1,41,870
Technician's Salary (W.N.2)		1,35,000
Initial Delivery Cost	(Transportation)	55,770
Professional Fees for Installation	(Architect's Fees)	30,000
Total Cost of Machinery		1,45,00,140

Working Note:

1. $1,58,34,000 \times \frac{100}{112} = 1,41,37,500$
2. Specific OH for 3 months 45,000 x 3 = 1,35,000
3. Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10.
4. Internally booked profits should be eliminated in arriving at the cost of machine.
5. The above solution is given on the basis that IGST credit is availed by the Shristhi Limited.

Answer:

(b) According to 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.

Present Case:

(i) If trade discount allowed by X Ltd. is given in the ordinary course of business, X Ltd. should record the sales at ₹ 6,09,500 (after deducting 8% trade discount from 6,62,500) and goods returned worth ₹ 77,500 are to be recorded in the form of sales return.

(ii) If trade discount allowed by X Ltd. is not in the ordinary course of business, X Ltd. should record the sales at gross value of ₹ 6,62,500. Discount of ₹ 53,000 in price and return of goods worth ₹ 77,500 are to be adjusted by suitable provisions. X Ltd. might have sent the credit note of ₹ 1,30,500 to Y Ltd. to account for these adjustments.

Conclusions:

Thus in both the cases, the Accountants view to book the sales for ₹ 5,32,000 is not correct.

Answer:

(c) The amounts of revenue, expenses and profit recognized in the statement of profit and loss in three years

(Amount in ₹ lakhs)

Year	Particulars	Up to the reporting date	Recognized in previous years	Recognized in current year
1.	Revenue (10,000 x30%)	3,000	-	3,000
	Expenses (8,050 x 30%)	2,415	-	2,415
	Profit	585	-	585
2.	Revenue (10,500 x75%)	7,875	3,000	4,875
	Expenses (8,500 x 75%)	6,375	2,415	3,960
	Profit	1,500	585	915
3.	Revenue (11,000 x 100%)	11,000	7,875	3,125
	Expenses (8,500 x 100%)	8,500	6,375	2,125
	Profit	2,500	1,500	1,000

Working Note - Calculation of stage of completion of contract

Particulars	Year 1	Year 2	Year 3
Revenue after considering variations	10,000	10,500	11,000
Less: Estimated profit for whole contract	1,950	2,000	2,500
Estimated total cost of the contract (A)	8,050	8,500	8,500
Actual cost incurred upto the reporting date (B)	2,415	6,375	8,500
Degree of completion (B/A)	30%	75%	100%

Chapter - 2 : Company Accounts — Preparation of Financial Statements

2018 - May [2]

SR Ltd.

Balance Sheet as on 31st March, 2018

Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities		
1. Shareholder's Funds		
a. Share capital	1	79,85,000
b. Reserves and Surplus	2	30,21,000
2. Non-current Liabilities		
a. Long-term borrowings	3	42,66,000
3. Current Liabilities		
a. Short-term borrowings	4	4,60,000
b. Trade Payables		8,13,000
c. Other current liabilities	5	6,84,000
d. Short-term provisions	6	3,80,000
Total		1,76,09,000
Assets		
1. Non-current Assets		
a. Fixed assets		
Tangible assets	7	92,00,000
2. Current Assets		
a. Inventories	8	58,00,000
b. Trade receivables	9	17,50,000
c. Cash and cash equivalents	10	4,84,000
d. Short-term loans and advances		3,75,000
Total		1,76,09,000

Notes to Accounts

1.	Share Capital Equity share capital Issued, subscribed and called up 1,60,000 Equity Shares of ₹ 50 each (Out of the above 50,000 shares have been issued for consideration other than cash)	80,00,000	
	Less: Calls in arrears	(15,000)	79,85,000
	Total		79,85,000
2.	Reserves and Surplus		
	General Reserve	9,41,000	
	Add : Transferred from Profit and loss account	35,000	9,76,000
	Securities premium		15,00,000
	Surplus (Profit & Loss A/c)	5,80,000	
	Less: Appropriation to General Reserve (proposed)	(35,000)	5,45,000
			30,21,000
3.	Long-term Borrowings Secured: Term Loans Loan from Public Finance Corporation [repayable after 3 years (26,30,000 - ₹ 1,34,000 for interest accrued but not due)]		24,96,000
	Secured by hypothecation of land		
	Unsecured		
	Bank Loan (Nixes bank) 9,00,000		
	(₹ 13,80,000 - ₹ 4,80,000 repayable within 1 year)		

	Loan from Directors 8,50,000		
	Others 20,000		17,70,000
	Total		42,66,000
4.	Short-term Borrowings		
	Loan from Naya bank (Secured)	1,16,000	
	Loan from Directors	48,000	
	Others	2,96,000	4,60,000
5.	Other current Liabilities		
	Loan from Nixes bank repayable within one year	4,80,000	
	Unpaid dividend	70,000	
	Interest accrued but not due on borrowings	1,34,000	6,84,000
6.	Short-term Provisions		
	Provision for taxation		3,80,000
7.	Tangible Assets		
	Land		25,00,000
	Buildings	32,00,000	
	Less: Depreciation	(2,00,000)	30,00,000
	Plant & Machinery	30,00,000	
	Less: Depreciation	(6,00,000)	24,00,000
	Furniture & Fittings	16,50,000	
	Less: Depreciation	(3,50,000)	13,00,000
	Total		92,00,000

8.	Inventories		
	Raw Material	13,00,000	
	Finished goods	40,00,000	
	Loose tools	5,00,000	58,00,000
9.	Trade Receivables		
	Outstanding for a period exceeding six months		4,86,000
	Others		12,64,000
	Total		17,50,000
10.	Cash and cash equivalents		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with Others Banks	56,000	4,14,000
	Cash in hand		70,000
	Total		4,84,000
11.	Contingent Liabilities and Commitments (to the extent not provided for)		
	Contingent Liabilities:		
	Bills discounted but not matured		1,60,000

Chapter - 3 : Cash Flow Statement

2018 - May [1] {C} (a)

Cash Flow Statement of M/s GAGAN Ltd. for the year ended March 31,2018

A	**Cash Flow from Operating Activities**	
	Net Profit as per Profit & Loss A/c	–
	Add : Premium on Redemption of Debentures	1,650
	Add : Interest on 10% Debentures	11,000
	Less : Interest on 10% Investments	(35,000)

B	**Cash Flow from Investing Activities**	
	Interest on Investments [35,000 - 10,500]	24,500
C	**Cash Flow from financing Activities**	
	Interest on Debentures paid [11,000 - (1,175 - 275)]	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium]	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

2018 - Nov [3] (a) Prepare Cash Flow Statement of Tom and Jerry Ltd. for the year ended 31st March, 2018, in accordance with AS-3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	₹ in ’000	**₹ in ’000**
Balance as on 01.04.2017		210
Receipts from Customers		16,596
Sale of Investments (Cost ₹ 90,000)		102
Issue of Shares		1,800
Sale of Fixed Assets		768
		19,476
Payment to Suppliers	12,204	
Purchase of Investments	78	
Purchase of Fixed Assets	1,380	
Wages and Salaries	414	
Selling and Administration Exp.	690	
Payment of Income Tax	1,458	

Payment of Dividends	480	
Repayment of Bank Loan	1,500	
Interest paid on Bank Loan	300	(18,504)
Balance as on 31.03.2018		**972**

(8 marks)

Answer:

Tom & Jerry Ltd.
Cash Flow Statement for the year ended 31st March, 2018

Particulars	(₹ '000)	
Cash flows from operating activities		
Cash receipts from customers	16,596	
Cash payments to suppliers	(12,204)	
Cash paid to employees	(414)	
Other cash payments (for Selling & Administrative expenses)	(690)	
Cash generated from operations	3,288	
Income taxes paid	(1,458)	
Net cash from operating activities		1,830
Cash flows from investing activities		
Payments for purchase of fixed asset	(1,380)	
Proceeds from sale of fixed assets	768	
Purchase of investments	(78)	
Sale of investments	102	
Net cash used in investing activities		(588)

Cash flows from financing activities		
Proceeds from issuance of share capital	1,800	
Bank loan repaid	(1,500)	
Interest paid on bank loan	(300)	
Dividend paid	(480)	
Net cash used in financing activities		(480)
Net increase in cash and cash equivalents		762
Cash and cash equivalents at beginning of period		210
Cash and cash equivalents at end of period		972

Chapter - 4 : Profit or Loss Pre and Post Incorporation

2018 - May [3] (a)

Statement Showing calculation of profit/loss for Pre and Post Incorporation periods

₹

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:2.45	55,20,000	16,00,000	39,20,000
Interest on Investments	Pre	60,000	60,000	-
Bad debts recovered	Pre	36,000	36,000	-
Profit on Sale of Investment	Pre	42,000	42,000	-
(i)		**56,58,000**	**17,38,000**	**39,20,000**
Cost of goods sold	1:2.45	34,50,000	10,00,000	24,50,000
Advertisement	Post	69,800	—	69,800
Sundry office expenses	4:7	1,06,700	38,800	67,900
Printing & Stationary	4:7	77,000	28,000	49,000
Manager Salary	(W.N.3)	82,000	26,000	56,000
Interest on Debentures	Post	8,900	—	8,900
Rent	(W.N.4)	1,33,000	28,000	1,05,000

Bad debts	1:2.45	69,000	20,000	49,000
Underwriting commission	Post	56,000	—	56,000
Audit fees	Post	41,000	—	41,000
Depreciation	4:7	71,500	26,000	45,500
Interest on Borrowing	(W.N.5)	1,25,000	46,250	78,750
(ii)		**42,89,900**	**12,13,050**	**30,76,850**
Net Profit [(i) - (ii)]		13,68,100	5,24,950	8,43,150

Working Notes:

1. **Calculation of Sales Ratio**

   Let the average sales per month be x
   Total Sales from 01.05.2017 to 31.08.2017 will be 4x
   Average Sales per month from 01.09.2017 to 31.03.2018 will be 1.4x
   Total Sales from 01.09.2017 to 31.03.2018 will be 1.4x X 7 = 9.8x Ratio of Sales will be 4x : 9.8x =1: 2.45

2. **Calculation of Time Ratio**

   4 Months: 7 Months i.e. 4 : 7

3. **Manager Salary**

	₹
Total Salary	82,000
Less: Increased salary	27,000
	55,000
Monthly Salary = 55,000/11	5,000
Salary from May to Aug	5,000 + 5,000 + 8,000 + 8,000 = 26,000
Salary from Sep to March	8,000 × 7 = 56,000

4. **Apportionment of Rent**

	₹
Total Rent	1,33,000
Less : Additional Rent from 1.9.2017 to 31.3.2018	56,000
Rent of old premises for 11 months	77,000

	Pre	**Post**
Apportionment in time ratio (4:7)	28,000	49,000
Add : Rent for new space		56,000
Total	28,000	1,05,000

5. **Interest on borrowing**
   Company's Borrowing Interest = ₹ 15,00,000 x 9% x 7/12 = ₹ 78,750
   Interest for Pre-incorporation period = ₹ 1,25,000 – 78,750 = ₹ 46,250

Chapter - 5 : Accounting for Bonus Issue

2018 - Nov [7] (c) Pass Journal Entries in the following circumstances:

(i) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.

(ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company. **(4 marks)**

Answer:

Journal Entries

	Particulars	₹	₹
(i)	General Reserve A/c Dr.	1,25,000	
	To Bonus to shareholders A/c		1,25,000
	(For making provision of bonus issue)		
	Share Final Call A/c	1,25,000	
	T o Equity share capital A/c		1,25,000
	(For final calls of ₹ 2.5 per share on 50,000 equity shares due as per Board's Resolution dated….)		
	Bonus to shareholders A/c	1,25,000	
	To Share Final Call A/c		1,25,000
	(For bonus money applied for call)		

(ii)	General Reserve A/c	5,00,000	
	To Bonus to shareholders A/c		5,00,000
	(For making provision of bonus issue)		
	Bonus to shareholders A/c	5,00,000	
	To Equity share capital A/c		5,00,000
	(For issue of 50,000 bonus shares at ₹ 10)		

Chapter - 6 : Accounting for Business Acquisition, Amalgamation and Reconstruction

2018 - May [1] {C} (c)

As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

(i) Computation of Purchase Consideration:

		₹
(a)	Preference Shares: ₹ 50 per share 24,000 Preference shares	12,00,000
(b)	Cash	39,000
(c)	Equity Shares: 56,000 equity shares in Son Ltd. @ ₹ 115	64,40,000
		76,79,000

(ii) Journal entry

		₹	₹
Liquidator of Dove Ltd.	Dr.	76,79,000	
To Cash			39,000
To Preference Share Capital A/c			12,00,000
To Equity Share Capital A/c			56,00,000
To Securities Premium A/c [56,000 × 15 (115 - 100)]			8,40,000

(Payment of cash and issue of shares in satisfaction of purchase consideration)

2018 - May [7] (a)

			₹	₹
Sept., 2017	(i) **Journal Entries in books of Super Ltd.** Equity Share Capital A/c (₹ 50) To Equity Share Capital A/c (₹ 10) (Being sub-division of 62,000 equity shares of ₹ 50 (₹ 45 paid up) each into 3,10,000 shares of ₹ 10 each (₹ 9 paid up) as per resolution dated.)	Dr.	27,90,000	27,90,000
Nov., 2017	(ii) **Journal Entries in books of Top Ltd.** (a) Equity Share Capital A/c (₹ 10) To Equity Stock A/c (Being conversion of 1,05,000 lakh equity shares of ₹ 10 each into stock of 10,50,000 as per resolution dated.)	Dr.	10,50,000	10,50,000
	(b) Equity Stock A/c To Equity Share Capital A/c (₹ 100) (Being conversion of 10,50,000 stock into 10,500 equity shares of ₹ 100 each.)	Dr.	10,50,000	10,50,000
	(iii) **Journal Entries in books of New Ltd.** Equity Share Capital A/c (₹ 10) To Equity Share Capital A/c (₹ 50) (Being consolidation of 1,50,000 shares of ₹ 10, ₹ 6 paid up each into 30,000 shares of ₹ 50 each (₹ 30 paid up) as per resolution dated.)	Dr.	9,00,000	9,00,000

2018 - Nov [2] The following was the Balance Sheet of Rashmi Limited as on 31st March, 2018:

Particulars	Note No.	Amount
Equity and Liabilities:		
(1) Shareholders' Funds		
(a) Share capital	1	18,00,000
(b) Reserve and Surplus	2	8,40,000

(2) Non-Current Liabilities:		
Long term Borrowings	3	2,85,000
(3) Current Liabilities:		
Trade Payables		75,000
		30,00,000
Assets:		
(1) Non-Current Assets:		
(a) Fixed Assets		
• Tangible Assets	4	18,00,000
• Intangible Assets (Goodwill)		1,40,000
(b) Non-current Investments	5	1,60,000
(2) Current Assets:		
Inventories		6,24,000
Trade Receivables		1,08,000
Cash and cash equivalents		1,68,000
		30,00,000

Notes :

1.	**Share Capital:**		
	Issued, Subscribed and Paid up		
	1,80,000 share of ₹ 10 each fully paid up		18,00,000
		Total	**18,00,000**
2.	**Reserve and Surplus:**		
	General Reserve		4,10,000
	Profit and Loss Account	1,30,000	
	Less: Preliminary Exp.	30,000	1,00,000
	Export Profit Reserve		2,50,000
	Investment Allowance Reserve		80,000
		Total	**8,40,000**

3.	**Long term Borrowing:**	
	9% Secured Debenture of ₹ 100 each fully paid up	2,85,000
	Total	**2,85,000**
4.	**Tangible Assets:**	
	Freehold Property	12,40,000
	Plant and Machinery	5,60,000
	Total	**18,00,000**
5.	**Non-Current Investments:**	
	Other Investments	1,60,000
	(Current Market value ₹ 1,30,000)	
	Total	**1,60,000**

On 1st April, 2018 Nitin Ltd. agreed to absorb the business of Rashmi Ltd. on the following terms and conditions:

(i) The purchase consideration would be settled by Nitin Ltd. as under:
   (1) 3,00,000 equity shares of ₹ 10 each issued by Nitin Ltd. by valuing its share at ₹ 12 per share.
   (2) Cash payment equivalent to ₹ 5 for every share in Rashmi Ltd.

(ii) The issue of such an amount of fully paid 10% debentures in Nitin Ltd. at 95% as is sufficient to discharge 9% debenture in Rashmi Ltd. at a premium of 25%.

(iii) Nitin Ltd. will takeover the Freehold property at 120% more than the book value and Plant and Machinery at 10% less than the book value. Inventories at ₹ 5,20,000 and Trade receivables at their book value subject to a provision of 8% for doubtful debts. Investments will be taken over at current market value. Nitin Ltd. will take over trade payables at book value.

(iv) Liquidation expenses are to be reimbursed by Nitin Ltd. to the extent of ₹ 30,000. The cost of liquidation; ₹ 50,000.

(v) Statutory reserves are to be maintained for 2 more years.

You are required to:

(a) Prepare the Realisation Account, Nitin Ltd. Account, Shareholders Accounts and Debenture Account in the book of Rashmi Ltd. and

(b) Write up journal entries in the books of Nitin Ltd. regarding acquisition of business. **(16 marks)**

Answer:

Working Note:

Calculation of Purchase Consideration:

	₹
Cash payment for (1,80,000 x ₹ 5)	9,00,000
Equity Shares (3,00,000 x ₹ 12)	36,00,000
	45,00,000

(i) In the books of Rashmi Ltd.

Realisation Account

	₹		₹
To Goodwill	1,40,000	By 9% Debentures	2,85,000
To Freehold Property	12,40,000	By Trade Payables	75,000
To Plant & Machinery	5,60,000	By Nitin Ltd.	45,00,000
To Inventory	6,24,000	(Purchase consideration)	
To Trade Receivable	1,08,000		
To Investment	1,60,000		
To Cash / cash equivalents (1,68,000-20,000)	1,48,000		
To Cash & Bank A/c (Realization expenses)	20,000		
To Profit on realization transferred to shareholders	18,60,000		
	48,60,000		48,60,000

Nitin Ltd. Account

	₹		₹
To Realization A/c	45,00,000	By Equity Shares in Nitin Ltd.	36,00,000
		By Cash / Bank A/c	9,00,000
	45,00,000		45,00,000

Equity Shareholders Account

	₹		₹
To Equity Shares in Nitin Ltd.	36,00,000	By Equity Share Capital A/c	18,00,000
To Cash / Bank A/c	9,00,000	By Export Profit Reserves	2,50,000
To Preliminary Expenses a/c	30,000	By General Reserves A/c	4,10,000
		By Investment allowance Reserve A/c	80,000
		By P & L A/c	1,30,000
		By Realization A/c	18,60,000
	45,30,000		45,30,000

9% Secured Debentures Account

	₹		₹
To Realization A/c	2,85,000	By Balance b/d	2,85,000

(ii) Journal Entries in the books of Nitin Ltd.

		₹	₹
Business Purchase A/c	Dr.	45,00,000	
To Liquidator of Rashmi Ltd			45,00,000
(Being business of Rashmi Ltd. taken over)			

Freehold Property	Dr.	27,28,000	
Plant & Machinery	Dr.	5,04,000	
Inventory	Dr.	5,20,000	
Trade Receivables	Dr.	1,08,000	
Cash & cash equivalent	Dr.	1,48,000	
Investments	Dr.	1,30,000	
Goodwill A/c (Bal. fig.)	Dr.	8,01,890	
To Provision for Doubtful Debts			8,640
To Liabilityfor 9 % Debentures			3,56,250
To Trade Payables			75,000
To Business Purchase account			45,00,000
(Being assets and liabilities taken over)			
Amalgamation Adjustment Reserve	Dr.	3,30,000	
To Export Profit Reserve			2,50,000
To Investment Allowance Reserve			80,000
(Being statutory Reserves taken over)			
Goodwill OR P&L A/c	Dr.	30,000	
To Cash/Bank A/c			30,000
(Liquidation expenses reimbursed))			
Liquidator of Rashmi Ltd.	Dr.	45,00,000	
To Equity Share Capital			30,00,000
To Securities Premium			6,00,000
To Bank A/c			9,00,000
(Being purchase consideration discharged)			
Liability for 9% Debentures (125% of 2,85,000)	Dr.	3,56,250	
Discount on issue of debentures		18,750	
To 10% Debentures (3,56,250 x 100/95)			3,75,000
(Being liability of debenture holders discharged)			

Chapter - 7 : Average Due Date

2018 - May [7] (b)

Calculation of Average Due Date
Computation of Products for Berry Payments
(Taking 3.4.17 as base date)

Due Date	Amount	No. of days from base date to Due Date	Product
	₹		₹
9.4.2017	46,800	6	2,80,800
8.5.2017	79,300	35	27,75,500
	1,26,100		30,56,300

Computation of Products for Chiron Payments (Base date = 3.4.17)

Date	Amount	No. of days from date to Due Date	Product
	₹		₹
3.4.17	1,17,000	0	0
25.5.17	1,07,250	52	55,77,000
	2,24,250		55,77,000

Excess of Chiron Products over Berry [55,77,000-30,56,300] ₹ 25,20,700
Excess of Chiron Amounts over Berry [2,24,250-1,26,100] ₹ 98,150
Number of days from base date to date of settlement is = 25,20,700/98,150 = 26 days (approx.)

Hence, the date of settlement of the balance amount is 26 days after 3rd April, i.e. 29th April. Thus, on 29th April, 2017, Chiron has to pay ₹ 98,150 to Berry.

2018 - Nov [7] (e) Hari owes to Om the following amounts:
₹ 60,000 due on 11th March, 2018
₹ 1,00,000 due on 3rd April, 2018
₹ 80,000 due on 1st June, 2018
₹ 10,000 due on 15th June, 2018
Find out the average due date. Earliest date to be taken as base date. Any fraction of day resulting from calculation to be considered as full day.

(4 marks)

Answer:

Calculation of Average Due Date

Taking 11th March, 2018 as the base date.

Due date	Amount	No. of days from the base date i.e. 11th March, 2018	Product
2018	₹		₹
11th March	60,000	0	0
3rd April	1,00,000	23	23,00,000
1st June	80,000	82	65,60,000
15th June	10,000	96	9,60,000
	2,50,000		98,20,000

Average due date = Base date + Days equal to $\frac{\text{Total of products}}{\text{Total amount}}$

= 11^{th} March + 98,20,000/ 2,50,000

= 11^{th} March + 40 days = 20^{th} April, 2018

Chapter - 9 : Self Balancing Ledgers

2018 - May [3] (b)

In General Ledger

Debtors Ledger Adjustment Account

17-18	Particulars	₹	17-18	Particulars	₹
	To Balance b/d	8,78,500		By Balance b/d	75,250
	To General ledger			By General ledger	
	Adjustment account:			Adjustment account :	
	Sales-Credit	20,70,000		Cash Collection	24,46,650
	Bank - Cheques			Discount	10,850
	dishonored	33,000		Sales Return	70,000
	Interest	2,100		Bad debts	9,100

	B/R dishonoured	54,000		Transfer to Credits ledger	87,500
				By Balance c/d	3,38,250
		30,37,600			**30,37,600**

In Creditors Ledger

General Ledger Adjustment Account

17-18	Particulars	₹	17-18	Particulars	₹
	To Balance b/d	2,34,500		By Balance b/d (advance to Suraj)	1,61,000
	To Creditors ledger adjustment account:			By Creditors ledger adjustment account:	
	Purchase from			Cash Paid	3,23,000
	Rachel	6,13,000			
	Purchase from Suraj	1,61,000		Return outwards	15,000
	Cash (overpayments refunded)	5,900		Bills payable	89,000
				Bill receivable endorsed	5,800
	To Balance c/d (advance to M/s Chi Traders)	66,000		Advances given	66,000
				Transfers from debtor ledger	87,500
				By Balance c/d	3,33,100
		10,80,400			**10,80,400**

Working Notes:

1. Total Sales = ₹ 49,70,000 - ₹ 1,40,000= ₹ 48,30,000

   Total Sales = Cash sales + Credit sales

   Let Cash Sales = a

   Total Sales = a + (a x 75%)

Therefore Cash sales is Total sales/ 1.75
Cash Sales = ₹ 48,30,000/ 1.75 = ₹ 27,60,000
Credit Sales = ₹ 20,70,000 (75% of ₹ 27,60,000)

2. Cash Collection = 90% of 8,78,500 + 80% of 20,70,000
= ₹ 7,90,650 + ₹ 16,56,000
= ₹ 24,46,650

3. Bad debts recovered will not appear in the Total Debtors Account. It should be credited to Profit and Loss Account.

2018 - Nov [3] (b) Prepare Sales Ledger Adjustment A/c and Purchase Ledger Adjustment A/c. respectively in General Ledger for the year ended 31st March, 2018 from the following information:

	₹
Sales Ledger Balance as on 1st April, 2017	1,35,900
Purchases Ledger Balance as on 1st April, 2017	1,17,900
Sales	5,71,200
Purchases	4,89,000
Cash received from Debtors	2,67,300
Return Inward	26,400
Bills Receivable, Received	2,04,000
Bad Debts written off	36,000
Bad Debts previously written off now recovered	20,000
Return Outward	21,000
Bills payable accepted	1,83,000
Cash paid to creditors	2,79,000
Discount Received	6,000
Discount Allowed	2,700
Reserve for Discounts to debtors	3,000
Transfer from Purchases Ledger to Sales Ledger	39,900

(8 marks)

Answer:

(b)

In General Ledger

Sales Ledger Adjustment Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2017	To Balance b/d	1,35,900	1.4.2017 to	By General ledger adjustment account	
1.4.2017 to 31.3.2018	To General ledger adjustment A/c: Sales			Cash	2,67,300
			31.3.2018	Return inwards	26,400
				Bills receivable	2,04,000
		5,71,200		Bad debts written off	36,000
				Discount allowed	2,700
				Transfer from purchases ledger	39,900
			31.3.2018	By Balance c/d	1,30,800
		7,07,100			7,07,100

Purchases Ledger Adjustment Account

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.2017	To General ledger		1.4.2017	By Balance b/d	1,17,900
31.3.2018	To Adjustment A/c Cash	2,79,000	1.4.2017	By General	
	Return outwards	21,000	31.3.2018	To Ledger adjustment A/c:	
	Bills payable	1,83,000			
	Discount received	6,000		Purchases	4,89,000
	Transfer to sales ledger	39,900			
31.3.2018	To Balance c/d	78,000			
		6,06,900			6,06,900

Note: Bad debts recovered ₹ 20,000 and Reserve for Discount to Debtors ₹ 3,000 shall not appear in the above ledgers.

Chapter - 10 : Financial Statements of Not for Profit Organisations

2018 - May [4]

Income and Expenditure Account of M/s Antony Education Society for the year ended 31st March, 2018

Expenditure	₹	₹	Incomes	₹	₹
To Staff Salaries	4,00,000		By Tuition Fees	7,00,000	
Add : Outstanding			*Add* : Receivable	20,000	
Staff salaries	40,000	4,40,400	*Less* : Advance Received	(10,000)	7,10,000
To Electricity Charges		48,000	By Hire of School Hall		70,000
To Repairs		60,000	By Grants in Aid	5,00,000	
To Students Welfare Expenses		80,000	*Add* : Receivable grant	1,00,000	6,00,000
To Depreciation:					
Building (5% of 9,50,000)		47,500			
Equipment (10% of 1,80,000)		18,000			
To Consumption of Materials & Supplies		6,20,000			
To Surplus - excess of income over expenditure (Balancing fig.)		66,500			
		13,80,000			**13,80,000**

Balance Sheet of M/s Antony Education Society As on 31st March, 2018

Liabilities	₹	₹	Assets		₹
Capital Fund (W.N.1)	2,37,000		Building	9,50,000	
Add : Donation of Lab			*Less* : Depreciation	47,500	9,02,500
equipment	1,80,000				

Add : Transferred from Building fund	9,50,000		Lab Equipment	1,80,000	
			Less : Depreciation	18,000	1,62,000
Surplus	66,500		Material & Supplies		1,80,000
		14,33,500	Tuition fee receivable		20,000
Tuition Fee (received in advance)		10,000	Cash & Bank		1,25,000
Staff Salaries outstanding		40,000	Grant-in aid receivable from State Govt.		1,00,000
Lab and Library Security Deposit		6,000			
		14,89,500			**14,89,500**

Working Notes:

1. Balance Sheet (Opening) of M/s Antony Education Society as on 1st April, 2017

	₹		₹
Building Fund	9,50,000	Cash & Bank	37,000
Capital Fund (balancing fig.)	2,37,000	Investments	9,50,000
		Opening Stock	2,00,000
	11,87,000		11,87,000

2. Closing Stock of Material & Supplies

	₹
Opening Stock	2,00,000
Purchase	6,00,000
	8,00,000
Less: Consumed during the year (4,70,000 + 20,000 + 1,30,000)	6,20,000
Balance as Closing Stock	1,80,000

Note: It has been considered that M/s Antony Education Society is not registered under the Companies Act, 2013. Therefore, Income & Expenditure A/c and Balance Sheet are not prepared as per Schedule III of the Companies Act, 2013.

Chapter - 11 : Accounts From Incomplete Records

2018 - Nov [4] From the following information, prepare Trading and Profit and Loss Account for the year ended 31.03.2018 and the Balance Sheet as at 31.03.2018 of M/s Prasad & Co., a proprietorship firm.

Assets and Liabilities	As on 01.04.2017	As on 31.03.2018
Creditors	20,000	15,000
Outstanding Expenses	600	800
Fixed Assets	12,000	13,000
Stock	10,000	12,000
Cash in hand and at bank	10,000	12,000
Debtors	?	18,000

Details of the year's transactions are as follows:

(1)	Discounts allowed to Debtor	4,000
(2)	Returns from debtors	1,450
(3)	Bad debts	500
(4)	Total sales (Cash and Credit)	72,000
(5)	Discount allowed by creditors	700
(6)	Returns to creditors	400
(7)	Receipts from debtors paid into Bank	76,000
(8)	Cash purchases	1,000
(9)	Expenses paid by cash	9,000
(10)	Drawings by cheque	500
(11)	Purchase of Fixed Assets by cheque	4,000
(12)	Cash deposited into bank	5,000
(13)	Cash withdrawn from bank	9,000
(14)	Cash in hand at 31.03.2018	2,000
(15)	Payments to creditors by cheque	60,000

No assets were sold during the year. **(16 marks)**

Answer:

In the books of M/s Prasad & Co.
Trading and Profit and Loss Account
for the year ended 31st March, 2018

	Particulars	₹	₹		**Particulars**	₹	₹
To	Opening stock		10,000	By	Sales:		
To	Purchases:				Cash	500	
	Cash	1,000			Credit	71,500	
	Credit (W.N. 1)	56,100			*Less:* Returns	(1,450)	70,550
		57,100		By	Closing stock		12,000
	Less: Returns	(400)	56,700				
To	Gross Profit c/d		15,850				
			82,550				82,550
To	Discount allowed		4,000	By	Gross profit b/d		15,850
To	Bad debts		500	By	Discount received		700
To	Depreciation (W.N. 2)		3,000	By	Net Loss (balancing fig.)		150
To	General expenses (W.N. 3)		9,200				
			16,700				16,700

Balance Sheet as at 31st March, 2018

Liabilities		₹	**Assets**		₹
Capital (W.N. 4)	39,850		Fixed Assets	12,000	
Less: Net loss	150		*Add:* New asset	4,000	
	39,700			16,000	
Less: Drawings	(500)	39,200	*Less:* Depreciation	(3,000)	13,000

Sundry creditors	15,000	Stock in trade	12,000
Expenses outstanding	800	Sundry debtors (W.N. 5)	18,000
		Cash in hand (W.N. 6)	2,000
		Cash in Bank (W.N. 7)	10,000
	55,000		55,000

Working Notes:

1. Sundry Creditors Account

		₹			₹
To	Bank – Payments	60,000	By	Balance b/d	20,000
To	Discount	700	By	Purchases - credit	56,100
To	Returns	400		(Balancing figure)	
To	Balance c/d (closing balance)	15,000			
		76,100			76,100

2.

Depreciation on Fixed Assets	₹
Opening balance of fixed assets	12,000
Add: Additions	4,000
	16,000
Less: Closing balance of fixed assets	(13,000)
Depreciation	3,000

3. Expenses to be shown in profit and loss account

Expenses (in cash)	9,000
Add: Outstanding of 2018	800
	9,800
Less: Outstanding of 2017	600
	9,200

4. Ascertainment of Opening Capital - Statement of Affairs as at 1.4.17

Liabilities	₹	**Assets**	₹
Sundry creditors	20,000	Fixed Assets	12,000
Outstanding expenses	600	Stock	10,000
Prasad's Capital		Debtors	28,450
(Balancing figure)	39,850	Cash in hand	7,500
		Cash at Bank	2,500
	60,450		60,450

5. Sundry Debtors Account

		₹			₹
To	Balance b/d (bal. fig)	28,450	By	Cash	76,000
To	Sales (72,000 – 500)	71,500	By	Discount	4,000
			By	Returns (sales)	1,450
			By	Bad debts	500
			By	Balance c/d (given)	18,000
		99,950			99,950

(6) Cash and Bank Account

		Cash	**Bank**			**Cash**	**Bank**
		₹	₹			₹	₹
To	Balance b/d	7,500	2,500	By	Purchases	1,000	
To	Debtors	-	76,000	By	Expenses	9,000	

To	Bank (C)	9,000	-	By	Fixed Asset		4,000
To	Cash (C)	-	5,000	By	Drawings		500
To	Sales (balancing fig. considered as cash sales)	500	-	By	Creditors		60,000
				By	Cash (C)		9,000
				By	Bank (C)	5,000	
				By	Balance c/d	2,000	10,000
		17,000	83,500			17,000	83,500

Chapter - 12 : Hire Purchase and Instalment Sale Transactions

2018 - May [5] (a)

(i) **Calculation of Interest and Cash Price**

Ratio of interest and amount due = 8/(100 + rate of interest) i.e. 8/108

To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3rd	12,000	8/108 of ₹ 12,000 = ₹ 889	11,111
2nd	23,111[W.N.1]	8/108 of ₹ 23,111 = ₹ 1,712	21,399
1st	33,399 [W.N.2]	8/108 of ₹ 33,399 = ₹ 2,474	30,925
		5,075	

Total cash price = ₹ 30,925 + 12,000 (down payment) = ₹ 42,925

Working Notes:

1. ₹ 11,111 + 2nd instalment of ₹ 12,000 = ₹ 23,111
2. ₹ 21,399 + 1st instalment of ₹ 12,000 = ₹ 33,399

(ii) Journal Entries in the books of M/s Kodam Enterprises

1.4.2017			₹	₹
1.	Generator Account To Sanctum Ltd. Account (Asset acquired on hire purchase)	Dr. [Full cash price]	42,925	42,925
2.	H.P. Interest Suspense Account To Sanctum Ltd. Account (For total interest payment, due)	Dr. [Total Interest]	5,075	5,075
3.	Sanctum Ltd. Account To Bank Account (When down payment is made)	Dr.	12,000	12,000
31.3.2018				
4.	Interest Account	Dr.	2,474	
	To H.P. Interest Suspense Account (For Interest of the year)			2,474
5.	Sanctum Ltd. Account To Bank Account (Being instalment paid)	Dr.	12,000	12,000
6.	Depreciation Account	Dr. [Calculated on cash price i.e. 10% ₹ 42,925]	4,292.50	
	To Generator Account (Being depreciation charged on the asset @ 10%)			4,292.50
7.	Profit and Loss Account	Dr.	6,766.50	
	To Interest Account			4,292.50
	To Depreciation Account (For closing interest and depreciation account)			2,474.00

2018 - Nov [7] (d) Describe in brief the methods of recording Hire purchase transactions in the books of Hire vendor. **(4 marks)**

Answer:

There are two methods of recording hire purchase transactions in the books of the hire vendor.

These methods are:

1. Sales Method
2. Interest Suspense Method

1. **Sales Method:** A business that sells relatively large items on hire purchase may adopt this method. Under this method, hire purchase sale is treated as a credit sale. The only exception is that the vendor agrees to accept payments in instalments and for that he charges interest. The amount due from the hire purchaser at the end of the year is shown in the Balance sheet on the assets side as Hire Purchase Debtors. The entire profit on sale under hire purchase agreement is credited to the Profit and Loss account of the year in which the sale has taken place; and interest pertaining to each accounting period is credited to the Profit and Loss Account of that year in this method.
2. **Interest Suspense Method:** This method is almost similar to the sales method, except the accounting for interest. Under this method, the hire purchaser is debited with full cash price and interest (total) included in the selling price. Credit is given to the H.P. Sales Account and Interest Suspense Account. When the instalment is received, the Bank Account is debited and the Hire Purchaser Account is credited. At the same time an appropriate amount of interest (i.e., interest for the relevant accounting period) is removed from the Interest Suspense Account and credited to the Interest Account. At the time of preparation of Final Accounts, interest is transferred to the credit of the Profit and Loss Account. The balance of the Interest Suspense Account is shown in the Balance Sheet as a deduction from Hire Purchase Debtors.

Chapter - 13 : Investment Accounts

2018 - Nov [5] (a) On 1st April, 2017, Mr. Vijay had 30,000 Equity shares in X Ltd. (the company) at a book value of ₹ 4,50,000 (Face Value ₹ 10 per share). On 22nd June, 2017, he purchased another 5000 shares of the same company for ₹ 80,000.

The Directors of X Ltd. announced a bonus of equity shares in the ratio of one share for seven shares held on 10th August, 2017.

On 31st August, 2017 the Company made a right issue in the ratio of three shares for every eight shares held, on payment of ₹ 15 per share. Due date for the payment was 30th September, 2017, Mr. Vijay subscribed to 2/3rd of the right shares and sold the remaining of his entitlement to Viru for a consideration of ₹ 2 per share.

On 31st October, 2017, Vijay received dividends from X. Ltd. @ 20% for the year ended 31st March, 2017. Dividend for the shares acquired by him on 22nd June, 2017 to be adjusted against the cost of purchase.

On 15th November, 2017 Vijay sold 20,000 Equity shares at a premium of ₹ 5 per share.

You are required to prepare Investment Account in the books of Mr. Vijay for the year ended 31st March, 2018 assuming the shares are being valued at average cost. **(8 marks)**

Answer:

Working Notes:

1. Bonus Shares = (30,000 + 5,000) / 7 = 5,000 shares
2. Right Shares = $\frac{(30,000 + 5,000 + 5,000)}{8} \times 3$ = 15,000 shares
3. Rights shares sold = 15,000×1/3 = 5,000 shares
4. Dividend received = 30,000×10×20% = ₹ 60,000 will be taken to P&L statement
5. Dividend on shares purchased on 22.6.2017= 5,000×10×20%
   = ₹ 10,000 is adjusted to Investment A/c
6. Profit on sale of 20,000 shares
   = Sales proceeds – Average cost Sales proceeds
   = ₹ 3,00,000
   Average cost = $\frac{(4,50,000 + 80,000 + 1,50,000 - 10,000)}{50,000} \times 20,000$ = ₹ 2,68,000
   Profit = ₹ 3,00,000 – ₹ 2,68,000= ₹ 32,000.

7. Cost of shares on 31.3.2018

$$\frac{(4,50,000 + 80,000 + 1,50,000 - 10,000)}{50,000} \times 30,000 = ₹\ 4,02,000$$

8. Sale of rights amounting ₹ 10,000 (₹ 2 x 5,000 shares) will not be shown in investment A/c but will directly be taken to P & L statement.

Books of Vijay
Investment Account
(Scrip: Equity Shares in X Ltd.)

Date	Particulars	No.	Amount ₹	Date	Particulars	No.	Amount ₹
1.4.17	To Bal b/d	30,000	4,50,000	31.10.17	By Bank (dividend on shares acquired on 22/6/2017)	—	10,000
22.6.17	To Bank	5,000	80,000				
10.8.17	To Bonus	5,000	—				
30.9.17	To Bank (Rights Shares)	10,000	1,50,000	15.11.17	By Bank (Sale of shares)	20,000	3,00,000
15.11.17	To Profit (on sale of shares)		32,000	31.3.18	By Bal. c/d	30,000	4,02,000
		50,000	7,12,000			50,000	7,12,000

2018 - Nov [7]

(a) The Investment portfolio of XYZ Ltd. as on 31.03.2018 consisted of the following:

(₹ in lakhs)

	Current Investments	**Cost**	**Fair Value as on 31.03.2018**
(1)	1000 Equity Shares of A Ltd.	5	7
(2)	500 Equity Shares B Ltd.	10	15
(3)	1000 Equity Shares of C Ltd.	15	12
	Total	**30**	**34**

Give your comments on below:

(i) The company wants to value the above portfolio at ₹ 30 lakhs being lower of cost or fair market value.

(ii) Company wants to transfer 1000 Equity Shares of C Ltd. from current investments to long term investments on 31.03.2018 at cost of ₹ 15 lakhs. **(4 marks)**

Answer:

According to AS 13 "Accounting for Investments", Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed category-wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.

(i) Hence the company has to value the current investment at ₹ 27 Lacs (A Ltd. shares at ₹ 5 lacs; B Ltd. shares at ₹ 10 lacs and C Ltd. shares at ₹ 12 lacs). The company's decision to value the portfolio at ₹ 30 lacs is not appropriate.

(ii) Moreover, 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.

Hence, the company has to make transfer of 1,000 equity shares of C Ltd. at ₹ 12 lacs (fair value) and not ₹ 15 lacs (cost) as the fair value is less than cost.

Chapter - 14 : Insurance Claims for Loss of Stock and Loss of Profit

2018 - May [5] (b)

M/s Raxby & Co.
Trading Account for 2016-17
(to determine the rate of gross profit)

	₹		₹	₹
To Opening Stock	1,20,000	By Sales A/c		6,00,000
To Purchases	5,25,000	By Closing Stock :		
To Gross Profit	90,000	As valued	1,30,000	

		Add : Amount written off to restore stock to full cost	5,000	1,35,000
	7,35,000			7,35,000

The normal rate of gross profit to sales is = $\frac{90,000}{6,00,000} \times 100 = 15\%$

Memorandum Trading Account up to June 30, 2017

	Normal items	Abnormal items	Total		Normal	Abnormal items	Total items
	₹	₹	₹		₹	₹	₹
To Opening Stock	1,27,000	8,000*	1,35,000	By Sales	1,60,000	6,000	1,66,000
To Purchase (97,000 + 35,000)	1,32,000	–	1,32,000	By Loss	–	1,000	1,000
To Gross Profit (15% on ₹ 1,60,000)	24,000	– –	24,000 24,000	By Closing Stock (bal. fig.)	1,23,000	1,000	1,24,000
	2,83,000	8,000	2,91,000		2,83,000	8,000	2,91,000

* at cost.

Calculation of Insurance Claim

	₹
Value of stock on June 30,2017	1,24,000
Less: Salvage	(10,000)
Loss of stock	1,14,000

Claim subject to average clause:

$\frac{\text{Amount of Policy}}{\text{Value of Stock}}$ × Actual Loss of Stock = 1,00,000/1,24,000 × 1,14,000

= ₹ 91,935 (approx.)

Therefore, insurance claim will be limited to ₹ 91,935 (approx.)

2018 - Nov [5] (b) Unfortunate Ltd. has a godown, a shop and a manufacturing unit. Godown is used to store goods purchased for manufacture as well as to store finished goods. Goods are transferred from godown everyday in the morning to manufacturing unit and shop. Inventory in godown is insured for ₹ 20 lakhs, that of manufacturing unit for ₹ 30 lakhs and of the shop for ₹ 5 lakhs.

As on 31.12.17 inventory in godown at cost was ₹ 26 lakhs, inventory in manufacturing unit at cost was ₹ 12 lakhs and inventory in shop at cost was ₹ 5 lakhs.

Following transactions took place during the period mentioned:

(₹ in lakhs)

Particulars	**Jan.' 18**	**Feb.' 18**	**March' 18**	**1st Apr.-28th Apr.**
Purchases	20	15	16	8
Returns to suppliers	-	-	4	-
Stock transfer to shop	26	20	25	10
Returns from shop	1	-	1	1
Sales in shop @ Gross Profit:				
10%	10	12	8	4
12%	18	12	15	5

Fire occurred in shop in the midnight of 27th April-28th April, 2018 and the entire stock was engulfed in fire. Good costing ₹ 40,000 could be salvaged intact and balance goods were recovered in damaged condition.

Expenses of fire fighting/salvage operation amounted to ₹ 20,000. Goods recovered in damaged condition could be sold @ 40% of cost. The insurance policy had average clause.

Compute the claim to be lodged with Insurance Co. **(8 marks)**

Answer:

(b) Memorandum Trading Account for Shop from 01.01.17 to 28.04.17

Particulars	**(₹ In lacs)**	**Particulars**	**(₹ In lacs)**
To Opening Stock	5.00	By Return	3.00
To Transfer*	81.00	By Sales	84.00
To Gross profit (3.4 + 6)	9.40	By Closing Stock (on 28.4.18)	8.40
	95.40		95.40

Calculation of Insurance Claim

	₹ In lakhs
Value of Stock in shop	8.4
Less: Salvage	(0.4)
	8.0
Stock recovered	3.2 (40% of ₹ 8,00,000)
Loss of stock	4.8

Claim subject to average clause:

$$= \frac{\text{Amount of Policy}}{\text{Value of Stock}} \times \text{Actual Loss of Stock}$$

Therefore, insurance claim will be calculated as

₹ 5/8.4 x 4.8 lakhs = ₹ 2.86* lakhs

Add: Fire fighting expenses	0.20 lakhs
Amount of claim to be lodged	3.06*

*rounding off

Chapter - 15 : Introduction to Partnership Accounts

2018 - May [6]

(i) **Revaluation Account**

	₹		₹	₹
To Machinery	4,000	By Inventory		6,000
To Provision for Doubtful Debts	5,000	By Loss on revaluation transferred		
To Bad debt	3,000	By Capital Accounts:		
To Provision for Outstanding bill	3,000	Mary (3/9)	3,000	
		Rima (4/9)	4,000	
		Sunny (2/9)	2,000	
				9,000
	15,000			15,000

(ii) **Capital Accounts of Partners**

	Mary	Rima	Sunny		Many	Rima	Sunny
	₹	₹	₹		₹	₹	₹
To Revaluation A/c (loss)	3,000	4,000	2,000	By Balance b/d	45,000	60,000	30,000
To Rima	1,600	–	–	By General Reserve A/c	15,000	20,000	10,000
To Sunny	8,000	–	–	By Mary (Good will)	–	1,600	8,000
To Cash	–	21,600	30,000	By Cash	36,600	-	-
To Loan			16,000				
To balance c/d	84,000	56,000					
	96,600	81,600	48,000		96,600	81,600	48,000

Balance Sheet of Mary and Rima (after Sunny's retirement)

Liability	₹	₹	Assets	₹	₹
Capital Accounts			Land & Building		90,000
Mary	84,000		Machinery	55,000	
Rima	56,000	1,40,000	*Less*: Scrapped	(4,000)	51,000
Sunny's loan		16,000	Inventory		36,000
Workmen compensation reserve		5,000	Trade receivables	60,000	
Provision for outstanding bill		3,000	*Less* : Bad debt	(3,000)	
Trade payables		70,000	*Less* :Provision for doubtful debts	(5,000)	52,000
			Cash in hand & at Bank		5,000
		2,34,000			2,34,000

Working Notes:

1. Goodwill of the firm = ₹ 36,000

	Goodwill in Old ratio	Goodwill in New ratio
Mary	12,000	21,600
Rima	16,000	14,400
Sunny	8,000	—

Journal Entry for adjustment of goodwill

Mary's capital account	Dr,	9,600	
To Sunny's capital account			8,000
To Rima's capital account			1,600

2. Cash balance given in the balance sheet after retirement of Sunny = ₹ 20,000 + ₹ 36,600 – ₹ 30,000 – ₹ 21,600 = ₹ 5,000

2018 - May [7] (e)

(i) **Average Profit:**

Year	Profit (₹)
2014	30,000
2015	26,000
2016	28,000
	84,000

Average Profit = ₹ 84,000/3 = 28,000

Super Profit Basis

	₹
Average Profit	28,000
Normal Profit (15% on ₹ 1,50,000)	22,500
	5,500

Goodwill is to be valued at 3 years purchase.

Value of Goodwill: ₹ 5,500 × 3 = ₹ 16,500

(ii) Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits. The necessity for valuation of goodwill in a firm arises in the following conditions:

(a) When the profit sharing ratio amongst the partners is changed;
(b) When a new partner is admitted;
(c) When a partner retires or dies, and
(d) When the business is dissolved or sold.

2018 - Nov [6] Rose, Lily and Violet were carrying on a business as partners sharing profit and loss in ratio of 3:2:1 respectively. The Balance Sheet of the firm as on 31st March, 2018 was as follows:

Liabilities	₹	Assets	₹
Capital Account:		Building	2,25,000
Rose	2,00,000	Plant and Machinery	1,75,000
Lily	1,50,000	Furniture	40,000
Violet	1,25,000	Stock	1,25,000
General Reserve	60,000	Sundry Debtors 80,000	
Sundry Creditors	95,000	*Less:* Provision for	
Bills Payable	25,000	Bad Debts 2,500	77,500
		Cash at Bank	12,500
	6,55,000		**6,55,000**

Lily retires on that date subject to the following conditions:

(1) The Goodwill of the Firm to be valued at ₹ 90,000, which is to be shown in the Balance Sheet of newly constituted firm.

(2) Plant and Machinery to be depreciated by 10% and Furniture by 15%.

(3) Stock to be appreciated by 20% and Building by 10%.

(4) The provision for Bad Debts to be increased by ₹ 9,750.

(5) Liability for Workmen's compensation to the extent of ₹ 8,250 is to be brought into account.

(6) It was agreed that Rose and Violet will share profits in future in the ratio 3 : 2.

(7) Half of the amount due to Lily to be paid immediately by cheque and the balance to be treated as loan repayable within 2 years.

(8) In order to facilitate cheque payment to Lily, Rose and Violet brought ₹ 1,50,000 in new profit sharing ratio.

You are required to (i) Pass Journal Entries (ii) Prepare Partners' Capital A/c, (iii) Prepare Balance Sheet of the firm as Newly Constituted. **(16 marks)**

Answer:

Journal Entries on 31st March, 2018

Particulars		₹	₹
Building A/c	Dr.	22,500	
Stock A/c	Dr.	25,000	
To Revaluation A/c			47,500
(Being increase in value of assets recorded)			
Revaluation A/c	Dr.	23,500	
To Plants and Machinery A/c			17,500
To Furniture A/c			6,000
(Being decrease in value of assets recorded)			
Revaluation A/c	Dr	18,000	
To Provision for bad debts			9,750
(Being increase in value of labilities recorded)			8,250
Goodwill A/c	Dr.	90,000	
To Revaluation A/c			90,000
(Being entry for goodwill through Revaluation A/c)			
Revaluation A/c	Dr.	96,000	
To Rose Capital A/c			48,000
To Lily Capital A/c			32,000
To Violet Capital A/c			16,000
(Revaluation profit transferred to partners' capital accounts)			

General Reserve A/c	Dr.	60,000	
To Rose Capital A/c			30,000
To Lily Capital A/c			20,000
To Violet Capital A/c			
(Transfer of reserves to partners)			10,000
Lily's Capital A/c	Dr.	2,02,000	
To Bank A/c			1,01,000
To Lily's Loan A/c			1,01,000
(Being sum due to Lilly transferred to his loan and balance paid in cash)			
Bank A/c	Dr.	1,50,000	
To Rose's Capital A/c			90,000
To Violet's Capital A/c			60,000
(Being cash brought in by Rose and Voilet)			

Revaluation Account

Particulars	₹	Particulars	₹
To Plant & machinery (1,75,000 x 10%)	17,500	By Buildings	22,500
To Furniture (40,000 x 15%)	6,000	By Stock	25,000
To Provision for doubtful debts	9,750	By Goodwill	90,000
To Provision for compensation	8,250		
To Partners' Capital A/c (Profit) Rose 48,000 Lily 32,000 Violet 16,000	96,000		
	1,37,500		1,37,500

Partners Capital Accounts

Particulars	Rose ₹	Lily ₹	Violet ₹	Particulars	Rose ₹	Lily ₹	Violet ₹
To Cash A/c		1,01,000		By Balance b/d	2,00,000	1,50,000	1,25,000
To Loan		1,01,000		By General Reserve	30,000	20,000	10,000
To Balance c/d	3,68,000		2,11,000	By Revaluation A/c	48,000	32,000	16,000
				By Cash A/c	90,000		60,000
	3,68,000	2,02,000	2,11,000		3,68,000	2,02,000	2,11,000

Balance Sheet of Rose and Violet as at 31.03.2018 (after Lily's retirement)

Liabilities	₹	Assets		₹
Capital Accounts:		Buildings		2,47,500
Rose	3,68,000	Plant & Machinery		1,57,500
Violet	2,11,000	Furniture		34,000
10% Loan from Lily	1,01,000	Stock		1,50,000
Trade Creditors	95,000	Goodwill*		90,000
Bill payable	25,000	Trade Debtors	80,000	
Workmen Compensation liability	8,250	*Less:* Provision for doubtful debts	(12,250)	67,750
		Cash at Bank		61,500
	8,08,250			8,08,250

Working Note

Bank Account

	₹		₹
To Balance b/d	12,500	By Lily's Capital A/c	1,01,000
To Rose's capital A/c	90,000	By Balance c/d	61,500
To Voilet's capital A/c	60,000		
	1,62,500		1,62,500

*Goodwill is shown in the balance sheet as per the information given in the question.

2018 - Nov [7] (b) X, Y, Z were in partnership sharing profits and losses equally and following financial year for accounting. Z died on 30th September, 2017. As per the accounts drawn upto 30th September, 2017 the Capital Accounts Balances were X : ₹ 30,000 (Cr.), Y : ₹ 40,000 (Cr.), Z: ₹ 50,000 (Cr.) respectively. Z's legal representatives would be paid their dues on 1st April, 2018.

In the meanwhile, X and Y continued the business and earned a profit of ₹ 40,000 for the half year ended 31.03.2018. Partnership deed did not contain any clause for payment of Interest on deceased partners' dues. Suggest the amount that legal heirs of the deceased partner should settle for as per section 37 of the Partnership Act, 1932. **(4 marks)**

Answer:

Provision:

According to Section 37 of the Partnership Act, 1932,

The amount due to the deceased partner carries interest at the mutually agreed upon rate. In the absence of any agreement, the representatives of the deceased partner can receive at their option interest at the rate of 6% per annum or the share of profit earned for the amount due to the deceased partner.

Present Case:

The representatives of Z can opt for

Either,

(i) Interest on ₹ 50,000 for 6 months @ 6% p.a. = ₹ 1,500

Or

(ii) Profit earned out of unsettled capital (in the second half year ended 31st March, 2018)

₹ 40,000 X 50,000/ (30,000 + 40,000 + 50,000) = ₹ 16,667

Conclusion:

In the above case, it would be rational to assume that the legal heirs would opt for ₹ 16,667

Amount due to legal heirs of Z	₹
Balance in Z's Executor's account	50,000
Amount of profit earned out of unsettled capital [calculated above]	16,667
Amount due	66,667

Chapter - 16 : Accounting to Computerised Environment

2018 - May [7] (d)

Advantages of outsourcing the accounting functions:

1. **Saving of Time:** The organization that outsources its accounting function is able to save time to concentrate on the core area of business activity.
2. **Expertise of the third party:** The organization is able to utilize the expertise of the third party in undertaking the accounting work.
3. **Maintenance of data:** Storage and maintenance of the data is in the hand of professional people.
4. **Economical:** The organization is not bothered about people leaving the organization in key accounting positions. The proposition is proving to be economically and more sensible as they do not have to train the people again. Hence, the training cost is saved.

2018 - Nov [1] {C} (d) Enumerate type of alternatives available to a business entity for accounting in computerised environment.
Also, describe the criteria for selection among above alternatives.

(5 marks)

Answer:

Alternatives are available to a business entity for accounting in computerized environment are

- Spread sheet packages
- Pre-packaged accounting software
- Customized accounting package
- ERP package
- Outsourcing the accounting function to a third party.

The criteria for selection of these alternatives are as follows:

1. **Size of Business Operation:** If the size of the operation is small or medium the organization can opt for a prepackaged accounting package. However, if the size is big, the organization may decide upon a customized software or an ERP package.
2. **Complexity of Operation:** If the operation is complex with several functional areas which needs to be computerized the choice is usually a customized software or an ERP package.
3. **Business Requirement:** If the organization has several non-standard requirements, then customized software could be the solution.
4. **Budgetary Constraints:** Cost consideration could also be a deciding factor for the choice of an alternative. Normally the spread sheet and the prepackaged accounting software works out to be the cheapest. The customized software and the ERP are of higher cost considerations

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