## PAPER – 1 : ACCOUNTING

*Question No.* ***1*** *is compulsory.*

*Answer any* ***five*** *questions from the remaining* ***six*** *questions.*

*Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.*

*Working Notes should form part of the answer.*

### Question 1

(a) *ABC Ltd. is installing a new plant at its production factory. It provides you the following information:*

| | |
|---|---|
| Cost of the plant (cost as per supplier's invoice) | ₹ 31,25,000 |
| Estimated dismantling costs to be incurred after 5 years | ₹ 2,50,000 |
| Initial Operating losses before commercial production | ₹ 3,75,000 |
| Initial delivery and handling costs | ₹ 1,85,000 |
| Cost of site preparation | ₹ 4,50,000 |
| Consultants used for advice on the acquisition of the plant | ₹ 6,50,000 |

*Please advise ABC Ltd. on the costs that can be capitalised for plant in accordance with AS 10: Property, Plant and Equipment.*

(b) *A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.*

| | **₹ Per unit** |
|---|---|
| ***Raw Material X*** | |
| Cost price | 380 |
| Unloading Charges | 20 |
| Freight Inward | 40 |
| Replacement cost | 300 |
| ***Chemical Y*** | |
| Material consumed | 440 |
| Direct Labour | 120 |
| Variable Overheads | 80 |

***Additional Information:***

(i) *Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 20,000 units.*

(ii) *Closing balance of Raw Material X was 1,000 units and Chemical Y was 2,400 units.*

*You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when*

*(a) Net realizable value of Chemical Y is ₹ 800 per unit*

*(b) Net realizable value of Chemical Y is ₹ 600 per unit*

(c) *Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:*

(i) *On 15th January, 2017 garments worth ₹ 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.*

(ii) *Garments worth ₹ 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.*

(iii) *On 1st November, 2016 garments worth ₹ 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.*

*You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9.*

*(d) What are Accounting Standards? Explain the issues, with which they deal.*

***(4 x 5 Marks = 20 Marks)***

**Answer**

**(a)** According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd. are as follows:

| | ₹ |
|---|---:|
| Cost of the plant | 31,25,000 |
| Initial delivery and handling costs | 1,85,000 |
| Cost of site preparation | 4,50,000 |
| Consultants' fees | 6,50,000 |
| Estimated dismantling costs to be incurred after 5 years | 2,50,000 |
| Total cost of Plant | 46,60,000 |

**Note:** Operating losses before commercial production amounting ₹ 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

**(b) (a) When Net Realizable Value of the Chemical Y is ₹ 800 per unit**

NRV is greater than the cost of Finished Goods Y i.e. ₹ 660 (Refer W.N.)

Hence, Raw Material and Finished Goods are to be valued at cost.

**Value of Closing Stock:**

| | *Qty.* | *Rate (₹)* | *Amount (₹)* |
|---|---|---|---|
| Raw Material X | 1,000 | 440 | 4,40,000 |
| Finished Goods Y | 2,400 | 660 | 15,84,000 |
| Total Value of Closing Stock | | | 20,24,000 |

**(b) When Net Realizable Value of the Chemical Y is ₹ 600 per unit**

NRV is less than the cost of Finished Goods Y i.e. ₹ 660. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

**Value of Closing Stock:**

| | *Qty.* | *Rate (₹)* | *Amount (₹)* |
|---|---|---|---|
| Raw Material X | 1,000 | 300 | 3,00,000 |
| Finished Goods Y | 2,400 | 600 | 14,40,000 |
| Total Value of Closing Stock | | | 17,40,000 |

**Working Note:**

**Statement showing cost calculation of Raw material X and Chemical Y**

| Raw Material X | ₹ |
|---|---|
| Cost Price | 380 |
| *Add*: Freight Inward | 40 |
| Unloading charges | 20 |
| Cost | 440 |
| **Chemical Y** | **₹** |
| Materials consumed | 440 |
| Direct Labour | 120 |
| Variable overheads | 80 |
| Fixed overheads (₹4,00,000/20,000 units) | 20 |
| Cost | 660 |

**(c)** As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

**Case (i):** 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 3,00,000 (75% of ₹ 4,00,000) for the year ended on 31.3.17. In case of consignment sale, revenue should not be recognized until the goods are sold to a third party.

**Case (ii):** The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of ₹1,95,000 for the year ended 31st March, 2017.

**Case (iii):** In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act accepting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹ 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

**(d)** **Accounting Standards (ASs)** are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. Accounting Standards reduce the accounting alternatives in the preparation of financial statements and ensure standardization of alternative accounting treatments and comparability of financial statements of different enterprises.

**Accounting Standards deal with the issues of**

(i) **Recognition of events and transactions** in the financial statements,

(ii) **Measurement** of these transactions and events,

(iii) **Presentation** of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

(iv) **Disclosure requirements** which should be there to enable the public at large and the stakeholders and the potential investors, in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

**Question 2**

*M/s Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2017 before reconstruction:*

| *Particulars* | *Note No.* | *Amount (₹ In lakh)* |
|---|---|---|
| *Equity & Liabilities* | | |
| *Shareholders' Funds* | | |
| *Share Capital* | 1 | 2,100 |
| *Reserves & Surplus* | 2 | (783) |
| *Non-Current Liabilities* | | |
| *Long term Borrowings* | 3 | 1,050 |
| *Current Liabilities* | | |
| *Trade Payables* | 4 | 153 |
| *Other Liabilities* | 5 | 36 |
| *Total* | | 2,556 |
| *Assets* | | |
| *Non-Current Assets:* | | |
| *Fixed Assets* | | |
| *Tangible Assets* | 6 | 1,125 |
| *Current Investments* | 7 | 300 |
| *Inventories* | 8 | 450 |
| *Trade Receivables* | 9 | 675 |
| *Cash & Cash Equivalents* | 10 | 6 |
| *Total* | | 2,556 |

***Notes to Accounts:***

| | | *₹ In lakh* |
|---|---|---|
| *(1)* | *Share capital* | |
| | *Authorised:* | |
| | *300 lakh shares of ₹ 10 each* | 3,000 |
| | *12 lakh, 8% preference Shares of ₹ 100 each* | 1,200 |
| | | 4,200 |

| | | |
|---|---|---|
| | *Issued, Subscribed and Paid up:* | |
| | *150 Lakh Equity Shares of ₹ 10 each, fully paid up* | *1,500* |
| | *6 lakh 8% Preference Shares of ₹ 100 each, fully paid up* | *600* |
| | | *2,100* |
| *(2)* | *Reserves and Surplus* | |
| | *Debit balance of Profit & Loss A/c* | *(783)* |
| *(3)* | *Long term borrowings* | |
| | *6% Debentures (Secured by freehold property)* | *600* |
| | *Director's Loan* | *450* |
| | | *1,050* |
| *(4)* | *Trade payables* | |
| | *Trade payables for Goods* | *153* |
| *(5)* | *Other Liabilities* | |
| | *Interest Accrued and Due on 6% Debentures* | *36* |
| *(6)* | *Tangible Assets* | |
| | *Freehold Property* | *825* |
| | *Plant & machinery* | *300* |
| | | *1,125* |
| *(7)* | *Current Investment* | |
| | *Investment in Equity Instruments* | *300* |
| *(8)* | *Inventories* | |
| | *Finished Goods* | *450* |
| *(9)* | *Trade Receivables* | |
| | *Trade receivables for Goods* | *675* |
| *(10)* | *Cash and Cash equivalents* | |
| | *Balance with bank* | *6* |

*The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:*

*(1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.*

*(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.*

*(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.*

*(4) Interest accrued and due on Debentures to be paid in cash.*

*(5) Remaining Freehold Property to be valued at ₹ 550 lakh.*

*(6) All investments sold out for ₹ 425 lakh.*

*(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be alloted.*

*(8) 40% of Trade receivables and 80% of Inventories to be written off.*

*(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying 8% penalty of contract value.*

*You are required to:*

*(a) Pass Journal Entries for all the transactions related to internal reconstruction;*

*(b) Prepare Capital Reduction Account, Bank Account; and*

*(c) Prepare Notes to Accounts on Share Capital and Tangible Assets, immediately after the implementation of internal reconstruction.* ***(16 Marks)***

**Answer**

**(a) Journal Entries related to internal reconstruction in the books of Planet Ltd.**

**(₹ in lakh)**

| | Particulars | | Debit ₹ | Credit ₹ |
|---|---|---|---|---|
| i | 8% Preference share capital A/c (₹ 100 each) | Dr. | 600 | |
| | To 8% Preference share capital A/c (₹ 75 each) | | | 450 |
| | To Capital reduction A/c | | | 150 |
| | (Being the Preference shares of ₹ 100 each reduced to ₹ 75 each as per the approved scheme) | | | |
| ii | Equity share capital A/c (₹ 10 each) | Dr. | 1,500 | |
| | To Equity share capital A/c (₹ 2 each) | | | 300 |
| | To Capital reduction A/c | | | 1,200 |
| | (Being the equity shares of ₹ 10 each reduced to ₹ 2 each) | | | |
| iii | Capital reduction A/c | Dr. | 48 | |
| | To Equity share capital A/c (₹ 2 each) | | | 48 |
| | (Being 1/3rd of arrears of preference share dividend of three years to be satisfied by issue of 24 lakh equity shares of ₹ 2 each) | | | |
| iv | 6% Debentures A/c | Dr. | 450 | |

| | | | | |
|---|---|---|---|---|
| | To Freehold property A/c | | | 450 |
| | (Being claim settled in part by transfer of freehold property) | | | |
| v | Accrued debenture interest A/c | Dr. | 36 | |
| | To Bank A/c | | | 36 |
| | (Being accrued debenture interest paid) | | | |
| vi | Freehold property A/c | Dr. | 175 | |
| | To Capital reduction A/c | | | 175 |
| | (Being appreciation ₹ (550-375) in the value of freehold property) | | | |
| vii | Bank A/c | Dr. | 425 | |
| | To Investment A/c | | | 300 |
| | To Capital reduction A/c | | | 125 |
| | (Being investment sold on profit) | | | |
| viii | Director's loan A/c | Dr. | 450 | |
| | To Equity share capital A/c (₹ 2 each) | | | 135 |
| | To Capital reduction A/c | | | 315 |
| | (Being director's loan waived by 70% and balance being discharged by issue of 67.5 lakh equity shares of ₹ 2 each) | | | |
| ix | Capital reduction A/c | Dr. | 1,485 | |
| | To Profit and loss A/c | | | 783 |
| | To Trade receivables A/c (₹ 675 x 40%) | | | 270 |
| | To Inventories-in-trade A/c (450 x 80%) | | | 360 |
| | To Bank A/c | | | 72 |
| | (Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account) | | | |
| x | Capital reduction A/c | Dr. | 432 | |
| | To Capital reserve A/c | | | 432 |
| | (Being balance transferred to capital reserve account as per the scheme) | | | |

**(b) Capital Reduction Account**

*(₹ in lakh)*

| | | | | | |
|---|---|---|---|---|---|
| To | Equity Share Capital | 48 | By | 8% Pref. Share Capital | 150 |
| To | P & L A/c | 783 | By | Equity Share Capital | 1,200 |
| To | Trade Receivables | 270 | By | Freehold property | 175 |
| To | Inventories | 360 | By | Bank (profit on sale of investment) | 125 |
| To | Bank | 72 | By | Director's loan | 315 |
| To | Capital Reserve | 432 | | | |
| | | 1,965 | | | 1,965 |

**Bank Account**

*(₹ in lakh)*

| | | | | | |
|---|---|---|---|---|---|
| To | Balance b/d | 6 | By | Accrued debenture interest | 36 |
| To | Investments | 300 | By | Capital Reduction Account (Penalty on cancellation of contract) | 72 |
| To | Capital reduction | 125 | By | Balance c/d | 323 |
| | | 431 | | | 431 |

**(c) Note to Accounts on Share Capital and Tangible Assets after implementation of internal reconstruction**

| **Share Capital** | *(₹ in lakh)* |
|---|---|
| **Authorised:** | |
| 300 lakh shares of ₹ 2 each | 600 |
| 12 lakh, 8% Preference shares of ₹ 75 each | 900 |
| | 1,500 |
| **Issued, subscribed and paid up:** | |
| 241.5 lakh Equity shares of ₹ 2 each | 483 |
| (out of which 91.5 lakh shares have been issued for consideration other than cash) | |
| 6 lakh, 8% Preference shares of ₹ 75 each fully paid up | 450 |
| Total | 933 |

| | | |
|---|---|---|
| **Tangible assets** | | |
| Freehold property | 825 | |
| *Less:* Utilized to pay Debenture holders | (450) | |
| *Add:* Appreciation | 175 | 550 |
| Plant and machinery | | 300 |
| | Total | 850 |

**Working Note:**

**Calculation of number of equity shares issued:**

| | |
|---|---|
| Equity shareholders | 150 Lakh |
| Preference shareholders (in lieu of arrear of preference dividend) | 24 Lakh |
| Directors | 67.5 Lakh |
| | 241.5 Lakh |

**Question 3**

*(a) On 27th July, 2016, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged. Their fire fighting expenses were amounting to ₹ 1,300.*

*From the salvaged accounting records, the following information is available relating to the period from 1.4.2016 to 27.7.2016:*

| | | |
|---|---|---|
| *1.* | *Stock as per balance sheet as on 31.3.2016* | *₹ 63,000* |
| *2.* | *Purchases (including purchase of machinery costing ₹ 10,000)* | *₹ 2,92,000* |
| *3.* | *Wages (including wages paid for installation of machinery ₹ 3,000)* | *₹ 53,000* |
| *4.* | *Sales (including goods sold on approval basis amounting to ₹ 40,000). No approval has been received in respect of 1/4th of the goods sold on approval.* | *₹ 4,12,300* |
| *5.* | *Cost of goods distributed as free sample* | *₹ 2,000* |

***Other Information:***

(i) *While valuing the stock on 31.1.2016, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2016 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.*

*(ii) Past record shows the normal gross profit rate is 20%.*

*(iii) The insurance company also admitted fire-fighting expenses. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.*

*Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2016 to 27.7.2016 for normal and abnormal items.* ***(10 Marks)***

*(b) M/s Martin Ltd. maintains self balancing ledgers. On the basis of the following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of March, 2017*

| | ₹ |
|---|---|
| *Debit balance in Debtors Ledger on 01.03.2017* | *4,36,200* |
| *Credit balance in Debtors ledger on 01.03.2017* | *12,600* |
| *Transactions during the month of March, 2017 are:* | |
| *Total sales (Including cash sales of ₹ 2,50,000)* | *18,00,000* |
| *Bad debts recovered (written off in the year 2015-16)* | *1,000* |
| *Interest debited for delay in payment* | *3,500* |
| *Sales Returns* | *40,000* |
| *Cash received from Debtors* | *16,55,000* |
| *Bills Receivables received from Debtors* | *98,000* |
| *Bills Receivables dishonoured* | *6,000* |
| *Discount allowed to debtors for prompt payment* | *1,500* |
| *Noting charges on bills dishonoured* | *300* |
| *Bills Receivables endorsed to suppliers* | *7,000* |
| *Credit balance in Debtors Ledger on 31.03.2017* | *15,400* |

***(6 Marks)***

## Answer

### (a) Memorandum Trading Account for the period 1st April, 2016 to 27th July, 2016

| | *Normal Items* ₹ | *Abnormal Items* ₹ | *Total* ₹ | | *Normal Items* ₹ | *Abnormal Items* ₹ | *Total* ₹ |
|---|---|---|---|---|---|---|---|
| To Opening stock (W.N.5) | 60,000 | 4,000 | 64,000 | By Sales (W.N. 3) | 4,00,000 | 2,300 | 4,02,300 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| To Purchases ( W.N. 1) | 2,80,000 | - | 2,80,000 | By Loss | - | 700 | 700 |
| To Wages (W.N. 4) | 50,000 | - | 50,000 | By Goods on Approval (W.N. 2) | 8,000 | - | 8,000 |
| To Gross profit @ 20% | 80,000 | - | 80,000 | By Closing stock (Bal.fig.) | 62,000 | 1,000 | 63,000 |
| | 4,70,000 | 4,000 | 4,74,000 | | 4,70,000 | 4,000 | 4,74,000 |

**Statement of Claim for Loss of Stock**

| | ₹ |
|---|---|
| Book value of stock as on 27th July, 2016 | 62,000 |
| *Add:* Abnormal Stock | 1,000 |
| *Less:* Stock salvaged | (5,000) |
| Loss of stock | 58,000 |
| *Add:* Fire fighting expenses | 1,300 |
| Total Loss | 59,300 |

**Amount of claim to be lodged with insurance company**

$$= \text{Loss x } \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

= ₹ 59,300 x (55,000/ 63,000) = ₹ 51,770 (rounded off)

**Working Notes:**

1. **Calculation of Adjusted Purchases**

| | ₹ |
|---|---|
| Purchases | 2,92,000 |
| *Less:* Purchase of Machinery | (10,000) |
| *Less*: Free samples | (2,000) |
| Adjusted purchases | 2,80,000 |

2. **Calculation of Goods with Customers**

Approval for sale has not been received = ₹ 40,000 X 1/4 = ₹ 10,000.

Hence, these should be valued at cost i.e. (₹ 10,000 – 20% of ₹ 10,000) = ₹ 8,000

**3. Calculation of Actual Sales**

| | |
|---|---|
| Total Sales | ₹ 4,12,300 |
| *Less:* Approval for sale not received (1/4 X ₹ 40,000) | ₹ 10,000 |
| Actual Sales | ₹4,02,300 |

**4. Calculation of Wages**

| | |
|---|---|
| Total Wages | ₹ 53,000 |
| *Less:* Wages for installation of machinery | ₹ 3,000 |
| | ₹ 50,000 |

**5. Value of Opening Stock**

Original cost of stock as on 31st March,2017

= ₹ 63,000 + ₹1,000 (Amount written off)

= ₹ 64,000.

**(b)** **Books of Martin Ltd.**

**General Ledger Adjustment Account in Debtors' Ledger**

| | | | ₹ | | | | ₹ |
|---|---|---|---|---|---|---|---|
| 1.3.17 | To Balance b/d | | 12,600 | 1.3.17 | By Balance b/d | | 4,36,200 |
| 1.3.17 to 31.3.17 | To Debtor's ledger adjustment account: | | | 1.3.17 to 31.3.17 | By Debtors ledger adjustment account: | | |
| | Bank/Cash | 16,55,000 | | | Sales (on credit) | 15,50,000 | |
| | Discount | 1,500 | | | Interest | 3,500 | |
| | Bills receivable | 98,000 | | | Bills receivable dishonoured | 6,000 | |
| | Sales returns | 40,000 | 17,94,500 | | Noting charges on | | |
| 31.3.17 | To Balance c/d (bal. fig.) | | 2,04,300 | | Bill receivable dishonoured | 300 | 15,59,800 |
| | | | | 31.3.17 | By Balance c/d | | 15,400 |
| | | | 20,11,400 | | | | 20,11,400 |

**Note:**

1. No entry will be made in the above account for cash sales.
2. Bad debts of the year 2015-16 recovered in 2016-17 will not appear in the General Ledger Adjustment account in the Debtors Ledger. It will be credited to profit & loss account.
3. Bills receivables endorsed to the supplier will not be shown in the General Ledger Adjustment account because at the time of endorsement, Supplier's account will be debited and Bills receivable account will be credited.

**Question 4**

*Following is the summary of Receipts and Payments of Radix Clinic for the year ended 31st March, 2017:*

| | ₹ |
|---|---:|
| *Opening Cash Balance* | *56,000* |
| *Donation Received (including ₹ 50,000 for Building Fund.)* | *1,55,000* |
| *Payment to creditors for Medicines Supply* | *2,10,000* |
| *Salaries* | *70,000* |
| *Purchase of Medical Equipments* | *1,05,000* |
| *Medical Camp Collections* | *87,500* |
| *Subscription Received* | *3,50,000* |
| *Interest on Investments @9% p.a.* | *63,000* |
| *Honorarium to Doctors* | *1,90,000* |
| *Telephone Expenses* | *6,000* |
| *Medical camp expenses* | *10,500* |
| *Miscellaneous expenses* | *7,000* |

***Addition information:***

| *Sl. No.* | | *01.04.2016* ₹ | *31.03.2017* ₹ |
|---|---|---:|---:|
| *1.* | *Subscription Due* | *10,500* | *15,400* |
| *2.* | *Subscription Received in Advance* | *8,400* | *4,900* |
| *3.* | *Stock of Medicine* | *70,000* | *1,05,000* |
| *4.* | *Medical Equipments* | *1,47,000* | *2,14,200* |
| *5.* | *Building* | *3,50,000* | *3,15,000* |
| *6.* | *Creditor for Medicine Supply* | *63,000* | *91,000* |
| *7.* | *Investments* | *7,00,000* | *7,00,000* |

*You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31st March, 2017 and the Balance Sheet as on 31st March, 2017.*

***(16 Marks)***

**Answer**

**Receipts and Payments Account of Radix Clinic**

**for the year ended 31.3.2017**

| ***Receipts*** | **₹** | ***Payments*** | **₹** |
|---|---|---|---|
| To Cash in hand (opening) | 56,000 | By Medicine supply | 2,10,000 |
| To Subscription | 3,50,000 | By Honorarium to doctors | 1,90,000 |
| To Donation | 1,55,000 | By Salaries | 70,000 |
| To Interest on investment | 63,000 | By Misc. expenses | 7,000 |
| To Medical camp collections | 87,500 | By Purchase of equipment | 1,05,000 |
| | | By Telephone expenses | 6,000 |
| | | By Medical camp expenses | 10,500 |
| | | By Cash in hand (closing) | 1,13,000 |
| | 7,11,500 | | 7,11,500 |

**Income and Expenditure Account of Radix Clinic**

**for the year ended 31.3.2017**

| ***Expenditure*** | | **₹** | ***Income*** | | **₹** |
|---|---|---|---|---|---|
| To Medicine consumed | | 2,03,000 | By Subscription | | 3,58,400 |
| To Honorarium to doctors | | 1,90,000 | By Donation | | 1,05,000 |
| To Salaries | | 70,000 | By Interest on investments | | 63,000 |
| To Telephone expenses | | 6,000 | By Profit on Medical camp: | | |
| To Misc. expenses | | 7,000 | Collections | 87,500 | |
| To Depreciation on: | | | *Less:* Expenses | (10,500) | 77,000 |
| Medical equipment | 37,800 | | | | |
| Building | | | | | |
| (3,50,000 -3,15,000) | 35,000 | 72,800 | | | |
| To Surplus-excess of income over expenditure | | 54,600 | | | |
| | | 6,03,400 | | | 6,03,400 |

**Balance Sheet of Radix Clinic**

**as on 31.3.2017**

| *Liabilities* | ₹ | ₹ | *Assets* | ₹ | ₹ |
|---|---|---|---|---|---|
| Capital fund: | | | Building | 3,50,000 | |
| Opening balance | 12,62,100 | | *Less:* Depreciation | (35,000) | 3,15,000 |
| *Add:* Surplus | 54,600 | 13,16,700 | Medical Equipment | 1,47,000 | |
| Building Fund | | 50,000 | *Add:* Purchase | 1,05,000 | |
| | | | | 2,52,000 | |
| Subscription received in advance | | 4,900 | *Less:* Depreciation | (37,800) | 2,14,200 |
| Creditors for medicine supply | | 91,000 | Stock of medicine | | 1,05,000 |
| | | | Investments | | 7,00,000 |
| | | | Subscription receivable | | 15,400 |
| | | | Cash in hand | | 1,13,000 |
| | | 14,62,600 | | | 14,62,600 |

**Working Notes:**

| | | | ₹ |
|---|---|---|---|
| **1.** | **Subscription for the year ended 31.3.2017** | | |
| | Subscription received during the year | | 3,50,000 |
| | *Less:* Subscription receivable on 1.4.2016 | 10,500 | |
| | *Less:* Subscription received in advance on 31.3.2017 | 4,900 | (15,400) |
| | | | 3,34,600 |
| | *Add:* Subscription receivable on 31.3.2017 | 15,400 | |
| | *Add:* Subscription received in advance on 1.4.2016 | 8,400 | 23,800 |
| | | | 3,58,400 |
| **2.** | **Purchase of medicine** | | |
| | Payment for medicine supply | | 2,10,000 |
| | *Less:* Amounts due for medicine supply on 1.4.2016 | | (63,000) |
| | | | 1,47,000 |
| | *Add:* Amounts due for medicine supply on 31.3.2017 | | 91,000 |
| | | | 2,38,000 |

| | | | |
|---|---|---|---|
| **3.** | **Medicine consumed** | | |
| | Stock of medicine on 1.4.2016 | | 70,000 |
| | *Add:* Purchase of medicine during the year | | 2,38,000 |
| | | | 3,08,000 |
| | *Less:* Stock of medicine on 31.3.17 | | (1,05,000) |
| | | | 2,03,000 |
| **4.** | **Depreciation on equipment** | | |
| | Value of equipment on 1.4.2016 | | 1,47,000 |
| | *Add:* Purchase of equipment during the year | | 1,05,000 |
| | | | 2,52,000 |
| | *Less:* Value of equipment on 31.3.17 | | (2,14,200) |
| | Depreciation on equipment for the year | | 37,800 |

**Balance Sheet of Radix clinic**

**as on 31.3.2016**

| ***Liabilities*** | **₹** | **Assets** | **₹** |
|---|---|---|---|
| Capital fund (balancing figure) | 12,62,100 | Building | 3,50,000 |
| Subscription received in advance | 8,400 | Medical Equipment | 1,47,000 |
| Creditors for medicine supply | 63,000 | Stock of medicine | 70,000 |
| | | Investments | 7,00,000 |
| | | Subscription receivable | 10,500 |
| | | Cash in hand | 56,000 |
| | 13,33,500 | | 13,33,500 |

## Question 5

*(a) The Balance Sheet of Harry Ltd. for the year ending 31st March, 2017 and 31st March, 2016 were summarised as:*

| | ***2017*** ***₹*** | ***2016*** ***₹*** |
|---|---|---|
| *Equity share capital* | *1,20,000* | *1,00,000* |
| *Reserves:* | | |
| *Profit and Loss Account* | *9,000* | *8,000* |
| *Current Liabilities:* | | |
| *Trade Payables* | *8,000* | *5,000* |

| | | |
|---|---|---|
| *Income tax payable* | *3,000* | *2,000* |
| *Proposed Dividends* | *4,000* | *2,000* |
| | *1,44,000* | *1,17,000* |
| *Fixed Assets (at W.D.V)* | | |
| *Building* | *19,000* | *20,000* |
| *Furniture & Fixture* | *34,000* | *22,000* |
| *Cars* | *25,000* | *16,000* |
| *Long Term Investments* | *32,000* | *28,000* |
| *Current Assets:* | | |
| *Inventory* | *14,000* | *8,000* |
| *Trade Receivables* | *8,000* | *6,000* |
| *Cash & Bank* | *12,000* | *17,000* |
| | *1,44,000* | *1,17,000* |

*The Profit and Loss account for the year ended 31st March, 2017 disclosed:*

| | ₹ |
|---|---|
| *Profit before tax* | *8,000* |
| *Income Tax* | *(3,000)* |
| *Profit after tax* | *5,000* |
| *Proposed Dividends* | *(4,000)* |
| *Retained Profit* | *1,000* |

*Further Information is available:*

1. *Depreciation on Building ₹ 1,000*
2. *Depreciation on Furniture & Fixtures for the year ₹ 2,000*
3. *Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.*
4. *Purchase investments for ₹ 6,000.*
5. *Sold investments for ₹ 10,000, these investments cost ₹ 2,000.*

*Prepare Cash Flow Statements as per AS-3 (revised) using indirect method.* ***(12 Marks)***

*(b) Explain the special features of hire purchase agreement.* ***(4 Marks)***

**Answer**

**(a)**

**Harry Ltd.**
**Cash Flow Statement**
**for the year ended 31st March, 2017**

| | *(₹)* | *(₹)* |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net Profit before taxation | 8,000 | |
| Adjustments for: | | |
| Depreciation ₹ (1,000 + 2,000 +5,000) | 8,000 | |
| Profit on sale of Investment | (8,000) | |
| Profit on sale of car | (1,400) | |
| Operating profit before working capital changes | 6,600 | |
| Increase in Trade receivables | (2,000) | |
| Increase in inventories | (6,000) | |
| Increase in Trade payables | 3,000 | |
| Cash generated from operations | 1,600 | |
| Income taxes paid | (2,000) | |
| *Net cash generated from operating activities (A)* | | (400) |
| **Cash flows from investing activities** | | |
| Sale of car | 3,400 | |
| Purchase of car | (16,000) | |
| Sale of Investment | 10,000 | |
| Purchase of Investment | (6,000) | |
| Purchase of Furniture & fixtures | (14,000) | |
| *Net cash used in investing activities (B)* | | (22,600) |
| **Cash flows from financing activities** | | |
| Issue of shares for cash | 20,000 | |
| Dividends paid* | (2,000) | |
| *Net cash from financing activities(C)* | | 18,000 |
| Net decrease in cash and cash equivalents (A + B +C) | | (5,000) |
| Cash and cash equivalents at beginning of period | | 17,000 |
| Cash and cash equivalents at end of period | | 12,000 |

** Dividend proposed for the year ended 31st March, 2016 amounting ₹ 2,000 must have been declared and paid in the year 2016-17. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2016-17.*

**Working Notes:**

**1. Calculation of Income taxes paid**

| | ₹ |
|---|---:|
| Income tax expense for the year | 3,000 |
| *Add:* Income tax liability at the beginning of the year | 2,000 |
| | 5,000 |
| *Less:* Income tax liability at the end of the year | (3,000) |
| | 2,000 |

**2. Calculation of Fixed assets acquisitions**

| | Furniture & Fixtures (₹) | Car (₹) |
|---|---:|---:|
| W.D.V. at 31.3.2017 | 34,000 | 25,000 |
| *Add back:* Depreciation for the year | 2,000 | 5,000 |
| Disposals | — | 2,000 |
| | 36,000 | 32,000 |
| *Less:* W.D.V. at 31. 3. 2016 | (22,000) | (16,000) |
| Acquisitions during 2016-2017 | 14,000 | 16,000 |

**(b) Special features of Hire Purchase Agreement**

1. ***Possession:*** The hire vendor transfers possession of the goods to the hire purchaser immediately after the contract for hire purchase is made.
2. ***Instalments:*** The goods are delivered by the hire vendor on the condition that a hire purchaser should pay the amount in periodical instalments.
3. ***Down Payment:*** The hire purchaser generally makes a down payment i.e an amount on signing the agreement.
4. ***Constituents of Hire purchase instalments:*** Each instalment consists partly of a finance charge (interest) and partly of a capital payment.
5. ***Ownership:*** The property in goods is to pass to the hire purchaser on the payment of the last instalment and exercising the option conferred upon him under the agreement.
6. ***Repossession:*** In case of default in respect of payment of even the last instalment, the hire vendor has the right to take the goods back without making any compensation

**Question 6**

*A and B were partners of a firm sharing profits and losses in the ratio 2:1. The Balance Sheet of the firm as at 31st March, 2017 was as under:*

| *Liabilities* | *Amount (₹)* | *Assets* | *Amount (₹)* |
|---|---|---|---|
| *Capital Accounts* | | *Plant and Machinery* | *5,00,000* |
| *A* | *8,00,000* | *Building* | *9,00,000* |
| *B* | *4,00,000* | *Sundry Debtors* | *2,50,000* |
| *Reserves* | *5,25,000* | *Stock* | *3,00,000* |
| *Sundry Creditors* | *2,75,000* | *Cash* | *1,50,000* |
| *Bills Payable* | *1,00,000* | | |
| | *21,00,000* | | *21,00,000* |

*They agreed to admit P and Q into the partnership on the following terms:*

(i) *The firm's goodwill to be valued at 2 years' purchase of the weighted average of the profits of the last 3 years. The relevant figures are:*

*Year ended 31.3.2014 - Profit ₹ 37,000*

*Year ended 31.3.2015 - Profit ₹ 40,000*

*Year ended 31.3.2016 - Profit ₹ 45,000*

(ii) *The value of the stock and Plant & Machinery were to be reduced by 10%.*

(iii) *Building was to be valued at ₹ 10,11,000.*

(iv) *There was an unrecorded liability of ₹ 10,000.*

(v) *A, B, P & Q agreed to share profits and losses in the ratio 3:2:1:1.*

(vi) *The value of reserve, the values of liabilities and the values of assets other than cash were not to be altered.*

(vii) *P and Q were to bring Capitals equal to their shares of profit considering B' s Capital as base after all adjustments.*

*You are required to prepare:*

(1) *Memorandum Revaluation Account,*

(2) *Partner's Capital Accounts and*

(3) *The Balance Sheet of the newly constructed firm.* ***(16 Marks)***

**Answer**

**Memorandum Revaluation Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Stock | 30,000 | By Building | 1,11,000 |
| To Plant & machinery | 50,000 | | |
| To Unrecorded liability | 10,000 | | |
| To Profit transferred to Partners' Capital A/cs (in old ratio) | | | |
| A = 14,000 | | | |
| B = 7,000 | 21,000 | | |
| | 1,11,000 | | 1,11,000 |
| To Building | 1,11,000 | By Stock | 30,000 |
| | | By Plant & machinery | 50,000 |
| | | By Unrecorded liability | 10,000 |
| | | By Loss transferred to Partners' Capital A/cs (in new ratio) | |
| | | A = 9,000 | |
| | | B = 6,000 | |
| | | P = 3,000 | |
| | | Q = 3,000 | 21,000 |
| | 1,11,000 | | 1,11,000 |

**Partners' Capital Accounts**

| | A | B | P | Q | | A | B | P | Q |
|---|---|---|---|---|---|---|---|---|---|
| To Memorandum Revaluation | 9,000 | 6,000 | 3,000 | 3,000 | By Balance b/d | 8,00,000 | 4,00,000 | - | - |
| To Reserves | 2,25,000 | 1,50,000 | 75,000 | 75,000 | By Memorandum Revaluation A/c | 14,000 | 7,000 | | |
| To A&B (W.N.2) | - | - | 12,000 | 12,000 | By Reserves | 3,50,000 | 1,75,000 | - | - |
| To Balance c/d (Refer W.N.3) | 9,50,000 | 4,30,000 | 2,15,000 | 2,15,000 | By P&Q (W.N.2) | 20,000 | 4,000 | - | |
| | | | | | By Cash (Bal. Fig.) | - | - | 3,05,000 | 3,05,000 |
| | 11,84,000 | 5,86,000 | 3,05,000 | 3,05,000 | | 11,84,000 | 5,86,000 | 3,05,000 | 3,05,000 |

**Balance Sheet of newly reconstituted firm as on 31.3.2017**

| ***Liabilities*** | | ***₹*** | ***Assets*** | ***₹*** |
|---|---|---|---|---|
| Capital Accounts | | | Plant & Machinery | 5,00,000 |
| A | 9,50,000 | | Building | 9,00,000 |
| B | 4,30,000 | | Sundry Debtors | 2,50,000 |
| P | 2,15,000 | | Stock | 3,00,000 |
| Q | 2,15,000 | 18,10,000 | Cash | 7,60,000 |
| Reserve | | 5,25,000 | (1,50,000 +3,05,000+3,05,000) | |
| Sundry Creditors | | 2,75,000 | | |
| Bills Payable | | 1,00,000 | | |
| | | 27,10,000 | | 27,10,000 |

**Working Notes:**

1. **Calculation of Goodwill**

*Weighted Average Profit:*

| ***Year*** | ***Profit (₹)*** | ***Weight*** | ***Weighted Profit (₹)*** |
|---|---|---|---|
| 2014 | 37,000 | 1 | 37,000 |
| 2015 | 40,000 | 2 | 80,000 |
| 2016 | 45,000 | 3 | 1,35,000 |
| | | 6 | 2,52,000 |

Weighted Average Profit = ₹ 2,52,000/6= ₹ 42,000

Goodwill is valued at 2 year's purchase

Value of Goodwill: ₹ 42,000 × 2 = ₹ 84,000

2. (a) **Profit sacrificing Ratio**

| ***Particulars*** | ***Old Shares*** | ***New Shares*** | ***Share sacrificed*** | ***Share gained*** |
|---|---|---|---|---|
| A | 2/3 | 3/7 | 5/21 | - |
| B | 1/3 | 2/7 | 1/21 | - |
| P | - | 1/7 | - | 1/7 |
| Q | - | 1/7 | - | 1/7 |

**(b) Adjustment for goodwill**

| *Partners* | *Goodwill as per old ratio* | *Goodwill as per new ratio* | *Effect* | |
|---|---|---|---|---|
| A | 56,000 | 36,000 | + 20,000 | - |
| B | 28,000 | 24,000 | + 4,000 | - |
| P | | 12,000 | | 12,000 |
| Q | - | 12,000 | - | 12,000 |
| | 84,000 | 84,000 | 24,000 | 24,000 |

**Journal Entry**

| | | ₹ | ₹ |
|---|---|---|---|
| P's Capital A/c | Dr. | 12,000 | |
| Q's Capital A/c | Dr. | 12,000 | |
| To A's Capital A/c | | | 20,000 |
| To B's Capital A/c | | | 4,000 |

**3. Calculation of closing capitals of P and Q**

B's capital is taken as base. Closing capital of B after all adjustments is ₹ 4,30,000.

Total capital of firm will be= ₹ 4,30,000 x7/2 = ₹ 15,05,000

Hence, P's and Q's closing capital should be ₹ 2,15,000 (15,05,000 x 1/7) each i.e. at par with B (as per new profit and loss sharing ratio)

**Question 7**

*Answer any **four**:*

*(a) ERP (Enterprise Resource Planning) package is gaining popularity in big organisations. Briefly explain the advantages and disadvantages of using an ERP Package.*

*(b) The following transactions took place between Abhik and Dipak during 1st January, 2017 to 31st March, 2017:*

| *Date* | | *₹* |
|---|---|---|
| *1.1.2017* | *Balance due to Abhik by Dipak* | *2,16,000* |
| *15.1.2017* | *Goods sold by Dipak to Abhik* | *3,50,000* |
| *15.2.2017* | *Cash paid by Abhik to Dipak* | *1,00,000* |
| *15.3.2017* | *Goods sold by Abhik to Dipak* | *2,00,000* |

*Draw up an Account Current upto 31.3.2017 to be rendered by Abhik to Dipak, by means of Product Method, charging interest at 9% per annum. Interest to be calculated to the nearest rupee.*

(c) *Mr. Aman is running a business of readymade garments. He does not maintain his books of accounts under double entry system. While assessing the income of Mr. Aman for the financial year 2016-17, Income Tax Officer feels that he has not disclosed the full income earned by him from his business. He provides you the following information :*

| | |
|---|---|
| *On 31st March, 2016* | |
| *Sundry Assets* | *₹ 16,65,000* |
| *Liabilities* | *₹ 4,13,000* |
| *On 31st March, 2017* | |
| *Sundry Assets* | *₹ 28,40,000* |
| *Liabilities* | *₹ 5,80,000* |
| *Mr. Aman's drawings for the year 2016-17* | *₹ 32,000 per month* |
| *Income declared to the Income Tax Officer* | *₹ 9,12,000* |

*During the year 2016-17, one life insurance policy of Mr. Aman was matured and amount received ₹ 50,000 was retained in the business.*

*State whether the Income Tax Officer's contention is correct. Explain by giving your working.*

(d) *A Ltd. decides to absorb B Ltd. The draft Balance Sheet of B Limited is as follows:*

| | ₹ |
|---|---|
| ***Liabilities*** | |
| *Share Capital:* | |
| *5,000 9% Preference shares of ₹ 100 each (Fully paid up)* | *5,00,000* |
| *12,500 Equity shares of ₹ 100 each (Fully paid up)* | *12,50,000* |
| *Reserves* | *7,50,000* |
| *6% Debentures* | *5,00,000* |
| *Trade payables* | *2,50,000* |
| *Total* | *32,50,000* |
| ***Assets*** | |
| *Sundry Assets* | *32,50,000* |
| *Total* | *32,50,000* |

*A Ltd. has agreed:*

*(i) To pay ₹ 20 per share in cash to equity shareholders of B Ltd. and will issue six equity shares of ₹ 100 each (Market value ₹ 125) in lieu of every five equity shares held in B Ltd.*

*(ii) To issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of A Ltd. for 4 Preference shares in B Ltd.*

*(iii) To issue 8% debentures at ₹ 96 in lieu of 6% debentures in B Ltd. which are to be redeemed at a premium of 20%.*

*You are required to calculate the purchase consideration.*

*(e) What is self-balancing system? How certain accounts can be kept secret from the members of the staff, in this system?* ***(4x 4 Marks = 16 Marks)***

**Answer**

**(a)** An ERP is an integrated software package that manages the business process across the entire enterprise.

**Advantages of using an ERP**

The advantages of using an ERP for maintaining accounts are as follows:

1. **Standardized processes and procedures:** An ERP is a generalized package which covers most of the common functionalities of any specific module.
2. **Standardized reporting:** Majority of the desired reports are available in an ERP package. These reports are standardized across industry and are generally acceptable to the users.
3. **Duplication of data entry** is avoided as it is an integrated package.
4. **Greater information** is available through the package.

**Disadvantages of an ERP**

The disadvantages of an ERP are the following:

1. **Lesser flexibility:** The user may have to modify their business procedure at times to be able to effectively use the ERP.
2. **Implementation hurdles:** Many of the consultants doing the implementation of the ERP may not be able to fully appreciate the business procedure to be able to do a good implementation of an ERP.
3. **Very expensive:** ERP are normally priced at an amount which is often beyond the reach of small and medium sized organization. However, there are some ERP

coming into the market which are moderately priced and may be useful to the small businesses.

4. **Complexity of the software:** Generally, an ERP package has large number of options to choose from. Further the parameter settings and configuration makes it a little complex for the common users.

**(b)** **In the books of Abhik**

**Dipak in Account Current with Abhik for 1.1.2017 to 31.3.2017**

(interest to 31st March,2017@ 9%p.a.)

| *Date* | *Particulars* | *₹* | *Days* | *Product (₹)* | *Date* | *Particulars* | *₹* | *Days* | *Product (₹)* |
|---|---|---|---|---|---|---|---|---|---|
| 01.01.17 | To Bal. b/d | 2,16,000 | 90 | 1,94,40,000 | 15.1.17 | By Purchase | 3,50,000 | 75 | 2,62,50,000 |
| 15.2.17 | To Cash | 1,00,000 | 44 | 44,00,000 | 31.3.17 | By Balance of Products | | | 7,90,000 |
| 15.3.17 | To Sales | 2,00,000 | 16 | 32,00,000 | 31.3.17 | By Bal. c/d | 1,66,195 | | - |
| 31.3.17 | To Interest | 195 | | | | | | | |
| | | 5,16,195 | | 2,70,40,000 | | | 5,16,195 | | 2,70,40,000 |

Interest $= ₹\ 7{,}90{,}000 \times \frac{9}{100} \times \frac{1}{365} = ₹\ 195$ (Rounded off)

**(c) Determination of Capital balances of Mr. Aman on 31.3.2016 and 31.3.2017**

| | ***31.3.2016*** | ***31.3.2017*** |
|---|---|---|
| | **₹** | **₹** |
| *Assets* | 16,65,000 | 28,40,000 |
| *Less: Liabilities* | (4,13,000) | (5,80,000) |
| Capital | 12,52,000 | 22,60,000 |

**Determination of Profit by applying the method of the capital comparison**

| | ₹ |
|---|---|
| Capital Balance as on 31-3-2017 | 22,60,000 |
| *Less*: Fresh capital introduced (matured life insurance policy amount) | (50,000) |
| | 22,10,000 |
| *Add*: Drawings (₹ 32,000 × 12) | 3,84,000 |
| | 25,94,000 |
| *Less*: Capital Balance as on 1.4.2016 | (12,52,000) |

| | |
|---|---|
| Profit | 13,42,000 |
| Income declared | 9,12,000 |
| Suppressed Income | 4,30,000 |

The Income-tax officer's contention that Mr. Aman has not declared his true income is correct. Mr. Aman's true income is in excess of the disclosed income by ₹ 4,30,000.

***Note:***

- Closing capital is increased due to fresh capital introduction, so it is deducted.
- Closing capital was reduced due to withdrawal by proprietor; so it is added back.

**(d)** According to AS 14, 'consideration' for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Therefore, debentures issued to the debenture holders will not be included in purchase consideration.

**Purchase consideration**

| | ₹ | *Form* |
|---|---|---|
| Preference shareholders : 5,000 × 3/4 × 100 | 3,75,000 | 9% Pref. shares |
| Equity shareholders: 12,500 × ₹ 20 | 2,50,000 | Cash |
| 12,500 × 6/5 × 125 | 18,75,000 | Equity shares |
| Total Purchase Consideration | 25,00,000 | |

**(e)** A self-balancing ledger system implies a system of ledger keeping which classifies ledgers as per nature of transactions namely Sales Ledger, Bought Ledger, General Ledger etc. and also make them to balance independently. In order to make each ledger self-balancing, an extra account called General Ledger Adjustment Account is opened in each of the sales ledger and bought ledger. The correctness of individual balances in each ledger would be verified by extracting its balances and agreeing them with the balance of the Control Accounts. Against these ledger adjustment accounts, two other adjustment accounts are maintained in the general ledger to complete journal entry.

If certain accounts are desired to be keep secret from members of the staff, the accounts would be segregated into a Private Ledger and posting will be made in the ledger by a confidential clerk, under the direct supervision of the Chief Accountant. Also, a General Ledger Adjustment Account will be set up in the Private Ledger and a Private Ledger Adjustment Account in the General Ledger. In this way, though the individual entries in the accounts kept in the Private Ledger will be revealed to the accounting staff, their total effect will be kept secret.