PAPER – 1 : ACCOUNTING

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

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

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *The closing stock of finished goods at cost of a company amounted to ₹ 4,50,000. The following items were included at cost in the total:*

(a) *100 coats, which had cost ₹ 2,200 each and normally sold for ₹ 4,000 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50% of their normal selling price.*

(b) *200 skirts, which had cost ₹ 50 each. These too were found to be defective. Remedial work in April cost ₹ 2 per skirt, and selling expenses for the batch totaled ₹ 200. They were sold for ₹ 55 each.*

(c) *Shirts which had cost ₹ 50,000, their net realizable value at Balance sheet date was ₹ 55,000. Commission @ 10% on sales is payable to agents.*

What should the inventory value be according to AS 2 after considering the above items?

(b) *Classify the following activities as (a) Operating activities, (b) Investing activities (c) Financing activities (d) Cash equivalents with reference to AS 3 (Revised).*

(a) *Brokerage paid on purchase of investments*

(b) *Underwriting commission paid*

(c) *Trading commission received*

(d) *Proceeds from sale of investment*

(e) *Purchase of goodwill*

(f) *Redemption of preference shares*

(g) *Rent received from property held as investment*

(h) *Interest paid on long-term borrowings*

(i) *Marketable securities*

(j) *Refund of income tax received*

(c) *In the year 2017-18, an entity has acquired a new freehold building with a useful life of 25 years for ₹45,00,000. The entity desires to calculate the depreciation charge per annum using a straight line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows :*

Component	*Useful life (Years)*	*Cost (₹)*
Land	*Infinite*	*10,00,000*
Roof	*25*	*5,00,000*
Lifts	*10*	*2,50,000*
Fixtures	*5*	*2,50,000*
Remainder of building	*25*	*25,00,000*
		45,00,000

(i) *Calculate depreciation for the year 2017-18 as per componentization method.*

(ii) *Also state the treatment, in case Roof requires replacement at the end of its useful life.*

(d) *Mother Mart Ltd., wants to re-classify its investment in accordance with AS 13. Decide the treatment to be given in each of the following cases assuming that the market value has been determined in an arm's length transaction between knowledgeable and willing buyer and seller:*

(i) *A portion of current investments purchased for ₹25 lakhs to be reclassified as long-term investments, as the company has decided to retain them. The market value as on the date of balance sheet was ₹30 lakhs.*

(ii) *Another portion of current investments purchased for ₹ 20 lakhs has to be re-classified as long-term investments. The market value of these investments as on the date of the balance sheet was ₹12.5 lakhs.*

(iii) *One portion of long-term investments, no longer considered for holding purposes, to be reclassified as current investments. The original cost of these was ₹15 lakhs, but had been written down to ₹ 11 lakhs to recognize permanent decline as per AS 13.* ***(5 Marks x 4 Parts = 20 Marks)***

Answer

(a) Valuation of closing stock

	₹
Closing stock at cost	4,50,000
Less: Adjustment for 100 coats (Working Note 1)	(20,000)
Value of inventory	4,30,000

Working Notes:

1. Adjustment for Coats

	₹
Cost included in Closing Stock	2,20,000
NRV of Coats	2,00,000
Adjustment to be made as NRV is less than Cost	20,000

2. No adjustment required for skirts and shirts as their NRV is more than their cost which was included in value of inventory.

(b)

a.	Brokerage paid on purchased of investments	Investing Activities
b.	Underwriting Commission paid	Financing Activities
c.	Trading Commission received	Operating Activities
d.	Proceeds from sale of investment	Investing Activities
e.	Purchase of goodwill	Investing Activities
f.	Redemption of Preference shares	Financing Activities
g.	Rent received from property held as investment	Investing Activities
h.	Interest paid on long term borrowings	Financing Activities
i.	Marketable securities	Cash equivalent
j.	Refund of Income tax received	Operating activities

(c) (i) Statement showing amount of depreciation as per Componentization Method

Component	Depreciation = Cost / Useful life	Depreciation (Per annum) (₹)
Land	-	Nil
Roof	5,00,000/25	20,000
Lifts	2,50,000/10	25,000
Fixtures	2,50,000/5	50,000
Remainder of Building	25,00,000/25	1,00,000
		1,95,000

(ii) When the roof requires replacement at the end of its useful life, the carrying amount will be Nil. The cost of replacing the roof should be recognised as a new component.

(d) As per AS 13 'Accounting for Investments', 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.

When long-term investments are re-classified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

(i) In the first case, the market value of the investments is ₹ 30 lakhs*, which is higher than its cost i.e. ₹ 25 lakhs. Therefore, the transfer to long term investments should be made at cost i.e. ₹ 25 lakhs

(ii) In the second case, the market value of the investment is ₹ 12.5 lakhs*, which is lower than its cost i.e. ₹ 20 lakhs. Therefore, the transfer to long term investments should be made in the books at the market value i.e. ₹ 12.5 lakhs. The loss of ₹ 7.50 lakhs (20-12.5) should be charged to Profit and Loss account.

(iii) In the third case, the book value of the investments is ₹ 11 lakhs, which is lower than its cost, i.e. ₹ 15 lakhs. As the transfer should be at carrying amount, hence this re-classified current investment should be carried at ₹ 11 lakhs.

Question 2

Following is the trial balance of ABC Limited as on 31.3.2018.

(Figures in ₹ 000)

Particulars	*Debit*	*Particulars*	*Credit*
Land at cost	*800*	*Equity capital (shares of ₹ 10 each)*	*500*
Calls in arrears	*5*	*10% Debentures*	*300*
Cash in hand	*2*	*General reserve*	*150*
Plant & Machinery at cost	*824*	*Profit & Loss A/c (F.Y. 2016-17)*	*75*
Trade receivables	*120*	*Securities premium*	*40*
Inventories (31-3-18)	*96*	*Sales*	*1200*
Cash at Bank	*28*	*Trade payables*	*30*
Adjusted Purchases	*400*	*Provision for depreciation*	*150*
Factory expenses	*80*	*Suspense Account*	*10*
Administrative expenses	*45*		
Selling expenses	*25*		
Debenture Interest	*30*		
	2455		*2455*

* It has been considered that the fair value of the investments on the date of transfer is same as the market value on the balance sheet date.

Additional Information :

(i) The authorized share capital of the company is 80,000 shares of ₹10 each.

(ii) The company revalued the land at ₹9,60,000.

(iii) Equity capital includes shares of ₹50,000 issued for consideration other than cash.

(iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2017. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹20,000.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Balance at bank includes ₹5,000 with Abhay Bank Ltd., which is not a Scheduled Bank.

You are required to prepare ABC Limited's Balance Sheet as on 31.3.2018 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2018 as per Schedule III. Ignore previous year's figures & taxation. ***(16 Marks)***

Answer

ABC Limited

Balance Sheet as at 31st March 2018

Particulars	Note No.	(₹ in '000)
A. Equity and Liabilities		
1. Shareholder's funds		
(a) Share Capital	1	495.00
(b) Reserves and Surplus	2	971.00
2. Non-Current Liabilities		
(a) Long Term Borrowings	3	300.00
3. Current Liabilities		
(a) Trade Payables		30.00
Total		1,796.00
B. Assets		
1. Non-Current Assets		
(a) Property, Plant and Equipment		
Tangible Assets – Machinery	4	1,550.00
2. Current Assets		
(a) Inventories		96.00
(b) Trade Receivables		120.00
(c) Cash and Cash equivalents	5	30.00
Total		1,796.00

ABC Limited

Statement of Profit and Loss for the year ended 31st March 2018

	Particulars	Note No.	(₹ in '000)
I.	Revenue from Operations		1200.00
II.	Other Income	6	6.00
III.	Total Revenue		1,206.00
IV.	Expenses:		
	Purchases		400.00
	Finance Costs	7	30.00
	Depreciation (10% of 800)		80.00
	Other expenses	8	150.00
	Total Expenses		660.00
V.	Profit / (Loss) for the period (III – IV)		546.00

Notes to Accounts

	Particulars		(₹ in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium Account		40
	General Reserve		150
	Profit & Loss Balance		
	Opening Balance	75	
	Add: Profit for the period	546	621
	Revaluation Reserve ₹ (960 – 800)		160
			971

3	Long-Term Borrowings		
	10% Debentures		300
4	Tangible Assets		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less: Disposed off	(24)	
		800	
	Less: Depreciation ₹ (150 – 20 + 80)	(210)	
	Closing Balance		590
	Total		1,550
5	Cash and Cash Equivalents		
	Cash at Bank		
	With scheduled banks	23	
	With others (Abhay Bank Limited)	5	
	Cash in hand	2	30
6	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less: Book value of machinery (24 – 20)	(4)	6
7	Finance Costs		
	Debenture Interest		30
8	Other Expenses:		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

Question 3

(a) *M/s New Venture, who was carrying on business from 1st June, 2017 gets itself incorporated as a company on 1st October, 2017. The first accounts are drawn upto 31st March 2018. The gross profit for the period is ₹ 1,20,000.*

Following information is given :

(a) General Expenses are ₹ 24,000.

(b) Director's Fees is ₹ 24,000 p.a.

(c) Incorporation Expenses ₹ 4,000.

(d) Rent upto 31st December, 2017 was ₹ 6,000 p.a., after which it was increased to ₹ 8,000 p.a.

(e) Salary of the Manager, who upon incorporation of the company was made a director, is ₹ 12,000 p.a. His remuneration as director is included in the above figure of fees to the directors.

(f) Advertisement Expenses of ₹ 5,000 pertains to the incorporated company.

(g) Bad debts ₹ 4,000.

Give statement showing pre and post incorporation profit. The net sales are ₹ 20,00,000, the monthly average of which, for the first four months is one-half of that of the remaining period. The company earned a uniform profit. Interest and tax may be ignored. ***(8 Marks)***

(b) Nova Ltd. has furnished the following information for the year ended 31st March, 2018 :

	₹		₹
Cash sales	32,000	Bills receivable dishonoured	3,000
Credit purchases	3,10,000	Sales returns	10,000
Collection from debtors	5,15,000	Payments to creditors	1,85,000
Bills receivable drawn	28,000	Discount allowed	2,000
Discount received	3,000	Debtors cheque returned dishonoured	5,000
Cash purchases	15,000	Credit sales	5,60,000
Bills payable paid	8,000	Bills receivables collected	18,000
Recovery of bad debts	1,000	Purchase returns	4,800
Bills receivable discounted with bank	8,000	Bills receivable endorsed to creditors	5,000
Interest charged on overdue customers accounts	2,000	Overpayments refunded by suppliers	500
Endorsed bills receivable	2,000	Bad debts	2,000
dishonoured (noting charges ₹50)		Opening balances	
(These B/R were endorsed to creditors only)		Sundry Debtors	90,000
Bills payable accepted	20,000	Sundry Creditors	75,000

You are required to prepare the Total Debtors Account and Total Creditors Account. ***(8 Marks)***

Answer

(a)

Particulars	Basis	Pre-incorporation period	Post-incorporation period	Total
		₹	₹	₹
Gross Profit	Sales Ratio	30,000	90,000	1,20,000
Less: General expenses	Time Ratio	9,600	14,400	24,000
Director's fee	Actual	---	12,000	12,000
Incorporation expenses	Actual	---	4,000	4,000
Rent	W.N.2	2,000	3,500	5,500
Manager's salary	Actual	4,000	---	4,000
Advertisement expenses	Post	---	5,000	5,000
Bad Debts	Sales Ratio	1,000	3,000	4,000
Pre-incorporation Profit transferred to Capital Reserve		13,400		
Post-incorporation Profit transferred to P/L Account			48,100	61,500

Working Notes:

1. Calculation of sales ratio

		₹
Let the average monthly sales of first four months	=	100
Next six months	=	200
Total sales of first four months = 100 x 4	=	400
Total sales of next six months = 200 x 6	=	1,200
Ratio of sales = 400 : 1,200	=	1:3

2. Rent

Till 31st December, 2017, rent was ₹ 6,000 p.a., i.e. ₹ 500 p.m.

So, pre-incorporation rent = ₹ 500 x 4 = ₹ 2,000

Post – incorporation rent = (₹ 500 x 3) + (8,000 x 3/12) = ₹ 3,500.

3. Time Ratio

Pre-incorporation period = 1st June, 2017 to 30th Sept, 2017 = 4 months

Post-incorporation = 1st October, 2017 to 31st March, 2018 = 6 months

= 4 months: 6 months

Thus, time ratio is 2:3

(b) In the books of Nova Limited

Total Debtors Account

	₹		₹
To Balance b/d	90,000	By Cash	5,15,000
To Bank (Cheque dishonoured)	5,000	By Discount allowed	2,000
To B/R (Dishonoured)	3,000	By B/R	28,000
To Interest	2,000	By Returns inward	10,000
To Sales	5,60,000	By Bad debts	2,000
To Sundry creditors (Endorsed bill dishonoured with noting charges)	2,050	By Balance c/d	1,05,050
	6,62,050		6,62,050

Total Creditors Account

	₹		₹
To Cash	1,85,000	By Balance b/d	75,000
To B/R (Endorsed)	5,000	By Purchases	3,10,000
To Discount received	3,000	By Sundry debtors (endorsed B/R dishonoured with noting charges)	2,050
To Bills Payable	20,000		
To Return outwards	4,800		
To Balance c/d	1,69,750	By Cash (over payments returned)	500
	3,87,550		3,87,550

Note: Transactions relating to cash sales or purchases; honour of bills receivables or payable; recovery of bad debts and discount or endorsement of bill will not be entered in Total Debtors and Total Creditors A/c

Question 4

The following is the Receipts and Payments Account of Premier Club for the year ended 31st March, 2018.

Receipts	*₹*	*Payments*	*₹*
Opening balance		*Salaries*	*3,00,000*
Cash	*20,000*	*Creditors*	*18,00,000*
Bank	*4,000*	*Printing and Stationery*	*1,00,000*
Subscription received	*3,05,000*	*Postage*	*60,000*

Entrance donation	*1,85,000*	*Telephones and Telex*	*84,000*
Interest received	*72,000*	*Repairs and Maintenance*	*58,000*
Sale of assets	*10,000*	*Glass and table linen*	*20,000*
Miscellaneous income	*5,000*	*Crockery and cutlery*	*20,000*
Receipts at		*Garden upkeep*	*10,000*
Restaurant	*15,00,000*	*Membership fees*	*10,000*
Bar	*2,50,000*	*Insurance*	*15,000*
Swimming pool	*3,10,000*	*Electricity*	*1,10,000*
Health club	*2,40,000*	*Closing balance*	
		Cash	*28,000*
		Bank	*2,86,000*
	29,01,000		*29,01,000*

The assets and liabilities as on 1.4.2017 were as follows:

	₹
Fixed assets (WDV)	*6,00,000*
Stock	*4,00,000*
Investment in 13% Government securities	*6,00,000*
Outstanding subscription	*15,000*
Prepaid insurance	*2,000*
Sundry creditors	*1,25,000*
Subscription received in advance	*20,000*
Gratuity fund	*2,00,000*

The following adjustments are to be made while drawing-up accounts :

(i) Subscription received in advance as on 31st March, 2018 was ₹ 22,000.

(ii) Outstanding subscription as on 31st March, 2018 was ₹ 9,500.

(iii) Outstanding expenses as on 31.3.2018 are salaries ₹ 12,000 and electricity ₹ 18,000.

(iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2018.

(v) The WDV of assets sold as on 1-04-2017 was ₹ 15,000.

(vi) Depreciation is to be provided at the rate of 10% on assets.

(vii) A sum of ₹ 25,000 received in December 2017 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 15.4.2018.

(viii) *Purchases made during the year amounted ₹ 18,00,000.*

(ix) *The value of closing stock was ₹ 2,40,000.*

(x) *The club as a matter of policy, charges off to income and expenditure account, all purchases made on account of crockery, cutlery, glass and linen in the year of purchase.*

(xi) *Repair and maintenance includes ₹ 40,000 of sports material purchased on April 1st, 2017, depreciation to be charged @ 20% p.a., on sports material.*

You are required to prepare an Income and Expenditure Account for the year ended 31st March, 2018 and the Balance Sheet as on 31st March, 2018 along with necessary workings.

(16 Marks)

Answer

Income and Expenditure Account of Premier Club

for the year ended 31st March 2018

Expenditure	₹	Income	₹
To Salaries ₹ (3,00,000 + 12,000)	3,12,000	By Subscription	2,97,500
To Printing and stationery	1,00,000	By Entrance donation	80,000
To Postage	60,000	By Interest	78,000
To Telephone and telex	84,000	By Miscellaneous income	5,000
To Repairs and maintenance (58,000 – 40,000)	18,000	By Profit from operations	3,40,000
To Glass and Table Linen	20,000	By Excess of expenditure over income transferred to capital fund	50,000
To Crockery and Cutlery	20,000		
To Garden upkeep	10,000		
To Membership fees	10,000		
To Insurance (15,000 + 2,000)	17,000		
To Electricity charges (1,10,000 + 18,000)	1,28,000		
To Loss on sale of assets (15,000 – 10,000)	5,000		
To Depreciation:			
Fixed assets	58,500		
Sports materials	8,000		
	8,50,500		8,50,500

Balance Sheet of Premier Club as on 31st March 2018

Liabilities		₹	Assets	₹
Capital Fund:			Fixed assets	5,26,500
Opening balance	12,96,000		Sports materials	32,000
Add: Entrance donation	80,000		Stock	2,40,000
Less: Excess of expenditure			Investments	6,00,000
over income	(50,000)	13,26,000	Subscription outstanding	9,500
			Interest accrued	6,000
Gratuity fund		2,00,000	Bank	2,86,000
Sundry creditors		1,25,000	Cash	28,000
Subscription received in advance		22,000		
Entrance donation refundable		25,000		
Outstanding expenses:				
Salaries payable	12,000			
Electricity charges	18,000	30,000		
		17,28,000		17,28,000

Working Notes:

1. Balance Sheet of Premier Club as on 1st April 2017

Liabilities	₹	Assets	₹
Sundry creditors	1,25,000	Fixed assets	6,00,000
Subscription received in advance	20,000	Stock	4,00,000
		Investments	6,00,000
Gratuity fund	2,00,000	Subscription outstanding	15,000
Capital fund (Balancing figure)	12,96,000	Prepaid Insurance	2,000
		Cash	20,000
		Bank	4,000
	16,41,000		16,41,000

2. Subscription

	₹
Subscription received during the year	3,05,000
Add: Outstanding subscription as on 31.03.2018	9,500
	3,14,500
Add: Received in advance as on 1.04.2017	20,000

	3,34,500
Less: Outstanding subscription as on 1.04.2017	(15,000)
	3,19,500
Less: Received in advance as on 31.03.2018	(22,000)
	2,97,500

3. Profit from Operations

Cost of goods sold:	
Opening stock	4,00,000
Add: Purchases	18,00,000
	22,00,000
Less: Closing Stock	(2,40,000)
Cost of goods sold (A)	19,60,000
Receipts from Operations:	
Receipts from restaurant	15,00,000
Receipts from bar	2,50,000
Receipts from swimming pool	3,10,000
Receipts from health club	2,40,000
Total receipts (B)	23,00,000
Profit from operations (B-A)	3,40,000

4. Entrance Donation

Entrance donation received during the year	1,85,000
Less: Entrance donation in respect of ineligible member	(25,000)
	1,60,000
Less: 50% Capitalised	(80,000)
Taken to Income & Expenditure Account	80,000

5. Interest

Interest on 13% Government security investment (₹6,00,000 @ 13%)	78,000
Less: Interest received during the year	(72,000)
Interest accrued	6,000
Interest credited to Income and Expenditure Account	78,000

6. Sundry Creditors

Opening Balance as on 1.04.2017	1,25,000
Add: Purchases made during the year	18,00,000
	19,25,000

Less: Payments made during the year	(18,00,000)
Closing Balance as on 31.03.2018	1,25,000

7. Fixed Assets

Fixed assets as on 1.04.2017	6,00,000
Less: Cost of assets sold	(15,000)
	5,85,000
Less: Depreciation	(58,500)
Fixed Assets as on 31.03.2018	5,26,500

8. Sports Materials

Purchase cost as on 1.04.2017	40,000
Less: Depreciation	(8,000)
Closing Balance as on 31.03.2018	32,000

Question 5

(a) Leena Transport Limited purchased from Ethnic Motors, 4 tempos costing ₹ 2,75,000 each on the hire purchase system on 1.1.2016. Payment was to be made ₹ 2,00,000 down and the balance in 3 equal annual instalments payable on 31.12.2016, 31.12.2017 and 31.12.2018 together with interest @ 12% p.a.

Leena Transport Ltd. change depreciation at the rate of 10% p.a. on the diminishing balance. It paid the instalment due at the end of the first year, i.e., 31.12.2016, but could not pay the next on 31.12.2017. Ethnic Motors decided to takeover 2 tempos and to leave the other 2 tempos with the purchaser on 1.1.2018, adjusting the value of the 2 tempos (taken over) against the amount due on 31.12.2017. The tempos taken over were valued on the basis of 15% depreciation annually. Show the necessary accounts in the books of Leena Transport Ltd. for the years 2016, 2017 and 2018. ***(8 Marks)***

(b) Mr. Ashok had 12% debentures of face value of ₹ 100 each of XYZ Ltd. as current investments. He provides the following details relating to the investments:

1.04.2017	*Opening balance 18,000 debentures valued at ₹ 98 each*
1.06.2017	*Purchased 9,000 debentures @ ₹ 120 each cum interest*
1.09.2017	*Sold 13,500 debentures @ ₹ 110 each cum interest*
01.12.2017	*Sold 9,000 debentures @ ₹ 105 each ex interest*
31.01.2018	*Purchased 13,500 debentures @ ₹ 100 each ex-interest*
31.03.2018	*Market value of the debentures @ ₹ 105 each.*

Interest due dates are 30th June and 31st December.

Mr. Ashok closes his books on 31.03.2018. Show investment account in the books of Mr. Ashok assuming FIFO method is followed. ***(8 Marks)***

Answer

(a) **In the books of Leena Transport Limited**

Tempos Account

		₹			₹
2016			2016		
Jan-01	To Ethnic Motors	11,00,000	Dec. 31	By Depreciation – 10% on 1 ₹ 1,00,000	1,10,000
	₹ (2,75,000 x 4)			By Balance c/d	9,90,000
		11,00,000			11,00,000
2017			2017		
Jan. 1	To Balance b/d	9,90,000	Dec.31	By Depreciation A/c	99,000
				By Ethnic Motors A/c (Value of 2 tempos taken away)	3,97,375
				By Profit & Loss A/c (Balancing figure)	48,125
				By Balance c/d (Value of two tempos left)	4,45,500
		9,90,000			9,90,000
2018			2018		
Jan. 1	To Balance b/d	4,45,500	Dec. 31	By Depreciation A/c	44,550
				By Balance b/d	4,00,950
		4,45,500			4,45,500

Ethnic Motors Limited

		₹			₹
2016			2016		
Jan-01	To Bank (Down Payment)	2,00,000	Jan-01	By Tempos A/c	11,00,000
Dec-31	To Bank	4,08,000	Dec-31	By Interest (12% on ₹ 9,00,000)	1,08,000
	To Balance c/d	6,00,000			
		12,08,000			12,08,000
2017			2017		
Jan-01	To Tempo	3,97,375	Jan. 1	By Balance b/d	6,00,000
Dec-31	To Balance c/d	2,74,625	Dec-31	By Interest (12% on ₹ 6,00,000)	72,000
		6,72,000			6,72,000

2018			2018		
Dec-31	To Bank *	3,07,580	Jan-01	By Balance b/d	2,74,625
			Dec-31	By Interest (12% on ₹ 2,74,625)	32,955
		3,07,580			3,07,580

*assumed to be paid

Working Notes:

(1) Value of Two Tempos left with the buyer

	₹
Cost ₹ (2,75,000 x 2)	5,50,000
Depreciation @ 10% p.a. under WDV method for 2 years [i.e. ₹ 55,000 + ₹ 49,500]	(1,04,500)
Value of the Tempos left with the buyer at the end of 2nd year	4,45,500

(2) Value of a Tempos taken away by the seller – Number of tempos - 2

	₹
Cost – (₹2,75,000 x 2)	5,50,000
Depreciation @ 15% p.a. under WDV method for 2 years [i.e. ₹ 82,500 + ₹ 70,125]	(1,52,625)
Value of Tempos taken away at the end of 2nd year	3,97,375

Note: In the above solution, it has been considered that Tempos were depreciated at the rate of 15% WDV for takeover purpose. Alternative solution considered it as SLM is also possible.

(b) Investment Account of Mr. Ashok for the year ending on 31.03.2018

(Scrip: 12% Debentures of XYZ Limited)
(Interest Payable on 30th June and 31st December)

Date	*Particulars*	*Nominal Value*	*Interest*	*Cost*	*Date*	*Particulars*	*Nominal Value*	*Interest*	*Cost*
1.4.17	To Balance b/d	18,00,000	54,000	17,64,000	30.6.2017	By Bank (27,00,000 x 6%)	-	1,62,000	-
1.6.17	To Bank A/c	9,00,000	45,000	10,35,000	1.9.2017	By Bank A/c	13,50,000	27,000	14,58,000
1.9.17	To Profit & Loss A/c	-	-	1,35,000	1.12.2017	By Bank A/c	9,00,000	45,000	9,45,000
31.1.18	To Bank A/c	13,50,000	13,500	13,50,000	1.12.2017	By Profit & Loss A/c	-	-	13,500
31.3.18	To Profit & Loss A/c	-	2,02,500	-	31.12.17	By Bank A/c (4,50,000 x 6%)	-	27,000	-
	(Bal. fig.)				31.3.2018	By Balance c/d	18,00,000	54,000	18,67,500
		40,50,000	3,15,000	42,84,000			40,50,000	3,15,0000	42,84,000

Working Notes:

1. **Purchase Cost of 2,000 debentures on 1.6.2017**

	₹
9,000 Debentures @ ₹ 120 cum interest	10,80,000
Less: Interest for 5 months	(45,000)
Purchase cost of 9,000 debentures	10,35,000

2. **Loss on sale of debentures as on 1.12.2017**

	₹
Sales price of Debentures (9,000 x ₹ 105)	9,45,000
Less: Cost price of Debentures ₹ (4,41,000 + 5,17,500)	(9,58,500)
Loss on sale	13,500

3. **Valuation of closing balance as on 31.03.2018**

Market value of 18,000 Debentures at ₹105	=	₹ 18,90,000
Cost price of 4,500 Debentures	=	5,17,500
Cost price of 13,500 Debentures	=	13,50,000
		18,67,500

Value at the end is ₹ 18,67,500/- which is less than the market value of ₹ 18,90,000. Hence valued at ₹ 18,67,500/-

4. **Profit on sale of debentures (sold on 1.9.2017)**

	₹
Sales price of Debentures (13,500 x ₹ 110)	14,85,000
Less: Interest for 2 months (13,500 x ₹100 x 12% x 2/12)	(27,000)
Less: Cost price of Debentures $\left(17,64,000 \text{x} \frac{13,500}{18,000}\right)$	(13,23,000)
Profit on sale	1,35,000

Question 6

Amit, Sumit and Jatin were partners sharing profits and losses in the ratio of 2:2:1. Their balance sheet as on 1.1.2018 stood as follows:

Liabilities		₹	*Assets*	₹
Capital Accounts:			*Fixed assets*	*55,000*
Amit	*30,000*		*Inventory*	*10,000*
Sumit	*25,000*		*Trade receivables*	*20,000*

Jatin *20,000*	*75,000*	*Cash and bank*	*8,000*
Reserves	*8,000*		
Trade payables	*10,000*		
	93,000		*93,000*

On 1st July, 2018 Jatin died. His representatives agreed that:

(i) Goodwill of the firm be valued at ₹ 10,000.

(ii) Fixed assets be written down by ₹ 5,000 and

(iii) In lieu of profits, Jatin should be paid at the rate of 10% per annum on his capital as on 1.1.2018.

Current year's (2018) profit after charging depreciation of ₹ 5,500 (₹ 3,500 related to the 1st half) was ₹ 10,000. The year-end (31-12-2018) figures of inventory, trade receivables, trade payables and cash and bank balances were respectively ₹ 13,000, ₹ 22,000, ₹ 28,000 and ₹ 5,218. The particulars regarding their drawings are given below :

	Upto 1-7-2018 ₹	*After 1-7-2018* ₹
Amit	*2,000*	*1,000*
Sumit	*2,000*	*1,000*
Jatin	*1,000*	*-*

The profit of the firm is evenly spread over the year and Jatin's executors shall avail the maximum benefit as per Partnership Act.

Prepare the balance sheet of the firm as on 31st December, 2018 assuming, that final settlement to Jatin's executors was made on 31st December, 2018. ***(16 Marks)***

Answer

	Particulars	₹
(a)	Profit after Depreciation	10,000
	Add: Depreciation	5,500
	Profit before Depreciation	15,500
(b)	Profit for the 1st half year (assumed: evenly spread)	7,750
	Less: Depreciation with respect to 1st half	(3,500)
	Post Depreciation profit	4,250
(c)	Profit for 2nd half	7,750
	Less: Depreciation for the 2nd half	(2,000)
	2nd half profit after Depreciation	5,750

Profit and Loss Appropriation A/c (for the first half)

	₹	₹		₹
To Interest on Jatin's Capital (20,000 x 10% for 6 months)		1,000	By Net Profit	4,250
To Amit A/c	1,625			
To Sumit A/c	1,625	3,250		
		4,250		4,250

Capital Accounts as on 1.07.2018

	Amit	Sumit	Jatin		Amit	Sumit	Jatin
To Revaluation Loss				By Balance b/d	30,000	25,000	20,000
of Fixed Assets	2,000	2,000	1,000	By Reserves	3,200	3,200	1,600
To Drawings	2,000	2,000	1,000	By Amit and Sumit			
To Jatin	1,000	1,000	---	(Goodwill adjustment)	---	---	2,000
To Executor's A/c	---	---	22,600	By Interest on Jatin's Capital A/c	---	---	1,000
To Balance c/d	29,825	24,825		By Profit and Loss Appropriation A/c	1,625	1,625	-
	34,825	29,825	24,600		34,825	29,825	24,600

Application of Section 37 of the Partnership Act

Either

(a) Interest of ₹ 22,600 x 6/100 x 6/12 = ₹ 678/-

Or

(b) Profit earned out of unsettled capital

$$\frac{5{,}750 \times 22{,}600}{(29{,}825 + 24{,}825 + 22{,}600)} = ₹\ 1{,}682/-$$

In the absence of specific agreement amongst partners on the above subject matter, the representatives of the deceased partner can receive at their option, interest at the rate of 6% p.a. or the share of profit earned for the amount due to the deceased partner. In the above case, it would be rational to assume that the representatives would opt for ₹ 1,682/-

Profit and Loss Appropriation A/c (for the second half)

	₹	₹		₹
To Executor's A/c		1,682	By Net Profit	5,750
To Amit A/c	2,034			
To Sumit A/c	2,034	4,068		
		5,750		5,750

Capital Accounts as on 31.12.2018

	Amit	Sumit		Amit	Sumit
To Drawings	1,000	1,000	By Balance b/d	29,825	24,825
To Balance c/d	30,859	25,859	By Profit & Loss Appropriation A/c	2,034	2,034
	31,859	26,859		31,859	26,859

Executor's A/c

	₹		₹
To Bank A/c	24,282	By Jatin's Capital A/c	22,600
		By Profit & Loss Appropriation A/c	1,682
	24,282		24,282

Balance Sheet as on 31.12.2018

Liabilities	₹	₹	Assets	₹	₹
Capital Accounts			Fixed Assets	55,000	
Amit	30,859		*Less:* Write down	(5,000)	
Sumit	25,859	56,718		50,000	
Trade Payables		28,000	*Less:* Depreciation	(5,500)	44,500
			Trade Receivables		22,000
			Inventory		13,000
			Cash and Bank		5,218
		84,718			84,718

Question 7

Attempt any ***four*** *of the following :*

(a) Following items appear in the Trial Balance of Satish Limited as on 31st March, 2018:

Particulars	*Amount*
9,000 Equity shares of ₹ 100 each	*9,00,000*
Capital Reserves (including ₹ 80,000 being profit on sale of plant)	*1,80,000*
Securities Premium	*80,000*
Capital Redemption Reserve	*60,000*
General Reserve	*2,10,000*
Profit and Loss Account (Cr. Balance)	*1,30,000*

The company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Satish Ltd.

(b) *Write any four disadvantages of Pre-packaged Accounting Software.*

(c) *A fire occurred in the premises of M/s Garden Springs & Co., on 30th September 2017. From the following particulars relating to the period from 1st April 2017 to 30th September 2017, you are required to ascertain the amount of claim to be filed with the insurance company for the loss of stock. The company has taken an insurance policy for ₹ 97,500 which is subject to average clause. The value of goods salvaged was estimated at ₹ 35,100. The average rate of gross profit was 20% throughout the period.*

	Particulars	**Amount in (₹)**
(i)	Opening stock	1,56,000
(ii)	Purchases made	3,12,000
(iii)	Wages paid (including wages for the installation of a machine - ₹ 6,500)	97,500
(iv)	Sales	4,03,000
(v)	Goods taken by the Proprietor (sales value)	32,500
(vi)	Cost of goods sent to consignee on 20th September, 2017, lying unsold with them	23,400
(vii)	Free Samples distributed - Cost	3,250

(d) *Two traders A and B buy goods from one another, each allowing the other 1 month's credit. At the end of 3 months, the accounts rendered are as follows :*

	Goods sold by A to B ₹		Goods sold by B to A ₹
July 18	1000	July 23	800
Aug. 15	1200	Aug. 24	600
Sept. 16	1500		

Calculate the date upon which the balance should be paid so that no interest is due either to A or B.

Consider earliest due date as base date and treat fraction of day as next full day.

(e) *Please explain briefly two benefits and two limitations of Accounting Standards for an accountant.* ***(4 Marks x 4 Parts = 16 Marks)***

Answer

(a) Journal Entries in the Books of Satish Ltd

Particulars		Debit (₹)	Credit (₹)
Capital Redemption Reserve A/c	Dr.	60,000	
Securities Premium A/c	Dr.	80,000	
Capital Reserve A/c	Dr.	80,000	
General Reserve A/c *	Dr.	80,000	
To Bonus to Shareholders			3,00,000
(Being issue of one bonus shares for every 3 shares held, by utilization of various Reserves, as per Board's resolution dated ……………..)			
Bonus to Shareholders A/c	Dr.	3,00,000	
To Equity Share Capital A/c			3,00,000
(Being capitalisation of profit)			

Note: Instead of general reserve, Profit and Loss Account may also be used.

(b) Disadvantages of Pre-packaged Accounting Software:

1. *Pre-packaged software does not cover peculiarities of specific business:* Business today is becoming more and more complex. A standard package may not be able to take care of these complexities.
2. *Pre-packaged software does not cover all functional areas:* For example production process may not be covered by most pre-packaged accounting softwares.
3. *Customisation may not be possible in most such softwares:* The vendors for these softwares believe in mass sale of an existing source. The expertise for customisation may not have been retained by the vendor.
4. *Report generated areas may not be sufficient or serve the purpose:* The demands for modern day business may make the management desire for several other reports for exercising management control. These reports may not be available in a standard package.
5. *Lack of security:* Any person can view data of all companies with common access password. Levels of access control as we find in many customised accounting software packages are generally missing in a pre-packaged accounting software
6. *Bugs in the software:* Certain bugs may remain in the software which takes long time to be rectified by the vendor and is common in the initial years of the software.

(c) Memorandum Trading Account for the period 1st April 2017 to 30th September 2017

	₹		₹
To Opening Stock	1,56,000	By Sales	4,03,000
To Purchases 3,12,000		By Consignment Stock	23,400
Less: Advertisement (3,250)		By Closing Stock (Balancing figure)	1,83,950
Cost of goods taken by proprietor (26,000)	2,82,750		
To Wages	91,000		
To Gross Profit (20% of Sales)	80,600		
	6,10,350		6,10,350

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	1,83,950
Less: Salvaged stock	(35,100)
Loss of stock	1,48,850

Note: Since policy amount is less than claim amount, average clause will apply. Therefore claim amount will be computed by applying the formula

$$\text{Claim} = \frac{\text{Insured Value}}{\text{Total Cost}} \times \text{Loss suffered}$$

$$\text{Claim amount} = \frac{97,500}{1,83,950} \times 1,48,850 = ₹\ 78,896/\ (\text{Rounded off})$$

(d) Calculation of Average Due Date

Computation of products for B's Payments

(Taking August 21st as Base date)

Date of transaction	Due Date	Amount (₹)	Number of days from the base date	Product (₹)
July 18	August 21	1,000	0	0
August 15	September 18	1,200	28	33,600
September 16	October 19	1,500	59	88,500
		3,700		1,22,100

Computation of products for A's Payments

Taking August 21st as Base date)

Date of transaction	Due Date	Amount (₹)	Number of days from the base date	Product (₹)
July 23	August 26	800	5	4,000
August 24	September 27	600	37	22,200
		1,400		26,200

Excess of B's Product over A's = ₹ 1,22,100 – ₹ 26,200 = ₹ 95,900

Excess amount due to A = ₹ 3,700 – ₹ 1,400 = ₹ 2,300

Number of days from the base date to the date of settlement = 95,900 / 2,300 = 42 days (rounded off)

Hence the date of settlement of balance is 42 days after base date i.e. August 21st.The date of settlement is 1st October, 2018.

Note: 3 days of grace has been added for calculation of due date.

(e) Accounting standards seek to describe the accounting principles, the valuation techniques and the methods of applying the accounting principles in the preparation and presentation of financial statements so that they may give a true and fair view. By setting the accounting standards the accountant has the following benefits:

(i) **Standardisation of alternative accounting treatments:** Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatments used to prepare financial statements.

(ii) **Comparability of financial statements:** The application of accounting standards would, to a limited extent, facilitate comparison of financial statements of companies situated in different parts of the world and also of different companies situated in the same country. However, it should be noted in this respect that differences in the institutions, traditional and legal systems from one country to another give rise to differences in accounting standards adopted in different countries.

However, there are some limitations of setting of accounting standards:

(i) **Difficulties in making choice between different treatments:** Alternate solutions to certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatments may become difficult.

(ii) **Lack of flexibilities and Restricted Scope:** There may be a trend towards rigidity and away from flexibility in applying the accounting standards. Accounting standards cannot override the statute. The standards are required to be framed within the ambit of prevailing statutes.