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) ABC Financial Services Ltd. Is engaged in the business of financial services and is undergoing tight liquidity position, since most of the assets of the company are blocked in various claims/petitions in a Special Court. ABC Financial Services Ltd. has accepted Inter Corporate Deposits (ICDs) and it is making its best efforts to settle the dues. There were claims at varied rates of interest, from lenders, from the due date of ICDs to the date of repayment. The company has provided interest, as per the terms of the contract till the due date and a note for non-provision of interest from the due date to date of repayment was mentioned in financial statements.

On account of uncertainties existing regarding the determination of the amount and in the absence of any specific legal obligation at present as per the terms of contracts, the company considers that these claims are in the nature of "claims against the company not acknowledged as debt", and the same has been disclosed by was of a note in the accounts instead of making a provision in the Profit and Loss Account.

State whether the treatment done by the company is correct or not as per relevant accounting Standard.

(b) Explain the meaning of the terms 'cash' and 'cash equivalent for the purpose of Cash Flow Statement as per AS-3.

Ruby Exports had a bank balance of USD 25,000, stated in books at ₹ 16,76,250 using the rate of exchange ₹ 67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was ₹ 67.80 and the bank balance had to be restated at ₹ 16,95,000.

Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS-3.

(c) Akar Ltd. Signed on 01/04/16, a construction contract for ₹ 1,50,00,000. Following particulars are extracted in respect of contract, for the period ending 31/03/17.

- *Materials issued ₹ 75,00,000*
- *Labour charges paid ₹ 36,00,000*
- *Hire charges of plant ₹ 10,00,000*

- *Other contract cost incurred ₹ 15,00,000*
- *Out of material issued, material lying unused at the end of period is ₹ 4,00,000*
- *Labour charges of ₹ 2,00,000 are still outstanding on 31.3.17.*
- *It is estimated that by spending further ₹ 33,50,000 the work can be completed in all respect.*

You are required to compute profit/loss to be taken to Profit & Loss Account and additional provision for foreseeable loss as per AS-7.

(d) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. Stated dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. With reference to the provision of AS-9.

(4 x 5 Marks = 20 Marks)

Answer

(a) AS1 'Disclosure of Accounting Policies' recognizes 'prudence' as one of the major considerations governing the selection and application of accounting policies. In view of the uncertainty attached to future events, profits are not anticipated but recognized only when realized though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information.

As per AS 1, 'accrual' is one of the fundamental accounting assumptions. Irrespective of the terms of the contract, so long as the principal amount of a loan is not repaid, the lender cannot be placed in a disadvantageous position for non-payment of interest in respect of overdue amount. From the facts given in the question, it is apparent that the company has an obligation to pay because of the overdue interest amount.

Hence, the company should provide for the liability (since it is not waived by the lenders) at an amount estimated or on reasonable basis based on facts and circumstances of each case. However, in respect of the overdue interest amounts, which are settled, the liability should be accrued to the extent of amounts settled. Non-provision of the overdue interest liability amounts to violation of accrual basis of accounting. Therefore, the treatment, done by the company, of not providing the interest amount from due date to the date of repayment, is not correct.

(b) Cash flow statement consists of:(a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (b) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value.

Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents. *Any transaction, which does not result in cash flow, should not be reported in the cash flow statement.* Movements within cash or cash equivalents are not cash flows because they do not change cash as defined by AS 3 "Cash Flow Statements" which is sum of cash, bank and cash equivalents.

In the given case, due to increase in rate of foreign exchange by 75 paise, there is increase (change) in bank balance. This increase of ₹ 18,750 (25,000 x 0.75) is not a cash flow because neither there is any cash inflow nor there is any cash outflow. Therefore, this change in bank balance amounting ₹ 18,750 need not be disclosed in Cash Flow Statement of Ruby exports.

The net increase/decrease in Cash/Cash equivalents in the Cash Flow Statements are stated exclusive of exchange gains and losses. The resultant difference between Cash and Cash Equivalents as per the Cash flow statement and that recognized in the balance sheet is reconciled in the note on cash flow statements.

(c) Statement showing the amount of profit/loss to be taken to Profit and Loss Account and additional provision for the foreseeable loss as per AS 7

	Cost of Construction	**₹**	**₹**
	Material Issued	75,00,000	
Less:	Unused Material at the end of period	4,00,000*	71,00,000
	Labour Charges paid	36,00,000	
Add:	Outstanding on 31.03.2017	2,00,000	38,00,000
	Hire Charges of Plant		10,00,000
	Other Contract cost incurred		15,00,000
	Cost incurred upto 31.03.2017		1,34,00,000
Add:	Estimated future cost*		33,50,000
	Total Estimated cost of construction		1,67,50,000
	Degree of completion (1,34,00,000/1,67,50,000 x 100)		80%
	Revenue recognized (80% of 1,50,00,000)		1,20,00,000
	Total foreseeable loss (1,67,50,000 - 1,50,00,000)		17,50,000
Less:	Loss for the current year (1,34,00,000 - 1,20,00,000)		14,00,000
	Loss to be provided for		3,50,000

* Unused material amounting ₹4,00,000 is considered to be included in amount of ₹33,50,000 (estimated future cost).

(d) 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.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

Question 2

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	*P Ltd.* ₹	*Q Ltd.* ₹	*Assets*	*P Ltd.* ₹	*Q Ltd.* ₹
Equity Shares (₹ 100 each)	*8,20,000*	*3,20,000*	*Goodwill*	*1,00,000*	*80,000*
9% Pref. Shares (₹ 100 each)	*3,80,000*	*2,80,000*	*Land & Building*	*4,50,000*	*3,40,000*
8% Debentures	*2,00,000*	*1,00,000*	*Furniture & Fittings*	*1,00,000*	*50,000*
General Reserve	*1,50,000*	*50,000*	*Plant & Machinery*	*6,20,000*	*4,50,000*
Profit & Loss a/c	*3,52,000*	*2,05,000*	*Debtors*	*3,25,000*	*1,50,000*
Unsecured Loan	*-*	*1,75,000*	*Stock*	*2,33,000*	*1,05,000*
Creditors	*88,000*	*1,60,000*	*Cash at bank*	*1,08,000*	*95,000*
			Cash in hand	*54,000*	*20,000*
	19,90,000	***12,90,000***		***19,90,000***	***12,90,000***

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on Stock and Debtors respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The debtors of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd. will issue:

(i) 5 Pref. shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up a premium of ₹ 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

Prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books. (16 Marks)

Answer

Books of P Ltd.

Realization Account

		₹			₹
To	Goodwill	1,00,000	By	8% Debentures	2,00,000
To	Land & Building	4,50,000	By	Trade payables/ Creditors	88,000
To	Plant & Machinery	6,20,000	By	PQ Ltd.	16,02,100
To	Furniture & Fitting	1,00,000		(Purchase consideration)	
To	Trade receivables/Debtors	3,25,000	By	Equity Shareholders A/c	1,37,900
To	Inventory/ stock	2,33,000		(loss)	
To	Cash at Bank	1,08,000			
To	Cash in hand	54,000			
To	Preference shareholders				
	(excess payment)	38,000			
		20,28,000			20,28,000

Equity Shareholders Account

		₹			₹
To	Realization A/c (loss)	1,37,900	By	Share capital	8,20,000
To	Equity Shares in PQ Ltd.	10,82,400	By	Profit & Loss A/c	3,52,000
To	Cash	1,01,700	By	General Reserve	1,50,000
		13,22,000			13,22,000

9% Preference Shareholders Account

		₹			₹
To	Preference Shares in PQ Ltd.	4,18,000	By	Pref. Share capital	3,80,000
			By	Realization A/c	38,000
		4,18,000			4,18,000

PQ Ltd. Account

		₹				₹
To	Realization A/c	16,02,100	By	Shares in PQ Ltd.		
				For Equity	10,82,400	
				" Pref.	4,18,000	15,00,400
			By	Cash		1,01,700
		16,02,100				16,02,100

8% Debentures holders Account

	₹		₹
To 6% Debentures	2,00,000	By 8% Debentures	2,00,000

Books of Q Ltd.

Realization Account

		₹			₹
To	Goodwill	80,000	By	8% Debentures	1,00,000
To	Land & Building	3,40,000	By	Trade payables/ Creditors	1,60,000
To	Plant & Machinery	4,50,000	By	Unsecured loan	1,75,000
To	Furniture & Fittings	50,000	By	PQ Ltd. (Purchase	
To	Trade receivables/ Debtors	1,50,000		consideration)	7,92,250
To	Inventory/ Stock	1,05,000	By	Equity Shareholders A/c—	
To	Cash at bank	95,000		Loss	90,750
To	Cash in hand	20,000			
To	Pref. shareholders	28,000			
		13,18,000			13,18,000

Equity Shareholders Account

		₹			₹
To	Equity shares in PQ Ltd.	4,22,400	By	Share Capital	3,20,000
To	Realization	90,750	By	Profit & Loss A/c	2,05,000
To	Cash	61,850	By	General Reserve	50,000
		5,75,000			5,75,000

9% Preference Shareholders Account

		₹			₹
To	Preference Shares in PQ Ltd.	3,08,000	By	Share capital	2,80,000
			By	Realization A/c	28,000
		3,08,000			3,08,000

PQ Ltd. Account

		₹				₹
To	Realization A/c	7,92,250	By	Equity shares in PQ Ltd.		
				For Equity	4,22,400	
				Preference	3,08,000	7,30,400
			By	Cash		61,850
		7,92,250				7,92,250

8% Debentures holders Account

	₹		₹
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

Working Notes:

(i) Purchase consideration

	P Ltd. ₹	*Q Ltd.* ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,18,000	3,08,000
Equity Shares at ₹ 22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)]	1,01,700	61,850
	16,02,100	7,92,250

(ii) Value of Net Assets

		P Ltd. ₹		Q Ltd. ₹
Goodwill		1,00,000		80,000
Land & Building		4,50,000		3,40,000
Plant & Machinery less 10% Depreciation		5,58,000		4,05,000
Furniture & Fittings less 10% Depreciation		90,000		45,000
Trade receivables less 5%		3,08,750		1,42,500
Inventory less 5%		2,21,350		99,750
Cash at Bank		1,08,000		95,000
Cash in hand		54,000		20,000
		18,90,100		12,27,250
Less: Debentures	2,00,000		1,00,000	
Trade payables	88,000		1,60,000	
Secured Loans	–	(2,88,000)	1,75,000	(4,35,000)
		16,02,100		7,92,250
Payable in shares		15,00,400		7,30,400
Payable in cash		1,01,700		(61,850)

(iii)

	P	Q
Plant &Machinery	6,20,000	4,50,000
Less: Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000
Less: Depreciation 10%	10,000	5,000
	90,000	45,000

Question 3

(a) *JRB Engineering College maintains a building fund. As on 31.3.2016, balance of building of building fund was ₹ 7,50,000 and it was represented fixed deposit (7½ % p.a.) of ₹ 4,50,000 and Bank current account balance of ₹ 3,00,000. During the year 2016-17, the college collected as donations towards the building fund ₹ 4,20,000 and transferred 40% of development fees collected ₹ 16,92,375 to building fund. Capital work in progress as on 31st March 2016 was ₹ 6,18,750 for which contractors' bill up to 70% was paid on 14.4.2016. The extension of building was finished on 31.12.2016 costing ₹ 5,43,750 for* *which contractors' bill was fully met. It was decided to transfer the cost of completed building i.e. ₹ 11,62,500 to the corresponding asset account.*

You are required to pass journal entries to incorporate the above transactions in the books of JRB Engineering College for the year 2016-17 and show the trial balance of building fund ledger. *(8 Marks)*

(b) The following transactions took place between A and B for the three months ending 31st March. 2017:

Books of A		
Date	*Particulars*	*₹*
1.1.2017	*B 's Opening balance*	*1,00,000*
10.1.2017	*Sold goods to B*	*2,00,000*
15.1.2017	*Cash received from B*	*2,00,000*
15.2.2017	*Sold goods to B*	*2,00,000*
1.3.2017	*Cash received from B*	*1,00,000*

You are required to calculate the amount of interest to be paid by one party to the other at 10% per annum using Epoque Method. (1 year =365 days) *(8 Marks)*

Answer

(a) Journal Entries in the books of JRB Engineering College

			₹	₹
(1)	Bank A/c	Dr.	4,20,000	
	To Building fund A/c			4,20,000
	(On collection of donations)			
(2)	Bank A/c*	Dr.	6,76,950	
	To Building fund A/c			6,76,950
	(40% of the development fees directly transferred to building fund)			
(3)	Fixed deposit A/c	Dr.	33,750	
	To Interest A/c			33,750
	(On accrual of interest)			
(4)	Interest A/c	Dr.	33,750	
	To Building fund			33,750

* Development fee considered to be collected during the year.

	(Interest accrued on fixed deposit transferred)			
(5)	Capital work in progress A/c	Dr.	5,43,750	
	To Contractors' A/c			5,43,750
	(Work completed and certified during the year)			
(6)	Contractors' A/c**	Dr.	9,76,875	
	To Bank A/c			9,76,875
	(Payments made during the year)			
(7)	Building A/c	Dr.	11,62,500	
	To Capital work in progress A/c			11,62,500
	(Transfer of completed buildings to Asset A/c)			
(8)	Building Fund A/c	Dr.	11,62,500	
	To General Fund A/c			11,62,500
	(Corresponding building fund transferred)			

Trial Balance of Building Fund as on 31st March, 2017

	Dr.	*Cr.*
	₹	₹
Building Fund		7,18,200
Contractors' A/c (6,18,750 x 30%)		1,85,625
Fixed Deposit A/c	4,83,750	
Current A/c	4,20,075	
	9,03,825	9,03,825

** It has been considered that the contractor was paid 70% of 6,18,750 and balance 30% is still outstanding on 31st March, 2017.

(b) Mr. B in Account Current with Mr. A (Books of A - Interest to 31st March 2017 @ 10% p.a.)

Date	*Particulars*	*Due date*	*Amt. ₹*	*Days*	*Product ₹*	*Date*	*Particulars*	*Due date*	*Amt. ₹*	*Days*	*Product ₹*
01.01.17	To Balance b/d		1,00,000			15.1.17	By Cash A/c	15.1.17	2,00,000	15	30,00,000
10.1.17	To Sales A/c	10.1.17	2,00,000	10	20,00,000	1.3.17	By Cash A/c	1.3.17	1,00,000	60	60,00,000
15.2.17	To Sales A/c	15.2.17	2,00,000	46	92,00,000						
31.3.17	To Balance of Products				1,58,00,000						
31.3.17	To Interest on Balance for 1 day @ 10% $\left[\frac{1,58,00,000\times 10 \times 1}{100\times 365}\right]$		4,329			31.3.17	By Balance of Products [2,00,000 x 90]				1,80,00,000
			____		____	31.3.17	By Balance c/d		2,04,329		____
			5,04,329		2,70,00,000				5,04,329		2,70,00,000

Note:

1. Date of sale has been considered as due date in the solution.
2. While counting the number of days for closing balances, the opening date as well as date upto which the account is prepared, has been considered.

Question 4

The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

		in ₹
	1.4.2016	31.3.2017
Furniture	60,000	63,500
Stock	80,000	70,000
Sundry Debtors	1,60,000	–
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face Value ₹ 100 each) on 1st October 2016 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipt of ₹ 5,000.

(c) *Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000 of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.*

(d) *Goods costing ₹ 9,000 were used as advertising material.*

(e) *Goods are invariably sold to show a gross profit of 20% on sales.*

(f) *Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.*

(g) *Provide at 2% for doubtful debts on closing debtor.* (16 Marks)

Answer

Trading and Profit and Loss Account of ABC enterprise

for the year ended 31st March, 2017

		₹		₹
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight inwards		30,000		
To Gross profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross profit b/d	1,21,750
To Advertisement		9,000	By Interest on investment	600
To Discount allowed –			(20,000 x 6/100 x ½)	
Debtors	15,000		By Discount received	8,000
Bills Receivable	1,250	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net profit		10,145		
		1,35,350		135,350

Balance Sheet as on 31st March, 2017

Liabilities	*Amount*		*Assets*		*Amount*
	₹	₹		₹	₹
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.) Additions during the	60,000	
Less: Drawings	(91,000)		year	10,000	
	97,000		*Less:* Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing Inventory		70,000
			Sundry debtors	72,750	
			Less: Provision for		
			doubtful debts	1,455	71,295
			Bills receivable		17,500
			Cash in hand and at bank		26,250
			Prepaid expenses		7,000
		2,75,145			2,75,145

Working Notes:

(1) Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liabilities	₹	*Assets*	₹
Capital (Bal.fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	6,000
	3,18,000		3,18,000

(2) Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000

To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		5,70,000

(3) Sales made during the year

		₹
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000
Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

(4) Debtors on 31st March, 2017

Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(bill dishonoured)	4,000	By Balance c/d (Bal.fig.)	72,750
	7,72,750		7,72,750

(5) Additional drawings by proprietors of ABC enterprises

Cash and Bank Account

	₹		₹
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000

		By Creditors A/c	3,92,000
		By Drawings A/c	
		[₹ 70,000 + ₹ 21,000)	91,000
		(Additional drawings)]	
		By Balance c/d	26,250
	6,63,250		6,63,250

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	₹		₹
To Prepaid expenses A/c (on 1.4.2016)	6,000	By Outstanding expenses A/c (on 1.4.2016)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding expenses A/c (on 31.3.2017)	18,000	By Prepaid expenses A/c (on 31.3.17)	7,000
	1,19,000		1,19,000

(7) Bills Receivable on 31st March, 2017

Bills Receivable Account

	₹		₹
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		1,00,000

Note: All sales and purchases are assumed to be on credit basis.

Question 5

(a) *Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2016 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2017 is as under:*

Happy Ltd.

Profit & Loss A/c. for the year ending March 31, 2017

Particulars	*Amount ₹*	*Particulars*	*Amount ₹*
To Salary	*1,44,000*	*By Gross Profit*	*4,50,000*
To Interest on Debenture	*36,000*		
To Sales Commission	*18,000*		
To Bad Debts	*49,000*		
To Depreciation	*19,250*		
To Rent	*38,400*		
To Audit fees	*12,000*		
To Net Profit	*1,33,350*		*-*
Total	*4,50,000*	*Total*	*4,50,000*

Prepare a Statement showing allocation of expenses & calculation of pre-incorporation & post- incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes ₹ 1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to ₹ 14,000 for a sale made in 2013-14 has been deducted from bad debts mentioned above.

(iv) Total sales were ₹ 18,00,000 of which ₹ 6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2016 for which rent was ₹ 2,400 per month. *(8 Marks)*

(b) Akash Ltd. had 4000 equity share of X Limited, at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April 2016. On 1st September 2016, Akash Ltd. acquired 1,000 equity shares of Limited at a premium of ₹ 4 per share. X Limited announced a bonus and right issue for existing share holders.

The terms of bonus and right issue were -

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2016.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2016. The company issued two right shares for every seven shares held at 25% premium. No dividend. Was payable on these shares. The whole sum being payable by 31st December, 2016.

(3) Existing shareholders were entitled to transfer their right to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.

(5) Dividend for the year ended 31st March 2016, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2017.

(6) On 1st February 2017, Akash Ltd., sold half of its share holdings at a premium of ₹ 4 per share.

(7) The market price of share on 31.03.2017 was ₹ 13 per share.

You are required to prepare the Investment Account of Akash Ltd. For the year ended 31st March, 2017 and determine the value of share held on that date assuming the investment as current investment. (8 Marks)

Answer

Pre-incorporation period is for two months, from 1st April, 2016 to 31st May, 2016. 10 months' period (from 1st June, 2016 to 31st March, 2017) is post-incorporation period.

Statement showing calculation of profit/losses for pre and post incorporation periods

		Pre-Inc ₹	Post Inc ₹
Gross Profit		50,000	4,00,000
Bad debts Recovery		14,000	
		64,000	4,00,000
Less:	Salaries	24,000	1,20,000
	Audit fees	-	12,000
	Depreciation	3,000	16,250
	Sales commission	2,000	16,000
	Bad Debts (49,000 + 14,000)	7,000	56,000
	Interest on Debentures	–	36,000
	Rent	4,000	34,400
Net Profit		24,000	1,09,350

* Pre-incorporation profit is a capital profit and will be transferred to Capital Reserve.

Working Notes:

(i) Calculation of ratio of Sales

Sales from April to September = 6,00,000 (1,00,000 p.m. on average basis)

Oct. to march = 12,00,000 (2,00,000 p.m. on average basis)

Thus, sales for pre-incorporation period = 2,00,000

post-incorporation period = 16,00,000

Sales are in the ratio of 1:8

(ii) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales.

(iii) Rent, salary are allocated on time basis.

(iv) Interest on debentures is allocated in post incorporation period.

(v) Audit fees charged to post incorporation period/ assuming relating to company audit.

(vi) Depreciation of ₹ 18,000 divided in the ratio of 1:5 (time basis) and ₹ 1,250 charged to post incorporation period.

(vii) Bad debt recovery of ₹ 14,000/- is allocated in pre-incorporation period, being sale made in 2013-14.

(viii) Rent

(38,400 – Additional rent for 6 months)

[38,400- 14,400 (2,400 x 6)]	=	24,000
1/4/16 -31/5//16 (2,000 x 2)	=	4,000
1/6/16 -31/3/17 – [(2,000 x 10) +14,400]	=	<u>34,400</u>
		<u>38,400</u>

(b) Investment Account-Equity Shares in X Ltd.

Date		*No. of shares*	*Dividend*	*Amount*	*Date*		*No. of shares*	*Dividend*	*Amount*
			₹	₹				₹	₹
2016					2017				
April 1	To Balance b/d	4,000	-	60,000	Jan. 20	By Bank (dividend)		8,000	2,000
Sept 1	To Bank	1,000	-	14,000	Feb. 1	By Bank	4,000		56,000
Sept.30	To Bonus Issue	2,000		—	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	-	12,500					
2017									
Feb. 1	To Profit & Loss A/c			13,750					
Feb. 1	To Profit & Loss A/c (Dividend		8,000						

		income)								
			8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To	Balance b/d	4,000		42,250					

Working Notes:

1. **Cost of shares sold — Amount paid for 8,000 shares**

	₹
(₹ 60,000 + ₹ 14,000 + ₹ 12,500)	86,500
Less: Dividend on shares purchased on 1st Sept, 2016	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4000 shares @ 14/-)	56,000
Profit on sale	13,750

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. **Value of investment at the end of the year**

Closing balance will be valued based on lower of cost (₹ 42,250) or net realizable value (₹13 x 4,000). Thus investment will be valued at ₹ 42,250.

3. **Calculation of sale of right entitlement**

1,000 shares x ₹ 8 per share = ₹ 8,000

Amount received from sale of rights will be credited to P & L A/c as per AS 13 'Accounting for Investments'.

4. **Dividend received on investment held as on 1st April, 2016**

= 4,000 shares x ₹ 10 x 20%

= ₹ 8,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1stSep. 2016

= 1,000 shares x ₹ 10 x 20% = ₹ 2,000 will be adjusted to Investment A/c

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2016 and dividend pertains to the year ended 31.3.2016.

Question 6

Ram, Shyam and Laxman are in partnership sharing Profit & Loss equally. Interest on partner's capital and remuneration to partners not to be provided as agreed among partners. On 31st March, 2016 their Balance Sheet stood as follows:

Liability	Amount ₹	Assets	Amount ₹
Capital A/c - Ram	2,70,000	Building	4,50,000
Capital A/c - Shyam	2,40,000	Plant & Machinery	90,000
Capital A/c - Laxman	2,40,000	Furniture & Fittings	69,000
Current A/c - Ram	4,200	Closing Stock	27,000
Current A/c- Shyam	6,000	Sundry Debtors	60,600
Current A/c - Creditors	24,600	Cash at Bank	85,200
	-	Current A/c - Laxman	3,000
Total	7,84,800	Total	7,84,800

On 31st July, 2016 Ram died. According to the partnership deed, on the death of partner, the sum to be paid to his estate will be:

(i) the amount of his capital and current account balance at the end of last financial year.

(ii) his share of profit for the relevant part of the year of death.

(iii) his share of goodwill.

Goodwill is to be valued at two years purchase of the average profit of immediately preceding three accounting years.

The profit as per Books of Accounts were as follows:

For accounting year ended 31st March, 2013 ₹ 86,700

For accounting year ended 31st March, 2014 ₹ 143,200

For accounting year ended 31st March, 2015 ₹ 1,07,600

No goodwill account is to remain in the books after any change in the partnership's constitution.

The stock value at 31st July has been calculated and all other accounts balanced off, including provision for depreciation, accrued expenses and prepaid expenses.

This results in the following position of assets and liabilities at 31st July 2016:

	₹		₹
Building	4,50,000	Stock	33,000
Plants & Machinery (including addition of ₹ 12,000)	97,700	Sundry Debtors	66,900
Furniture & Fittings	66,700	Cash at Bank	1,01,100
		Sundry Creditors	29,400

There were no additions to, or reduction in the capital accounts during the four months, but the following drawings have been made by the partners:

Ram ₹ 60,000 Shyam ₹ 48,000 Laxman ₹ 54,000

It has also been agreed that the share of deceased partner should be repaid in three equal installments, the first payment being made on the day after the day of death.

On 1st August 2016, Ram's son Shankar was admitted in to partnership as a new partner and agreed that he would bring in to the business ₹ 1,20,000 as his capital together with a premium for his share of goodwill using the existing valuation.

The new profit sharing ratio Shyam: 2/5th, Laxman: 2/5th and Shankar: 1/5th.

You are required to prepare the partnership firm's Balance Sheet as at 1st August 2016, on the assumption that the above transactions have been completed by that date. (16 Marks)

Answer

Balance Sheet as at 1st August, 2016

Liabilities	₹	*Assets*	₹
Capital Accounts:		Building	4,50,000
Shyam	2,25,000	Plant and Machinery	97,700
Laxman	2,25,000	Stock	33,000
Shankar	1,20,000	Debtors	66,900
Current Accounts:		Furniture and Fittings	66,700
Shyam	21,600	Cash at Bank	1,48,500
Laxman	6,600	(1,01,100+1,65,000-	
Sundry Creditors	29,400	1,17,600)	
Ram's Executor's Loan	2,35,200		
	8,62,800		8,62,800

Working Notes:

(1) Calculation of Goodwill: ₹

Profit for the year ended 31.3.2013	86,700
Profit for the year ended 31.3.2014	1,43,200
Profit for the year ended 31.3.2015	1,07,600
	3,37,500

Average profit = $\frac{3,37,500}{3} = 1,12,500$

Goodwill = ₹ 1,12,500 X 2 years = ₹ 2,25,000

Ram's share of goodwill = $2{,}25{,}000 \times \frac{1}{3} = 75{,}000$

Shankar's share of goodwill = $2{,}25{,}000 \times \frac{1}{5} = 45{,}000$

2. Balance Sheet as on 31st July, 2016

Liabilities	**₹**	***Assets***	**₹**
Capital A/c (balancing figure)	7,86,000	Building	4,50,000
Creditors	29,400	Stock	33,000
		Sundry Debtors	66,900
		Plant and Machinery	97,700
		Furniture & Fittings	66,700
		Cash at bank	1,01,100
	8,15,400		8,15,400

3. Calculation of profits made during the period of 1st April, 2016 to 31st July, 2016

	₹
Combined Capital (of all partners) as on 31.7.2016	7,86,000
Less: Capitals on 1.4.16	
[2,70,000 + 240,000 + 240,000 + 4,200 + 6,000 less 3,000)	7,57,200
	28,800
Add: Drawings of all partners (60,000 + 48,000 + 54,000)	1,62,000
Total Profit	1,90,800
Share of Profit of each partner	63,600

Partners' Capital Accounts

Dr.	Ram	Shyam	Laxman	Shankar		Ram	Shyam	Laxman	Shankar Cr.
	₹	₹	₹	₹		₹	₹	₹	₹
To Ram (Goodwill adj.)	-	37,500	37,500	–	By Balance b/d	2,70,000	2,40,000	2,40,000	–
					By Goodwill adjustment (Shyam and Laxman)	75,000	–	–	–
To Ram's	3,52,800	–	–	–	By Ram's	7,800	–	–	

	Executors A/c						current a/c				
To	Shyam and Laxman	–	–	–	45,000	By	Cash	–	–	–	1,65,000
						By	Shankar (Goodwill adj.)	–	–		–
To	Balance c/d		2,25,000	2,25,000	1,20,000				22,500	22,500	–
		3,52,800	2,62,500	2,62,500	1,65,000			3,52,800	2,62,500	2,62,500	1,65,000

5. Partners' Current Accounts

Dr.							
	Ram	***Shyam***	***Laxman***		***Ram***	***Shyam***	***Laxman***
	₹	₹	₹		₹	₹	₹
To Balance b/d	–	–	3,000	By Balance b/d	4,200	6,000	–
To Drawings	60,000	48,000	54,000	By Profit and loss A/c	63,600	63,600	63,600
To Capital A/c (bal. fig.)	7,800	–	–				
To Balance c/d	–	21,600	6,600				
	67,800	69,600	63,600		67,800	69,600	63,600

6. Ram' Executors' Account

	₹		₹
To Cash and Bank	1,17,600	By Ram's CapitalA/c	3,52,800
To Ram's Executor's Loan A/c	2,35,200		
	3,52,800		3,52,800

Question 7

Answer any ***four:***

(a) *Prepare journal entries under the sectional balancing system in the books of Rex Ltd. for the following:*

(i) *The Sales book was found under cast by ₹ 10,000.*

(ii) *Discount allowed to Ram ₹ 500 correctly, entered in cash book, was not posted to his account.*

(iii) *Credit balance of ₹ 3,600 in Manish's account in the purchase ledger was to be transferred to his account in Sales Ledger.*

(b) Distinguish between Hire Purchase System and Installment system.

(c) What is Consequential loss policy and what items are generally covered by such policy.

(d) Accounting software is an invaluable source for modern business. Explain the criteria for selection of such Accounting software.

(e) Mr. Praveen buys goods on Credit on following dates. 10 days credit is allowed to him after which interest @ 8% p.a. is charged by supplier.

(1)	*30th July*	*₹ 12,000*
(2)	*12th August*	*₹ 25,000*
(3)	*27th July*	*₹ 18,000*
(4)	*10th September*	*₹ 7,000*
(5)	*12th September*	*₹ 21,000*

It was agreed to be settled on 30th September. Compute interest payable by him using average due date method. Due Date of earliest purchase shall be taken as base date, (one year = 365 days).

Any fraction of a day arising from the calculation to be considered as full day.

(4 x 4 Marks = 16 Marks)

Answer

(a) Journal of Rex. Ltd.

Sectional Balancing System

(a)	Total Debtors Account	Dr.	10,000	
	To Sales Account			10,000
	(Rectification of the consequence of the under-casting the Sales Book)			
(b)	Credit Ram with ₹ 500 (In Sales Ledger)			
(c)	1. Manish (In Purchase Ledger)	Dr.	3600	
	To Manish (In Sales Ledger)			3600
	(Transfer of Manish credit balance ₹ 3600 in the Purchase Ledger to his account in the Sales Ledger)			
	2. Total Creditors A/c	Dr.	3600	
	To Total Debtors A/c			3600
	(Adjustment of total accounts because of the transfer of Manish account, in the Purchase Ledger to the Sales Ledger)			

(b) Statement showing differences between Hire Purchase and Installment System

	Basis of Distinction	***Hire Purchase***	***Installment System***
1.	Governing Act	It is governed by Hire Purchase Act,1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.
6.	Right of Disposal	Hirer cannot hire out sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose of the goods and give good title to the bonafide purchaser.
7.	Responsibility for Risk of Loss	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hire purchaser and Hire vendor.	The parties involved are called buyer and seller.
9.	Component other than cash price	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

(c) Business enterprises get insured against the loss of stock on the happening of certain events such as fire, flood, theft, earthquake etc. Insurance being a contract of indemnity, the claim for loss is restricted to the actual loss of assets. Sometimes an enterprise also gets itself insured against consequential loss of profit due to decreased turnover, increased expenses etc.

If loss of profits consequent to the event or mis-happening (Fire, flood, theft etc.) is also insured, the policy is known as loss of profit or consequential loss policy.

The Loss of Profit Policy normally covers the following items:

(1) Loss of net profit

(2) Standing charges.

(3) Any increased cost of working *e.g.,* renting of temporary premises.

(d) Accounting software is an invaluable resource for modern business. Software allows detailed tracking of financial transactions and near instantaneous reporting and analysis.

Selection of the accounting software dependents upon the requirement of business. If you have small organization that makes only a few basic transactions a month—deposits, withdrawals and invoices, you can even use a spread sheet package like Microsoft Excel.

If your business is growing fast you should consider using pre-packaged accounting software like, Sage, Tally, or any other billing software. At the higher end, in service industry or if some business has its specific requirements which are not available in common pre-packaged software, one will have to go for customised accounting software.

Larger organisations go often for an ERP package where finance comes as module. An ERP is an integrated software package which manages the business process across the entire enterprise.

Fulfilment of business requirements, completeness of reports, ease of use, complexity, size of business and cost are some of the important criteria for selection of appropriate accounting software for the organization.

(e) Calculation of Average Due date (Taking 6th August as the base date)

Date	*Due Date*	*Amount* ₹	*No. of days from Base date*	*Product* ₹
27/7	6/8	18,000	0	0
30/7	9/8	12,000	3	36,000
12/8	22/8	25,000	16	4,00,000
10/9	20/9	7,000	45	3,15,000
12/9	22/9	21,000	47	9,87,000
		83,000		17,38,000

Average due date = 6th August + 17,38,000/83,000

= 6th August + 21 days = 27th August

Thus average due date is 27th August.

If the payment is made on 30th September, then no. of days after 27th August till 30th Sept. will be 34 days

Interest if settlement is done on 30th September

Interest payable by Parveen on ₹ 83,000 for 34 days @ 8% p.a.

= ₹ 83,000 x 8/100 x 34/365 = ₹ 618.50