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

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

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

Ascertain the amount at which the Machinery should be capitalized under AS 10.

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

Discuss the above treatment by the accountant with reference to applicable Accounting Standard.

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

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

	(₹ lakhs)		
	Year-1	***Year-2***	***Year-3***
Initial amount for revenue agreed in contract	*10000*	*10000*	*10000*

Variation in Revenue (+)	*-*	*500*	*1000*
Contract costs incurred upto the reporting date	*2415*	*6375*	*8500*
Estimated profit for whole contract	*1950*	*2000*	*2500*

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

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

(d) Enumerate type of alternatives available to a business entity for accounting in computerized environment.

Also, describe the criteria for selection among above alternatives.

(4 Parts x 5 Marks=20 Marks)

Answer

(a) Calculation of Cost of Fixed Asset (i.e. Machinery)

Particulars		₹
Purchase Price	Given (₹ 158,34,000 x 100/112)	1,41,37,500
Add: Site Preparation Cost	Given	1,41,870
Technician's Salary	Specific/Attributable overheads for 3 months (See Note) (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	55,770
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,45,00,140

Note:

(i) Interest on Bank Overdraft for earlier payment of invoice is not relevant under AS 10.

(ii) Internally booked profits should be eliminated in arriving at the cost of machine.

Note: The above solution is given on the basis that IGST credit is availed by the Shristhi Limited.

(b) As per AS 9 'Revenue Recognition', revenue is the gross inflow of cash, receivable or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods. However, trade discounts and volume rebates given in the ordinary course of business should be deducted in determining revenue. Revenue from sales should be recognized at the time of transfer of significant risks and rewards. If the delivery of the sales is not subject to approval from customers, then the transfer of significant risks and rewards would take place when the sale is affected and goods are dispatched.

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

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

In both the cases, the contention of the accountant to book the sales for ₹ 5,32,000 is not correct.

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

(Amount in ₹ lakhs)

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

Working Note - Calculation of stage of completion of contract

	Year 1	*Year 2*	*Year 3*
Revenue after considering variations	10,000	10,500	11,000
Less: Estimated profit for whole contract	1,950	2,000	2,500
Estimated total cost of the contract (A)	8,050	8,500	8,500

Actual cost incurred upto the reporting date (B)	2,415	6,375	8,500
Degree of completion (B/A)	30%	75%	100%

(d) Various type of alternatives are available to a business entity for accounting in computerized environment viz: Spread sheet packages, Pre-packaged accounting software, Customized accounting package, ERP package; and Outsourcing the accounting function to a third party.

The criteria for selection of these alternatives are as follows:

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

Question 2

The following was the Balance Sheet of Rashmi Limited as on 31st March, 2018 :

	Particulars	Note No.	Amount
Equity and Liabilities:			
(1)	*Shareholders' fund*		
	(a) Share capital	*1*	*18,00,000*
	(b) Reserve and Surplus	*2*	*8,40,000*
(2)	*Non-current liabilities:*		
	Long term Borrowings	*3*	*2,85,000*
(3)	*Current Liabilities:*		
	Trade Payables		*75,000*
			30,00,000
Assets:			
(1)	*Non-Current Assets:*		

	(a) Fixed Assets		
	- Tangible Assets	4	18,00,000
	- Intangible Assets (Goodwill)		1,40,000
	(b) Non-current Investments	5	1,60,000
(2)	Current Assets :		
	Inventories		6,24,000
	Trade Receivables		1,08,000
	Cash & cash equivalents		1,68,000
			30,00,000

Notes:

1.	Share Capital:		
	Issued, Subscribed and Paid up		
	1,80,000 share of ₹ 10 each fully paid up		18,00,000
	Total		18,00,000
2.	Reserve and Surplus:		
	General Reserve		4,10,000
	Profit & Loss A/c	1,30,000	
	Less: Preliminary Exp.	30,000	1,00,000
	Export Profit Reserve		2,50,000
	Investment Allowance Reserve		80,000
	Total		8,40,000
3.	Long term Borrowing :		
	9% Secured Debenture of ₹ 100 each fully paid up		2,85,000
	Total		2,85,000
4.	Tangible Assets:		
	Freehold Property		12,40,000
	Plant & Machinery		5,60,000
	Total		18,00,000
5.	Non-Current Investments:		
	Other Investments		1,60,000
	(Current Market value ₹ 1,30,000)		
			1,60,000

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

(i) The purchase consideration would be settled by Nitin Ltd. as under:

(1) 3,00,000 equity shares of ₹ 10 each issued by Nitin Ltd. by valuing its share at ₹ 12 per share.

(2) Cash payment equivalent to ₹ 5 for every share in Rashmi Ltd.

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

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

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

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

You are required to :

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

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

(16 Marks)

Answer

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

(i) In the books of Rashmi Ltd.

Realisation Account

	₹		₹
To Goodwill	1,40,000	By 9% Debentures	2,85,000
To Freehold Property	12,40,000	By Trade Payables	75,000

To	Plant & Machinery	5,60,000		
To	Inventory	6,24,000	By By Nitin Ltd.	45,00,000
To	Trade Receivable	1,08,000	(Purchase consideration)	
To	Investment	1,60,000		
To	Cash / cash equivalents (1,68,000-20,000)	1,48,000		
To	Cash & Bank A/c (Realization expenses)	20,000		
To	Profit on realization transfered to shareholders	18,60,000		
		48,60,000		48,60,000

Nitin Ltd. Account

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

Equity Shareholders Account

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

9% Secured Debentures Account

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

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

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

	Discount on issue of debentures		18,750	
	To 10% Debentures (3,56,250 x 100/95)			3,75,000
	(Being liability of debenture holders discharged)			

Question 3

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

Summary Cash Account

	₹ in '000	₹ in'000
Balance as on 01.04.2017		*210*
Receipts from Customers		*16,596*
Sale of Investments (Cost ₹ 90,000)		*102*
Issue of Shares		*1,800*
Sale of Fixed Assets		*768*
		19,476
Payment to Suppliers	*12,204*	
Purchase of Investments	*78*	
Purchase of Fixed Assets	*1,380*	,
Wages & Salaries	*414*	
Selling & Administration Exp.	*690*	
Payment of Income Tax	*1,458*	
Payment of Dividends	*480*	
Repayment of Bank Loan	*1,500*	
Interest paid on Bank Loan	*300*	*(18,504)*
Balance as on 31.03.2018		*972*

(8 Marks)

(b) *Prepare Sales Ledger Adjustment A/c & Purchase Ledger Adjustment A/c respectively in General Ledger for the year ended 31st March, 2018 from the following information :*

	₹
Sales Ledger Balance as on 1st April, 2017	*1,35,900*
Purchases Ledger Balance as on 1st April, 2017	*1,17,900*

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

(8 Marks)

Answer

(a) **Tom & Jerry Ltd.**

Cash Flow Statement for the year ended 31st March, 2018

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

Sale of investments	102	
Net cash used in investing activities		(588)
Cash flows from financing activities		
Proceeds from issuance of share capital	1,800	
Bank loan repaid	(1,500)	
Interest paid on bank loan	(300)	
Dividend paid	(480)	
Net cash used in financing activities		(480)
Net increase in cash and cash equivalents		762
Cash and cash equivalents at beginning of period		210
Cash and cash equivalents at end of period		972

(b) **In General Ledger**

Sales Ledger Adjustment Account

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

Purchases Ledger Adjustment Account

		₹			₹
1.4.2017	To General ledger		1.4.2017	By Balance b/d	1,17,900
To	adjustment		1.4.2017	By General	

31.3.2018	account: Cash	2,79,000	To 31.3.2018	ledger adjustment account:	
	Return outwards	21,000		Purchases	4,89,000
	Bills payable	1,83,000			
	Discount received	6,000			
	Transfer to sales ledger	39,900			
31.3.2018	To Balance c/d	78,000			
		6,06,900			6,06,900

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

Question 4

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

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

Details of the year's transactions are as follows:

(1)	*Discounts allowed to Debtor*	*4,000*
(2)	*Returns from debtors*	*1,450*
(3)	*Bad debts*	*500*
(4)	*Total sales (Cash and Credit)*	*72,000*
(5)	*Discount allowed by creditors*	*700*
(6)	*Returns to creditors*	*400*
(7)	*Receipts from debtors paid into Bank*	*76,000*
(8)	*Cash purchases*	*1,000*
(9)	*Expenses paid by cash*	*9,000*

(10)	*Drawings by cheque*	*500*
(11)	*Purchase of Fixed Assets by cheque*	*4,000*
(12)	*Cash deposited into bank*	*5,000*
(13)	*Cash withdrawn from bank*	*9,000*
(14)	*Cash in hand at 31.03.2018*	*2,000*
(15)	*Payments to creditors by cheque*	*60,000*

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

Answer

In the books of M/s Prasad & Co.

Trading and Profit and Loss Account

for the year ended 31st March, 2018

		₹	₹			₹	₹
To	Opening stock		10,000	By	Sales:		
To	Purchases:				Cash	500	
	Cash	1,000			Credit	71,500	
	Credit (W.N. 3)	56,100			*Less:* Returns	(1,450)	70,550
		57,100		By	Closing stock		12,000
	Less: Returns	(400)	56,700				
To	Gross Profit c/d		15,850				
			82,550				82,550
To	Discount allowed		4,000	By	Gross profit b/d		15,850
To	Bad debts		500	By	Discount received		700
To	General expenses (W.N. 5)		9,200	By	Net Loss (balancing fig.)		150
To	Depreciation (W.N. 4)		3,000				—
			16,700				16,700

Balance Sheet as at 31st March, 2018

Liabilities		₹	*Assets*		₹
Capital (W.N. 1)	39,850		Fixed Assets	12,000	
Less: Net loss	150		*Add:* New asset	4,000	
	39,700			16,000	

Less: Drawings	(500)	**39,200**	*Less:* Depreciation	(3,000)	**13,000**
Sundry creditors		15,000	Stock in trade		12,000
Expenses outstanding		800	Sundry debtors (W.N. 2)		18,000
			Cash in hand		2,000
			Cash in Bank		10,000
		55,000			55,000

Working Notes:

(1) Ascertainment of Opening Capital - Statement of Affairs as at 1.4.17

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

(2) Sundry Debtors Account

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

(3) Sundry Creditors Account

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

(4)

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

(5) Expenses to be shown in profit and loss account

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

(6) Cash and Bank Account

	Cash	*Bank*		*Cash*	*Bank*
	₹	₹		₹	₹
To Balance b/d	7,500	2,500	By Purchases	1,000	–
To Debtors	-	76,000	By Expenses	9,000	
To Bank (C)	9,000	-	By Fixed Asset		4,000
To Cash (C)	-	5,000	By Drawings		500
To Sales (balancing figure considered as cash sales)	500	-	By Creditors		60,000
			By Cash (C)		9,000
			By Bank (C)	5,000	
			By Balance c/d	2,000	10,000
	17,000	83,500		17,000	83,500

Question 5

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

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

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

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

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

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

(8 Marks)

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

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

Following transactions took place during the period mentioned :

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

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

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

The insurance policy had average clause.

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

Answer

(a) **Books of Vijay**

Investment Account

(Scrip: Equity Shares in X Ltd.)

		No.	Amount			No.	Amount
			₹				₹
1.4.2017 22.6.2017	To Bal b/d To Bank	30,000 5,000	4,50,000 80,000	31.10.2017	By Bank (dividend	—	10,000
10.8.2017 30.9.2017	To Bonus To Bank (Rights Shares)	5,000 10,000	— 1,50,000		on shares acquired on 22/6/2017)		
15.11.2017	To Profit (on sale of shares)		32,000	15.11.2017	By Bank (Sale of shares)	20,000	3,00,000
				31.3.2018	By Bal. c/d	30,000	4,02,000
		50,000	7,12,000			50,000	7,12,000

Working Notes:

(1) Bonus Shares = (30,000 + 5,000) / 7 = 5,000 shares

(2) Right Shares = $\frac{(30,000+5,000+5,000)}{8} \times 3$ = 15,000 shares

(3) Rights shares sold = 15,000×1/3 = 5,000 shares

(4) Dividend received = 30,000×10×20% = ₹ 60,000 will be taken to P&L statement

(5) Dividend on shares purchased on 22.6.2017= 5,000×10×20% = ₹ 10,000 is adjusted to Investment A/c

(6) Profit on sale of 20,000 shares

= Sales proceeds – Average cost

Sales proceeds = ₹ 3,00,000

Average cost = $\frac{(4,50,000 + 80,000 + 1,50,000 - 10,000)}{50,000} \times 20,000$ = ₹ 2,68,000

Profit = ₹ 3,00,000– ₹ 2,68,000= ₹ 32,000.

(7) Cost of shares on 31.3.2018

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

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

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

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

Calculation of Insurance Claim

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

Claim subject to average clause:

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

Therefore, insurance claim will be calculated as

₹ 5/8.4 x 4.8 lakhs = ₹ 2.86* lakhs

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

***rounding off**

Question 6

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

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

Lily retires on that date subject to the following conditions :

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

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

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

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

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

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

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

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

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

Answer

Journal Entries on 31st March, 2018

			₹	₹
1.	Building A/c	Dr.	22,500	
	Stock A/c	Dr.	25,000	

	To Revaluation A/c (Being increase in value of assets recorded)			47,500
2.	Revaluation A/c	Dr.	23,500	
	To Plants and Machinery A/c			17,500
	To Furniture A/c			6,000
	(Being decrease in value of assets recorded)			
3.	Revaluation A/c	Dr	18,000	
	To Provision for bad debts			9,750
	(Being increase in value of labilities recorded)			8,250
4.	Goodwill A/c	Dr.	90,000	
	To Revaluation A/c			90,000
	(Being entry for goodwill through Revaluation A/c)			
5.	Revaluation A/c	Dr.	96,000	
	To Rose Capital A/c			48,000
	To Lily Capital A/c			32,000
	To Voilet Capital A/c			16,000
	(Revaluation profit transferred to partners' capital accounts)			
6.	General reserve A/c	Dr.	60,000	
	To Rose Capital A/c			30,000
	To Lily Capital A/c			20,000
	To Voilet Capital A/c			10,000
	(Transfer of reserves to partners)			
7.	Lily's Capital A/c	Dr.	2,02,000	
	To Bank A/c			1,01,000
	To Lily's Loan A/c			1,01,000
	(Being sum due to Lilly transferred to his loan and balance paid in cash)			
8.	Bank A/c	Dr.	1,50,000	
	To Rose's Capital A/c			90,000
	To Violet's Capital A/c			60,000
	(Being cash brought in by Rose and Voilet)			

Revaluation Account

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

Partners Capital Accounts

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

Balance Sheet of Rose and Violet

as at 31.03.2018 (after Lily's retirement)

Liabilities	₹	*Assets*	₹
Capital Accounts:		Buildings	2,47,500
Rose	*3,68,000*	Plant & machinery	1,57,500
Violet	*2,11,000*	Furniture	34,000
10% Loan from Lily	1,01,000	Stock	1,50,000

Trade Creditors	95,000	Goodwill*		90,000
Bill payable	25,000	Trade Debtors	80,000	
Workmen Compensation liability	8,250	*Less*: Provision for doubtful debts	(12,250)	67,750
		Cash at Bank		61,500
	8,08,250			8,08,250

Working Note

Bank Account

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

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

Question 7

Answer any ***four:***

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

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

Give your comments on below:

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

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

(b) *X, Y, Z were in partnership sharing profits and losses equally and following financial year for accounting. Z died on 30th September, 2017. As per the accounts drawn upto*

30th September, 2017 the Capital Accounts Balances were X : ₹ 30,000 (Cr.), Y : ₹ 40,000 (Cr.), Z : ₹ 50,000 (Cr.) respectively. Z's legal representatives would be paid their dues on 1st April, 2018.

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

(c) Pass Journal Entries in the following circumstances:

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

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

(d) Describe in brief the methods of recording Hire purchase transactions in the books of Hire vendor.

(e) Hari owes to Om the following amounts :

₹ 60,000 due on 11th March, 2018

₹ 1,00,000 due on 3rd April, 2018

₹ 80,000 due on 1st June, 2018

₹ 10,000 due on 15th June, 2018

Find out the average due date. Earliest date to be taken as base date. Any fraction of day resulting from calculation to be considered as full day. ***(4 x 4 = 16 Marks)***

Answer

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

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

(ii) Moreover, where investments are reclassified from current to long-term, transfers are made at the lower of cost and fair value at the date of transfer.

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

(b) As per Section 37 of the Partnership Act, 1932,

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

Thus, the representatives of Z can opt for

Either,

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

Or

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

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

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

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

(c) **Journal Entries**

			₹	₹
(i)	General Reserve A/c	Dr.	1,25,000	
	To Bonus to shareholders A/c			1,25,000
	(For making provision of bonus issue)			
	Share Final Call A/c		1,25,000	
	To Equity share capital A/c			1,25,000
	(For final calls of ₹ 2.5 per share on 50,000 equity shares due as per Board's Resolution dated….)			

(ii)	Bonus to shareholders A/c Dr. To Share Final Call A/c (For bonus money applied for call)	1,25,000	 1,25,000
	General Reserve A/c Dr. To Bonus to shareholders A/c (For making provision of bonus issue)	5,00,000	 5,00,000
	Bonus to shareholders A/c Dr. To Equity share capital A/c (For issue of 50,000 bonus shares at ₹ 10)	5,00,000	 5,00,000

(d) There are two methods of recording hire purchase transactions in the books of the hire vendor. The method for recording transactions is selected according to the type and value of goods sold, volume of transactions, the length of the period of purchase, etc. These methods are: ***Sales Method and Interest Suspense Method*** *which can be briefly described as under:*

Sales Method

A business that sells relatively large items on hire purchase may adopt this method. Under this method, hire purchase sale is treated as a credit sale. The only exception is that the vendor agrees to accept payments in instalments and for that he charges interest. The amount due from the hire purchaser at the end of the year is shown in the Balance sheet on the assets side as Hire Purchase Debtors. The entire profit on sale under hire purchase agreement is credited to the Profit and Loss account of the year in which the sale has taken place; and interest pertaining to each accounting period is credited to the Profit and Loss Account of that year in this method.

Interest Suspense Method

This method is almost similar to the sales method, except the accounting for interest. Under this method, the hire purchaser is debited with full cash price and interest (total) included in the selling price. Credit is given to the H.P. Sales Account and Interest Suspense Account. When the instalment is received, the Bank Account is debited and the Hire Purchaser Account is credited. At the same time an appropriate amount of interest (i.e., interest for the relevant accounting period) is removed from the Interest Suspense Account and credited to the Interest Account. At the time of preparation of Final Accounts, interest is transferred to the credit of the Profit and Loss Account. The balance of the Interest Suspense Account is shown in the Balance Sheet as a deduction from Hire Purchase Debtors.

(e) Calculation of Average Due Date

Taking 11th March, 2018 as the base date.

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

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

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

= 11th March + 40 days = 20th April, 2018