Shree Guru Kripa's Institute of Management

ACCOUNTING – GROUP – I

Reg. No……………………..

Total Number of Printed Pages: 6 Date: 18.03.2015

Time Allowed: 3Hrs Maximum Marks: 100

Question 1 is compulsory (4 × 5 = 20 Marks). Answer any 5 from the remaining 6 (16 × 5 = 80 Marks)

1(a) Explain the levels of Non–corporate enterprises classified under As and As applicability. **[5 Marks]**

1(b) Can PT Ltd, a Wire Netting Company, while valuing its Finished Stock at the year end include interest on Bank Overdraft as an element of cost, for the reason that Overdraft has been taken specifically for the purpose of financing Current Assets like Inventory and for meeting day to day working expenses? **[5 Marks]**

1(c) Notes on Accounts of a Company reads: "No depreciation provided on a Machinery costing ₹ 50 Lakhs imported three years back, since it is yet to be put into use". **[5 Marks]**

1(d) Nilakanta Construction Co. Ltd undertook a contract on 1st January to construct a building for ₹ 80 Lakhs. The Company found on 31st March that it had already spent ₹ 58,50,000 on the construction. Prudent estimate of additional cost for completion was ₹ 31,50,000.
What amount should be charged to Revenue and what amount of Contract Value to be recognized as Turnover in the accounts for the year ended 31st March as per provisions of AS–7? **[5 Marks]**

2 The Balance Sheet of Amitabh, Abhisekh and Amrish as at 31.12.2013 stood as follows: **[16 Marks]**

Capital and Liabilities		₹	Properties and Assets		₹
Capital Accounts:			Non–Current Assets: Goodwill		37,800
– Amitabh	60,000		Land & Buildings		74,000
– Abhisekh	40,000		Investments		10,000
– Amrish	40,000	1,40,000	Life Policy (at Surrender Value):		
General Reserve		8,000	– Amitabh		2,500
Investment Fluctuation Reserve		2,400	– Abhisekh		2,500
			– Amrish		1,000
Current Liabilities:			Current Assets:		
Creditors		25,800	Stock		20,000
			Debtors	20,000	
			Less: Provisions for Doubtful Debts	(1,600)	18,400
			Cash & Bank Balances		10,000
Total		1,76,200	Total		1,76,200

Amrish died on 31st March 2013, due to this reason the following adjustments were agreed upon:

- Land and Buildings be appreciated by 50%.
- Investments be valued at 6% less than the cost.

- All Debtors (except 20% which are considered as doubtful) were good.
- Stock to be reduced to 94%.
- Goodwill to be valued at 1 year's purchase of the average profits of the past five years.
- Amrish's share of profit to the date of death be calculated on the basis of average profits of the three completed years immediately preceding the year of death.

The profits of the last five years are as follows:

Year	2008	2009	2010	2011	2012	Total
Amount(₹)	23,000	28,000	18,000	16,000	20,000	1,05,000

The Life Policies have been shown at their Surrender Values, representing 10% of the sum assured in each case. The annual premium of ₹ 1,000 is payable every year on 1st August.

Give the necessary Journal Entries in the books of account, and prepare the Balance Sheet of the reconstituted Firm.

3(a) The following is the Profit and Loss Account of the Lalataksha Papers Ltd for the year ending 31st March: **[6 Marks]**

Particulars	₹	Particulars	₹
To Admn. Selling & Finance Expenses	5,75,804	By Balance b/d	4,12,632
To National Defence Fund	20,000	By Balance from Trading Account	38,35,414
To Directors Fees	54,780	By Interest on Investments	10,964
To Interest on Debentures	21,380	By Transfer Fee	537
To Managing Director's Remuneration	3,70,500	By Profit on Sale of Plant	
To Depreciation of Fixed Assets	4,69,713	Amount realized 40,000	
To Provision for Taxation	11,40,000	Less: Book Value (32,000)	8,000
To General Reserve	5,00,000		
To Debenture Sinking Fund	4,800		
To Investment Revaluation Reserve	9,800		
To Balance c/d	11,00,770		
Total	42,67,547	Total	42,67,547

As an Auditor you are required to comment on the Managerial Remuneration.

3(b) Muruga Ltd was incorporated on 1st August. It had acquired a running business from Govinda and Co. with effect from 1st April. The Purchase Consideration was ₹ 50,00,000, of which ₹ 10,00,000 was to be paid in cash and ₹ 40,00,000 in the form of fully paid Shares. Purchase Consideration due to Vendors was settled on 31st August. **[12 Marks]**

The Company also issued shares for ₹ 40,00,000 for cash. Machinery costing ₹ 25,00,000 was then installed. Assets acquired from the Vendors were: Machinery ₹ 30,00,000, Stock ₹ 6,00,000, and Patents ₹ 4,00,000.

During the year ended 31st March, the Total Sales were ₹ 1,80,00,000, the Sales per month in the first half year being one half of what they were in the latter half year.

The Net Profit of the Company, after charging the following expenses, was ₹ 10,00,000:

Particulars	₹
Depreciation	5,40,000
Director's Fees	86,000
Preliminary Expenses	10,000
Office Expenses	2,40,000
Selling Expenses	1,98,000
Interest to Vendors	50,000

Ascertain the pre–incorporation and post–incorporation Profits, and prepare the Balance Sheet of the Company as on 31st March. The Closing Stock was valued at ₹ 7,00,000.

4(a) The Balance Sheets of Nala Ltd and Kalki Ltd, as at 1st April were as following – **[12 Marks]**

Liabilities	Nala	Kalki	Assets	Nala	Kalki
Share Capital:			Fixed Assets (other than Goodwill)	5,00,000	3,50,000
Equity Shares of ₹ 10 each	6,00,000	4,00,000	Stock–in–Trade	95,000	75,000
Reserves	1,50,000	1,00,000	Debtors	1,40,000	1,00,000
Profit and Loss Account	75,000	60,000	Cash and Bank	1,17,500	60,000
Sundry Creditors	37,500	30,000	Preliminary Expenses	10,000	5,000
Total	8,62,500	5,90,000	Total	8,62,500	5,90,000

Nala Ltd took over and absorbed Kalki Ltd as on 1st October. No Balance Sheet of Kalki Ltd was prepared on the date of take–over. But the following information is made available to you:

1. In the six months ended 30th September, Kalki Ltd made a Net Profit of ₹ 60,000 after providing for depreciation at 10% per annum on Fixed Assets. Nala Ltd during that period had made a Net Profit of ₹ 1,45,000 after providing for depreciation at 10% per annum on the Fixed Assets.
2. Both the Companies had distributed dividends of 10% on 1st July.
3. Goodwill of Kalki Ltd on the date of takeover was estimated at ₹ 25,000 and it was agreed that the Stock of Kalki Ltd would be appreciated by ₹ 15,000 on the date of takeover.
4. Nala Ltd to issue shares to Shareholders of Kalki Ltd on the basis of the Intrinsic Value of Shares on the date of takeover.

Draft the Summary Balance Sheet of Nala Ltd after absorption.

4(b) From the following, prepare an Account Current to be rendered by A to B at 31st December, reckoning interest at 10% p.a. **[4 Marks]**

Date	Particulars	₹	Date	Particulars	₹
July 1	Balance owing from B	600	Sept. 01	B accepted A's Bill at 3 months date	250
Jul 17	Goods sold to B	50	Sept. 1	Cash received from B	350
Aug. 1	Cash received from B	650	Oct.22	Goods bought from B	30
Aug.19	Goods sold to B	700	Nov. 12	Goods sold to B	20
Aug.30	Goods sold to B	40	Dec. 14	Cash received from B	80

5(a) A fire occurred in the premises of Fireproof Co. on 31st August 2013. From the following particulars relating to the period from 1st April 2013 to 31st August 2013, you are requested ascertain the amount of claim to be filed with the Insurance Company for the Loss of Stock. The concern had taken an Insurance Policy for ₹ 60,000, which is subject to Average Clause. **[6 Marks]**

Particulars	₹
(i) Stock as per Balance Sheet at 31.03.2013	99,000
(ii) Purchases	1,70,000
(iii) Wages (including Wages for the Installation of a Machine ₹ 3,000)	50,000
(iv) Sales	2,42,000
(v) Sale Value of goods drawn by Partners	15,000
(vi) Cost of goods sent to Consignees on 16th August 2013, lying unsold with them	16,500
(vii) Cost of goods distributed as Free Samples	1,500

While valuing the Stock at 31st March 2013, ₹ 1,000 were written off in respect of a slow moving item, the cost of which was ₹ 5,000. A portion of these goods were sold at a loss of ₹ 500 on the original cost of ₹ 2,500. The remainder of the stock is now estimated to be worth the Original Cost. The value of goods salvaged was estimated at ₹ 20,000. The Average Rate of Gross Profit was 20% throughout.

5(b) What is the accounting entry to be passed as per AS–10 for the following situations – **[4 Marks]**

(i) Increase in value of Fixed Assets by ₹ 50,00,000 on account of Revaluation.

(ii) Decrease in value of Fixed Asset by ₹ 30,00,000 on account of Revaluation.

5(c) Rudra Ltd, an Investment Company, is finalizing its account for the Financial Year ending March 2013 in the month of August 2013. How will the following incomes to accounted for in the books of Rudra Ltd? **[6 Marks]**

(1) X Ltd has declared Interim Dividend which has not been received till 31–03–2013 but received on 25–04–2013.

(2) Y Ltd has declared dividend on 8th May 2013 for the year ending 31–03–2013, which has been approved by the Shareholders of the Company on 30th June 2013.

(3) Z Ltd, a Subsidiary of AQ Ltd, has declared dividend for the year ended 31–03–2013 on 25th May 2013, the AGM for which is to be held on September 2013.

6 Chandru keeps his books under Single Entry System. On 1st April of a financial year, his Statement of Affairs stood as follows – **[16 Marks]**

Capital and Liabilities	₹	Properties and Assets	₹
Capital Account	2,50,000	Non–Current Assets: Furniture and Fittings	1,00,000
Current Liabilities:		Current Assets: Stock	6,10,000
Trade Creditors	5,80,000	Trade Debtors	1,48,000
Bills Payable	1,25,000	Bills Receivable	60,000
Outstanding Expenses	45,000	Cash in Hand and at Bank	80,000
		Unexpired Insurance	2,000
Total	10,00,000	Total	10,00,000

The following was the summary of Cash Book for the year–ended 31st March:

Receipts	₹	Payments	₹
Cash in Hand & at Bank (Opening Balance)	80,000	Payments to Trade Creditors	75,07,000
Cash Sales	73,80,000	Payments for Bills Payable	8,15,000
Receipts from Trade Debtors	15,10,000	Sundry Expenses paid	6,20,700
Receipts for Bills Receivable	3,40,000	Drawings	2,40,000
		Cash in Hand & at Bank (Closing Balance)	1,27,300
Total	93,10,000	Total	93,10,000

Discount Allowed to Trade Debtors and received from Trade Creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire Insurance Premium ₹ 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, Fixtures and Fittings were subject to Depreciation at 15% p.a. on Diminishing Balance Method.
You are also informed about the following balances as on 31st March (year – end).

Particulars	₹	Particulars	₹
Stock	6,50,000	Bills Payable	1,40,000
Trade Debtors	1,52,000	Outstanding Expenses	5,000
Bills Receivable	75,000		

Chandru maintains a steady Gross Profit Ratio of 10% on Sales.

Prepare Trading and Profit and Loss A/c for the year–ended 31st March, and Balance Sheet as at that date.

7. Answer any four of the following – **[4 × 4 = 16 Marks]**

(a) From the following figures, prepare the General Ledger Adjustment Account in the Bought Ledger, and Sales Ledger Adjustment Account in the General Ledger –

Particulars	₹	Particulars	₹
Balance of Bought Ledger Adjt A/c at the beginning Cr.	3,860	Interest on Customer's overdue Accounts	400
Balance of Sales Ledger Adjt A/c at the beginning	2,750	Collection from Debtors	29,000
Credit Purchases	40,000	Sales Returns	800
Acceptances Received from Customers	2,500	Credit Sales	50,000
Allowances Received	400	Cash Sales	2,000
Credit transferred from Bought Ledger to Sales Ledger	75	Acceptances returned dishonoured	700
		Paid to Creditors	13,000

(b) The following amounts are due to Govind by Himavan. Himavan wants to pay off – (a) on 18th March or (b) on 14th July. Interest rate of 8% p.a. is taken into consideration.

Due Date	10th Jan	26th Jan (Republic Day)	23rd Mar	18th Aug (Sunday)
₹	5,000	10,000	30,000	40,000

Determine the amount to be paid in (a) and in (b).

(c) What do you mean by "Codification of Accounts"? What are its benefits? Give an example of "Codified Accounts".

(d) Journalise the following issues of Debentures in the books of the Issuing Company (each situation is independent)

(i) 25,000 nos. of 8% Debentures of ₹ 100 each, issued at a Premium of ₹ 15 per Debenture, the total amount is collected at the time of application itself.

(ii) Machinery worth ₹ 38 Lakhs was purchased. The amount due to the Vendor was settled by way of issue of 6% Debentures of ₹ 400 each, issued at a discount of 5%.

(iii) 50,000 nos. 9% Fully Convertible Debentures issued at face value of ₹ 50 each, the entire amount being collected at the time of application.

(e) Explain the conditions involved in an Amalgamation in the nature of Merger and Amalgamation in the nature of Purchase.