Gurukripa's Guideline Answers to May 2012 Exam Questions
IPCC Group I Accounting

Question No.1 is compulsory **(4 X 5 = 20 Marks).**
Answer **any five** questions from the **remaining six** questions **(16 X 5 = 80 Marks).** [Answer any 4 out of 5 in Q.7]

Question 1(a): AS – 7 M 12 (5 Marks)

Excellent Construction Company Limited undertook a contract to construct a building for ₹ 3 Crores on 1st September, 2011. On 31st March 2012, the Company found that it had already spent ₹ 1 Crore 80 Lakhs on the construction. Prudent estimate of additional cost of completion was ₹ 1 Crore 40 Lakhs. What amount should be charged, to revenue in the final accounts for the year ended on 31st March 2012, as per the provisions of AS – 7?

Solution: **Similar to Page No.B.5.13, Q.No.39, F (A/cs) – M 10, M 11**

- Estimated Total Contract Costs = Costs till date + Further Costs = 180 + 140 = **₹ 320 Lakhs.**
- Percentage of Completion = Costs incurred till date ÷ Estimated Total Costs = 180 ÷ 320 = **56.25%**
- **Total Expected Loss to be provided for =** Contract Price **less** Estimated Total Costs = 300 – 320 = **₹ 20 Lakhs.**

	Contract Revenue as per Para 21 = 56.25% of ₹ 300 Lakhs	= ₹ 168.75 Lakhs
Less:	Contract Costs as per Para 21	= ₹ 180.00 Lakhs
	Loss on Contract	= ₹ 11.25 Lakhs
Less:	Further provision required in respect of expected loss	= ₹ **8.75 Lakhs (Bal.Figure)**
	Expected Loss recognised as per Para 35	= ₹ 20.00 Lakhs

The relevant disclosures under AS – 7 are as follows –

	Particulars	Amount ₹ Lakhs
(a)	Contract Revenue	168.75
(b)	Contract Expenses Charged	180.00
(c)	Provision for Future Losses to be Charged	8.75

Question 1(b): AS – 13 M 12 (5 Marks)

Innovative Garments Manufacturing Company Limited invested in the Shares of another Company on 1st October 2011, at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March 2009. Market Value as on 31st March 2012 of above Investments are – Shares ₹ 2,25,000, Gold ₹ 6,00,000 and Silver ₹ 3,50,000.

How will the above Investments be shown in the books of accounts of Innovative Garments Manufacturing Limited for the year ending 31st March 2012, as per the provisions of AS – 13?

Solution: **Similar to Page No.A.5.39, Q.No.27, F (A/cs) – M 10**

Type of Investment	Valuation Principle	Carrying Amount
Equity Shares	Lower of Cost 2,50,000 or Market Value 2,25,000	₹ 2,25,000
Gold	Cost (Long Term Investment, since the asset is held for about 3 years)	₹ 4,00,000
Silver	Cost (Long Term Investment, since the asset is held for about 3 years)	₹ 2,00,000
Total		**₹ 15,50,000**

Question 1(c): AS – 6 & AS – 10 M 12 (5 Marks)

Progressive Company Limited has not charged depreciation for the year ended on 31st March 2012, in respect of a Spare Bus purchased during the Financial Year 2011–12 and kept ready by the Company for use as a stand–by, on the ground that, it was not actually used during the year. State your views with reference to AS – 6 "Depreciation Accounting".

Further, during the year, the Company made additions to its Factory by using its own workforce, at a cost of ₹ 4,50,000 as Wages and Materials. The lowest estimate from an Outside Contactor to carry out the same work was ₹ 6,00,000. The Directors contend that, since they are fully entitled to employ an Outside Contractor, it is reasonable to debit the Factory Building Account with ₹ 6,00,000. Comment whether the Directors' contention is right in view of AS – 10 "Accounting for Fixed Assets".

Solution: **AS – 6: Similar to Page No.B.4.9, Q.No.30, P (Aud) – M 01**
AS – 10: Same as Page No.B.7.7, Q.No.24, P (Aud) – N 01

- **AS – 6:** Depreciation has to be charged if asset is "ready for use", whether put to use or not.
- **AS – 10:** ₹ 4,50,000 being actual cost, should be capitalized. Notional Amounts / Internal Profits are not relevant.

Question 1(d): AS – 14 M 12 (5 Marks)

Briefly explain the types of Amalgamations.

Solution: **Refer Page No.A.11.2 Q.No.4 F (A/cs) – RTP**

Question 2: Internal Reconstruction M 12 (16 Marks)

Platinum Ltd has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the Company as on 31st March 2012 before reconstruction –

Equity and Liabilities	₹	Assets	₹
Share Capital		Goodwill	22,00,000
50,000 Shares of ₹ 50 each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 Shares of ₹ 50 each ₹ 40 paid up	40,00,000	Machinery	8,50,000
Capital Reserve	5,00,000	Computers	5,20,000
8% Debentures of ₹ 100 each	4,00,000	Stock	3,20,000
12% Debentures of ₹ 100 each	6,00,000	Trade Debtors	10,90,000
Trade Creditors	12,40,000	Cash at Bank	2,68,000
Outstanding Expenses	10,60,000	Profit & Loss Account	7,82,000
Total	1,03,00,000	Total	1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

Particulars	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

Following scheme of Internal Reconstruction was framed and implemented, as approved by the Court and concerned parties:

1. Uncalled Capital is to be called up in full and then all the Shares to be converted into Equity Shares of ₹ 40 each.
2. The existing Shareholders agree to subscribe in cash, fully paid–up Equity Shares of ₹ 40 each for ₹ 12,50,000.
3. Trade Creditors are given option to accept fully paid Equity Shares of ₹ 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 7,50,000 accept Equity Shares and rest of them opted for cash towards full and final settlement of their claim.
4. Shiv agrees to cancel Debentures amounting to ₹ 2,00,000 out of Total Debentures due to him and agree 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.
5. Ganesh agrees to cancel Debentures amounting to ₹ 50,000 out of Total Debentures due to him and agree to accept 15% Debentures for the balance amount due.
6. Land & Building to be revalued at ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Stock at ₹ 3,50,000 and Trade Debtors at 10% less to as they are appearing in Balance Sheet as above.
7. Outstanding Expenses are fully paid in cash.
8. Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for the above transactions and draft the Company's Balance Sheet immediately after the reconstruction.

Solution: **Similar to Page No.A.10.38, Q.No.17, P (A/cs) – N 00**

Note: Either the word "Capital Reduction" A/c or "Reconstruction" A/c can be used.

1. Journal Entries

S.No.	Particulars		Dr. (₹)	Cr. (₹)
1.	Bank A/c (1,00,000 Shares × ₹ 10)	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Being the balance of ₹ 10 per Share on 1,00,000 Equity Shares called up and received as per approved Reconstruction Scheme)			
2.	Equity Share Capital (₹ 50) A/c	Dr.	75,00,000	
	To Equity Share Capital (₹ 40) A/c			60,00,000
	To Reconstruction A/c			15,00,000
	(Being the reduction of Equity Shares of ₹ 50 each to Shares of ₹ 40 each, as per approved Reconstruction Scheme)			
3.	Bank A/c (₹ 12,50,000 ÷ ₹ 40 = 31,250 Shares)	Dr.	12,50,000	
	To Equity Share Capital A/c			12,50,000
	(Being fully paid up Shares of ₹ 40 each issued to Existing Shareholders, as per approved Reconstruction Scheme)			
4.	Sundry Creditors A/c	Dr.	12,40,000	
	To Eq. Share Capital (₹ 40) A/c (₹ 7,50,000 ÷ ₹ 40 = 18,750 Shares)			7,50,000
	To Bank A/c [70% of (12,40,000 – 7,50,000)]			3,43,000
	To Reconstruction A/c (balancing figure)			1,47,000
	(Being settlement to Creditors, as per approved Reconstruction Scheme)			
5.	8% Debentures A/c	Dr.	3,00,000	
	12% Debentures A/c	Dr.	4,00,000	
	To Shiv A/c			7,00,000
	(Being the total amount due to Shiv, transferred to his account)			
6.	Bank A/c	Dr.	1,00,000	
	To Shiv A/c			1,00,000
	(Being amount received from Shiv under Reconstruction Scheme)			
7.	8% Debentures A/c	Dr.	1,00,000	
	12% Debentures A/c	Dr.	2,00,000	
	To Ganesh A/c			3,00,000
	(Being the total amount due to Ganesh, transferred to his account)			
8.	Shiv A/c	Dr.	8,00,000	
	To 15% Debentures A/c			6,00,000
	To Reconstruction A/c			2,00,000
	(Being cancellation of ₹ 2,00,000 out of amount due to Shiv, and issue of 15% Debentures for balance amount as per approved Reconstruction Scheme)			
9.	Ganesh A/c	Dr.	3,00,000	
	To 15% Debentures A/c			2,50,000
	To Reconstruction A/c			50,000
	(Being cancellation of ₹ 50,000 out of amount due to Ganesh, and issue of 15% Debentures for balance amt as per approved Reconstruction Scheme)			
10.	Land and Building A/c (51,84,000 – 42,70,000)	Dr.	9,14,000	
	Stock A/c (3,50,000 – 3,20,000)	Dr.	30,000	
	To Reconstruction A/c			9,44,000
	(Being upward valuation of Assets as per approved Reconstruction Scheme)			
11.	Reconstruction A/c	Dr.	3,59,000	
	To Machinery A/c (8,50,000 – 7,20,000)			1,30,000
	To Computers A/c (5,20,000 – 4,00,000)			1,20,000
	To Sundry Debtors A/c (10% of 10,90,000)			1,09,000
	(Being decrease in valuation of Assets as per approved Reconstruction Scheme)			
12.	Outstanding Expenses A/c	Dr.	10,60,000	
	To Bank A/c			10,60,000
	(Being settlement of O/s Exps as per approved Reconstruction Scheme)			1,20,000

S.No.	Particulars		Dr. (₹)	Cr. (₹)
13.	Reconstruction A/c	Dr.	29,82,000	
	To Goodwill A/c			22,00,000
	To Profit and Loss A/c			7,82,000
	(Being Goodwill and Losses w/off as per approved Reconstruction Scheme)			
14.	Capital Reserve A/c	Dr.	5,00,000	
	To Reconstruction A/c			5,00,000
	(Being Capital Reserve a/c trfd as per approved Reconstruction Scheme)			

2. Reconstruction Account

Particulars	₹	Particulars	₹
To Goodwill A/c (written off)	22,00,000	By Equity Share Capital A/c (Reduction of Capital)	15,00,000
To P & L A/c (written off)	7,82,000	By Shiv A/c (Cancellation of Debt)	2,00,000
To Machinery A/c (written off)	1,30,000	By Ganesh A/c (Cancellation of Debt)	50,000
To Computers A/c (written off)	1,20,000	By Sundry Creditors (Cancellation of Debt)	1,47,000
To Sundry Debtors A/c (written off)	1,09,000	By Land and Building A/c (Upward Revaluation)	9,14,000
		By Stock A/c (Upward Revaluation)	30,000
		By Capital Reserve A/c (Transfer)	5,00,000
Total	**33,41,000**	**Total**	**33,41,000**

3. Cash / Bank Account

Particulars	₹	Particulars	₹
To balance b/d	2,68,000	By Sundry Creditors (Settlement)	3,43,000
To Equity Share Capital A/c (Final Call)	10,00,000	By Outstanding Expenses (Settlement)	10,60,000
To Equity Share Capital A/c (Fresh Issue)	12,50,000	By balance c/d **(balancing figure)**	**12,15,000**
To Shiv A/c (Recd for Debentures)	1,00,000		
Total	**33,41,000**	**Total**	**33,41,000**

4. Balance Sheet of ……Limited (and Reduced) as at 31st March (after reconstruction)

	Particulars as at 31st March		Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**				
(1)	**Shareholders' Funds:**	– Share Capital	**B–1**	80,00,000	
(2)	**Non–Current Liabilities:**	– Long Term Borrowings: 15% Debentures		8,50,000	
	Total			**88,50,000**	
II	**ASSETS**				
(1)	**Non–Current Assets**	– Fixed Assets: Tangible Assets	**B–2**	63,04,000	
(2)	**Current Assets:**				
	(a) Inventories	– Stock Given 3,20,000 + Revaln 30,000		3,50,000	
	(b) Trade Receivables	– Given 10,90,000 less Revaln 1,09,000		9,81,000	
	(c) Cash and Cash Equivalents	– See **Note** below		12,15,000	
	Total			**88,50,000**	

Schedule B–1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: ……Equity Shares of …… each		
Issued, Subscribed & Paid up: 2,00,000 Equity Shares of ₹ 40 each **Note:** Given 1,50,000 + Fresh Issue 31,250 + Allotted to Creditors 18,750 = 2,00,000 Shares)	**80,00,000**	

Schedule B–2: Tangible Assets

Particulars		This Year	Prev. Yr
(a) Land & Building	(Given 42,70,000 + Revaluation 9,14,000)	51,84,000	
(b) Machinery	(Given 8,50,000 less Revaluation 1,30,000)	7,20,000	
(c) Computers	(Given 5,20,000 less Revaluation 1,20,000)	4,00,000	
Total		**63,04,000**	

Question 3(a): Total Debtors and Total Creditors A/c M 12 (8 Marks)

Ice Limited gives you the following information to find out Total Sales and Total Purchases:

Particulars	₹	Particulars	₹
Debtors as on 01.04.2011	70,000	Discount allowed by Suppliers	7,000
Creditors as on 01.04.2011	81,000	Discount allowed to Customers	9,000
Bills Receivable received during the year	47,000	Endorsed Bills Receivable dishonoured	3,000
Bills Payable issued during the year	53,000	Sales Return	11,000
Cash received from Customers	1,56,000	Bills Receivable Discounted	8,000
Cash paid to Suppliers	1,72,000	Discounted Bills Receivable dishonoured	2,000
Bad Debts Recovered	16,000	Cash Sales	1,68,500
Bills Receivables endorsed to Creditors	27,000	Cash Purchases	1,97,800
Bills Receivables dishonoured by Customers	5,000	Debtors s on 31.03.2012	82,000
		Creditors as on 31.03.2012	95,000

Solution: **1. Total Debtors A/c**

Particulars	**₹**	**Particulars**	**₹**
To balance b/d (given)	70,000	By Cash/ Bank A/c (Cash Received)	1,56,000
To Bills Receivable A/c (Dishonoured)	5,000	By Discount Allowed A/c	9,000
To Creditors A/c (Dishonour of endorsed B/R)	3,000	By Bills Receivable A/c (B/R Received)	47,000
To Bank A/c (Discounted B/R dishonoured)	2,000	By Sales Returns A/c	11,000
To Sales A/c **(bal. fig. = Credit Sales)**	**2,25,000**	By balance c/d (given)	82,000
Total	**3,05,000**	**Total**	**3,05,000**

2. Total Creditors A/c

Particulars	**₹**	**Particulars**	**₹**
To Cash/ Bank A/c (Payment)	1,72,000	By balance b/d	81,000
To Discount Received A/c	7,000	By Debtors A/c (Dishonour of endorsed B/R)	3,000
To Bills Payable A/c (Issued)	53,000	By Purchases A/c **(bal. fig. = Credit Purc.)**	**2,70,000**
To Bills Receivable (Endorsement)	27,000		
To balance c/d (given)	95,000		
Total	**3,54,000**	**Total**	**3,54,000**

Answer:

1. **Total Sales** = Credit Sales ₹ 2,25,000 + Cash Sales ₹ 1,68,000 = **₹ 3,93,500**
2. **Total Purchases =** Credit Purchases ₹ 2,70,000 + Cash Purchases ₹ 1,97,800 = **₹ 4,67,800**

Question 3(b): Partnership Basics – P&L Appropriation A/c M 12 (8 Marks)

Good, Better and Best are in Partnership sharing profits and losses in the ratio 3:2:4. Their Capital Account balances as on 31st March 2012 are as follows: Good ₹ 1,70,000 (Cr), Better ₹ 1,10,000 (Cr), Best ₹ 1,22,000 (Cr)

Following further information provided:

1. ₹ 22,240 is to be transferred to General Reserve.
2. Good, Better and Best are paid monthly salary in cash amounting to ₹ 2,400, ₹ 1,600 and ₹ 1,800 rspectively.
3. Partners are allowed interest on their Closing Capital Balance at 6% p.a. and are charged interest on drawings at 8% p.a.
4. Good and Best are entitled to Commission at 8% and 10% respectively of the Net Profit before making any appropriation.
5. Better is entitled to Commission at 15% of the Net Profit before charging Interest on Drawings but after making all other appropriations.
6. During the year, Good withdrew ₹ 2,000 at the beginning of every month, Better ₹ 1,750 at the end of every month and Best ₹ 1,250 at the middle of every month.
7. The Firm's Accountant is entitled to a Salary of ₹ 2,000 per month and a Commission of 12% of Net Profit after charging such Commission.

The Net Profit of the Firm for the year ended 31st March 2012, before providing for any of the above adjustments was ₹ 2,76,000.

You are required to prepare Profit and Loss Appropriation Account for the year ended on 31st March 2012.

Solution: **Profit and Loss Appropriation A/c**

Particulars		₹	Particulars		₹
To Accountant's Salary (2,000 × 12)		24,000	By Net Profit b/d		2,76,000
To Accountant's Commission [(2,76,000 – 24,000) × 12÷ 112]		27,000			
To Net Profit c/d **(bal. fig.)**		**2,25,000**			
Total		**2,76,000**	**Total**		**2,76,000**
To General Reserve		22,240	By Net Profit b/d		2,25,000
To Salary:			By Interest on Drawings:		
– Good (2,400 × 12)	28,800		Good (24,000 × 8% × 6.5 / 12)	1,040	
– Better (1,600 × 12)	19,200		Better (21,000 × 8% × 5.5 / 12)	770	
– Best (1,800 × 12)	21,600	69,600	Best (15,000 × 8% × 5.5 / 12)	600	2,410
To Interest on Capital:					
– Good (1,70,000 × 6%)	10,200				
– Better (1,10,000 × 6%)	6,600				
– Best (1,22,000 × 6%)	7,320	24,120			
To Commission:					
– Good (2,25,000 × 8%)	18,000				
– Best (2,25,000 × 10%)	22,500				
– Better (68,540 × 15%)	10,281	50,781			
To Net Profit tfrd to Capital A/cs:					
– Good (60,669 × 3/9)	20,223				
– Better (60,669 × 2/9)	13,482				
– Best (60,669 × 4/9)	26,964	**60,669**			
Total		**2,27,410**	**Total**		**2,27,410**

Notes:

1. **Salary and Commission to Firm's Accountant** is in the nature of charge against Firm's Profits, and not an appropriation of Profit to Partners. Hence, this amount is first debited to arrive at Net Profit available for appropriation.

2. **Better's Commission** = [Net Profit 2,25,000 **Less** (General Reserve 22,240 + Partner's Salary 69,600 + Interest on Partner's Capital 24,120 + Commission of Good & Best 40,500)] × 15% Commission Rate = **₹ 10,281**

Question 4: NPO – Preparation of Receipts and Payments A/c and B/Sheet M 12 (16 Marks)

From the following Income & Expenditure A/c of Premium Club for the year ended 31st March 2012, you are required to prepare Receipts & Payments A/c for the year ended 31st March 2012, and Balance Sheet as on that date:

Expenditure	₹	Income	₹
To Salaries	1,18,800	By Subscriptions	4,20,000
To Rent	2,16,000	By Entrance Fee	1,20,000
To Printing & Telephone	28,000	By Profit on sale of Sports Material	5,500
To Postage & Telephone	41,600	By Interest on 8% Government Bonds	12,000
To Electricity Charges	38,500	By Sale of Old Newspaper	11,600
TO Garden Upkeep	19,300		
To Sports Material Utilized	62,800		
To Repairs & Maintenance	18,700		
To Depreciation	13,000		
To Miscellaneous Expenses	5,700		
To Surplus carried to Capital Fund	3,500		
Total	5,69,100	Total	5,69,100

The following additional information is provided to you:

(i) Position at Year Beginning and End –

	Balances as on 01.04.2011	Balances as on 31.03.2012
Fixed Assets	2,40,000	?
Bank Balance	8,300	?
Stock of Sports Material	43,450	35,670
Outstanding Subscription	10,200	5,700
Subscription received in advance	2,400	4,900
8% Government Bonds	1,50,000	1,50,000
Outstanding Salaries	16,000	14,300
Outstanding Rent	21,000	15,000
Advance for Stationery	1,350	1,550
Outstanding Repairs & Maintenance	1,200	Nil
Creditors for Purchase of Sports Material	3,400	4,200

(ii) Some of Fixed Assets were purchased on 01.10.2011 and Depreciation is to be charged at 5% p.a.

(iii) Sports Material worth ₹ 72,000 was purchased on credit during the year.

(iv) The Club became a Member of State Table Tennis Association on 01.01.2012 when it paid fee up to 31.12.2012.

(v) 50% of Entrance Fee is to be capitalized.

(vi) Interest on 8% Government Bonds was received for two quarters only.

(vii) A Fixed Deposit of ₹ 80,000 was made on 31st March 2012.

Solution: **A. Receipts and Payments Account for the year ended 31.03.2012**

Receipts	₹	Payments	₹
To balance b/d	8,300	By Fixed Assets **(WN 3 Note)**	40,000
To Sale of Sports Material **(WN 4)**	22,480	By Salary **(WN 2)**	1,20,500
To Entrance Fees (1,20,000 ÷ 50%)	2,40,000	By Rent **(WN 2)**	2,22,000
To Interest on Government Bonds received	6,000	By Repairs **(WN 2)**	19,900
(1,50,000 × 8% × 2 / 4)		By Stationery **(WN 5)**	28,200
To Subscriptions A/c (received) **(WN 1)**	4,27,000	By Creditors for Sports Materials **(WN 6)**	71,200
To Sale of Old Newspapers	11,600	By Membership Fees (3,200 × 4 Qtrs.)	12,800
		By Fixed Deposit	80,000
		By Postage & Telephone	41,600
		By Electricity	38,500
		By Garden Upkeep	19,300
		By Miscellaneous Expenses	5,700
		By balance c/d **(bal. fig.)**	**15,680**
Total	**7,15,380**	**Total**	**7,15,380**

B. Balance Sheet as on 31.03.2012

Equity and Liabilities			₹	Assets		₹
Capital Fund:				**Non–Current Assets:**	Fixed Assets	2,67,000
	Opening Balance	4,09,300			8% Govt Bonds	1,50,000
Add:	Surplus	3,500			Fixed Deposits	80,000
Add:	Entrance Fee capitalized	1,20,000	5,32,800	**Current Assets:**		
Current Liabilities:					Stock of Sports Materials	35,670
	Creditors for Sports Materials		4,200		Subscriptions Receivable	5,700
	Subscriptions Received in Advance		4,900		Advance for Stationery	1,550
	Salary Expenses Outstanding		14,300		Int. Rec'ble (1,50,000 × 8% × 2/4)	6,000
	Rent Expenses Outstanding		15,000		Prepaid Membership Fee (3,200×9/3)	9,600
					Cash at Bank	15,680
Total			**5,71,200**	**Total**		**5,71,200**

Working Notes:

1. Subscription Account

Particulars	₹	Particulars	₹
To balance b/d (Opg Bal of Subs. Rec'ble)	10,200	By balance b/d (Opg Bal of Subs. Recd in Adv.)	2,400
To Income and Expenditure A/c – Subs. Income recognised during the year	4,20,000	By Cash / Bank – Subscription Received during the year **(balancing figure)**	**4,27,000**
To balance c/d (Clg Bal of Subs. Recd in Adv.)	4,900	By balance c/d (Clg Bal of Subs. Rec'ble)	5,700
Total	**4,35,100**	**Total**	**4,35,100**

2. Expenses Outstanding (in ₹)

Particulars	Salary	Rent	R & M	Particulars	Salary	Rent	R & M
To Receipts & Pymts A/c (Paid during the year)	**1,20,500**	**2,22,000**	**19,900**	By balance b/d	16,000	21,000	1,200
To balance c/d	14,300	15,000	Nil	By Income & Exp. A/c (Exps for the year)	1,18,800	2,16,000	18,700
Total	**1,34,800**	**2,37,000**	**19,900**	**Total**	**1,34,800**	**2,37,000**	**19,900**

3. Fixed Assets Account

Particulars	₹	Particulars	₹
To balance b/d	2,40,000	By Depreciation A/c **(Note)**	13,000
To Bank – FA Purchases during the year **(Note)**	40,000	By balance c/d **(balancing figure)**	**2,67,000**
Total	**2,80,000**	**Total**	**2,80,000**

Note: Depreciation on existing Fixed Asset = ₹ 2,40,000 × 5% = ₹ 12,000

Depreciation on New Fixed Asset = ₹ 13,000 – ₹ 12,000 = ₹ 1,000 = 5% for 6 months = 2.5% Rate

Cost of New Asset = $\frac{1000 \times 100}{2.5}$ = ₹ 40,000

4. Sports Equipment Account

Particulars	₹	Particulars	₹
To balance b/d	43,450	By Income & Exp. A/c – Consumption (Given)	62,800
To Bank – Purchase	72,000	By Bank **(Sale Proceeds) (bal.figure)**	**22,480**
To Income & Expenditure A/c (Gain on Sale of Sports Material) (Given)	5,500	By balance c/d (Given)	35,670
Total	**1,20,950**	**Total**	**1,20,950**

5. Stationery Account

Particulars	₹	Particulars	₹
To balance b/d (Advance at year beginning)	1,350	By Income & Expenditure A/c – given	28,000
To Bank (paid during the year) **(bal. fig.)**	**28,200**	By balance c/d (Advance at year end)	1,550
Total	**29,550**	**Total**	**29,550**

6. Creditors for Sports Material Account

Particulars	₹	Particulars	₹
To Bank (paid during the year) **(bal. fig.)**	**71,200**	By balance b/d (given)	3,400
To balance c/d (given)	4,200	By Purchases (given)	72,000
Total	**75,400**	**Total**	**75,400**

7. Balance Sheet as at 01.04.2011 (To find out Opening Balance of Capital Fund)

Equity and Liabilities	₹	Assets	₹
Capital Fund (balancing figure)	**4,09,300**	**Non–Current Assets:** Fixed Assets	2,40,000
Current Liabilities:		8% Govt Bonds	1,50,000
Creditors for Sports Material	3,400	**Current Assets:**	
Subscriptions Received in Advance	2,400	Stock of Sports Materials	43,450
Salary Expenses Outstanding	16,000	Subscriptions Receivable	10,200
Rent Expenses Outstanding	21,000	Advance for Stationery	1,350
Repairs Expenses Outstanding	1,200	Cash at Bank	8,300
Total	**4,53,300**	**Total**	**4,53,300**

Question 5(a): Hire Purchase A/cs – Stock and Debtors System M 12 (8 Marks)

Multistore Ltd sells goods both on cash and hire purchase basis and record hire–purchase transaction on "Stock and Debtors System". It closes its books of accounts on 31st March every year. On 1st May 2011, it sold to Manas a Scooter and a LCD TV.

The other information are as follows:

Particulars	Scooter	LCD TV
Cost Price	30,000	40,000
Down Payment	5,000	6,000
Number of Installments Payable	12	6
Amount of each Installment	2,800	7,600
Mode of Payment	Monthly	Quarterly
1st Installment due on	1st June 2011	1st July 2011

Manas paid all the instalments due except for those due on 1st January 2012. It was decided that Multistore Limited will take back Scooter at an agreed price of ₹ 22,000 and excess amount, if any, will be adjusted against the instalments due of LCD TV. Scooter repossessed was sold for ₹ 24,500 after incurring Repair Charges of ₹1,000.

Prepare necessary Ledger Accounts to record the above transactions and find out the profit.

Solution:

1. Hire Purchase Stock A/c (in ₹)

Particulars	Scooter	LCD TV	Particulars	Scooter	LCD TV
To Goods sold on HP A/c	38,600	51,600	By HP Debtors A/c:		
			– Down Payment	5,000	6,000
			– Other Instalments	22,400	22,800
			By Repossessed Stock A/c	11,200	–
			By balance c/d **(bal. fig.)**	–	**22,800**
Total	**38,600**	**51,600**	**Total**	**38,600**	**51,600**

2. Hire Purchase Debtors A/c (in ₹)

Particulars	Scooter	LCD TV	Particulars	Scooter	LCD TV
To HP Stock A/c:			By Bank A/c:		
– Down Payment	5,000	6,000	– Down Payment	5,000	6,000
– Other Instalments	22,400	22,800	– Other Instalments	19,600	15,200
To balance c/d **(bal. fig.)**		**400**	By Repossessed Stock A/c	2,800	8,000
Total	**27,400**	**29,200**	**Total**	**27,400**	**29,200**

3. Hire Purchase Adjustment A/c

Particulars	₹	Particulars	₹
To Stock Reserve (on Closing Stock of LCD TV) (22,800 × 11,600 ÷ 51,600)	5,125	By Goods sold on HP A/c	
		– Scooter	8,600
To HP Profit for the period (**bal. fig.**)	**16,575**	– LCD TV	11,600
(Transferred to General P&L A/c)		By Goods Repossessed A/c	1,500
Total	**21,700**	**Total**	**21,700**

4. Repossessed Stock A/c

Particulars	₹	Particulars	₹
To HP Debtors A/c		By balance c/d	22,000
– Scooter	2,800		
– LCD TV **(bal. fig.)**	**8,000**		
To HP Stock A/c (Scooter)	11,200		
Total	**22,000**	**Total**	**22,000**
To balance b/d	22,000	By Bank A/c	24,500
To Bank A/c	1,000		
TO HP Adjustment A/c	1,500		
Total	**24,500**	**Total**	**24,500**

5. Goods Sent on HP A/c (in ₹)

Particulars	Scooter	LCD TV	Particulars	Scooter	LCD TV
To HP Adjustment A/c	8,600	11,600	By HP Stock A/c	38,600	51,600
To Purchases A/c / General Trading A/c – **(bal. fig.)**	30,000	40,000			
Total	**38,600**	**51,600**	**Total**	**38,600**	**51,600**

Question 5(b): Investment Accounts M 12 (8 Marks)

Mr.Brown has made following transactions during the financial year 2011–12:

Date	Particulars
01.05.2011	Purchases 24,000 12% Bonds of ₹ 100 each at ₹ 84 cum interest. Interest is payable on 30th September and 31st March every year.
15.06.2011	Purchases 1,50,000 Equity Shares of ₹ 10 each in Alpha Limited for ₹ 25 each through a Broker, who charged Brokerage at 2%.
10.07.2011	Purchased 60,000 Equity Shares of ₹ 10 each in Beeta Limited for ₹ 44 each through a Broker, who charged Brokerage at 2%.
14.10.2011	Alpha Limited made a Bonus Issue of two Shares for every three Shares held.
31.10.2011	Sold 80,000 Shares in Alpha Limited for ₹ 22 each.
01.01.2012	Received 15% Interim Dividend on Equity Shares of Alpha Limited.
15.01.2012	Beeta Limited made a Rights Issue of one Equity Share for every four Shares held at ₹ 5 per Share. Mr.Brown exercised his option for 40% of his entitlements and sold the balance rights in the market at ₹ 2.25 per Share.
01.03.2012	Sold 15,000 12% Bonds at ₹ ex–interest.
15.03.2012	Received 18% Interim Dividend on Equity Shares of Beeta Limited.
	Interest on 12% Bonds was duly received on due dates.

Prepare separate Investment Account for 12% Bonds, Equity Shares of Alpha Limited and Equity Shares of Beeta Limited in the books of Mr.Brown for the year ended on 31st March 2012.

Solution:

1. Computation of Interest at 12% p.a. on various dates

Date	Particulars	FV (₹)	Period (months)	Int. Amt at 12% p.a (₹)
1st May	Interest on Cum–Interest Purchase (24,000 × ₹ 100)	24,00,000	1	24,000
30th Sept	Interest Received on Holding	24,00,000	6	1,44,000
1st Mar	Interest on Ex–Interest Sale (15,000 × ₹ 100)	3,00,000	5	10,000
31st Mar	Interest Received on Holding (12,00,000 – 3,00,000)	9,00,000	6	36,000

2. Computation of Cost of Purchase

	Particulars	Computation	₹
	Amount paid on 1st May	24,000 × ₹ 84	20,16,000
Less:	Interest (for Cum–Interest purchase only)	**(WN 1)**	(24,000)
	Net Cost of Purchase		**19,92,000**

3. Computation of Profit / (Loss) on Sale of Investments

	Particulars	Computation	₹
	Sale Proceeds	15,000 × ₹ 90	13,50,000
Less:	Interest (for Cum–Interest Sale only)		–
Less:	Cost on FIFO basis	₹ 19,92,000 × $\frac{15,00,000}{24,00,000}$	(12,45,000)
	Profit / (Loss) on Sale		**1,05,000**

4. Investment in 8% Bonds Account

Date	Item	FV	Int.	Cost	Date	Item	FV	Int.	Cost
1 May	To Bank	24,00,000	24,000	19,92,000	30 Sept	By Bank (Int recd)	–	1,44,000	–
1 Mar	To P&L A/c – Profit tfr	–	–	1,05,000	1 Mar	By Bank	15,00,000	75,000	13,50,000
31Mar	To Profit & Loss A/c – Interest tfr		**2,49,000**		31 Mar	By Bank (Int recd)	–	54,000	–
					31 Mar	By bal c/d	**9,00,000**		**7,47,000**
	Total	**24,00,000**	**2,73,000**	**20,97,000**		**Total**	**24,00,000**	**2,73,000**	**20,97,000**

5. Investment in Equity Shares of Alpha Ltd

Date	Particulars	Shares	Dvd.	Cost	Date	Particulars	FV	Dvd.	Cost
15 June	To Bank	1,50,000	–	38,25,000	31 Oct	By Bank (Sale at 22 per Share)	80,000	–	17,60,000
14 Oct	To Bonus Shares	1,00,000	–	–	1 Jan	By Bank (Dividend)	–	25,500	–
31Mar	To P&L – Dividend	–	2,25,000	–	1 Jan	To P&L A/c – Loss on Sale			2,80,000
					31 Mar	By bal c/d	**1,70,000**	–	**17,85,000**
	Total	**2,50,000**	**25,500**	**45,00,000**		**Total**	**2,50,000**	**25,500**	**45,00,000**

Note: Cost of Investments sold = ₹ 38,25,000 × $\frac{80,000 \text{ Shares}}{1,50,000 \text{ Shares}}$ = ₹ 20,40,000.

Hence, **Loss on Sale** = Sale Proceeds ₹ 17,60,000 less Cost as above ₹ 20,40,000 = **₹ 2,80,000.**

6. Investment in Equity Shares of Beeta Ltd

Date	Particulars	Shares	Dvd.	Cost	Date	Particulars	FV	Dvd.	Cost
10 Jul	To Bank	60,000	–	26,92,800	31 Mar	By bal c/d	**66,000**	**–**	**27,22,800**
14 Oct	To Bank (Rights)	6,000	–	30,000					
	Total	**66,000**	**–**	**27,22,800**		**Total**	**66,000**	**–**	**27,22,800**

Note: Total Rights Entitlement = 60,000 × 1/4th = 15,000 Shares. Of these, 40%, i.e. 6,000 Shares are subscribed for at ₹ 5 per Share. The balance 60%, i.e. 9,000 Shares are renounced at ₹ 2.25 per Share for ₹ 20,250. This amount received will be considered directly in the P&L A/c.

Question 6: Loss of Stock and Loss of Profit M 12 (16 Marks)

Ramda & Sons had taken out policies (without Average Clause) both against Loss of Stock and Loss of Profit, for ₹ 2,10,000 and ₹ 3,20,000 respectively. A fire occurred on 1st July 2011, and as a result of which sales were seriously affected for a period of 3 months.

Trading and Profit & Loss A/c of Ramda & Sons for the year ended on 31st March 2011 is given below.

Particulars	₹	Particulars	₹
To Opening Stock	96,000	By Sales	12,00,000
To Purchases	7,56,000	By Closing Stock	1,85,000
To Wages	1,58,000		
To Manufacturing Expenses	75,000		
To Gross Profit c/d	3,00,000		
Total	13,85,000	Total	13,85,000

Particulars	₹	Particulars	₹
To Administrative Expenses	83,600	By Gross Profit b/d	3,00,000
To Selling Expenses (Fixed)	72,400		
To Commission on Sales	34,200		
To Carriage Outwards	49,800		
To Net Profit	60,000		
Total	3,00,000	Total	3,00,000

Further detail provided is as below:

(a) Sales, Purchases, Wages and Manufacturing Expenses for the period 01.04.2011 to 30.06.2011 were ₹ 3,36,000, ₹ 2,14,000, ₹ 51,000 and ₹ 12,000 respectively.

(b) Other Sales figure were as follows:

From 01.04.2010 to 30.06.2010	₹ 3,00,000
From 01.07.2010 to 30.09.2010	₹ 3,20,000
From 01.07.2011 to 30.09.2011	₹ 48,000

(c) Due to decrease in the Material Cost, Gross Profit during 2011–12 was expected to increase by 5% on Sales.

(d) ₹ 1,98,000 were additionally incurred during the period after fire. The amount of policy included ₹ 1,56,000 for Expenses leaving ₹ 42,000 uncovered.

Compute the Claim for Stock, Loss of Profit and Additional Expenses.

Solution: **A. Computation of Claim for Loss of Stock**

1. Memorandum Trading Account (1st Apr 2011 to 30th Jun 2011)

Particulars	₹	Particulars	₹
To Opening Stock	1,85,000	By Sales	3,36,000
To Purchases	2,14,000	By Stock on the date of fire **(balancing figure)**	**2,26,800**
To Wages	51,000		
To Manufacturing Expenses	12,000		
To Gross Profit = 33% of Sales **(See Note)**	1,00,800		
Total	**5,62,800**	**Total**	**5,62,800**

Note: Normal GP Rate for **Loss of Stock Policy** (based on last year's Trading A/c) = $\frac{3,00,000}{12,00,000}$ = 25**%.**

There is a 5% increase in GP due to decrease in Material Costs, Adjusted GP Rate = 25% + 5% = **30%**

2. Statement of Insurance Claim

	Particulars	₹
	Value of Stock Lost on 30th June **(WN 1)**	2,26,800
Less:	Salvaged Stock	Nil
	Net Claim	**2,26,800**

B. Computation of Claim for Loss of Profit

1. Period of Indemnity

Policy Period: (assumed)	= 3 months	whichever is lower.	**Result: 3 months**
Actual Dislocation: 1st July 2011 to 31st Sept 2011	= 3 months		

2. Computation of GP Rate

	Basic GP Rate = $\frac{\text{Net Profit + Insured Standing Charges}}{\text{Sales}} = \frac{60,000 + 1,56,000}{12,00,000}$	18%
Add:	Adjustment for Increase in GP Rate	5%
	Adjusted GP Rate for Claim purposes	**23%**

3. Computation of Insurable Amount

	Particulars	₹
	Annual Turnover, i.e. Turnover for 12 months preceding the date of Fire **(See Note below)**	12,00,000
Less:	Adjustment for Increase in Turnover (12% of ₹ 12,00,000) = **(approx.) (See Note below)**	1,44,000
	Adjusted Annual Turnover	13,44,000
	GP on Annual Adjusted Turnover at 23% on ₹ 13,44,000 = Insurable Amount	**3,09,120**

Note 1: Trend in Sales and is computed as under –

- Sales for the period 1st Apr to 30th June of Year 2010 (Given) = ₹ 3,00,000
- Sales for the period 1st Apr to 30th June of Year 2011 (Given) = ₹ 3,36,000
- Percentage Increase in Sales = $\frac{3,36,000 - 3,00,000}{3,00,000}$ = 12**%**

Note 2: Computation of Turnover for 12 months preceding the date of Fire is as under –

Particulars	₹
(a) Since FY ends on 31st March 2011, trend adjustment is taken for every year from 1st Apr onwards.	
(b) Sales from 1st Apr 2011 to 30th June 2011 (i.e. 3 mths of Year 2011) is trend adjusted at 112% =	3,36,000 (Given)
(c) After Trend Adjustment, Normal Value of Sales for 3 months of Year 2011 = ₹ 3,36,000 × $\frac{100}{112}$ =	3,00,000
(d) Sales from 1st July 2010 to 31st March 2011 (i.e. 9 months of Year 2010 – 11) = ₹ 12,00,000 p.a × $\frac{9}{10}$ =	9,00,000
(e) Normal Value of Sales for 12 months preceding the date of Fire = (c + d)	**12,00,000**

4. Computation of Short Sales

	Particulars	₹
	Turnover from 01.07.2010 to 31.09.2010 (previous year corresponding to Indemnity Period)	3,20,000
Less:	Adjustment for Increase in Turnover (₹ 3,20,000 × 12%)	38,400
	Adjusted / Expected Turnover during Indemnity Period	3,58,400
Less:	Actual Turnover during Indemnity Period, i.e. from 01.07.2011 to 30.09.2011	(48,000)
	Short Sales	**3,10,400**

5. Computation of Allowable Additional Expenses

Particulars	₹
(a) Actual Additional Expenses	1,98,000
(b) GP on Sales generated by Additional Expenses (₹ 48,000 × 23%)	11,040
(c) Additional Expenses × $\frac{\text{GP on Adjusted Annual Turnover}}{\text{GP on Adjusted Annual Turnover} + \text{Uninsured Standing Charges}}$ = ₹ 1,98,000 × $\frac{23\% \times 13,44,000}{(23\% \times 13,44,000) + 42,000}$ = ₹ 1,98,000 × $\frac{3,09,120}{3,51,120}$ =	1,74,316
Allowable Additional Expenses = Least of the above	**11,040**

6. Computation of Claim

	Particulars	₹
	Loss of Profit = Gross Profit on Short Sales = 23% on 3,10,400	71,392
Add:	Allowable Additional Expenses **(WN 5)**	11,040
Less:	Saving in Insured Standing Charges	Nil
	Net Claim for Loss of Profit	**82,432**

Question 7(a): Average Due Date M 12 (4 Marks)

M/s Stairs & Co. draw upon Marble & Co. several Bills of Exchange due for payment on different dates as under –

Date of Bill	Amount ₹	Tenure of Bill
12th May	44,000	3 months
10th June	45,000	4 months
1st July	14,000	1 month
19th July	17,000	2 months

Find out the Average Due Date on which payment may be made in one single amount by Marble & Co. to Stairs & Co.

Note: 15th August, Independence Day, is a National Holiday and 22nd September is a declared Emergency Holiday, due to death of a National Leader.

Solution: **Computation of Average Due Date** (**Note:** Base Date = 04th August)

Bill Date	Term	Due Date	No. of Days from Base Date	Amt (₹)	Product (₹)
Col. (1)	**Col. (2)**	**Col. (3)**	**Col. (4)**	**Col. (5)**	**Col. (6) = (4) × (5)**
12th May	3 months	14th Aug	10	44,000	4,40,000
10th Jun	4 months	13th Oct	27 + 30 + 13 = 70	45,000	31,50,000
1st Jul	1 month	4th Aug	0	14,000	–
19th Jul	2 months	23rd Sept	27 + 23 = 50	17,000	8,50,000
Total				**1,20,000**	**44,40,000**

Average Due Date = Base Date ± $\frac{\text{Total of Products}}{\text{Total of Amounts}}$ = 4th August + $\frac{44,40,000}{1,20,000}$

= 4th August + 37 days (approx.) = **10th September**

Question 7(b): Partnership – Claim by Retiring Partner M 12 (4 Marks)

X, Y and Z are Partners, sharing profits and losses equally. On 1st December 2011, Z retired from the Partnership Firm. The Capitals of the Partners, after all necessary adjustments stood at ₹ 45,000, ₹ 75,000 and ₹ 50,000 respectively. X and Y continued to carry on the business without settling the accounts of Z. Final Payment to Z made on 1st March 2012. The Partnership Firm made profit amounting to ₹ 30,000 during the period from 1st December 2011 to 29th February 2012.

What are the rights of Z to share subsequent profit as per the provisions of Sec.37 of the Indian Partnership Act?

Solution: Capital Ratio of X, Y, Z= 45 : 75 : 50, i.e. 9 : 15: 10, and Profit for the year = ₹ 30,000

(i) Profit 30,000 × $\frac{10}{34}$ = ₹ 8,824 or,

(ii) Interest at 6% p.a. = 50,000 × 6% × $\frac{3}{12}$ = ₹ 750

whichever is **beneficial**. Hence Z is eligible for Share in the Profit = **₹ 8,824.**

Question 7(c): AS – 6 M 12 (4 Marks)

A computer costing ₹ 60,000 is depreciated on straight line basis, assuming 10 years working life and Nil residual value, for three years. The estimate of remaining useful life after third year was reassessed at 5 years. Calculate Depreciation as per the provisions of AS – 6 "Depreciation Accounting".

Solution: **Refer Page No.B.4.8 Q.No.26**

Particulars	Computation	Amount
1. Depreciable Value = Original Cost – Residual Value	₹ 60,000 – Nil	₹ 60,000
2. Depreciation Amount per annum	₹ 60,000 ÷ 10 years	₹ 6,000
3. Present Book Value (i.e. after three years)	₹ 60,000 – (₹ 6,000 × 3 yrs)	₹ 42,000
4. Revised Useful Life	–	5 years
5. Revised Depreciation amount per annum	₹ 42,000 ÷ 5 years	₹ 8,400

Question 7(d): Managerial Remuneration in Companies M 12 (4 Marks)

What are the maximum limits of Managerial Remuneration for Companies having adequate profits?

Solution: **Refer Page No.A.8.12, 13 Q.No.4**

Question 7(e): Accounting in E–Environment M 12 (4 Marks)

"ERP Package is gaining popularity in big organizations". Briefly explain the advantages of using an ERP package, in the light of above statement.

Solution: **Refer Page No.A.1.9 Q.No.9 P (A/cs) – M 07, N 09**

Gurukripa's Guideline Answers to May 2012 PCC Exam Questions As applicable for IPCC Group I Accounting

Question 1(c): AS – 13 M 12 (5 Marks)

ABC Ltd wants to re–classify its Investments in accordance with AS–13. Decide and state on the amount of transfer, based on the following information:

(1) A portion of Current Investments purchased for ₹ 20 Lakhs, to be re–classified as Long Term Investment, as the Company has decided to retain them. The Market Value as on the date of Balance Sheet was ₹ 25 Lakhs.

(2) Another portion of Current Investments purchased for ₹ 15 Lakhs, to be re–classified as Long Term Investments. The Market Value of these Investments as on the date of Balance Sheet was ₹ 6.5 Lakhs.

(3) Certain Long Term Investments no longer considered for holding purposes, to be re–classified as Current Investments. The Original Cost of these was ₹ 18 Lakhs but had been written down to ₹ 12 Lakhs to recognize permanent decline as per AS–13.

Solution: **Same as Page A.5.33, Q.No.8 F(A/c) – RTP, M 10, P(A/c) – RTP**

Question 2: Amalgamation in the nature of Purchase M 12 (16 Marks)

Ram Limited and Shyam Limited carry on business of a similar nature and it is agreed that they should amalgamate. A new Company, Ram and Shyam Limited, is to be formed to which the Assets and Liabilities of the existing Companies, with certain exceptions, are to be transferred. On 31st March 2011, the Balance Sheets of the two Companies were as under:

Balance Sheet of Ram Limited as at 31st March 2011

Liabilities	₹	Assets	₹
Issued and Subscribed Share Capital:		Freehold Property, at cost	2,10,000
30,000 Equity Shares of ₹ 10 each, Fully Paid	3,00,000	Plant and Machinery, at cost Less Depreciation	50,000
General Reserve	1,60,000	Motor Vehicles, at cost Less Depreciation	20,000
Profit and Loss Account	40,000	Stock	1,20,000
Sundry Creditors	1,50,000	Debtors	1,64,000
		Cash at Bank	86,000
Total	6,50,000	Total	6,50,000

Balance Sheet of Shyam Limited as at 31st March 2011

Liabilities	₹	Assets	₹
Issued and Subscribed Share Capital:		Freehold Property, at cost	1,20,000
16,000 Equity Shares of ₹ 10 each, Fully Paid	1,60,000	Plant and Machinery, at cost Less Depreciation	30,000
Profit and Loss Account	40,000	Stock	1,56,000
6% Debentures	1,20,000	Debtors	42,000
Sundry Creditors	64,000	Cash at Bank	36,000
Total	3,84,000	Total	3,84,000

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

(a) Goodwill of Ram Limited and of Shyam Limited is to be valued at ₹ 1,60,000 and ₹ 60,000 respectively.

(b) Motor Vehicles of Ram Limited are to be valued at ₹ 60,000.

(c) Debentures of Shyam Ltd are to be discharged by the issue of 6% Debentures of Ram and Shyam Ltd at a Premium of 5%.

(d) The Debtors of Shyam Ltd. realized fully and Bank Balance of Shyam Limited are to be retained by the Liquidator and the Sundry Creditors of Shyam Ltd are to be paid out of the proceeds thereof.

You are required to:

(i) Compute the basis on which Shares in Ram and Shyam Limited will be issued to the Shareholders of the existing Companies, assuming that the Nominal Value of each Share in Ram and Shyam Limited is ₹ 10.

(ii) Draw up a Balance Sheet of Ram and Shyam Limited as of 1st April 2011, the date of completion of amalgamation.

(iii) Write up Journal Entries, including Bank Entries, for closing the books of Shyam Limited.

Solution: **1. Computation of Purchase Consideration**

Particulars		Ram Ltd (₹)	Shyam Ltd (₹)
Assets taken over:	Freehold Property	2,10,000	1,20,000
	Plant & Machinery	50,000	30,000
	Motor Vehicles	60,000	–
	Stock	1,20,000	1,56,000
	Debtors	1,64,000	–
	Bank Balance	86,000	–
	Goodwill	1,60,000	60,000
	Total Assets taken over	**8,50,000**	**3,66,000**
Liabilities taken over:	Sundry Creditors	1,50,000	–
	6% Debentures	–	1,20,000
	Additional Liability for redemption / discharge of Debentures		6,000
	Total Liabilities taken over	**1,50,000**	**1,26,000**
Net Assets taken over = Purchase Consideration		**7,00,000**	**2,40,000**
Number of Shares (Face Value ₹ 10)		**70,000 Nos**	**24,000 Nos**

2. Balance Sheet of Ram & Shyam Ltd (after Amalgamation)

	Particulars	Note	This Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	Share Capital	**B–1**	9,40,000	
(2)	**Non–Current Liabilities:**			
	Long Term Borrowings – 6% Debentures		1,26,000	
(3)	**Current Liabilities:**			
	Trade Payables – Sundry Creditors		1,50,000	
	Total		**12,16,000**	
II	**ASSETS**			
(1)	**Non–Current Assets**			
	(a) Fixed Assets: (i) Tangible Assets	**B–2**	4,70,000	
	(ii) Intangible Assets – Goodwill (1,60,000 + 60,000)		2,20,000	
(2)	**Current Assets:**			
	(a) Inventories – Stock–in–Trade (1,20,000 + 1,56,000)		2,76,000	
	(b) Trade Receivables – Sundry Debtors		1,64,000	
	(c) Cash and Cash Equivalents – Balances with Banks		86,000	
	Total		**12,16,000**	

Schedule B–1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: .....Equity Shares of ..... each		
Issued, Subscribed & Paid up: 94,000 Equity Shares of ₹ 10 each	9,40,000	
(All the above Shares are issued for non–cash consideration as per scheme of amalgamation)		
Total	**9,40,000**	

Schedule B–2: Tangible Fixed Assets

Particulars	This Year	Prev. Yr
Freehold Property (2,10,000 + 1,20,000)	3,30,000	
Plant & Machinery (50,000 + 30,000)	80,000	
Motor Vehicles	60,000	
Total	**4,70,000**	

3. Journal Entries in the Books of Shyam Ltd

S.No.	Particulars		Dr. (₹)	Cr. (₹)
1.	Realisation A/c	Dr.	3,06,000	
	To Freehold Property A/c			1,20,000
	To Plant & Machinery A/c			30,000
	To Stock A/c			1,56,000
	(Being Assets to be taken over by Ram & Shyam Ltd transferred to Realisation A/c)			
2.	6% Debentures A/c	Dr.	1,20,000	
	To Realisation A/c			1,20,000
	(Being Liabilities to be taken over by Ram & Shyam Ltd)			
3.	Bank A/c	Dr.	42,000	
	To Sundry Debtors A/c			42,000
	(Being Sundry Debtors realized fully)			
4.	Sundry Creditors A/c		64,000	
	To Bank A/c			64,000
	(Being Sundry Creditors settled fully and balance transferred to Realisation A/c)			
5.	Equity Share Capital A/c	Dr.	1,60,000	
	Profit & Loss A/c	Dr.	40,000	
	To Equity Shareholders A/c			2,00,000
	(Being transfer of claims of Equity Shareholders, to Sundry Shareholders Account)			
6.	Ram & Shyam Ltd A/c	Dr.	2,40,000	
	To Realisation A/c			2,40,000
	(Being Purchase Consideration Due from Ram & Shyam Ltd)			
7.	Shares in Ram & Shyam Ltd A/c	Dr.	2,40,000	
	To Ram & Shyam Ltd A/c			2,40,000
	(Being Purchase Consideration received)			
8.	Realisation A/c	Dr.	54,000	
	To Equity Shareholders A/c			54,000
	(Being Profit on Realisation transferred = 2,40,000 + 1,20,000 – 3,06,000)			
9.	Equity Shareholders A/c	Dr.	2,54,000	
	To Shares in Ram & Shyam Ltd			2,40,000
	To Bank A/c			14,000
	(Being final settlement of claims of Equity Shareholders by Shares and balance Cash)			
	(**Note:** Balance in Bank for payment to Shareholders = Given ₹ 36,000 + Received from Debtors ₹ 42,000 – Creditors ₹ 36,000 = Net ₹ 14,000)			

Note: Issue of 6% Debentures in Ram & Shyam Ltd (Buying Co.) will not be shown in Shyam Ltd (Selling Co.) books.

Question 3(b): Account Current M 12 (8 Marks)

On 1st January 20X1, X's Account in Y's Ledger showed a debit balance of ₹ 5,000. The following transactions took place between Y and X during the quarter ended 31st March 2011:

2011	Particulars	₹
Jan. 11	Y sold goods to X	6,000
Jan. 24	Y received a Promissory Note from X, 3 months date	5,000
Feb. 01	X sold goods to Y	10,000
Feb. 04	Y sold goods to X	8,200
Feb. 07	X returned goods to Y	1,000
March 01	X sold goods to Y	5,600
March 18	Y sold goods to X	9,200
March 23	X sold goods to Y	4,000

Accounts were settled on 31st March 2011, by means of a cheque. Prepare an Account Current to be submitted by Y to X as on 31st March 2011, taking interest into account at 10% per annum. Calculate Interest to the nearest multiple of a rupee.

Solution: **In the books of Y (Ledger from 1st Jan 20X1 to 31st Mar 20X1)**

Dr. **X in Account Current with Y (Interest upto 31st March 20X1 at 10% p.a.)** **Cr.**

Dt	Due	Particulars	₹	Days	Product	Dt	Due	Particulars	₹	Days	Product
01.01 20X1	01.01 20X1	To bal. b/d	5,000	90	4,50,000	24.01 20X1	27.04 20X1	By Bills R'ble	5,000	–27	–1,35,000
11.01 20X1	11.01 20X1	To Sales	6,000	79	4,74,000	01.02 20X1	01.02 20X1	By Purchases	10,000	58	5,80,000
04.02 20X1	04.02 20X1	To Sales	8,200	55	4,51,000	07.02 20X1	07.02 20X1	By Sales Returns	1,000	52	52,000
18.03 20X1	18.03 20X1	To Sales	9,200	13	1,19,600	01.03 20X1	01.03 20X1	By Purchases	5,600	30	1,68,000
31.03 20X1	31.03 20X1	To Interest	219			23.03 20X1	23.03 20X1	By Purchases	4,000	8	32,000
						23.03 20X1	23.03 20X1	By Balance of Products			**7,97,600**
						31.03 20X1	31.03 20X1	By bal. c/d	**3,019**		
		Total	**28,619**		**14,94,600**			**Total**	**28,619**		**14,94,600**

Note: **Interest** = ₹ 7,97,600 × 10% × $\frac{1}{365}$ = **₹ 219** (approx.)

Question 4: Accounting from Incomplete Records M 12 (16 Marks)

From the following information in respect of a Trader, prepare Trading and Profit and Loss Account for the year ended 31st March 2011, and a Balance Sheet as at that date: (in ₹)

Assets and Liabilities as on	31.03.2012	31.03.2011
Stock–in–Trade	1,60,000	1,40,000
Debtors for Sales	3,20,000	?
Bills Receivable	–	?
Creditors for Purchases	2,20,000	3,00,000
Furniture at Written Down Value	1,20,000	1,27,000
Expenses Outstanding	40,000	36,000
Prepaid Expenses	12,000	14,000
Cash on Hand	4,000	3,000
Bank Balance	20,000	9,500

Receipts and Payments during 2010–2011:

Particulars	₹
Collections from Debtors (after allowing 2½% discount)	11,70,000
Payment to Creditors (after receiving 2% discount)	7,74,000
Proceeds of Bills Receivable discounted at 2%	1,22,500
Proprietor's Drawings	1,40,000
Purchase of Furniture midway through the year	20,000
4% Government Securities purchased at 96% on 01.10.2010	1,92,000
Expenses	3,50,000
Miscellaneous Income	10,000

Other information:

(1) Sales are effected so as to realize a Gross Profit of $33\frac{1}{3}$% on the Sale Proceeds.

(2) Goods, costing ₹ 18,000, were issued as Advertisement Articles.

(3) During the year, Bills Receivable of ₹ 2,00,000 were drawn on Debtors. Of these, Bills amounting to ₹ 40,000 were endorsed in favour of Creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the Debtor.

(4) Capital introduced during the year by the Proprietor by cheques was omitted to be recorded in the Cash Book, though the Bank Balance of ₹ 9,500 on 31st March 2011, (as shown above) is after taking the same into account.

(5) Purchases and Sales are made only on credit.

Solution: **A. Trading and Profit and Loss Account for the year ended 31.03.2011**

Particulars		₹	Particulars	₹
To Opening Stock		1,60,000	By Sales **(WN 3)**	13,71,000
To Purchases (Net) **(WN 2)**		8,94,000	By Closing Stock	1,40,000
To Gross Profit (1/3rd on Sales)		4,57,000		
Total		**15,11,000**	**Total**	**15,11,000**
To Expenses for the year **(WN 6)**		3,44,000	By Gross Profit b/d	4,57,000
To Discount Allowed:			By Miscellaneous Income	10,000
Debtors **(WN 4)**	30,000		By Discount Received **(WN 2)**	16,000
Bills Receivable **(WN 5)**	2,500	32,500	By Interest on 4% Government Securities	4,000
To Advertisement Expenses		18,000	$(2,00,000 \times 4\% \times \frac{6}{12})$	
To Depreciation on Furniture **(WN 7)**		13,000		
To Net Profit **(balancing figure)**		**79,500**		
Total		**4,87,000**	**Total**	**4,87,000**

B. Balance Sheet as on 31.03.2011

Equity and Liabilities	₹	Assets	₹
Capital (WN 9)	4,83,500	**Non–Current Assets:** Furniture	1,27,000
Current Liabilities:		**Investments:** 4% Govt. Securities at Cost	1,92,000
Sundry Creditors	3,00,000	(Nominal Value = ₹ 2,00,000)	
Outstanding Expenses	36,000	**Current Assets:**	
		Stock in Trade	1,40,000
		Sundry Debtors	2,99,000
		Bills Receivable	35,000
		Cash on Hand	3,000
		Bank Balance	9,500
		Prepaid Expenses	14,000
Total	**8,19,500**	**Total**	**8,19,500**

Working Notes: **1. Balance Sheet as on 31.03.2010** (To compute Opening Capital)

Equity and Liabilities	₹	Assets	₹
Capital (balancing figure)	**3,76,000**	**Non–Current Assets:** FA – Furniture	1,20,000
Current Liabilities:		**Current Assets:** Stock	1,60,000
Creditors	2,20,000	Debtors	3,20,000
Outstanding Expenses	40,000	Cash on Hand	4,000
		Bank Balance	20,000
		Prepaid Expenses	12,000
Total	**6,36,000**	**Total**	**6,36,000**

2. Creditors Account (To compute Credit Purchases)

Particulars	₹	Particulars	₹
To Bills Receivable (endorsed)	40,000	By balance b/d	2,20,000
To Bank (payment)	7,84,000	By Debtors (endorsed bills dishonoured)	8,000
To Discount Received $(7,84,000 \times \frac{2\%}{98\%})$	16,000	By Purchases **(balancing figure)**	**9,12,000**
To balance c/d	3,00,000		
Total	**11,40,000**	**Total**	**11,40,000**

Note: Of the above Purchases of ₹ 9,12,000 Goods used for Advt ₹ 18,000. So, Net Purchases = **₹ 8,94,000.**

3. Computation of Sales

(a) COGS	= Opg Stock + Purchases **Less** Closing Stock = 1,60,000 + 8,94,000 **(WN 2)** – 1,40,000	₹ 9,14,000
(b) GP	= 1/3rd on Sales = ½ on COGS = ½ × ₹ 9,14,000	₹ 4,57,000
(c) Sales	= COGS + GP = (a + b)	**₹ 13,71,000**

4. Debtors Account (To compute Closing Balance of Debtors)

Particulars	₹	Particulars	₹
To balance b/d	3,20,000	By Bills Receivable	2,00,000
To Sales **(WN 3)**	13,71,000	By Bank (Collections)	11,70,000
To Creditors (endorsed bills dishonoured)	8,000	By Discount Allowed (11,70,000 × $\frac{2.5\%}{97.5\%}$)	30,000
		By balance c/d **(balancing figure)**	**2,99,000**
Total	**16,99,000**	**Total**	**16,99,000**

5. Bills Receivable Account (To find out Closing Balance)

Particulars	₹	Particulars	₹
To Sundry Debtors – B/R received	2,00,000	By Creditors – B/R endorsed	40,000
		By Bank – B/R discounted	1,22,500
		By Discount on Bills Receivable (1,22,500 × $\frac{2\%}{98\%}$)	2,500
		By balance c/d **(balancing figure)**	**35,000**
Total	**2,00,000**	**Total**	**2,00,000**

6. Expenses Account (To find out Expenses recognised for the year)

Particulars	₹	Particulars	₹
To balance b/d – Opg Bal Prepaid Exps	12,000	By balance b/d – Opg Bal Exps Payable	40,000
To Bank – Expenses paid	3,50,000	By P&L – Exps recognised for the year **(b/f)**	**3,44,000**
To balance c/d – Clg Bal Exps Payable	36,000	By balance c/d – Clg Bal Prepaid Exps	14,000
Total	**3,98,000**	**Total**	**3,98,000**

7. Furniture Account (To find out Depreciation)

Particulars	₹	Particulars	₹
To balance b/d	1,20,000	By Depreciation **(balancing figure)**	**13,000**
To Bank (Purchase)	20,000	By balance c/d	1,27,000
Total	**1,40,000**	**Total**	**1,40,000**

8. Cash and Bank Account (to find out Capital in brought by the Proprietor)

Particulars	Cash	Bank	Particulars	Cash	Bank
To balance b/d	4,000	20,000	By Creditors		7,84,000
To Debtors		11,70,000	By Drawings		1,40,000
To Bills Discounted		1,22,500	By Expenses		3,50,000
To Interest on 4% Govt. Securities		4,000	By 4% Govt. Securities		1,92,000
To Misc. Income (assumed cash)	10,000		By Fixed Asset (Purchase)		20,000
To Cash (Contra)		11,000	By Bank (Contra) **(bal. fig.)**	**11,000**	
To Capital A/c – Additional Cap. **(balancing figure)**		**1,68,000**	By balance c/d	3,000	9,500
Total	**14,000**	**14,95,500**	**Total**	**14,000**	**14,95,500**

Note: It is assumed that Interest on Government Securities is actually received at year–end.

9. Capital Account (to compute Closing Balance)

Particulars	₹	Particulars	₹
To Drawings	1,40,000	By balance b/d **(WN 1)**	3,76,000
To balance c/d **(balancing figure)**	**4,83,500**	By Bank – Additional Capital **(WN 8)**	1,68,000
		By Net Profit for the year (from P & L)	79,500
Total	**6,23,500**	**Total**	**6,23,500**

Question 5(a): Claim for Loss of Stock M 12 (8 Marks)

On 19th May 2011, the premises of Shri Garib Das were destroyed by fire, but sufficient records were saved, wherefrom the following particulars were ascertained:

	₹
Stock at Cost on 01.01.2010	36,750
Stock at Cost on 31.12.2010	39,800
Purchases less Returns during 2010	1,99,000
Sales less returned during 2010	2,43,500
Purchases less Returns during 01.01.2011 to 19.05.2011	81,000
Sales less Returns during 01.01.2011 to 19.05.2011	1,15,600

In valuing the Stock for the Balance Sheet as at 31st December 2010, ₹ 1,150 had been written off on certain stock which was a poor selling line having the cost ₹ 3,450. A portion of these goods were sold in March, 2011 at a loss of ₹ 125 on original cost of ₹ 1,725. The remainder of this Stock was now estimated to be worth the original cost. Subject to the above exceptions, Gross Profit has remained at a uniform rate throughout. The stock salvaged was ₹ 2,900.

Show the amount of the claim of stock destroyed by fire. Memorandum Trading Account to be prepared for the period from 01.01.2011 to 19.05.2011 for normal and abnormal items.

Solution: **Similar to Page No. A.5.11, Illustration 15**

1. Trading Account for the year ended 31st Dec 2010 (to compute Normal GP Rate)

Particulars	Normal	Abnml	Total	Particulars	Normal	Abnml	Total
To Opening Stk	36,750	–	36,750	By Sales	2,43,500	–	2,43,500
To Purchases	**(b/f)** 1,95,550	3,450	1,99,000	By Closing Stock	**(b/f)** 37,500	2,300	39,800
To GP **(b/f)**	**48,700**	–	97,400	By Abn Item w/off	–	**1,150**	1,150
Total	**2,81,000**	**3,450**	**2,84,450**	**Total**	**2,81,000**	**3,450**	**2,84,450**

$$\textbf{Normal Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} = \frac{48{,}700}{2{,}43{,}500} = \mathbf{20\%}$$

Note:

- Normal Value of Purchases, and Normal Value of Closing Stock are derived as balancing figures from respective **Rows**.
- Normal GP and Amt written off on Abnormal Item are derived as balancing figure from the respective **Columns**.

Dr. **2. Memorandum Trading Account (1st Jan 20X1 to 19th May 20X1)** **Cr.**

Particulars		₹	Particulars		₹
To Opening Stock	39,800		By Sales	1,15,600	
Less: Abnormal Item	(2,300)	37,500	**Less:** Abnormal Item (1,725 – 125)	(1,600)	1,14,000
To Purchases		81,000	By Stock on the date of fire		**27,300**
To Gross Profit = 20% on Sales		22,800	**(balancing figure)**		
Total		**1,41,300**	**Total**		**1,41,300**

3. Statement of Insurance Claim

	Particulars	₹
	Value of Normal Stock Lost **(WN 2)**	27,300
Add:	Value of Abnormal Stock (at Original Cost as given) [3,450 – 1,725]	1,725
	Total Value of Stock Lost on 19th May 2011	29,025
Less:	Salvaged Stock	(2,900)
	Net Claim	**26,125**

Question 7(b): Computation of Closing Stock M 12 (4 Marks)

A Trader purchased goods for ₹ 3,40,000. The Opening Stock of Inventory prior to the said purchase was ₹ 60,000. His Sale was ₹ 4,20,000. Find out the Closing Stock of Inventory if the Gross Profit Margin is 25% on cost.

Solution: **Computation of Closing Stock**

(a) GP	= 25% on Cost = 20% on Sales = 20% × ₹ 4,20,000	₹ 84,000
(b) COGS	= Sales – GP = 4,20,000 – 84,000	₹ 3,36,000
(c) Closing Stock	= Opening Stock + Purchases **less** COGS = 60,000 + 3,40,000 – 3,36,000	₹ 64,000

Question 7(c): Accounting in E–Environment M 12 (4 Marks)

What are the advantages of outsourcing the accounting functions?

Solution: **Refer Page A.1.9, Q.No.10 [N 07, N 10]**

Question 7(e): Hire Purchase Accounting – Basics M 12 (4 Marks)

Computer Point sells computers on Hire Purchase basis at cost plus 25%. Terms of sale are ₹ 10,000 down payment and eight monthly instalments of ₹ 5,000 for each computer. Two computers were repossessed for non–payment of instalments and to be valued at 50% of cost price. Compute the value of repossessed computers.

Solution:

Particulars	Result
Total HP Price per Computer = Down Payment + Instalments = 10,000 + (8 × 5,000)	₹ 50,000
HP Price = 125% of Cost. So, Cost per Computer = $\frac{50,000}{125\%}$	₹ 40,000
Value of Repossessed Computers = 50% of Cost = 50% of 40,000	**₹ 20,000 each**

STUDENTS' NOTES

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