Roll No. .... INTERMEDIATE (IPC) GROUP I - PAPER 1 ACCOUNTING MAY 2015

Total No. of Questions – 7 Total No. of Printed Pages – 16

Time Allowed – 3 Hours Maximum Marks – 100

HAL

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, answers in Hindi, his/her answers in Hindi will not be valued.

Questions No. 1 is compulsory.

Candidates are also required to answer any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

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

Marks

1. (a) Prepare Cash Flow from Investing Activities of M/s. Creative Furnishings Limited for the year ended 31-3-2015. **5**

Particulars	₹
Plant acquired by the issue of 8% Debentures	1,56,000
Claim received for loss of plant in fire	49,600
Unsecured loans given to subsidiaries	4,85,000
Interest on loan received from subsidiary companies	82,500
Pre-acquisition dividend received on investment made	62,400
Debenture interest paid	1,16,000
Term loan repaid	4,25,000
Interest received on investment	68,000
(TDS of ₹ 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred ₹ 9,600)	84,000

(b) A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is as under : 5

(Amount ₹ in lacs)

	Year 1	Year 2	Year 3
Initial Amount for revenue agreed in contract	9,000	9,000	9,000
Variation in Revenue (+)	–	200	200
Contracts costs incurred up to the reporting date	2093	6168*	8100**
Estimated profit for whole contract	950	1000	1000

*Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.

**Excludes ₹ 100 lacs for standard material brought forward from year 2.

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

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised).

(c) Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2015. His factory produces Product X using Raw material A. 5

(i) 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on 31-3-2015 is ₹ 90 per unit.

Marks

(ii) 500 units of partly finished goods in the process of producing X and cost incurred till date ₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit.

(iii) 1500 units of finished Product X and total cost incurred ₹ 320 per unit.

Expected selling price of Product X is ₹ 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2015. Also calculate the value of total inventory as on 31-3-2015.

(d) M/s. Laghu Udyog Limited has been charging depreciation on an item of Plant and Machinery on straight line basis. The machine was purchased on 1-4-2012 at ₹ 3,25,000. It is expected to have a total useful life of 5 years from the date of purchase and residual value of ₹ 25,000. Calculate the book value of the machine as on 1-4-2014 and the total depreciation charged till 31-3-2014 under SLM. The company wants to change the method of depreciation and charge depreciation @ 20% on WDV from 2014-15. 5

Is it valid to change the method of depreciation ? Explain the treatment required to be done in the books of accounts in the context of AS-6.

Ascertain the amount of depreciation to be charged for 2014-15 and the net book value of the machine as on 31-3-2015 after giving effect of the above change.

 Marks

2. The financial position of two companies M/s. Abhay Ltd. and M/s. Asha Ltd. as on 31-3-2015 is as follows : **16**

Balance Sheet as on 31-3-2015

	Abhay Ltd. (₹)	Asha Ltd. (₹)
Sources of Funds		
Share Capital – Issued and Subscribed		
15,000 equity shares @ ₹ 100, fully paid	15,00,000	
10,000 equity shares @ ₹ 100, fully paid		10,00,000
General Reserve	2,75,000	1,25,000
Profit & Loss	75,000	25,000
Securities Premium	1,50,000	50,000
Contingency Reserve	45,000	30,000
12% Debentures, @ ₹ 100 fully paid		2,50,000
Sundry Creditors	55,000	35,000
	21,00,000	**15,15,000**
Application of Funds		
Land and Buildings	8,50,000	5,75,000
Plant and Machinery	3,45,000	2,25,000
Goodwill		1,45,000
Inventory	4,20,000	2,40,000
Sundry Debtors	3,05,000	2,85,000
Bank	1,80,000	45,000
	21,00,000	**15,15,000**

They decided to merge and form a new company M/s. Abhilasha Ltd. as on 1-4-2015 on the following terms :

(1) Goodwill to be valued at 2 years purchase of the super profits. The normal rate of return is 10% of the combined share capital and general reserve. All other reserves are to be ignored for the purpose of goodwill.

Average profits of M/s. Abhay Ltd. is ₹ 2,75,000 and M/s. Asha Ltd. is ₹ 1,75,000.

(2) Land and Buildings, Plant and machinery and Inventory of both companies to be valued at 10% above book value and a provision of 10% to be provided on Sundry Debtors.

(3) 12% debentures to be redeemed by the issue of 12% preference shares of M/s. Abhilasha Ltd. (face value of ₹ 100) at a premium of 10%.

(4) Sundry creditors to be taken over at book value. There is an unrecorded liability of ₹ 15,500 of M/s. Asha Ltd as on 1-4-2015.

(5) The bank balance of both companies to be taken over by M/s. Abhilasha Ltd. after deducting liquidation expenses of ₹ 60,000 to be borne by M/s. Abhay Ltd. and M/s. Asha Ltd. in the ratio of 2 : 1.

You are required to :

(i) Compute the basis on which shares of M/s. Abhilasha Ltd. are to be issued to the shareholders of the existing company assuming that the nominal value of per share of M/s. Abhilasha Ltd. is ₹ 100.

(ii) Draw Balance Sheet of M/s. Abhilasha Ltd. as on 1-4-2015 after the amalgamation.

Marks

3. (a) The partners Kamal and Vimal decided to convert their existing partnership business into a Private Limited Company called M/s. KV Trading Private Ltd. with effect from 1-7-2014. 10

The same books of accounts were continued by the company which closed its account for first term on 31-3-2015

The summarized Profit and Loss Account for the year ended 31-3-2015 is below :

	(₹) in lakhs	(₹) in lakhs
Turnover		240.00
Interest on investments		6.00
		246.00
Less : Cost of goods sold	102.00	
Advertisement	3.00	
Sales Commission	6.00	
Salary	18.00	
Managing directors remuneration	6.00	
Interest on Debentures	2.00	
Rent	5.50	
Bed Debts	1.00	
Underwriting Commission	2.00	
Audit fees	2.00	
Loss on sale of investment	1.00	
Depreciation	4.00	152.50
		93.50

Marks

The following additional information was provided

(i) The average monthly sales doubled from 1-7-2014. GP ratio was constant.

(ii) All investments were sold on 31-5-2014.

(iii) Average monthly salary doubled from 1-10-2014.

(iv) The company occupied additional space from 1-7-2014 for which rent of ₹ 20,000 per month was incurred.

(v) Bad debts recovered amounting to ₹ 50,000 for a sale made in 2012, has been deducted from bad debts mentioned above.

(vi) Audit fees pertains to the company.

Prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the Profit/Loss for such periods. Also suggest how the pre-incorporation profits are to be dealt with.

(b) M/s. Platinum Jewellers wants to take up a "Loss of Profit Policy" for the year 2015. The extract of the Profit and Loss Account of the previous year ended 31-12-2014 provided below : 6

	₹
<u>Variable Expenses</u>	
Cost of Materials	18,60,000
<u>Fixed Expenses</u>	
Wages for skilled craftsmen	1,60,000
Salaries	2,80,000
Audit Fees	40,000
Rent	64,000
Bank Charges	18,000
Interest income	44,000
Net Profit	6,72,000

Marks

Turnover is expected to grow by 25% next year.

To meet the growing working capital needs the partners have decided to avail overdraft facilities from their bankers @ 12% p.a. interest

The average daily overdraft balance will be around ₹ 2 lakhs.

The wages for the skilled craftsmen will increase by 20% and salaries by 10% in the current year. All other expenses will remain the same.

Determine the amount of policy to be taken up for the current year by M/s. Platinum Jewellers.

4. The following is the Balance Sheet of M/s. Care Traders as on 1-4-2014 : **16**

	₹
Sources of Funds	
Share Capital	10,00,000
Profit and Loss	1,47,800
Unsecured loan @ 10%	1,75,000
Trade Payables	45,800
	13,68,600

Application of Funds	
Machinery	8,25,500
Furniture	1,28,700
Inventory	1,72,000
Trade Receivables	2,29,600
Bank Balance	12,800
	13,68,600

A fire broke out in the premises on 31-3-2015 and destroyed the books of account. The accountant could however provide the following information :

(1) Sales for the year ended 31-3-2014 was ₹ 18,60,000. Sales for the current year was 20% higher than the last year.

(2) 25% sales were made in cash and the balance was on credit.

(3) Gross profit on sales is 30%.

(4) Terms of Credit

Debtors : 2 months

Creditors : 1 month

All creditors are paid by cheque and all credit sales are collected in cheque.

(5) The Bank Pass Book has the following details (other than payment to creditors and collection from debtors)

	₹
Machinery purchased	1,14,000
Rent paid	1,32,000
Advertisement expenses	80,000
Travelling expenses	78,400
Repairs	36,500
Sales of furniture	9,500
Cash withdrawn for petty expenses	28,300
Interest paid on unsecured loan	8,750

(6) Machinery was purchased on 1-10-2014.

(7) Rent was paid for 11 months only and 25% of the advertisement expenses relates to the next year.

(8) Travelling expenses of ₹ 7,800 for which cheques were issued but not presented in bank.

(9) Furniture was sold on 1-4-2014 at a loss of ₹ 2,900 on book value.

(10) Physical vertification as on 31-3-2015 ascertained the stock position at ₹ 1,81,000 and petty cash balance at nil.

(11) There was no change in unsecured loan during the year.

Marks

(12) Depreciation is to be provided at 10% on machinery and 20% on furniture.

Prepare Bank Account, Trading and Profit and Loss Account for the year ended 31-3-2015 in the books of M/s. Care Traders and a Balance Sheet as on that date. Make necessary assumptions wherever necessary.

5. (a) Lucky bought 2 tractors from Happy on 1-10-2011 on the following terms : 8

	₹
Down payment	5,00,000
1st installment at the end of first year	2,65,000
2nd installment at the end of 2nd year	2,45,000
3rd installment at the end of 3rd year	2,75,000

Interest is charged at 10% p.a.

Lucky provides depreciation @ 20% on the diminishing balances.

On 30-9-2014 Lucky failed to pay the 3rd installment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @ 18% p.a.

You are required to :

(1) Calculate the cash price of the tractors and the interest paid with each installment.

(2) Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee.

Marks

(b) Mr. Chatur had 12% Debentures of Face Value ₹ 100 of M/s. Unnati Ltd. as current investments. **8**

He provides the following details relating to the investments.

1-4-2014	Opening balance 4000 debentures costing ₹ 98 each
1-6-2014	Purchased 2000 debentures @ ₹ 120 cum interest
1-9-2014	Sold 3000 debentures @ ₹ 110 cum interest
1-12-2014	Sold 2000 debentures @ ₹ 105 ex interest
31-1-2015	Purchased 3000 debentures @ ₹ 100 ex interest
31-3-2015	Market value of the investments ₹ 105 each

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

Mr. Chatur closes his books on 31-3-2015. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Chatur assuming FIFO method is followed.

6. A and B who carry on partnership business in the name of M/s. AB Ltd., closes their firm's account as on 31st March each year. **16**

Their partnership agreement provides :

(i) Profit & Loss sharing, A : 2/3 and B : 1/3.

(ii) On retirement or admission of Partner :

(a) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission, is to be arrived at by apportionment on a time basis except otherwise stated for specific item(s).

(b) No account for Goodwill is to be maintained in the firm's books.

Marks

(c) Any balance due to an outgoing partner is to carry interest @ 9% p.a. from the date of his retirement to the date of payment.

The Trial Balance of the firm as on March 31st, 2015 was as follows :

Particulars	(Dr.) Amount ₹	(Cr.) Amount ₹
Capital Account		
A	–	24,000
B	–	12,000
C - Cash brought in on 30-09-2014	–	9,000
Plant and machinery at cost	22,000	–
Depreciation provision up to 31-03-2014	–	4,400
Motor car at cost	30,000	–
Depreciation provision up to 31-03-2014	–	6,000
Purchases	84,000	–
Stock as on 31st March 2014	15,500	–
Salaries	18,000	–
Debtors	5,400	–
Sales	–	1,20,000
Travelling expenses	800	
Office Maintenance	1,200	
Conveyance	500	
Trade Expenses	1,000	–
Creditors	–	10,100
Rent and Rates	3,000	–
Bad Debts	900	–
Cash in hand and at Bank	3,200	–
	1,85,500	1,85,500

'A' retired from the firm on 30th September, 2014 and on the same day 'C' an employee of the firm was admitted as partner. Further Profits or Losses shall be shared – B : 3/5 and C : 2/5. Necessary Accounting Entries adjustments were pending up to 31-03-2015. You are given the following further information :

(i) The value of firm's goodwill as on 30th September, 2014 was agreed to ₹ 15,000.

(ii) The stock as on 31st March, 2015 was valued at ₹ 18,550.

(iii) Partners' drawings which are included in Salaries : A – ₹ 2,000, B – ₹ 3,000 and C – ₹ 1,000.

(iv) Salaries also includes ₹ 1,500 paid to C prior to his being admitted as a partner.

(v) Bad-debts of ₹ 500 related to the period upto 30th September, 2014.

(vi) As on 31st March, 2015 rent paid in advance amounted to ₹ 600 and trade expenses accrued amounted to ₹ 250.

(vii) Provision is to be made for depreciation on Plant and Machinery and on Motor car at the rate of 10% p.a. on cost.

(viii) A bad-debts provision, specifically attributable to the second half of the year, is to be made @ 5% on debtors as on March 31st 2015.

(ix) Amount payable to A on retirement remained unpaid till March 31st 2015.

You are required to prepare :

(a) The Trading and Profit & Loss Account for the year ended March 31st 2015.

(b) Partners' Capital Account for the year ended March 31st 2015.

(c) The Balance Sheet as on that date.

HAL **Marks**

7. Answer any **four** out of the following :

(a) From the following information of M/s. Officers Sports Club (A non-profit organization) calculate (i) the total cost of sports material consumed in the club and (ii) Sale value of sports material during the year 2014-15. 4

	₹
Opening balance of sports material as on 1-4-2014	56,800
Closing balance of sports material as on 31-3-2015	32,900
Sports material purchased in cash	23,500
Payment made to creditors of sports material	64,300
Creditors for sports materials	
Opening	23,200
Closing	29,400

Out of the total sports material used during the year 40% was consumed by the club and the remaining was sold at a profit of 20% on cost.

(b) From the following details, find out the average due date : 4

Date of Bill	Amount (₹)	Usance of bill
29th January 2014	10,000	1 month
20th March 2014	8,000	2 months
12th July 2014	14,000	1 month
10th August 2014	12,000	2 months

HAL

Marks

(c) Given the following information of M/s. Paper Products Ltd. 4

(i) Goods of ₹ 60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.

(ii) On 15-1-2015 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.

(iii) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval received for the remaining goods till 31-3-2015.

(iv) Apart from the above, the company has made cash sales of ₹ 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

(d) What factors are to be considered at the time of choosing an appropriate Accounting Software for an organization ? 4

HAL **Marks**

(e) M/s. Versatile Limited purchased machinery for ₹ 4,80,000 (inclusive of excise duty of ₹ 40,000). CENVAT credit is available for 50% of the duty paid. The company incurred the following other expenses for installation. **4**

	₹
Cost of preparation of site for installation	21,000
Total labour charges	66,000
(200 out of the total of 600 men hours worked, were spent for installation of the machinery)	
Spare parts and tools consumed in installation	6,000
Total salary of supervisor	24,000
(time spent for installation was 25% of the total time worked)	
Total administrative expenses	32,000
(1/10 relates to the plant installation)	
Test run and experimental production expenses	23,000
Consultancy charges to architect for plant set up	9,000
Depreciation on assets used for the installation	12,000

The machine was ready for use on 15-1-2015 but was used from 1-2-2015. Due to this delay further expenses of ₹ 19,000 were incurred. Calculate the value at which the plant should be capitalized in the books of M/s. Versatile Limited.

HAL

DISCLAIMER

PAPER – 1 : ACCOUNTING

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

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

Wherever necessary suitable assumptions should be made by the candidates.

Working Notes should form part of the answer.

Question 1

(a) Prepare Cash Flow from Investing Activities of M/s. Creative Furnishings Limited for the year ended 31-3-2015.

Particulars	***₹***
Plant acquired by the issue of 8% Debentures	*1,56,000*
Claim received for loss of plant in fire	*49,600*
Unsecured loans given to subsidiaries	*4,85,000*
Interest on loan received from subsidiary companies	*82,500*
Pre-acquisition dividend received on investment made	*62,400*
Debenture interest paid	*1,16,000*
Term loan repaid	*4,25,000*
Interest received on investment	*68,000*
(TDS of ₹ 8,200 was deducted on the above interest)	
Book value of plant sold (loss incurred ₹ 9,600)	*84,000*

(b) A construction contractor has a fixed price contract for ₹ 9,000 lacs to build a bridge in 3 years time frame. A summary of some of the financial data is a under:

	(Amount ₹ in lacs)		
	Year 1	*Year 2*	*Year 3*
Initial Amount for revenue agreed in contract	*9,000*	*9,000*	*9,000*
Variation in Revenue (+)	*-*	*200*	*200*
Contracts costs incurred up to the reporting date	*2093*	*6168**	*8100***
Estimated profit for whole contract	*950*	*1000*	*1000*

**Includes ₹ 100 lacs for standard materials stored at the site to be used in year 3 to complete the work.*

***Excludes ₹ 100 lacs for standard material brought forward from year 2.*

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

Compute year wise amount of revenue, expenses, contract cost to complete and profit or loss to be recognized in the Statement of Profit and Loss as per AS-7 (revised)

(c) Mr. Mehul gives the following information relating to items forming part of inventory as on 31-3-2015. His factory produces Product X using Raw material A.

(i) 600 units of Raw material A (purchased @ ₹ 120). Replacement cost of raw material A as on 31-3-2015 is ₹ 90 per unit.

(ii) 500 units of partly finished goods in the process of producing X and cost incurred till date ₹ 260 per unit. These units can be finished next year by incurring additional cost of ₹ 60 per unit.

(iii) 1500 units of finished Product X and total cost incurred ₹ 320 per unit.

Expected selling price of Product X is ₹ 300 per unit.

Determine how each item of inventory will be valued as on 31-3-2015. Also calculate the value of total inventory as on 31-3-2015.

(d) M/s. Laghu Udyog Limited has been charging depreciation on an item of Plant and Machinery on straight line basis. The machine was purchased on 1-4-2012 at ₹ 3,25,000. It is expected to have a total useful life of 5 years from the date of purchase and residual value of ₹ 25,000. Calculate the book value of the machine as on 1-4-2014 and the total depreciation charged till 31-3-2014 under SLM. The company wants to change the method of depreciation and charge depreciation @ 20% on WDV from 2014-15.

Is it valid to change the method of depreciation? Explain the treatment required to be done in the books of accounts in the context of AS-6.

Ascertain the amount of depreciation to be charged for 2014-15 and the net book value of the machine as on 31-3-2015 after giving effect of the above change.(4 x 5 = 20 Marks)

Answer

(a) Cash Flow Statement from Investing Activities of

M/s Creative Furnishings Limited for the year ended 31-03-2015

Cash generated from investing activities	₹	₹
Interest on loan received	82,500	
Pre-acquisition dividend received on investment made	62,400	
Unsecured loans given to subsidiaries	(4,85,000)	
Interest received on investments (gross value)	76,200	
TDS deducted on interest	(8200)	
Sale of Plant	74,400	
Cash used in investing activities (before extra ordinary item)		(1,97,700)

Extraordinary claim received for loss of plant		49,600
Net cash used in investing activities (after extra ordinary item)		(1,48,100)

NOTES:

1. Debenture interest paid and Term Loan repaid are financing activities and therefore not considered for preparing cash flow from investing activities.
2. Plant acquired by issue of 8% debentures does not amount to cash outflow, hence also not considered in the above cash flow statement.

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

(Amount in ₹ lakhs)

	Upto the reporting date	Recognized in prior years	Recognized in current year
Year 1			
Revenue (9,000 x 26%)	2,340	-	2,340
Expenses (8,050 x 26%)	2,093	-	2,093
Profit	247	-	247
Year 2			
Revenue (9,200 x 74%)	6,808	2,340	4,468
Expenses (8,200 x 74%)	6,068	2,093	3,975
Profit	740	247	493
Year 3			
Revenue (9,200 x 100%)	9,200	6,808	2,392
Expenses (8,200 x 100%)	8,200	6,068	2,132
Profit	1,000	740	260

Working Note:

	Year 1	Year 2	Year 3
Revenue after consider variations	9,000	9,200	9,200
Less: Estimated profit for whole contract	950	1,000	1,000
Estimated total cost of the contract (A)	8,050	8,200	8,200
Actual cost incurred upto the reporting date (B)	2,093	6,068	8,200
		(6,168-100)	(8,100+100)
Degree of completion (B/A)	26%	74%	100%

(c) As per AS 2 "Valuation of Inventories", materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at cost or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product X is ₹ 300 and total cost per unit for production is ₹ 320.

Hence the valuation will be done as under:

(i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 90 per unit.

(ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost ₹ 320 (₹ 260 + additional cost ₹ 60) or Net estimated selling price ₹ 240 (Estimated selling price ₹ 300 per unit less additional cost of ₹ 60).

(iii) 1500 units of finished product X will be valued at NRV of ₹ 300 per unit since it is lower than cost ₹ 320 of product X

Valuation of Total Inventory as on 31.03.2015:

	Units	**Cost (₹)**	**NRV/Replacement cost**	**Value = units x cost or NRV whichever is less (₹)**
Raw material A	600	120	90	54,000
Partly finished goods	500	260	240	1,20,000
Finished goods X	1,500	320	300	4,50,000
Value of Inventory				6,24,000

(d) **Book Value of Machine and Depreciation under SLM as on 01-04-2014**

Cost of Machine purchased on 01.04.2012	₹ 3,25,000
Less: Residual Value	₹ 25,000
Depreciable amount	₹ 3,00,000
Useful life of Machine	5 Years
Depreciation for 2 Years (3,00,000 x 2/5)	₹ 1,20,000
Book value as on 01.04.2014	₹ 2,05,000

As per AS 6 "Depreciation Accounting", a change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise

When a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use.

The deficiency or surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past years, the deficiency should be charged in the statement of profit and loss. In case the change in the method results in surplus, the surplus should be credited to the statement of profit and loss.

Such a change should be treated as change in accounting policy and its effect should be quantified and disclosed.

In the given case, the company cannot change the method of depreciation from year 2014-15 without making re-computations for the previous year's also according to new method.

Depreciation for 2014-15 and net book value of Machine as on 31.3.15 after effect of the change		₹
Purchase value of Machinery as on 01.04.2012		3,25,000
Depreciation for 2 years under WDV @ 20% (₹ 65,000 + ₹ 52,000)		1,17,000
Book value as on 01.04.2014 under WDV	(i)	2,08,000
Book value as on 01.04.2014 under SLM	(ii)	2,05,000
Excess depreciation credited to Statement of Profit & Loss	(i-ii)	3,000
Current year depreciation as per new method (WDV) (2,08,000 X 20%)		41,600
Net Book value as on 31.03.2015 (2,08,000 – 41,600)		1,66,400

Question 2

The financial position of two companies M/s. Abhay Ltd. and M/s. Asha Ltd. as on 31-3-2015 is as follows:

Balance Sheet as on 31-3-2015

	Abhay Ltd. ₹	***Asha Ltd.*** ₹
Sources of Funds		
Share Capital – Issued and Subscribed		
15,000 equity shares @ ₹ 100, fully paid	*15,00,000*	
10,000 equity shares @ ₹ 100, fully paid		*10,00,000*

General Reserve	*2,75,000*	*1,25,000*
Profit & Loss	*75,000*	*25,000*
Securities Premium	*1,50,000*	*50,000*
Contingency Reserve	*45,000*	*30,000*
12% Debentures, @ ₹ 100 fully paid		*2,50,000*
Sundry Creditors	*55,000*	*35,000*
	21,00,000	*15,15,000*
Application of Funds		
Land and Buildings	*8,50,000*	*5,75,000*
Plant and Machinery	*3,45,000*	*2,25,000*
Goodwill		*1,45,000*
Inventory	*4,20,000*	*2,40,000*
Sundry Debtors	*3,05,000*	*2,85,000*
Bank	*1,80,000*	*45,000*
	21,00,000	*15,15,000*

They decided to merge and form a new company M/s. Abhilasba Ltd. as on 1-4-2015 on the following terms:

(1) Goodwill to be valued at 2 years purchase of the super profits. The normal rate of return is 10% of the combined share capilal and general reserve. All other reserves are to be ignored for the purpose of goodwill.

Average profits of M/s. Abhay Ltd. is ₹ 2,75,000 and M/s. Asha Ltd. is ₹ 1,75,000.

(2) Land and Buildings, Plant and machinery and Inventory of both companies to be valued at 10% above book value and a provision of 10% to be provided on Sundry Debtors.

(3) 12% debentures to be redeemed by the issue of 12% preference shares of M/s. Abhilasha Ltd. (face value of ₹ 100) at a premium of 10%.

(4) Sundry creditor to be taken over at book value. There is an unrecorded liability of ₹ 15,500 of M/s. Asha Ltd. as on 1-4-2015.

(5) The bank balance of both companies to be taken over by M/s. Abhilasha Ltd. after deducting liquidation expenses of ₹ 60,000 to be borne by M/s. Abhay Ltd. and M/s. Asha Ltd. in the ratio of 2 : 1.

You are required to :

(i) Compute the basis on which shares of M/s. Abhilasha Ltd. are to be issued to the shareholders of the existing company assuming that the nominal value of per share of M/s. Abhilasha Ltd. is ₹ 100.

(ii) Draw Balance Sheet of M/s. Abhilasha Ltd. as on 1-4-2015 after the amalgamation.

(16 Marks)

Answer

(i) Computation of Purchase consideration and Basis of Shares

	Abhay Ltd.	Asha Ltd.
Average profits	2,75,000	1,75,000
Less: Normal profits	1,77,500	1,12,500
Super Profit	97,500	62,500
Goodwill (at 2 years purchase)	1,95,000	1,25,000
Land and Building	9,35,000	6,32,500
Plant and Machinery	3,79,500	2,47,500
Inventory	4,62,000	2,64,000
Debtors less provision	2,74,500	2,56,500
Bank (less liquidation expenses ₹ 40,000: 20,000)	1,40,000	25,000
	23,86,000	15,50,500
Less: Creditors	(55,000)	(50,500)
Debentures	-	(2,75,000)
Purchase consideration (Basis for issue of shares)	23,31,000	12,25,000
To be satisfied by issue of equity share of Abhilasha Ltd. @ 100 face value	23,310	12,250

(ii) Balance Sheet of Abhilasha Ltd. (After Amalgamation) as on 01.04.2015

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	38,31,000
	b	Reserves and surplus		-
2		**Current liabilities**		
	a	Trade Payables		1,05,500
		Total		39,36,500
		Assets		
1		**Non-current assets**		
	a	Fixed assets		

		(i) Tangible assets	2	21,94,500
		(ii) Intangible assets	3	3,20,000
2		**Current assets**		
		Inventories		7,26,000
		Trade receivables	4	5,31,000
		Cash and cash equivalents	5	1,65,000
		Total		39,36,500

Notes to accounts

			₹
1.	**Share Capital**		
	Equity share capital		
	35,560 equity shares of ₹ 100 each	35,56,000	
	2,750 12% Preference shares @ ₹ 100 each	2,75,000	38,31,000
	(The above shares have been issued for consideration other than cash)		
2.	**Tangible assets**		
	Fixed Assets		
	Land and Building (₹ 9,35,000 + ₹ 6,32,500)	15,67,500	
	Plant and Machinery (₹ 3,79,500 + ₹ 2,47,500)	6,27,000	21,94,500
3.	**Intangible assets**		
	Goodwill (₹ 1,95,000 + ₹ 1,25,000)		3,20,000
	Current Assets		
4.	Trade Receivables ₹ (3,05,000 + 2,85,000)	5,90,000	
	Less: Provision for doubtful debts	(59,000)	5,31,000
5.	Cash and cash equivalents (Bank)		1,65,000

Note: It has been presumed that debentures of Asha Ltd. are redeemed at premium of 10% by issue of preference shares of Abhilasha Ltd. at par.

Question 3

(a) *The partners Kamal and Vimal decided to convert their existing partnership business into a Private Limited Company called M/s. KV Trading Private Ltd. with effect from 1-7-2014.*

The same books of accounts were continued by the company which closed its account for first term on 31-3-2015

The summarized Profit and Loss Account for the year ended 31-3-2015 is below:

	(₹) in lakhs	**(₹) in lakhs**
Turnover		240.00
Interest on investments		6.00
		246.00
Less: Cost of goods sold	102.00	
Advertisement	3.00	
Sales Commission	6.00	
Salary	18.00	
Managing directors remuneration	6.00	
Interest on Debentures	2.00	
Rent	5.50	
Bad Debts	1.00	
Underwriting Commission	2.00	
Audit fees	2.00	
Loss on sale of investment	1.00	
Depreciation	4.00	152.50
		93.50

The following additional information was provided

(i) *The average monthly sales doubled from 1-7-2014. GP ratio was constant.*

(ii) *All investments were sold on 31-5-2014.*

(iii) *Average monthly salary doubled from 1-10-2014.*

(iv) *The company occupied additional space from 1-7-2014 for which rent of ₹ 20,000 per month was incurred.*

(v) *Bad debts recovered amounting to ₹ 50,000 for a sale made in 2012, has been deducted from bad debts mentioned above.*

(vi) *Audit fees pertains to the company.*

Prepare a statement apportioning the expenses between pre and post incorporation periods and calculate the Profit/Loss for such periods. Also suggest how the pre-incorporation profits are to be dealt with. *(10 Marks)*

(b) *M/s. Platinum Jewellers wants to take up a "Loss of Profit Policy" for the year 2015. The extract of the Profit and Loss Account of the previous year ended 31-12-2014 provided below:*

	₹
Variable Expenses	
Cost of Materials	*18,60,000*
Fixed Expenses	
Wages for skilled craftsmen	*1,60,000*
Salaries	*2,80,000*
Audit Fees	*40,000*
Rent	*64,000*
Bank Charges	*18,000*
Interest income	*44,000*
Net Profit	*6,72,000*

Turnover is expected to grow by 25% next year.

To meet the growing working capital needs the partners have decided to avail overdraft facilities from their bankers @ 12% p.a. interest

The average daily overdraft balance will be around ₹ 2 lakhs.

The wages for the skilled craftsmen will increase by 20% and salaries by l0% in the current year. All other expenses will remain the same. Determine the amount of policy to be taken up for the current year by M/s. Platinum Jewellers. *(6 Marks)*

Answer

(a) K V Trading Private Limited

Statement showing calculations of profit/loss for pre and post incorporation periods

₹ in lakhs

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:6	240.00	34.29	205.71
Interest on Investments	Pre	6.00	6.00	-
Bad debts recovered	Pre	0.50	0.50	-
(i)		246.50	40.79	205.71
Cost of goods sold	1:6	102.00	14.57	87.43
Advertisement	1:6	3.00	0.43	2.57
Sales commission	1:6	6.00	0.86	5.14
Salary (WN3)	1:5	18.00	3.00	15.00

Managing directors remuneration	Post	6.00	-	6.00
Interest on Debentures	Post	2.00	-	2.00
Rent (WN4)		5.50	0.93	4.57
Bad debts	1:6	1.50	0.21	1.29
Underwriting commission	Post	2.00	-	2.00
Audit fees	Post	2.00	-	2.00
Loss on sale of Investment	Pre	1.00	1.00	-
Depreciation	1:3	4.00	1.00	3.00
(ii)		153.00	22.00	131.00
Net Profit [(i) – (ii)]		93.50	18.79*	74.71

*Note: ₹ 18.79 lakhs pre-incorporation profit is a capital profit and will be transferred to Capital Reserve.

Working Notes:

1. **Calculation of Sales Ratio**

   Let the average sales per month be x

   Total sales from 01.04.2014 to 30.06.2014 will be 3x

   Average sales per month from 01.07.2014 to 31.03.2015 will be 2x

   Total sales from 01.07.2014 to 31.03.2015 will be 2x X 9 =18x

   Ratio of Sales will be 3x: 18x i.e**. 3:18 or 1:6**

2. **Calculation of time Ratio**

   3 Months: 9 Months i.e. 1:3

3. **Apportionment of Salary**

   Let the salary per month from 01.04.2014 to 30.09.2014 is x

   Salary per month from 01.10.2014 to 31.03.2015 will be 2x

   Hence, pre incorporation salary (01.04.2014 to 30.06.2014) = 3x

   Post incorporation salary from 01.07.2014 to 31.03.2015 = (3x + 12x) i.e.15x

   Ratio for division 3x: 15x or **1: 5**

4. **Apportionment of Rent**

	₹ Lakhs
Total Rent	5.5
Less: additional rent from 1.7.2014 to 31.3.2015	1.8
Rent of old premises for 12 months	3.7

	Pre	Post
Apportionment in time ratio	0.925	2.775
Add: Rent for new space	-	1.80
Total	0.925	4.575

(b) In the books of M/s. Platinum Jewelers

Insurance Policy to be taken ₹

Turnover of previous year		30,50,000
Add: Increase in sales by 25%		7,62,500
Sales for Current Year		38,12,500
Less: Cost of Materials (18,60,000 + 25% increase)		(23,25,000)
		14,87,500
Less: Wages of Skilled Craftsmen(1,60,000 + 20% increase)		(1,92,000)
Gross Profit for Current Year		12,95,500
Add: Increased standing charges:		
Interest on overdraft	24,000	
Salaries	28,000	52,000
Policy to be taken for current year 2015		13,47,500

Working Note:

Calculation of Sales

Trading and Profit and Loss account for the year ended 31.12.2014

Particulars	₹	Particulars	₹
To Cost of material	18,60,000	By Sales (Balancing figure)	30,50,000
To Wages of skilled craftsman	1,60,000	By Interest Income	44,000
To Salaries	2,80,000		
To Audit Fees	40,000		
To rent	64,000		
To Bank Charges	18,000		
To Net Profit	6,72,000		
	30,94,000		30,94,000

Question 4

The following is the Balance Sheet of M/s. Care Traders as on 1-4-2014:

	₹
Source of Funds	
Share Capital	*10,00,000*
Profit and Loss	*1,47,800*
Unsecured loan @ 10%	*1,75,000*
Trade Payable	*45,800*
	13,68,600
Application of Funds	
Machinery	*8,25,500*
Furniture	*1,28,700*
Inventory	*1,72,000*
Trade Receivables	*2,29,600*
Bank Balance	*12,800*
	13,68,600

A fire broke out in the premises on 31-3-2015 and destroyed the books of account. The accountant could however provide the following information:

(1) *Sales for the year ended 31-3-2014 was ₹ 18,60,000. Sales for the current year was 20% higher than the last year.*

(2) *25% sales were made in cash and the balance was on credit.*

(3) *Gross profit on sales is 30%.*

(4) *Terms of Credit*

Debtor : 2 months

Creditors : 1 month

All creditor are paid by cheque and all credit sales are collected in cheque.

(5) *The Bank Pass Book has the following details (other than payment to creditors and collection from debtors)*

	₹
Machinery purchased	*1,14,000*
Rent paid	*1,32,000*
Advertisement expenses	*80,000*

Travelling expenses	*78,400*
Repairs	*36,500*
Sales of furniture	*9,500*
Cash withdrawn for petty expenses	*28,300*
Interest paid on unsecured loan	*8,750*

(6) Machinery was purchased on 1-10-2014.

(7) Rent was paid for 11 months only and 25% of the advertisement expenses relates to the next year.

(8) Travelling expenses of ₹ 7,800 for which cheques were issued but not presented in bank.

(9) Furniture was sold on l-4-2014 at a loss of ₹ 2,900 on book value.

(10) Physical verification as on 31-3-2015 ascertained the stock position at ₹ 1,81,000 and petty cash balance at nil.

(11) There was no change in unsecured loan during the year.

(12) Depreciation is to be provided at 10% on machinery and 20% on furniture.

Prepare Bank Account, Trading and Profit and Loss Account for the year ended 31-3-2015 in the books of M/s. Care Traders and a Balance Sheet as on that date. Make necessary assumptions wherever necessary. *(16 Marks)*

Answer

In the books of M/s. Care Traders

Bank Account as on 31.3.2015

Particulars	Amount Dr. (₹)	Particulars	Amount Cr. (₹)
To Opening Balance	12,800	By Creditors (Payment made) (WN 6)	14,86,250
To Cash sales (WN 1)	5,58,000	By Machinery Purchased	1,14,000
To Debtors (collection made) (WN 4)	16,24,600	By Advertisement expenses	80,000
		By Rent	1,32,000
To Furniture (sold)	9,500	By Travelling expenses (78,400 + 7,800)	86,200
		By Repairs	36,500
		By Petty Cash	28,300
		By Interest on unsecured	8,750

		loan	
		By Balance c/d (bal. fig,)	2,32,900
	22,04,900		22,04,900

Trading and Profit and Loss Account

For the year ended 31st March, 2015

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening Stock	1,72,000	By Sales (WN 1)	22,32,000
To Purchases (WN 2)	15,71,400	By Closing Stock	1,81,000
To Gross Profit b/d (WN 1)	6,69,600		
	24,13,000		24,13,000
To Rent (1,32,000x12/11)	1,44,000	By Gross Profit c/d	6,69,600
To Advertisement expenses	60,000		
To Travelling expenses	86,200		
To Repairs	36,500		
To Petty Cash expenses	28,300		
To Interest on unsecured loan	17,500		
To Loss on sale of Furniture	2,900		
To Depreciation			
Machinery(WN8)	88,250		
Furniture	23,260		
To Net Profit	1,82,690		
	6,69,600		6,69,600

Balance Sheet of M/s. Care Traders as on 01.04.2015 ₹

Liabilities		
Share Capital		10,00,000
Profit and Loss		
Opening Balance	1,47,800	
Add: Profit for the year	1,82,690	3,30,490
Unsecured loan @10%		1,75,000
Interest on unsecured loan		8,750
Trade Payable (WN 5)		1,30,950
Outstanding expenses Rent		12,000
		16,57,190

Assets		
Machinery		
Gross block value (WN 7)	9,39,500	
Less: depreciation	(88,250)	8,51,250
Furniture		
Gross block value (WN 9)	1,16,300	
Less: depreciation	(23,260)	93,040
Inventory		1,81,000
Trade Receivables (WN 3)		2,79,000
Prepaid expenses (Advertisement)		20,000
Bank balance		2,32,900
		16,57,190

Working Notes:

1. Sale for the year ended 31.03.2015 ₹

Last year Sales	18,60,000
Add growth @20%	3,72,000
Sale for 2014-15 (A)	22,32,000
Cash Sales (25% of ₹ 22,32,000)	5,58,000
Credit sales (22,32,000 – 5,58,000)	16,74,000
Gross profit 30% on sales (B)	6,69,600

2. Purchases for the year ended 31.03.2015 ₹

Cost of Sales (A-B) (22,32,000 -6,69,600)	15,62,400
Add Closing stock	1,81,000
	17,43,400
Less: Opening stock	(1,72,000)
Purchases during the year	**15,71,400**

3. Debtors as on 31.03.2015 ₹

Total credit sales	16,74,000
Debtors 2 months credit (16,74,000 x 2/12)	**2,79,000**

4. Collections from Debtors account

	Dr. Amount (₹)		Cr. Amount (₹)
To opening Balance	2,29,600	By Bank (collection) Bal .fig.	16,24,600

To Credit sales	16,74,000	By Closing balance	2,79,000
	19,03,600		19,03,600

5. Creditors as on 31.03.2015 ₹

Total Credit purchases (all creditors paid by cheque hence there are no cash purchases)	15,71,400
Creditors 1 month credit (15,71,400 x 1/12)	**1,30,950**

6. Payment to Creditors account

	Dr. Amount (₹)		Cr. Amount (₹)
To Bank (Payment) Bal. fig.	14,86,250	By Opening Balance	45,800
To Closing Balance	1,30,950	By Credit Purchases	15,71,400
	16,17,200		16,17,200

7. Machinery Account

	Dr. Amount (₹)		Cr. Amount (₹)
To Opening Balance	8,25,500	By Closing Balance (Bal. fig.)	9,39,500
To Machinery Purchased	1,14,000		
	9,39,500		9,39,500

8. Depreciation on Machinery ₹

Existing Machinery for 1 Year (₹ 8,25,500 x 10%)	82,550
New Machinery (Purchased on 1.10.2014)	
For 6 months (₹ 1,14,000 x ½ x 10%)	5,700
	88,250

9. Furniture Account

	Dr. Amount (₹)		Cr. Amount (₹)
To Opening Balance	1,28,700	By Bank (Sale)	9,500
		By Loss on Sale	2,900
		By Closing balance	1,16,300
	1,28,700		1,28,700

Question 5

(a) *Lucky bought 2 tractors from Happy on 1-10-2011 on the following* terms:

	₹
Down payment	*5,00,000*
1st installment at the end of first year	*2,65,000*
2nd installment at the end of 2nd year	*2,45,000*
3rd installment at the end of 3rd year	*2,75,000*

Interest is charged at 10% p.a.

Lucky provides depreciation @ 20% on the diminishing balances.

On 30-9-2014 Lucky failed to pay the 3rd installment upon which Happy repossessed 1 tractor. Happy agreed to leave one tractor with Lucky and adjusted the value of the tractor against the amount due. The tractor taken over was valued on the basis of 30% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Lucky after 3 months with interest @ 18% p.a.

You are required to :

(1) *Calculate the cash price of the tractors and the interest paid with each installment.*

(2) *Prepare Tractor Account and Happy Account in the books of Lucky assuming that books are closed on September 30 every year. Figures may be rounded off to the nearest rupee.* *(8 Marks)*

(b) *Mr. Chatur had 12% Debentures of Face Value ₹ 100 of M/s. Unnati Ltd. as current investments.*

He provides the following details relating to the investments.

1-4-2014	*Opening balance 4000 debentures costing ₹ 98 each*
1-6-2014	*Purchased 2000 debentures @ ₹ 120 cum interest*
1-9-2014	*Sold 3000 debentures @ ₹ 110 cum interest*
1-12-2014	*Sold 2000 debentures @ ₹ 105 ex interest*
31-1-2015	*Purchased 3000 debentures @ ₹ 100 ex interest*
31-3-2015	*Market value of the investments ₹ 105 each*

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

Mr. Chatur closes his books on 31-3-2015. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Chatur assuming FIFO method is followed.

(8 Marks)

Answer

(a) Calculation of Interest and Cash Price

No. of installments	*Outstanding balance at the end after the payment of installment*	*Amount due at the time of installment*	*Outstanding balance at the end before the payment of installment*	*Interest*	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4]= 2 +3*	*[5]= 4 x 10/110*	*[6]= 4-5*
3rd	-	2,75,000	2,75,000	25,000	2,50,000
2nd	2,50,000	2,45,000	4,95,000	45,000	4,50,000
1st	4,50,000	2,65,000	7,15,000	65,000	6,50,000

Total cash price = ₹ 6,50,000+ 5,00,000 (down payment) =₹ 11,50,000.

<u>In the books of Lucky</u>

Tractors Account

Date	*Particulars*	*₹*	*Date*	*Particulars*	*₹*
1.10.2011	To Happy a/c	11,50,000	30.9.2012	By Depreciation A/c	2,30,000
				Balance c/d	9,20,000
		11,50,000			11,50,000
1.10.2012	To Balance b/d	9,20,000	30.9.2013	By Depreciation A/c	1,84,000
				Balance c/d	7,36,000
		9,20,000			9,20,000
1.10.2013	To Balance b/d	7,36,000	30.9.2014	By Depreciation A/c	1,47,200
				By Happy a/c (Value of 1 Tractor taken over after depreciation for 3 years @30% p.a.) {5,75,000-(1,72,500+1,20,750+84,525)}	1,97,225
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,94,400-1,97,225)	97,175
				By Balance c/d ½ (7,36,000-1,47,200=5,88,800)	2,94,400
		7,36,000			7,36,000

Happy Account

Date	Particulars	₹	Date	Particulars	₹
1.10.11	To Bank (down payment)	5,00,000	1.10.11	By Tractors a/c	11,50,000
30.9.12	To Bank 1st Installment	2,65,000	30.9.12	By Interest a/c	65,000
	To Balance c/d	4,50,000			
		12,15,000			12,15,000
30.9.13	To Bank 2nd Installment	2,45,000	1.1012	By Balance b/d	4,50,000
	To Balance c/d	2,50,000	30.9.13	By Interest a/c	45,000
		4,95,000			4,95,000
30.914	To Tractor a/c	1,97,225	1.10.13	By Balance b/d	2,50,000
	To Balance c/d	77,775	30.9.14	By Interest a/c	25,000
		2,75,000			2,75,000
31.12.14	To Bank (Amount settled after 3 months	81,275	1.10.14	By Balance b/d	77,775
			31.12.14	By Interest a/c (@ 18% on bal.) (77,775x3/12x18/100)	3,500
		81,275			81,275

(b) **Investment A/c of Mr. Chatur**

for the year ending on 31-3-2015

(Scrip: 12% Debentures of Unnati Limited)

(Interest Payable on 30th June and 31st December) **Amt. in ₹**

Date	Particulars	Nominal Value	Interest	Cost	Date	Particulars	Nominal Value	Interest	Cost
1.4.2014	To Balance b/d	4,00,000	12,000	3,92,000	30.6.2014	By Bank 6,00,000x6%	-	36,000	-
1.6.2014	To Bank	2,00,000	10,000	2,34,800	1.9.2014	By Bank	3,00,000	6,000	3,17,400
1.9.2014	To Profit & Loss A/c			23,400	1.12.2014	By Bank	2,00,000	10,000	2,05,800
31.1.2015	To Bank	3,00,000	3,000	3,06,000	1.12.2014	By Profit & Loss a/c	-	-	9,600
31.3.2015	To Profit & Loss A/c (Bal .fig.)		45,000		31.12.14	By Bank 1,00,000x 6%	-	6,000	-
					31.3.2015	By Profit & Loss A/c	-	-	3,400
					31.3.2015	By Balance c/d	4,00,000	12,000	4,20,000
		9,00,000	70,000	9,56,200			9,00,000	70,000	9,56,200

Working Notes:

1. **Valuation of closing balance as on 31.3.2015:**

Market value of 4,000 Debentures at ₹ 105 =	₹ 4,20,000
Cost price of 1,000 debentures at	1,17,400
3,000 debentures at	3,06,000
	4,23,400

Value at the end = ₹ 4,20,000 i.e. whichever is less

2. **Profit on sale of debentures as on 1.9.2014**

	₹
Sales price of debentures (3,000 x ₹ 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Less: Cost price of Debentures $\left(3,92,000 \text{x} \frac{3,000}{4,000}\right)$	(2,94,000)
Profit on sale	23,400

3. **Loss on sale of debentures as on 1.12.2014**

	₹
Sales price of debentures (2,000 x ₹ 105)	2,10,000
Less: Brokerage @ 2%	(4,200)
	2,05,800
Less: Cost price of Debentures (98,000 + 1,17,400)	(2,15,400)
Loss on sale	9,600

4. **1.6.2014 Purchase cost of 2,000 debentures**

	₹
200 Debentures @₹ 120 cum interest	2,40,000
Add: Brokerage @ 2%	4,800
	2,44,800
Less: Interest for 5 months	(10,000)
Purchase cost of 2,000 debentures	2,34,800

5. 1.9.2014 Sale value for 3,000 debentures

	₹
Sales price of debentures cum interest (3,000 x ₹ 110)	3,30,000
Less: Brokerage @ 2%	(6,600)
	3,23,400
Less: Interest for 2 months	(6,000)
Sale value for 3,000 debentures	3,17,400

Question 6

A and B who carry on partnership business in the name of M/s. AB Ltd., closes their firm's account as on 31st March each year.

Their partnership agreement provides:

(i) Profit Loss sharing, A : 2/3 and B : 1/3.

(ii) On retirement or admission of Partner:

(a) If the change takes place during any accounting year, such partner's share of profits or losses for the period up to retirement or from admission, is to be arrived at by apportionment on a Lime basis except otherwise stated for specific item(s).

(b) No account for Goodwill is to be maintained in the firm's books.

(c) Any balance due to an outgoing partner is to carry interest @ 9% p.a. from the date of his retirement to the date of payment.

The Trial Balance of the firm as on March 31st 2015 was as follows:

Particulars	***(Dr.) Amount in ₹***	***(Cr.) Amount in ₹***
Capital Account		
A	-	*24,000*
B	-	*12,000*
C – Cash brought in on 30-09-2014	-	*9,000*
Plant and machinery at cost	*22,000*	-
Depreciation provision up to 31-03-2014	-	*4,400*
Motor car at cost	*30,000*	-
Depreciation provision up to 31-03-2014	-	*6,000*
Purchases	*84,000*	-
Stock as on 31st March 2014	*15,500*	-

Salaries	*18,000*	-
Debtors	*5,400*	-
Sales	-	*1,20,000*
Travelling expenses	*800*	
Office Maintenance	*1,200*	
Conveyance	*500*	
Trade Expenses	*1,000*	
Creditors	-	*10,100*
Rent and Rates	*3,000*	-
Bad Debts	*900*	-
Cash in hand and at Bank	*3,200*	-
	1,85,500	*1,85,500*

'A'·retired from the firm on 30th September, 2014 and on the same day 'C' an employee of the firm was admitted as partner. Further Profits or Losses shall be shared - B : 3/5 and C : 2/5. Necessary Accounting Entries adjustments were pending up to 31-03-2015. You are given the following further information:

(i) The value of firm's goodwill as on 30th September, 2014 was agreed to ₹ 15,000.

(ii) The stock as on 31st March, 2015 was valued at ₹ 18,550.

(iii) Partners' drawings which are included in Salaries : A - ₹ 2,000, B -₹ 3,000 and C - ₹ 1,000.

(iv) Salaries also includes ₹ 1,500 paid to C prior to his being admitted as a partner.

(v) Bad-debts of ₹ 500 related to the period upto 30th September, 2014.

(vi) As on 31st March, 2015 rent paid in advance amounted to ₹ 600 and trade expenses accrued amounted to ₹ 250.

(vii) Provision is to be made for depreciation on Plant and Machinery and on Motor car at the rate of 10% p.a. on cost.

(viii) A bad-debts provision, specifically attributable to the second half of the year, is to be made@ 5% on debtors as on March 31st 2015.

(ix) Amount payable to A on retirement remained unpaid till March 31st 2015.

You are required to prepare:

(a) The Trading and Profit & Loss Account for the year ended March 31st 2015;

(b) Partners' Capital Account for the year ended March 31st 2015.

(c) The Balance Sheet as on that date. *(16 Marks)*

Answer

Trading and Profit and Loss A/c

for the year ended 31st march, 2015

	₹	₹
Sales		1,20,000
*Less:*Cost of goods sold:		
Opening Stock	15,500	
Purchase	84,000	
	99,500	
*Less:*Closing stock	(18,550)	(80,950)
Gross Profit		39,050

	Half year to 30th September 2014		*Half year to 31st March 2015*	
	₹	₹	₹	₹
Gross profit allocated on time basis		19,525		19,525
Less: Expenses				
Salaries (W.N. 1)	6,750		5,250	
Travelling expenses	400		400	
Office maintenance	600		600	
Conveyance	250		250	
Trade expenses (W.N .2)	625		625	
Rent and rates (W.N. 3)	1,200		1,200	
Bad debts	500		400	
Provision for doubtful debts	-		270	
Depreciation:				
Plant and machinery	1,100		1,100	
Motor vehicles	1,500		1,500	
Interest on loan (WN 4)			1,638	
	-	(12,925)		(13,233)
		6,600		6,292
Appropriation of profits:				
Remaining profits				
A and B (2:1)	4,400			
	2,200	6,600	3,775	
B and C(3:2)			2,517	6,292

Partners' Capital Accounts

	A	B	C		A	B	C
	₹	₹	₹		₹	₹	₹
To A (goodwill)		4,000	6,000	By Balance b/d	24,000	12,000	-
To Drawings	2,000	3,000	1,000	By Cash	-	-	9,000
To Transfer to loan a/c	36,400	-	-	By B (Goodwill) By C (Goodwill)	4,000 6,000	- -	- -
To Balance c/d	-	10,975	4,517	By Profit	4,400	5,975	2,517
	38,400	17,975	11,517		38,400	17,975	11,517

Balance Sheet as on 31st March, 2015

Liabilities		*Amount (₹)*	*Assets*	*Amount (₹)*
Capital A/c			Plant & Machinery	
B	10,975		*Less:* Depreciation	
C	4,517	15,492	(22,000 – 6,600)	15,400
A's Loan	36,400		Motor Car	
Interest	1,638	38,038	*Less:* Depreciation	
			(30,000 – 9,000)	21,000
Current Liabilities			Current Assets:	
Creditors		10,100	Stock	18,550
Out-standing Trade expenses		250	Debtors (*Less:* Provision (5,400-270)	5,130
			Prepaid Rent	600
			Balance at bank	3,200
Total		63,880		63,880

Working Notes:

			₹	₹
1.	**Salaries**			
	Total as per trial balance			18,000
	*Less:*Partners' Drawings -	A	2,000	
		B	3,000	
		C	1,000	(6,000)
				12,000

	Less: C's Salary upto 30.09.2014		1,500
			10,500
	Allocation on time basis	Upto 30.09.2014	Upto 31.03.2015
		5,250	5,250
	Add: C's salary upto 30.09.2014	1,500	0
		6,750	5,250
2.	**Trade Expenses**		
	Total as per trial balance		1,000
	Add: Accrual		250
			1,250
	Allocation: on time basis (50 : 50)	625	625
3.	**Rent and rates**		
	Total as per trial balance		3,000
	Less: Rent paid in advance		(600)
			2,400
	Allocation: on time basis (50 : 50)	1,200	1,200
4.	**Interest on loan account of 'A'**		
	Balance in Capital a/c as per trial balance		24,000
	Less: Drawings		(2,000)
	Add: Share of Goodwill	10,000	
	Share in Profit	4,400	14,400
			36,400
	Interest payable @9% p.a. from 01.10.2014 to 31.03.2015 (6 months)		
	36,400 x 6/12 x 9/100 =		1,638

Adjustment of A's share of Goodwill

Value of goodwill ₹ 15,000

Net entry for Goodwill

B's Capital account Dr. ₹ 4,000

C's Capital account Dr. ₹ 6,000

To A's Capital account ₹ 10,000

(A's share in goodwill adjusted to existing partners in their gaining ratio)

Question 7

Answer any **four** out of the following:

(a) From the following information of M/s. Officers Sports Club (A non-profit organization) calculate (i) the total cost of sports material consumed in the club and (ii) Sale value of sports material during the *year 2014-15.*

	₹
Opening balance of sports material as on 1-4-2014	*56,800*
Closing balance of sports material as on 31-3-2015	*32,900*
Sports material purchased in cash	*23,500*
Payment made to creditors of sports material	*64,300*
Creditors for sports materials	
Opening	*23,200*
Closing	*29,400*

Out of the total sports material used during the year 40% was consumed by the club and the remaining was sold at a profit of 20% op cost.

(b) From the following details, find out the average due date:

Date of bill	***Amount (₹)***	***Usance of bill***
29th January 2014	*10,000*	*1 month*
20th March 2014	*8,000*	*2 months*
12th July 2014	*14,000*	*1 month*
10th August 2014	*12,000*	*2 months*

(c) Given the following information of M/s. Paper Products Ltd.

(i) Goods of ₹ 60,000 were sold on 20-3-2015 but at the request of the buyer these were delivered on 10-4-2015.

(ii) On 15-1-20l5 goods of ₹ 1,50,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-3-2015.

(iii) ₹ 1,20,000 worth of goods were sold on approval basis on 1-12-2014. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2015 and no approval or disapproval received for the remaining goods till 31-3-2015.

(iv) Apart from the above, the company has made cash sales of ₹ 7,80,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of M/s. Paper Products Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 and also determine the total revenue to be recognized for the year ending 31-3-2015.

(d) What factors are to be considered at the time of choosing an appropriate Accounting Software for an organization?

(e) M/s. Versatile Limited purchased machinery for 4,80,000 (inclusive of excise duty of 40,000). CENVAT credit is available for 50% of the duty paid. The company incurred the following other expenses for installation.

	₹
Cost of preparation of site for installation	*21,000*
Total labour charges.	*66,000*
(200 out of the total of 600 men hours worked, were spent	
for installation of the machinery)	
Spare parts and tools consumed in installation	*6,000*
Total salary of supervisor	*24,000*
(time spent for installation was 25% of the total time worked.)	
Total administrative expenses	*32,000*
(1/10 relates to the plant installation)	
Test run and experimental production expenses	*23,000*
Consultancy changes to architect for plant set up	*9,000*
Depreciation on assets used for the installation	*12,000*

The machine was ready for use on 15-1-2015 but was used from 1-2-2015. Due to this delay further expenses of ₹ 19,000 were incurred. Calculate the value at which the plant should be capitalized in the books of M/s. Versatile Limited. *(4 x 4 = 16 Marks)*

Answer

(a)

		₹
	Opening balance of sports material	56,800
	Add: Purchases during the year (cash 23,500 + credit 70,500)	94,000
		1,50,800
	Less: Closing Stock	32,900
	Sports material used	1,17,900

(i)	Total cost of sports material consumed in the Club 40% of used material was consumed. (i.e. 40% of 1,17,900)	 47,160
(ii)	Sale value of sports material Cost of sports material sold (117900-47160)=70740 *Add:* Profit @20% on cost OR Remaining sold for ₹ [120% of 70,740 (60% of 1,17,900)]	 70,740 14,148 84,888

Working Note:

Calculation of Credit purchase of Sports Material

	₹		₹
To Bank	64,300	By Balance b/d	23,200
To Balance c/d	29,400	By Purchases (Balancing Figure)	70,500
	93,700		93,700

(b) Calculation of Average Due Date

(Taking 3rd March, 2014 as base date)

Date of bill 2014	*Term*	*Due date 2014*	*Amount* ₹	*No. of days from the base date i.e. 3rd March, 2014* ₹	*Product* ₹
29th January	1 month	3rd March*	10,000	0	0
20th March	2 months	23rd May	8,000	81	6,48,000
12th July	1month	14th Aug.**	14,000	164	22,96,000
10th August	2 months	13th Oct.	12,000	224	26,88,000
			44,000		56,32,000

= 3rd March, 2014 + (56,32,000/ 44,000)

= 3rd March, 2014 + 128 days

Note: 1. * Bill dated 29th January, 2014 has the maturity period of one month, but there is no corresponding date in February, 2014, therefore, due date (after adding 3 days of grace) falls on 3rd March ,2014 as the last date of the month shall be deemed maturity date.

2. ** Bill dated 12th July, 2014 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2014. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2014.

(c) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In case (i):

The sale is complete but delivery has been postponed at buyer's request. M/s Paper Products Ltd. should recognize the entire sale of ₹ 60,000 for the year ended 31st March, 2015.

In case (ii):

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,20,000 (80% of ₹ 1,50,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

In case (iii):

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, in case (iii) revenue should be recognized for the total sales amounting ₹ 1,20,000 as the time period for rejecting the goods had expired.

In case (iv):

Trade discounts given should be deducted in determining revenue. Thus ₹ 39,000 should be deducted from the amount of turnover of ₹ 7,80,000 for the purpose of recognition of revenue. Thus, revenue should be ₹ 7,41,000.

Thus total revenue amounting ₹ 10,41,000 (60,000 + 1,20,000+ 1,20,000+7,41,000) will be recognized for the year ended 31st March, 2015 in the books of M/s Paper Products Ltd.

(d) There are many accounting software available in the market. To choose the accounting software appropriate to the need of the organization is a difficult task, some of the criteria for selection could be the following:

Choice of accounting software depends upon the following factors:

1. ***Functional requirement of the organisation***: The software that matches most of the requirements of an organisation is preferred over the others.

2. ***Reports available in the software***: The organisation visualises the reporting requirements and chooses a vendor which fulfils its reporting requirements.
3. ***Background of the vendors***: The service and deliverable record of a vendor is extremely important in choosing the vendor.
4. ***Cost comparisons***: The budget constraints and fund position of an enterprise often becomes the deciding factor for choosing a particular package.
5. ***Ease of Use***: Some packages could be very detailed and cumbersome compare to the others.
6. ***Regular updates***: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

(e) Calculation of Cost of Fixed Asset (i.e. Machine)

Particulars		₹
Purchase Price	Given	4,80,000
Add:		
Site Preparation Cost	Given	21,000
Labour charges	(66,000/600x200)	22,000
Spare parts	Given	6,000
Supervisor's Salary	25% of ₹ 24,000	6,000
Administrative costs	1/10 of ₹ 32,000	3,200
Test run and experimental production charges	Given	23,000
Architect Fees for set up	Given	9,000
Depreciation on assets used for installation	Given	12,000
Total Cost of Asset		5,82,200
Less: Cenvat credit receivable	50% of ₹ 40,000	20,000
		5,62,200

Note: Expenses of ₹ 19,000 from 15.1.2015 to 1.2.2015 to be charged to profit and loss A/c as plant were ready for production on 15.1.2015.