PAPER – 1 : ACCOUNTING

QUESTIONS

Cash Flow Statement

1. From the following Balance Sheets of Mr. Shyam, prepare a Cash Flow Statement as per AS 3 for the year ended 31.3.2010:

Balance Sheets of Mr. Shyam

	As on 1.4.2009	As on 31.3.2010
	Rs.	Rs.
Liabilities:		
Shyam's Capital Account	5,00,000	6,12,000
Sundry creditors	1,60,000	1,76,000
Mrs. Shyam's loan	1,00,000	--
Long term loan from bank	1,60,000	2,00,000
	9,20,000	9,88,000
Assets:		
Land	3,00,000	4,40,000
Plant and Machinery	3,20,000	2,20,000
Stock	1,40,000	1,00,000
Debtors	1,20,000	2,00,000
Cash	40,000	28,000
	9,20,000	9,88,000

Additional information:

A machine costing Rs.40,000 (accumulated depreciation there on Rs.12,000) was sold for Rs.20,000. The provision for depreciation on 1.4.2009 was Rs.1,00,000 and on 31.3.2010 was Rs.1,60,000. The net profit for the year ended on 31.3.2010 was Rs.1,80,000.

Profit or Loss Prior to Incorporation

2. ABC Ltd. took over a running business with effect from 1st April, 2009. The company was incorporated on 1st August, 2009. The following Profit and Loss Account has been prepared for the year ended 31.3.2010:

		Rs.		Rs.
To	Salaries	48,000	By Gross Profit	3,20,000
To	Stationery	4,800		
To	Travelling expenses	16,800		

To	Advertisement	16,000		
To	Miscellaneous trade expenses	37,800		
To	Rent (office buildings)	26,400		
To	Electricity charges	4,200		
To	Director's fees	11,200		
To	Bad debts	3,200		
To	Commission to selling agents	16,000		
To	Audit fees	6,000		
To	Debenture interest	3,000		
To	Interest paid to vendors	4,200		
To	Selling expenses	25,200		
To	Depreciation on fixed assets	9,600		
To	Net Profit	87,600		
		3,20,000		3,20,000

Additional information:

(a) Total sales for the year, which amounted to Rs.19,20,000 arose evenly upto the date of 30.9.2009. Thereafter they spurted to record an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ Rs.2,000 per month upto September, 2009 and thereafter it was increased by Rs.400 per month.

(c) Travelling expenses include Rs.4,800 towards sales promotion.

(d) Depreciation include Rs.600 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2009 by issuing equity shares of Rs.10 each.

Prepare the P & L A/c in columnar form showing distinctly the allocation of expenses between pre and post incorporation periods.

Accounting for Bonus Issue

3. Following is the extract of the Balance Sheet of Omega Ltd., a listed company as at March 31, 2010:

	Rs.
Authorised Capital:	
40,000, 12% Preference shares of Rs.10 each	4,00,000
4,00,000, Equity shares of Rs.10 each	40,00,000
	44,00,000

Issued and Subscribed Capital:	
32,000, 12% Preference shares of Rs.10 each fully paid	3,20,000
3,60,000 Equity shares of Rs.10 each fully paid-up	36,00,000
Reserves and Surplus:	
Revaluation reserves	80,000
General reserve	5,00,000
Capital reserve	3,00,000
Securities premium	1,00,000
Profit & Loss (Cr.)	7,00,000
Secured Loan:	
12% Partly convertible debentures @ Rs.100 each	20,00,000

On April 30, 2010, the company decided to capitalise its reserves by way of Bonus at the rate 1:4. Securities premium of Rs.1,00,000 includes a premium of Rs.20,000 for shares issued pursuant to a scheme of amalgamation. Capital reserve includes Rs.1,60,000, being profit on sale of Plant and Machinery. 20% of 12% Debentures are convertible into Equity shares of Rs.10 each fully paid on April 30, 2010.

State with reason on the following:

(i) Whether Revaluation Reserve be capitalised?

(ii) How much amount of Capital reserve can be capitalised?

(iii) How much amount of 'Securities Premium A/c' can be capitalised?

(iv) Are the convertible debentureholders entitled to Bonus shares?

(v) The minimum number of Equity shares to be issued by way of Bonus as on 30th April, 2010.

(vi) What should be the minimum amount of authorised capital, if the decision to issue Bonus shares gets implemented?

Internal Reconstruction

4. The following scheme of reconstruction has been approved for Win Limited:

   (i) The shareholders to receive in lieu of their present holding of 1,00,000 shares of Rs.10 each, the following:

      (a) New fully paid Rs.10 equity shares equal to $3/5^{th}$ of their holding.

      (b) 10% Preference shares fully paid to the extent of $1/5^{th}$ of the above new equity shares.

      (c) Rs.40,000, 8% Debentures.

(ii) An issue of Rs.1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.

(iii) Goodwill which stood at Rs.1,40,000 was completely written off.

(iv) Plant and machinery which stood at Rs.2,00,000 was written down to Rs.1,50,000.

(v) Freehold property which stood at Rs.1,50,000 was written down by Rs.50,000.

You are required to draw up the necessary journal entries in the books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

Amalgamation of Companies

5. The following are the Balance Sheets of A Ltd. and B Ltd. as on 31.3.2010:

	(Rs. in thousands)	
Liabilities	A Ltd.	B Ltd.
Share capital:		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	---
10% Debentures	500	---
Loans from Banks	250	450
Bank overdrafts	---	50
Sundry creditors	300	300
Proposed dividend	200	---
Total	4,050	1,800
Assets		
Tangible assets/fixed assets	2,700	850
Investments (including investments in B Ltd.)	700	---
Sundry debtors	400	150
Cash at bank	250	---
Accumulated loss	---	800
Total	4,050	1,800

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of Rs.60 thousands of B Ltd.

(ii) B Ltd. will reduce its shares to Rs.10 per share and then consolidate 10 such shares into one share of Rs.100 each (new share).

(iii) Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

(iv) Proposed dividend of A Ltd. will be paid after merger to shareholders of A Ltd.

(v) Sundry creditors of B Ltd. includes Rs.100 thousands payable to A Ltd.

(vi) A Ltd. will cancel 20% holding in B Ltd. as investment, which was held at a cost of Rs.250 thousands.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger.

Average Due Date

6. Calculate the average due date and interest at 10% p.a. on the basis of the following details:

Rs. 60,000 was given on 1 January 2006 is to be repaid as under:

Rs.			
5,500	on	1 January	2007
9,500	on	1 January	2009
20,000	on	1 January	2010
7,000	on	1 January	2012
18,000	on	1 January	2014

Self-Balancing Ledgers

7. Mr. Ready maintains his ledgers on self-balancing system. The transactions from January 1 to April 30, 2010 are given below. You are required to prepare the General Ledger Adjustment Account as it will appear in the Debtors Ledger:

(1) Opening Balance (January 1, 2010):

Debtors Ledger Rs. 78,000 (excluding advance by a customer of Rs.2,000)

(2) Cash Sales Rs. 12,000 (being 10% of total sales).

(3) Collection from customers (other than collections on Bills Receivable) amounted to Rs. 1,10,000 which included the following:

(a) A sum of Rs. 3,000 realised from the estate of an insolvent customer @ 0.60 paise per rupee.

(b) Rs. 6,500 received from a customer as advance for sale.

(c) Rs. 4,000 received from a debtor after adjustment of an advance of Rs. 2,000 which was received in December 2009.

(d) Rs. 1,250, received from a party whose account was written off in earlier years.

(4) Interest charged to customers on overdue account Rs. 2,600.

(5) Bills Receivable drawn during the period Rs. 18,500.

(6) Bills receivable collected during the period Rs. 10,600 (including Rs. 5,900 collected on Bills Receivable drawn during November and December 2009).

(7) Bills Receivable dishonoured on maturity Rs. 1,700.

(8) Bills Receivable endorsed to suppliers Rs. 6,000. Out of which Bills Receivable for Rs. 2,000 was discounted by Creditors at 5% duly met at maturity. Bills Receivable for Rs. 3,000 was dishonoured on maturity (noting charge being Rs. 20) and Bills Receivable amounting to Rs. 1,000 will mature in May 2010.

(9) Returns Inward Rs. 11,600.

(10) Transfer from Creditors ledger to Debtors ledger Rs. 6,900.

Financial Statements of Not-for-Profit Organisations

8. The managing committee of a Social Club are concerned about the financial position of the club, following the sudden absence of the treasurer from 31st Dec. 2010, the date on which the annual accounts are closed.

On 31st Dec. 2009, the Balance Sheet of the club was as follows:

Balance Sheet

as at 1st January 2010

Liabilities	Rs.	Assets	Rs.
Capital Fund:	2,66,980	Fixtures and Equipments	
Sundry Liabilities	22,920	At Cost 1,34,000	
Subscription received in advance	600	*Less*: Depreciation 64,000	70,000
		Stock of Provisions	46,480
		Subscriptions Due	1,200
		Bank Balance	1,69,440
		Cash in hand	3,380
	2,90,500		2,90,500

On examination of the records, papers etc. you obtain the following information:

(1) Members pay an annual subscription of Rs. 100. An examination of duplicates of receipts books showed that during the year ended 31st Dec. 2010, 540 members had paid for the year 2010 and 5 members paid in advance for 2011. Two members have resigned without paying previous year's subscription and at the end of the year there were 550 members on the register.

(2) The Cash Book has not been written-up but an analysis of the Petty Cash Vouchers showed the following:

	Rs.
Purchase of stores and Provision	58,240
Sundry expenses	9,520
Repairs and Renewals	4,200
Casual labour charges	64,200
Postage and Stationery	4,000

(3) The refreshment room incharge has handed over the collection daily to the treasurer with bill rolls, which could not be found. He, however, informed that the average gross profit on sales would be 45%. The stock of stores and provisions on 31st Dec. 2010 was Rs. 52,960 and Cash left was Rs. 200.

(4) A summary of the bank statement for the year showed the following:

	Rs.		Rs.
Opening Balance	1,69,440	Payment for Stores and Provisions	4,18,320
Bank Deposits	6,86,540	Wages	2,09,040
		Rent and Rates	1,09,240
		Light and Power	22,000
		Telephone	1,600
		Repairs and Renewals	32,400
		Dish-washing machine	10,400
		Balance on 31.12.2010	52,980
	8,55,980		8,55,980

(5) A bundle of unpaid bills have been found in the treasurer's desk, which have been summarised as follows:

	Rs.
Stores and Provisions purchased	1,09,440
Electricity Bills	3,200
Printing and Stationery	3,800
Telephone	800

(6) Depreciation is to be provided on Fixtures and Equipment @ 20% on cost including year of acquisition.

You are required to prepare:

(a) Cash Account for the year ended 31st Dec. 2010.

(b) An Income and Expenditure Account for the year ended 31st Dec. 2010.

(c) A Balance Sheet as on that date.

Accounts from Incomplete Records

9. Somesh, who keeps books by single entry, had submitted his income-tax returns to income-tax authorities showing his incomes to be as follows:

	Rs.
Year ending March 31, 2005	33,075
Year ending March 31, 2006	33,300
Year ending March 31, 2007	35,415
Year ending March 31, 2008	61,875
Year ending March 31, 2009	54,630
Year ending March 31, 2010	41,670

The Income-tax officer is not satisfied as to the accuracy of the incomes returned. You are appointed as a consultant to assist in establishing correctness of the incomes returned and for that purpose you are given the following information:

(a) Business liabilities and assets at March 31, 2004 were:

Creditors: Rs.32,940, Furniture & Fittings: Rs.22,500, Stock : Rs.24,390 (at selling price which is 25% above cost), Debtors: Rs.11,025, Cash at Bank and in hand Rs.15,615.

(b) Somesh owed his brother Rs.18,000 on March 31, 2004. On February 15, 2007 he repaid this amount and on April 1, 2009, he lent his brother Rs.13,500.

(c) Somesh owns a house which he purchased in 1999 for Rs.90,000 and a car which he purchased in October, 2005 for Rs.33,750. In January, 2009, he bought debentures in X Ltd. having face value of Rs.40,000 for Rs.33,750.

(d) In May, 2009 a sum of Rs.13,500 was stolen from his house.

(e) Somesh estimates that his living expenses have been 2004-05 – Rs.13,500; 2005-06 – Rs.18,000; 2006-07 – Rs.27,000; 2007-08, 2008-09 and 2009-10 – Rs.31,500 p.a. exclusive of the amount stolen.

(f) On March 31, 2010 business liabilities and assets were: Creditors Rs.37,800, Furniture, Fixtures and Fittings Rs.40,500, Stock Rs.54,330 (at selling price with a gross profit of 25%), Debtors Rs.26,640, Cash-in-Hand and at Bank Rs.29,025.

From the information submitted, prepare statements showing whether or not the incomes declared by Somesh are correct.

Accounting for Hire Purchase Transaction

10. Modern Ltd. has a hire-purchase department which fixes hire-purchase price by adding 40% to the cost of the goods. The following additional information is provided to you :

	Rs.
On 1st April, 2009 :	
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Instalments due	14,000
Transactions during the year :	
Hire-purchase price of goods sold	9,80,000
Instalments received	8,12,000
Value of goods repossessed due to defaults (hire-purchase instalments unpaid Rs. 5,600)	7,800
On 31st March, 2010:	
Goods out on hire-purchase (at hire-purchase price)	3,78,000

You are required to prepare Hire-purchase Trading Account, ascertaining the profit made by the department during the year ended 31st March, 2010.

Investment Accounts

11. The following transactions Mr. Malamaal took place during the year ended 31st March, 2010:

1st April	Purchased Rs.12,00,000 8% bonds @ Rs.80.5 cum-interest. Interest is payable on 1st November and 1st May.
12th April	Purchased 1,00,000 equity shares of Rs.10 each in X Ltd. for Rs.40,00,000.
1st May	Received half year's interest on 8% bonds.
15th May	X Ltd. made a bonus issue of three equity shares for every two held. Malamaal sold 1,25,000 bonus shares @ Rs.20 each.
1st October	Sold Rs.3,00,000 8% bonds @ Rs.81 ex-interest.
1st November	Received half year's bond interest.
1st December	Received 18% dividend on equity shares in X Ltd.

Prepare the relevant investment accounts in the books of Mr. Malamaal for the year ended 31st March, 2010.

Insurance Claims for Loss of Stock and Loss of Profit

12. A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	Rs.
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of Rs.31,250.

Partnership Accounts - Profit and Loss Appropriation Account

13. A, B and C run a business sharing profits and losses in proportion of 2:2:1. On 1st January, 2008 their respective capitals were Rs.96,000, Rs.90,000 and Rs.84,000.

On 30th June, 2008 the following was the position:

	Rs.
Creditors	30,000
Furniture	9,000
Book debts	1,80,000
Stock	90,000
Cash in hand and at bank	36,000

The drawings of the partners respectively were Rs.12,000, Rs.9,000 and Rs.6,000 during the half-year. Each partner is entitled to an interest at the rate of 5% p.a. on capital. Interest on drawings was calculated as Rs.600 for A, Rs.450 in case of B and Rs.300 in case of C.

You are required to prepare:

(i) A statement of affair as on 30th June, 2008.

(ii) Calculate the profits for the half-year ending on 30th June, 2008 and allocate the same amongst the partners. Also calculate capital of each partner as on 30th June, 2008.

Accounting in Computerised Environment

14. A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

Partnership Accounts- Admission cum Retirement

15. Isha, Misha, and Disha were partners in a firm sharing profits in the proportions of 1/2, 1/3, and 1/6 respectively. The Balance Sheet of the firm on 31st March 2010 was as follows:

Liabilities	*Rs.*	*Assets*		*Rs.*
Trade Creditors	15,000	Cash at Bank		5,000
Employees' Provident Fund	6,000	Debtors	40,000	
Reserve Fund	18,000	*Less:* Provision	2,000	38,000
Isha's Capital	65,000	Stock		30,000
Misha's Capital	30,000	Investments		15,000
Disha's Capital	20,000	Patents		10,000
		Plant & Machinery		50,000
		Advertisement Expenditure		6,000
	1,54,000			1,54,000

The firm had a Joint Life Policy for Rs. 40,000. The surrender value of the policy was Rs. 4,800 as on 31st March 2010.

Disha retired on the above date on the following terms:

(a) Goodwill of the firm was valued at Rs. 30,000 but it was not to remain in the books of the new firm.

(b) Value of patents was to be reduced by 20% and that of Plant and Machinery to 90%.

(c) Provision for doubtful debts was to be raised to 6%.

(d) Disha took over the investments at a value of Rs. 17,600.

(e) Liability on account of Provident Fund was only Rs. 2,400.

(f) Liability for workmen compensation to the extent of Rs. 375 is to be created.

(g) Trade Creditors to the extent of 2-1/2% are not likely to claim their dues.

(h) Amount due to Disha is to be settled on the following basis:

50% on retirement, out of the remaining, 50% within one year and the balance by a Bill of Exchange (without interest) at 3 months.

Show the necessary journal entries for the treatment of Goodwill and Joint Life Policy, prepare Revaluation account, Capital accounts of the partners and the Balance Sheet of Isha and Misha after Disha's retirement.

Introduction to Accounting Standards

16. Explain in brief the reasons for convergence of Indian Accounting Standards towards global standards.

Accounting Standards

17. (a) Explain the concept of 'materiality' in brief.

    (b) A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

    Comment on the valuation of the stocks by the company.

    (c) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3(AS 3) revised.

18. (a) Mr. 'X' as a contractor has just entered into a contract with a local municipal body for building a flyover. As per the contract terms, 'X' will receive an additional Rs.2 crore if the construction of the flyover were to be finished within a period of two years of the commencement of the contract. Mr. X wants to recognize this revenue since in the past he has been able to meet similar targets very easily.

    Is X correct in his proposal? Discuss.

    (b) SM company has taken a Transit Insurance Policy. Suddenly in the year 2009-2010 the percentage of accident has gone up to 7% and the company wants to recognize insurance claim as revenue in 2009-2010 in accordance with relevant Accounting Standards. Do you agree? Explain in brief, as per the relevant Accounting Standards.

    (c) Explain the disclosure requirement for fixed assets as per AS 10.

19. (a) You are required to value the inventory per kg of finished goods consisting of:

	Rs. per kg.
Material cost	200
Direct labour	40
Direct variable overhead	20

    Fixed production charges for the year on normal working capacity of 2 lakh kgs is Rs.20 lakhs. 4,000 kgs of finished goods are in stock at the year end.

    (b) Mr. X set up a new factory in the backward area and purchased plant for Rs. 500 lakhs for the purpose. Purchases were entitled for the CENVAT credit of Rs. 10 lakhs and also Government agreed to extend the 25% subsidy for backward area development. Determine the depreciable value for the asset.

    (c) M/s Prima Co. Ltd. sold goods worth Rs. 50,000 to M/s Y and Company. M/s Y and Co. asked for discount of Rs. 8,000 which was agreed by M/s Prima Co. Ltd. the sale was effected and goods were despatched. After receiving, goods worth Rs. 7,000 was found defective, which they returned immediately. They made the payment of Rs. 35,000 to M/s Prima Co. Ltd. Accountant booked the sales for Rs. 35,000. Please discuss.

20. (a) During the year 2008-09, P Limited incurred the following expenses on machinery:

Rs.2.50 lacs as routine repairs and Rs.75,000 on partial replacement of a part. Rs.7 lacs on replacement of part of machinery which will improve the efficiency of the machine. Which amount should be capitalized as per AS 10?

(b) An unquoted long term investment is carried in the books at a cost of Rs. 2 lakhs. The published accounts of the unlisted company received in May, 2010 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 20,000. How will you deal with this in preparing the financial statements of R Ltd. for the year ended 31st March, 2010?

SUGGESTED ANSWERS/ HINTS

1. Cash Flow Statement of Mr. Shyam

for the year ended 31.3.2010

			Rs.
(i)	**Cash flow from operating activities**		
	Net Profit (given)		1,80,000
	Adjustments for		
	Depreciation on Plant & Machinery (W.N.2)	72,000	
	Loss on Sale of Machinery (W.N.1)	8,000	80,000
	Operating Profit before working capital changes		2,60,000
	Decrease in Stock	40,000	
	Increase in Debtors	(80,000)	
	Increase in Creditors	16,000	(24,000)
	Net cash from operating activities		2,36,000
(ii)	**Cash flow from investing activities**		
	Sale of Machinery	20,000	
	Purchase of Land (4,40,000 – 3,00,000)	(1,40,000)	
	Net cash used in investing activities		(1,20,000)
(iii)	**Cash flow from financing activities**		
	Repayment of Mrs. Shyam's Loan	(1,00,000)	
	Drawings (W.N.3)	(68,000)	
	Loan from Bank	40,000	
	Net cash used in financing activities		(1,28,000)
	Net decrease in cash		(12,000)
	Cash balance as on 1.4.2009		40,000
	Cash balance as on 31.3.2010		28,000

Working Notes:

1. Plant & Machinery A/c

	Rs.		*Rs.*
To Balance b/d	4,20,000	By Bank – Sales	20,000
(3,20,000 + 1,00,000)		By Provision for Depreciation A/c	12,000
		By Profit & Loss A/c – Loss on Sale (40,000 – 20,000 – 12,000)	8,000
		By Balance c/d (2,20,000+1,60,000)	3,80,000
	4,20,000		4,20,000

2. Provision for depreciation on Plant and Machinery A/c

	Rs.		*Rs.*
To Plant and Machinery A/c	12,000	By Balance b/d	1,00,000
To Balance c/d	1,60,000	By Profit & Loss A/c (Bal.fig.)	72,000
	1,72,000		1,72,000

3. Mr. Shyam's drawings

	Rs.
Opening Capital	5,00,000
Add: Net Profit	1,80,000
	6,80,000
Less:Closing Capital	(6,12,000)
Drawings (Bal. fig.)	68,000

2. Profit and Loss Account of ABC Ltd.

for the year ended 31.3.2010

Particulars	*Pre-incorpo-ration period* *Rs.*	*Post-incorporation period* *Rs.*	*Particulars*	*Pre-incorpo-ration period* *Rs.*	*Post-incorpo-ration period* *Rs.*
To Salaries (1:2)	16,000	32,000	By Gross Profit (1:3)	80,000	2,40,000
To Stationery (1:2)	1,600	3,200			
To Advertisement (1:3)	4,000	12,000			
To Travelling expenses (W.N.3)	4,000	8,000			

To Sales promotion expenses (W.N.3)	1,200	3,600			
To Misc. Trade expenses (1:2)	12,600	25,200			
To Rent (office building) (W.N.2)	8,000	18,400			
To Electricity charges (1:2)	1,400	2,800			
To Director's fees	-	11,200			
To Bad debts (1:3)	800	2,400			
To Selling agents commission (1:3)	4,000	12,000			
To Audit fees (1:2)	2,000	4,000			
To Debenture interest	-	3,000			
To Interest paid to vendor (2:1) (W.N.4)	2,800	1,400			
To Selling expenses (1:3)	6,300	18,900			
To Depreciation on fixed assets (W.N.5)	3,000	6,600			
To Capital reserve	12,300	-			
To Net profit	-	75,300			
	80,000	2,40,000		80,000	2,40,000

Working Notes:

Pre incorporation period = 1st April, 2009 to 31st July, 2009

i.e. 4 months

1. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.2009 to 30.09.09) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.09 to 31.3.2010) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3}x \times 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = Rs.19,20,000/16 = Rs.1,20,000

Sales for pre-incorporation period = Rs.1,20,000 x 4 = Rs.4,80,000

Sales for post incorporation period = Rs.19,20,000 – Rs.4,80,000

= Rs.14,40,000

Sales Ratio = 4,80,000 : 14,40,000 = 1 : 3

2. Rent

		Rs.
Rent for pre-incorporation period (Rs.2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August,2009 & September, 2009 (Rs.2,000 x 2)	4,000	
October,2009 to March,2010 (Rs.2,400 x 6)	14,400	18,400 (post)

3. Travelling expenses

	Pre *Rs.*	*Post* *Rs.*
Traveling expenses Rs.12,000 (i.e. Rs.16,800-Rs.4,800) distributed in 1:2 ratio	4,000	8,000
Sales promotion expenses Rs.4,800 distributed in 1:3 ratio	1,200	3,600
	5,200	11,600

4. Interest paid to vendor till 30th September, 2009

	Pre *Rs.*	*Post* *Rs.*
Interest for pre-incorporation period ($\frac{\text{Rs.4,200}}{6}\times 4$)	2,800	
Interest for post incorporation period i.e. for		
August, 2009 & September, 2009 = ($\frac{\text{Rs.4,200}}{6}\times 2$)		1,400

5. Depreciation

		Pre *Rs.*	*Post* *Rs.*
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	600		600
	9,000		
Depreciation for pre-incorporation period [9,000 x $\frac{4}{12}$]		3,000	
Depreciation for post incorporation period [9,000 x $\frac{8}{12}$]			6,000
		3,000	6,600

3. (i) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 "Reserves created by Revaluation of fixed assets can not be capitalized."

(ii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, 'Capital Reserve' realized in cash can be utilized for issue of fully paid Bonus shares. Therefore, Rs. 1,60,000 being profit on sale of plant, is a capital profit which has been realized in cash, can be utilized for issue of the bonus shares. For remaining balance in capital reserve account, no further details of its constituents have been given. Therefore, no comment on it can be made.

(iii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, Securities Premium collected in cash only can be utilized for Bonus issue, therefore Rs. 80,000 (i.e. Rs.1,00,000 – Rs. 20,000) can be utilized for Bonus issue.

(iv) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, no company can issue bonus shares to its shareholders without extending similar benefit to convertible debentureholders. Pending such conversion, necessary number of shares should be earmarked for convertible debentureholders. Therefore, convertible debentureholders are also entitled to the bonus shares in the same ratio as the equity shareholders.

(v) **Minimum number of Equity shares to be issued as bonus shares**

	In shares
Issue of Bonus Shares to existing Equity Shareholders	90,000
Add: Number of bonus shares to be issued after conversion of debentures $\left(\frac{20,00,000 \times 20\%}{10}\right) \times \frac{1}{4}$	10,000
Total bonus issue through equity shares	1,00,000

(vi) **Minimum Authorised Share Capital**

	Shares	*Rs.*
Equity share capital		
Existing Equity Shares	3,60,000	36,00,000
Bonus to Equity Shareholders	90,000	9,00,000
20% conversion of 12% Debentures	40,000	4,00,000
Bonus shares to be issued to Debentureholders after conversion	10,000	1,00,000
Authorised Equity Share Capital	5,00,000	50,00,000
Preference share capital		
12% Preference Shares	40,000	4,00,000
Minimum Authorised Capital		54,00,000

4. Journal Entries

		Rs.	*Rs.*
Equity Share Capital (old) A/c	Dr.	10,00,000	
To Equity Share Capital (Rs.10) A/c			6,00,000
To 10% Preference Share Capital A/c			1,20,000
To 8% Debentures A/c			40,000
To Reconstruction A/c			2,40,000
(Being new equity shares, 10% Preference Shares and 8% Debentures issued against old equity shares and the balance transferred to Reconstruction account as per the scheme)			
Bank A/c	Dr.	1,00,000	
To 10% First Debentures Application & Allotment A/c			1,00,000
(Being amount received on issue of 10% First Debentures for application and allotment Account)			
10% First Debentures Application and Allotment A/c	Dr.	1,00,000	
To 10% First Debentures Account			1,00,000
(Being allotment of 10% first Debentures)			
Reconstruction A/c	Dr.	2,40,000	
To Goodwill Account			1,40,000
To Plant and Machinery Account			50,000
To Freehold Property Account			50,000
(Being Reconstruction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)			

5. Calculation of purchase consideration

One share of B Ltd. will be issued in exchange of every share of A Ltd. (i.e. 20,000 equity shares of B Ltd will be issued against 20,000 equity shares of A Ltd.)	20,000 shares
Less: Shares already held (20% of 10,000 shares) 2,000 shares converted in new equity shares	200 shares
Number of shares to be issued by B Ltd to shareholders of A Ltd.	19,800 shares

Journal Entries in the books of B Ltd.

Date			(Rs. in thousands)	
2010			*Dr.*	*Cr.*
March,31	Loan from bank A/c	Dr.	60	
	To Reconstruction A/c			60
	(Being loan from bank waived off to the extent of Rs. 60 thousand)			
	Equity share capital A/c (Rs.100)	Dr.	1,000	
	To Equity share capital A/c (Rs.10)			100
	To Reconstruction A/c			900
	(Being equity shares of Rs. 100 each reduced to Rs.10 each)			
	Equity share capital A/c (Rs.10)	Dr.	100	
	To Equity share capital A/c (Rs.100 each)			100
	(Being 10 equity shares of Rs. 10 each consolidated to one share of Rs.100 each)			
	Reconstruction A/c	Dr.	960	
	To Profit and loss A/c			800
	To Capital reserve A/c			160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)			
	Business purchase A/c	Dr.	1,980	
	To Liquidator of A Ltd.			1,980
	(Being purchase of business of A Ltd.)			
	Fixed asset A/c	Dr.	2,700	
	Investment A/c (700 – 250)	Dr.	450	
	Sundry debtors A/c	Dr.	400	
	Cash at bank A/c	Dr.	250	
	To Sundry creditors A/c			300
	To Proposed dividend A/c			200
	To Loans from bank A/c			250
	To 10% Debenture A/c			500
	To Business purchase A/c			1,980

	To Reserves A/c (800 – 230)		570
	(Being assets, liabilities and reserves taken over under pooling of interest method)		
	Liquidator of A Ltd. A/c Dr.	1,980	
	To Equity share capital A/c		1,980
	(Being payment made to liquidators of A Ltd. by allotment of 19,800 new equity shares)		
	Sundry creditors A/c Dr.	100	
	To Sundry debtors A/c		100
	(Being mutual owing cancelled)		
	Proposed dividend A/c Dr.	200	
	To Bank A/c		200
	(Being dividend paid off)		

Balance Sheet of B Ltd. after merger as on 31.3.2010

Liabilities	*Rs. in thousands*	*Assets*	*Rs. in thousands*
20,800, Equity shares of Rs.100 each fully paid	2,080	Fixed assets (2,700 + 850)	3,550
(Out of the above, 19,800 shares have been issued for consideration other than cash)		Investments	450
Capital reserve	160	Sundry debtors (400+150-100)	450
General reserve	570	Cash at bank (250 – 200)	50
10% Debentures	500		
Loan from bank (250 +450 -60)	640		
Bank overdraft	50		
Sundry creditors (300+300-100)	500		
	4,500		4,500

6. Calculation of Average Due Date

Instalment	*Due Date*	*Years since 1 January 2006*	*Product Rs.*
5,500	1 January 2007	1	5,500
9,500	1 January 2009	3	28,500
20,000	1 January 2010	4	80,000

7,000	1 January 2012	6	42,000
18,000	1 January 2014	8	1,44,000
60,000			3,00,000

Average Due Date = 1 January 2006 + $\frac{3,00,000}{60,000}$

= 1 January 2006 + 5 years i.e., 1 January 2011

Interest = $\frac{60,000 \times 5 \times 10}{100} = \text{Rs. } 30,000$

7. In the Debtors Ledger of Mr. Ready

General Ledger Adjustment Account

2010			*Rs.*	*2010*			*Rs.*
Jan 1	To	Balance b/d	2,000	Jan. 1	By	Balance b/d	78,000
Jan 1 to	To	Debtors Ledger					
Apr.30		Adjustment A/c:		Jan 1 to	By	Debtors Ledger	
		Cash		Apr. 30		Adjustment A/c:	
		(Rs. 1,10,000 – Rs. 1,250)	1,08,750			Credit Sales	
		Bad Debts					
		$\left(\text{Rs. } 3,000 \times \frac{40}{60}\right)$	2,000			$\left(\text{Rs. } 12,000 \times \frac{90}{10}\right)$	1,08,000
		Bills Receivable	18,500			Interest	2,600
		Returns Inward	11,600			B/R Dishonoured	
		Transfer from				(1,700 + 3,020)	4,720
		Creditors Ledger	6,900				
	To	Balance c/d	50,070		By	Balance c/d	6,500
			1,99,820				1,99,820
2010				2010			
May 1	To	Balanced b/d	6,500	May 1.	By	Balance b/d	50,070

8. (a) In the books of a Social Club

Cash Account

for the year ended 31st December, 2010

		Rs.	*Rs.*			*Rs.*
To	Balance b/d		3,380	By	Purchase of Stores	

					and Provision	58,240
To	Subscriptions:			By	Sundry Expenses	9,520
	2009 (1,200 – 200) (W.N.1)	1,000		By	Repairs and Renewals	4,200
	2010 (W.N.1)	54,000		By	Casual Labour Charges	64,200
	2011 (W.N.1)	500	55,500	By	Postage and Stationery	4,000
To	Refreshment room receipts (W.N.2)		10,12,000	By	Bank A/c – Deposit	6,86,540
				By	Amount defalcated	2,43,980
				By	Balance c/d	200
			10,70,880			10,70,880

(b) **Income and Expenditure Account**

for the year ended 31st December 2010

		Rs.			*Rs.*
To	Provisions consumed (W.N.2)	5,56,600	By	Sale of Provisions (W.N.2)	10,12,000
To	Wages	2,09,040	By	Subscriptions (W.N.1)	55,000
To	Rent and Rates	1,09,240			
To	Light and Power (22,000 + 3,200)	25,200			
To	Telephone (1,600 + 800)	2,400			
To	Repairs and Renewals (32,400 + 4,200)	36,600			
To	Casual Labour Charges	64,200			
To	Postage and Stationery (4,000 + 3,800)	7,800			
To	Bad Debts	200			
To	Sundry Expenses	9,520			
To	Depreciation on fixtures and equipments (W.N.4)	28,880			
To	Surplus (Excess of income over expenditure)	17,320			
		10,67,000			10,67,000

(c) **Balance Sheet**

as at 31st December 2010

Liabilities	*Rs.*	*Rs.*	*Assets*	*Rs.*	*Rs.*
Capital Fund:			Fixture and Equipment	1,34,000	
Opening Balance	2,66,980		Additions	10,400	
Add: Surplus	17,320			1,44,400	
	2,84,300		*Less*: Depreciation		
Less: Defalcation of Cash	2,43,980	40,320	(64,000 + 28,880)	92,880	51,520
Creditors for			Closing Stock of Provisions		52,960
Electricity bills	3,200		Subscription Due (W.N.1)		400
Printing and stationery	3,800		Bank Balance		52,980
Telephone	800		Cash in hand		200
Provisions	1,09,440	1,17,240			
Subscription Received					
in Advance (W.N.1)		500			
		1,58,060			1,58,060

Working Notes:

1. **Subscriptions Account**

		No. of Members	*Rs.*			*No. of Members*	*Rs.*
To	Balance b/d	12	1,200	By	Balance b/d	6	600
To	Income & Exp. A/c	550	55,000	By	Cash A/c	555	55,500
To	Balance	5	500		(540 + 10 + 5)		
				By	Income & Exp. A/c:		
				By	Bad Debts A/c	2	200
				By	Balance c/d (550-540-6)	4	400
		567	56,700			567	56,700

2. Refreshment room receipts/ sale of provisions

			Rs.
Opening Stock			46,480
Add: Purchases	Cash	58,240	
	Credit (W.N.3)	5,04,840	5,63,080
			6,09,560
Less: Closing Stock			52,960
Cost of goods sold			5,56,600
Add: Gross Profit 5,56,600 x $\frac{45}{55}$			4,55,400
Sales of Provisions			10,12,000

3. Purchases

Creditors Account

		Rs.			*Rs.*
To	Bank	4,18,320	By	Balance b/d	22,920
To	Balance c/d	1,09,440	By	Purchases (bal. fig.)	5,04,840
		5,27,760			5,27,760

4. Depreciation of fixtures and equipments

= Rs.1,44,400 x 20% = Rs. 28,880

9. Statement of Affairs of 'Somesh'

as on March 31, 2004

Liabilities	Rs.	Assets	Rs.
Creditors	32,940	Furniture, Fixtures & Fittings	22,500
Loan from brother	18,000	Stock (24,390 x 100/125)	19,512
Capital (Bal. fig.)	1,07,712	Debtors	11,025
		Cash-in-Hand and at Bank	15,615
		Building (House)	90,000
	1,58,652		1,58,652

Statement of Affairs of 'Somesh' as on March 31, 2010

Liabilities	*Rs.*	*Assets*	*Rs.*
Creditors	37,800	Furniture, Fixtures & Fittings	40,500
Capital (Bal. fig.)	2,70,112	Stock (54,330 x 75%)	40,747
		Debtors	26,640
		Cash-in-Hand and at Bank	29,025
		Loan to Brother	13,500
		Building (House)	90,000
		Car	33,750
		Debentures in 'X Ltd.'	33,750
	3,07,912		3,07,912

Statement of Profit:

Particulars		*Rs.*
Capital as on March 31, 2010		2,70,112
Add: Drawings		
2004-05	13,500	
2005-06	18,000	
2006-07	27,000	
2007-08	31,500	
2008-09	31,500	
2009-10	31,500	1,53,000
		4,23,112
Add: Amount stolen in May, 2009		13,500
		4,36,612
Less: Opening Capital as on March 31, 2004		(1,07,712)
		3,28,900
Less:Profit as shown by I.T.O.		
For the year ending March 31, 2005	33,075	
For the year ending March 31, 2006	33,300	
For the year ending March 31, 2007	35,415	
For the year ending March 31, 2008	61,875	
For the year ending March 31, 2009	54,630	
For the year ending March 31, 2010	41,670	(2,59,965)
Under-statement of Income		68,935

Note: In the absence of the information regarding depreciation in the question, no depreciation has been provided on Building (house) and Car.

10. **Modern Ltd.**

Hire Purchase Trading Account

		Rs.			Rs.
To	Opening Balances:		By	Opening hire purchase stock reserve	60,000
	Hire purchase stock	2,10,000	By	Bank (Instalments received)	8,12,000
	Instalments due	14,000	By	Goods repossessed	7,800
To	Goods sold on hire purchase	9,80,000	By	Goods sold on hire purchase (Loading) (W.N.2)	2,80,000
To	Closing hire purchase stock reserve (W.N.3)	1,08,000	By	Closing Balances:	
To	Profit and loss Account			Hire purchase stock	3,78,000
	(Transfer of profit)	2,34,200		Instalments due (W.N.4)	8,400
		15,46,200			15,46,200

Working Notes:

			Rs.
(i)	Opening hire purchase stock reserve = Rs.2,10,000 $\times \frac{40}{140}$		60,000
(ii)	Loading on goods sold = Rs.9,80,000 $\times \frac{40}{140}$		2,80,000
(iii)	Closing hire purchase stock reserve = Rs.3,78,000 $\times \frac{40}{140}$		1,08,000
(iv)	Closing instalments due:		
	Opening hire purchase stock		2,10,000
	Opening instalments due		14,000
	Goods sent on hire purchase		9,80,000
			12,04,000
	Less: Instalments received	8,12,000	
	Unpaid instalments on repossessed goods	5,600	
	Closing hire purchase stock	3,78,000	(11,95,600)
			8,400

11. **In the books of Mr. Malamaal**

8% Bond Account

		Particulars	Nominal Value	Income	Cost	Date		Particulars	Nominal Value	Income	Cost
2009 April 1	To	Bank A/c (W.N.1)	12,00,000	40,000	9,26,000	2009 May 1	By	Bank A/c	--	48,000	---
2010 Mar. 31	To	Profit & Loss A/c:	--			Oct. 1	By	Bank A/c (W.N.4)	3,00,000	10,000	2,43,000
		Int. income	----	84,000		Nov. 1	By	Bank A/c (W.N.5)	---	36,000	---
		Profit on Sale	---		11,500	Mar. 31	By	Balance c/d (W.N.7 & 8)	9,00,000	30,000	6,94,500
			12,00,000	1,24,000	9,37,500				12,00,000	1,24,000	9,37,500

Equity Shares in X Ltd.

		Particulars	Nominal Value	Income	Cost	Date		Particulars	Nominal Value	Income	Cost
2009 April 12	To	Bank A/c	10,00,000	-	40,00,000	2009 May 15	By	Bank A/c	12,50,000	---	25,00,000
May 15	To	Bonus Issue A/c (W.N.3)	15,00,000	---	---	Dec. 1	By	Bank (Dividend) (W.N.6)	----	2,25,000	----
2010 Mar. 31	To	Profit & Loss A/c:	--			2010 Mar. 31	By	Balance c/d (W.N.9)	12,50,000	----	20,00,000
		Interest	---	2,25,000	----						
		Profit on Sale (W.N.10)	---	----	5,00,000						
			25,00,000	2,25,000	45,00,000				25,00,000	2,25,000	45,00,000

Working Notes:

1. Cum interest purchased cost of 8% Bond = $\frac{12,00,000}{100} \times 80.50$ = Rs. 9,66,000

   Less: Interest portion 12,00,000 x 8% x $\frac{5}{12}$ = Rs. 40,000

   Rs. 9,26,000

2. Half yearly interest on 8% bond as on 1st May, 2009

   = 12,00,000 x 8% x 6/12 = Rs.48,000

3. Bonus issue of equity shares of X Ltd. = 1,00,000/2 x 3 x 10 = Rs.15,00,000

4. Sales value = 3,00,000/100 x 81 = Rs.2,43,000

5. Half yearly interest on 8% bond as on 1st November, 2009

   = (12,00,000 - 3,00,000)x 8% x 6/12 = Rs.36,000

6. Dividend on equity shares of X Ltd.

   = (10,00,000 + 15,00,000 – 12,50,000) x 18% = Rs.2,25,000

7. Accrued interest = 9,00,000 x 8% x 5/12 = Rs.30,000

8. Closing balance of 8% bond = 9,26,000/12,00,000 x 9,00,000 = Rs.6,94,500

9. Closing balance of equity shares of X Ltd.

   =[40,00,000/(10,00,000+15,00,000)] x 12,50,000 = Rs.20,00,000

10. Profit on sale of equity shares of X Ltd.

Sales value =	Rs.25,00,000
Less: Cost [40,00,000/(10,00,000+15,00,000)] x 12,50,000 =	Rs.20,00,000
	Rs.5,00,000

12. (a) Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100$$

$$= \frac{45,000 + 90,000}{4,50,000} \times 100 = 30\%$$

(b) Calculation of policy amount to cover loss of profit

	Rs.
Turnover in the last financial year	4,50,000
Add: 25% increase in turnover	1,12,500
	5,62,500

Gross profit on increased turnover (5,62,500 x 30%)	1,68,750
Add: Additional standing charges	31,250
Policy Amount	2,00,000

Therefore, the trader should go in for a loss of profit policy of Rs. 2,00,000.

13. (i) Statement of Affairs of A, B & C

As at 30th June, 2008

Liabilities	*(Rs.)*	*Assets*	*(Rs.)*
Capital (Bal. Fig.)	2,85,000	Furniture	9,000
Creditors	30,000	Stock	90,000
		Book debts	1,80,000
		Cash in hand and at bank	36,000
	3,15,000		3,15,000

(ii) Statement showing Profit and Loss of A, B and C for the six months ending on 30th June, 2008

Particulars	*Amount (Rs.)*
Capital as on 30th June, 2008	2,85,000
Add: Drawings (12,000 + 9,000 + 6,000)	27,000
Add: Interest on drawings (600 + 450 + 300)	1,350
	3,13,350
Less: Interest on capital (2,400 + 2,250 + 2,100)	6,750
	3,06,600
Less: Capital as on 1st January, 2008 (96,000 + 90,000 + 84,000)	2,70,000
Net Profit	36,600

Statement showing allocation of profits and other adjustments in the capital accounts of A, B and C

Particulars	*A (Rs.)*	*B (Rs.)*	*C (Rs.)*
Capital as on 1st January, 2008	96,000	90,000	84,000
Add: Net profit in the ratio of 2:2:1	14,640	14,640	7,320
Add: Interest on capital @ 5% p.a. for 6 months	2,400	2,250	2,100
	1,13,040	1,06,890	93,420
Less: Drawings	12,000	9,000	6,000
	1,01,040	97,890	87,420
Less: Interest on drawings	600	450	300
Capital as on 30th June, 2008	1,00,440	97,440	87,120

14. The proposals will be evaluated and vendor will be selected considering the following criteria:

1. Quantum of services provided and whether the same matches with the requirements of the hospital.
2. Reputation and background of the vendor.
3. Comparative costs of the various propositions.
4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
5. Assurance of quality, confidentiality and secrecy.
6. Data storage and processing facilities.

15. **Journal Entries**

Particulars		*Dr. (Rs.)*	*Cr.(Rs.)*
Isha's Capital A/c	Dr.	3,000	
Misha's Capital A/c	Dr.	2,000	
To Disha's Capital A/c			5,000
(Being the Disha's share of goodwill credited to her by debiting gaining partners in their gaining ratio of 3 : 2)			
Isha's Capital A/c	Dr.	480	
Misha's Capital A/c	Dr.	320	
To Disha's Capital A/c			800
(Being the Disha's share of surrender value in JLP credited to her by debiting gaining partners in their gaining ratio of 3 : 2)			

Revaluation Account

Particulars	*Rs.*	*Particulars*	*Rs.*
To Patents	2,000	By Investments	2,600
To Plant and Machinery	5,000	By Provident Fund	3,600
To Provision for Doubtful debts	400	By Provision for discount on creditors	375
To Liability for Workmen Compensation	375	By Loss on Revaluation transferred to:	
		Isha's Capital A/c	600
		Misha's Capital A/c	400
		Disha's Capital A/c	200
	7,775		7,775

Partners' Capital Account

Particulars	*Isha* *Rs.*	*Misha* *Rs.*	*Disha* *Rs.*	*Particulars*	*Isha* *Rs.*	*Misha* *Rs.*	*Disha* *Rs.*
To Disha's Capital A/c	3,000	2,000	-	By Balance b/d	65,000	30,000	20,000
To Disha's Capital A/c	480	320	-	By Reserve Fund	9,000	6,000	3,000
To Revaluation A/c (loss)	600	400	200	By Isha's Capital A/c	-	-	3,000
To Advertisement Exp.	3,000	2,000	1,000	By Misha's Capital A/c	-	-	2,000
To Investment A/c	-	-	17,600	By Isha's Capital A/c	-	-	480
To Bank A/c	-	-	5,000	By Misha's Capital A/c	-	-	320
To Loan from Disha A/c	-	-	2,500				
To Bills Payable A/c	-	-	2,500				
To Balance c/d	66,920	31,280	-				
	74,000	36,000	28,800		74,000	36,000	28,800

Balance Sheet as on 31st March 2010

Liabilities	*Rs.*	*Assets*	*Rs.*
Trade Creditors	14,625	Cash at Bank (5,000-5,000)	Nil
Liability for Workmen Compensation	375	Debtors 40,000	
Provident Fund	2,400	*Less*: Provision 2,400	37,600
Bills Payable	2,500	Stock	30,000
Loan from Disha	2,500	Patents	8,000
Isha's Capital	66,920	Plant and Machinery	45,000
Misha's Capital	31,280		
	1,20,600		1,20,600

16. Each country has its own set of rules and regulations for accounting and financial reporting. Therefore, when an enterprise decides to raise capital from the markets other than the country in which it is located, the rules and regulations of that other country will apply and this in turn will require that the enterprise is in a position to understand the differences between the rules governing financial reporting in the foreign country as compared to its own country of origin. Therefore translation and re-instatements are of utmost importance in a world that is rapidly globalising in all ways.

The harmonization of financial reporting around the world will help to raise confidence of investors generally in the information they are using to make their decisions and assess their risks.

Also a strong need was felt by legislation to bring about uniformity, rationalization, comparability, transparency and adaptability in financial statements. Having a multiplicity of accounting standards around the world is against the public interest. If accounting for the same events and information produces different reported numbers, depending on the system of standards that are being used, then it is self-evident that accounting will be increasingly discredited in the eyes of those using the numbers. It creates confusion, encourages error and facilitates fraud. The cure for these ills is to have a single set of global standards, of the highest quality, set in the interest of public.

Convergence facilitates accounting and reporting for companies with global operations and eliminates some costly requirements say reinstatement of financial statements. It has the potential to create a new standard of accountability and greater transparency, which are values of great significance to all market participants including regulators. It reduces operational challenges for accounting firms and focuses their value and expertise around an increasingly unified set of standards. It creates an unprecedented opportunity for standard setters and other stakeholders to improve the reporting model. For the companies with joint listings in both domestic and foreign country, the convergence is very much significant.

17. **(a)** Para 17 of AS 1 'Disclosure of Accounting Policies', states that financial statements should disclose all material items, i.e., items the knowledge of which might influence the decisions of the user of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omission or misstatement. From a positive perspective, materiality has to do with the significance of an item or event to warrant attention in the accounting process. From a negative view point, materiality is critical because otherwise a great deal of time might be spent on trivial matters in the accounting process. Individual judgments are required to assess materiality, or to decide what the appropriate minimum quantitative criteria are to be set for given situations. What is material to one organization, may not be material for another organization.

For example, a long term investor is interested in the current value of fixed asset like building, while the banker may not consider it significant for a short-term loan. Similarly a pair of scissors, ball pens, sharpeners, waste-paper baskets could be used for a number of years but still it is treated as an expense and not an asset. The omission of "paise" in the financial statements is also due to their insignificant effect to the users of the financial statement in making a decision.

(b) Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. AS 9 on "Revenue Recognition" states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at Net-realisable value."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net-realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

(c) As per para 18 of AS 3 (Revised) on Cash Flow Statements, an enterprise should report cash flows from operating activities using either:

(a) the direct method whereby major classes of gross cash receipts and gross cash payments are disclosed; or

(b) the indirect method, whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

The direct method provides information which may be useful in estimating future cash flows and which is not available under the indirect method and is, therefore, considered more appropriate than the indirect method. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:

(a) from the accounting records of the enterprise; or

(b) by adjusting sales, cost of sales (interest and similar income and interest expense and similar charges for a financial enterprise) and other items in the statement of profit and loss for:

(i) changes during the period in inventories and operating receivables and payables;

(ii) other non-cash items; and

(iii) other items for which the cash effects are investing or financing cash flows.

Under the indirect method, the net cash flow from operating activities is determined by adjusting net profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;

(b) non-cash items such as depreciation, provisions, deferred taxes, and unrealized foreign exchange gains and losses; and

(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the operating revenues and expenses, excluding non-cash items disclosed in the statement of profit and loss and the changes during the period in inventories and operating receivables and payables.

18. (a) According to para 14 of AS 7 (Revised) 'Construction Contracts', incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to the contractor for early completion of the contract. Incentive payments are included in contract revenue when: (i) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and (ii) the amount of the incentive payment can be measured reliably. In the given problem, the contract has not even begun and hence the contractor (Mr. X) should not recognize any revenue of this contract.

(b) When to Recognize Revenue:

- Revenue recognition is mainly concerned with the **timing of recognition of revenue** in the profit and loss account.
- Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of services, as the case may be even though payments are made by installments.
- The amount of revenue is usually determined by agreement between the parties to the transaction

It may be appropriate to recognize revenue only when it is reasonably certain that the ultimate collection will be made.

In the given case, SM company wants to suddenly recognize Insurance claim because it has increased over the previous year. **But, there are uncertainties involved in the settlement of the claim.** Also, the claim does not seem to be in the course of ordinary activity of the company.

Hence, SM company is not advised to recognize the Insurance claim as revenue.

(c) (i) Disclosure requirement as per AS 10

1. Gross and net book values of fixed assets at the beginning and end of an accounting period showing additions, disposals, acquisitions and other movements.
2. Expenditure incurred on account of fixed assets in the course of construction or acquisition.
3. Revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of any indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

19. (a) In accordance with paras 8 & 9 of AS 2, the cost of conversion include a systematic allocation of fixed and variable overheads that are incurred in converting materials into finished goods. The allocation of fixed overheads for the purpose of their inclusion in the cost of conversion is based on normal capacity of the production facilities.

Cost per kg. of finished goods:

		Rs.
Material Cost		200
Direct Labour	40	
Direct Variable Production Overhead	20	
Fixed Production Overhead $\left(\frac{20,00,000}{2,00,000}\right)$	<u>10</u>	<u>70</u>
		<u>270</u>

Hence the value of 4,000 kgs of finished goods = 4,000 kgs x Rs. 270 = Rs. 10,80,000

(b)

Particulars	(Rs. in lakhs)
Cost of the plant	500
Less: CENVAT	<u>10</u>
	490
Less: Subsidy	<u>98</u>
Depreciable Value	<u>392</u>

(c) As per Para 4.1 of AS 9 "Revenue Recognition", revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, from the rendering of services, and from the use by others of enterprise resources yielding interest, royalties and dividends.

In the given case, M/s Prima Co. Ltd. should record the sales at gross value of Rs.50,000. Discount of Rs.8,000 in price and goods returned worth Rs.7,000 are to be adjusted by suitable provisions. M/s Prime Co. Ltd. might have sent the credit note of Rs. 15,000 to M/s Y & Co. to account for these adjustments. The contention of the accountant to book the sales for Rs.35,000 is not correct.

20. (a) As per Para 12.1 of AS 10 "Accounting for Fixed Assets" expenditure that increases the future benefits from the existing assets, is included in the gross book value.

Hence, in the given case, repairs of Rs.2.50 lacs and partial replacement of the part of the machinery should be charged to Profit & Loss Account. Rs.7 lacs incurred on a part of the machinery, which will increase the efficiency, should be capitalized.

(b) As it is stated in the question that financial statements for the year ended 31st March, 2010 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. Para 17 of AS 13 'Accounting for Investments' states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment. On this basis, the facts of the given case clearly suggest that the provision for diminution should be made to reduce the carrying amount of long term investment to Rs. 20,000 in the financial statements for the year ended 31st March, 2010.

NOTE : Accounting Standards 1, 2, 3, 6, 7, 9, 10, 13, 14, are covered in the syllabus. The study material revised in July, 2010 is relevant for May, 2011 examination.