PAPER – 1 : ACCOUNTING

Question No. 1 is compulsory

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

Wherever necessary, suitable assumption(s) may be made by the candidates.

Working notes should form part of the answer.

Question 1

(a) *Following two problems are regarding issues in Partnership Accounts, kindly solve both:*

(i) *Anil and Mukesh are partners sharing profit and losses in the ratio of 3 : 2. Govind is admitted for ¼th share of firm. Thereafter Madan enters for 20 paisa in a rupee. Compute new profit sharing ratios under both the admission of partners.*

(ii) *The following Goodwill Account was opened by the partners R and S, on the admission of H as a new partner into firm Om and Sons. Calculate the share of profit agreed to be given to "H".*

Goodwill A/c

Dr.		`		Cr. `
1-4-2010	To R's Capital A/c	24,800	1-4-2010 By R's Capital A/c	12,400
1-4-2010	To S's Capital A/c	18,600	1-4-2010 By S's Capital A/c	12,400
			1-4-2010 By H's Capital A/c	18,600
		43,400		43,400

(b) *HP is a leading distributor of petrol. A detail inventory of petrol in hand is taken when the books are closed at the end of each month. At the end of month following information is available:*

Sales	`	*47,25,000*
General overheads cost	`	*1,25,000*
Inventory at beginning		*1,00,000 litres @ 15 per litre*
Purchases		

June 1 two lakh litres @ 14.25

June 30 one lakh litres @ 15.15

Closing inventory 1.30 lakh litres

Compute the following by the FIFO as per AS 2:

B. *Value of Inventory on June, 30.*

(ii) *Amount of cost of goods sold for June.*

(iii) *Profit/Loss for the month of June.*

(c) A and B decide to amalgamate themselves into Sharp Limited. The following are their Balance Sheets as on 31st December, 2009.

Liabilities	*A Ltd.*	*B. Ltd.*	*Assets*	*A Ltd.*	*B Ltd.*
Face value and paid up capital:			*Investments:*		
Share capital (` 100 each)	*5,00,000*	*4,00,000*	*1,000 shares in B Ltd.*	*1,30,000*	*-*
General Reserves	*2,00,000*	*1,00,000*	*2,000 shares in A Ltd.*	*-*	*2,10,000*
10% Debentures	*2,00,000*	*1,50,000*	*Sundry Assets*	*7,70,000*	*4,40,000*
	9,00,000	*6,50,000*		*9,00,000*	*6,50,000*

Compute the amount of purchase consideration for each of these companies under purchase method as per AS 14.

(d) H purchased 500 equity shares of ` 100 each in the ABC Company Limited for ` 62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalise its profit and to issue to the holders of equity shares one equity share as Bonus for every equity share held by them. Prior to capitalization, the shares of ABC Company Limited were quoted at ` 175 per share. After the capitalization, the shares were quoted at ` 92.50 per share. H sold the Bonus shares and received ` 90 per share. Show Investment A/c in H's books on average cost basis as per AS 13. (4 ´ 5 = 20 Marks)

Answer

(a) (i) 1. At the time of admission of Govind

Let the total share of profit at the time of admission of Govind = 1

Share of New Partner - Govind= ¼

Remaining share of profit = 1 – ¼ = ¾

Now,

New share of Anil = $\frac{3}{4}$ x $\frac{3}{5}$ = $\frac{9}{20}$

New share of Mukesh = $\frac{3}{4}$ x $\frac{2}{5}$ = $\frac{6}{20}$

New ratio of Anil, Mukesh and Govind

$\frac{9}{20} : \frac{6}{20} : \frac{1}{4}$ i.e. = 9:6:5

2. At the time of admission of Madan

Let total share at the time of admission of Madan = 1

Share of new partner - Madan = 1/5

Remaining share = 1 – 1/5 = 4/5

Now,

New share of Anil = $\frac{4}{5}$ x $\frac{9}{20}$ = $\frac{9}{25}$

New share of Mukesh = 4/5 x 6/20 = 6/25

New share of Govind = 4/5 x 5/20 =5/25

New ratio of Anil, Mukesh, Govind and Madan

$\frac{9}{25}:\frac{6}{25}:\frac{5}{25}:\frac{1}{5}$ i.e. 9 : 6 :5 :5

(ii) Share of H in profit sharing ratio may be calculated as follows:

$$\text{H's share} = \frac{\text{Share of H in Goodwill}}{\text{Total Goodwill}} = \frac{18,600}{43,400} = \frac{3}{7}$$

(b)

	`
(i) Cost of closing inventory for 1,30,000 litres as on 30th June	
1,00,000 litres @ ` 15.15	15,15,000
30,000 litres @ ` 14.25	4,27,500
Total	19,42,500

	`
(ii) Calculation of cost of goods sold	
Opening inventories (1,00,000 litres @ ` 15)	15,00,000
Purchases June-1 (2,00,000 litres @ `14.25)	28,50,000
June-30 (1,00,000 litres @ `15.15)	15,15,000
	58,65,000
Less: Closing inventories	(19,42,500)
Cost of goods sold	39,22,500

	`
(iii) Calculation of profit	
Sales (Given) (A)	47,25,000
Cost of goods sold	39,22,500
Add: General overheads	1,25,000
Total cost (B)	40,47,500
Profit (A-B)	6,77,500

(c) Let the net assets of A Ltd. be x and net assets of B Ltd. be y.

Then x = 7,70,000 – 2,00,000 + ¼ y

x = 5,70,000 + ¼ y

4x-y = 22,80,000 (i)

Similarly

y = 4,40,000 – 1,50,000 + 2/5 x

y = 2,90,000 + 2/5 x

- 2x +5y = 14,50,000 (ii)

By multiplying equation (ii) by 2, we get

-4x + 10y = 29,00,000 (iii)

By adding equation (i) with equation (iii), we get

4x-y = 22,80,000

-<u>4x+10y = 29,00,000</u>

$$9y = 51{,}80{,}000 \text{ i.e. } y = \frac{51{,}80{,}000}{9} = \text{\` } 5{,}75{,}556$$

Putting the value of y in equation (i) we get

4x – 5,75,556 = 22,80,000

4x = 22,80,000 + 5,75,556

$$x = \frac{28{,}55{,}556}{4} = 7{,}13{,}889$$

	A Ltd.	*B Ltd*
	`	`
Total value of net assets	7,13,889	5,75,556
Less: 1/4 for shares held by A Ltd.	-	1,43,889
Less: 2/5 for shares held by B Ltd.	2,85,556	-
Purchase consideration	4,28,333	4,31,667

Presuming that the shares in Sharp Ltd. consist of ` 100 each, Sharp Ltd. may satisfy the purchase consideration as follows:

	A Ltd.	*B Ltd.*
	`	`
Shares in Sharp Ltd. (` 100)	4,28,300	4,31,600
Cash	33	67
	4,28,333	4,31,667

(d) In the books of H

Investment Account (Equity Shares of ABC Co. Ltd.)

Particulars	*Face Value*	*Cost*	*Particulars*	*Face Value*	*Cost*
	`	`		`	`
To Balance b/d[*]	50,000	62,500	By Bank A/c	50,000	45,000
To Bonus Shares A/c	50,000	-	By Balance c/d	50,000	31,250
To Profit & Loss A/c (Refer W.N. 1)		13,750	(Refer W.N.2)		
(Profit on sale)					
	1,00,000	76,250		1,00,000	76,250

Working Note:

1. Calculation of profit on sale of bonus shares:

		`
Sale price of bonus shares		45,000
Less: Average cost of shares sold	$\frac{62,500}{1,00,000} \times 50,000 =$	(31,250)
Profit		13,750

2. Value of closing investment:

Market value of shares	$\frac{50,000}{100} \times 92.50$	=	46,250
Cost price of shares (W.N. 1)		=	31,250

Value of investment will be least of market value or average cost price, i.e. ` 31,250

Question 2

The Young Trust runs a Charitable Hospital and a Dispensary. The following information is available for the year ended 31st March, 2009 from the books of accounts:

	Dr. `	*Cr.* `
Capital fund		*9,00,000*
Donations received during the year		*6,00,000*
Recovery of the rent		*2,75,000*

[*] Bonus issue was made some years later to the purchase of initial 500 equity shares.

Fee received from patients		*3,00,000*
Recovery of food supplies		*1,40,000*
Surgical equipments	*4,55,000*	
Building & operation theatres	*3,20,000*	
Consumption in the hospital of:		
Medicines	*1,20,000*	
Food stuff	*90,000*	
Chemicals	*30,000*	
Closing stock of hospital		
Medicines	*20,000*	
Food stuff	*4,000*	
Chemicals	*1,000*	
Sales of medicines (dispensary)		*3,10,000*
Opening stock of medicines (dispensary)	*55,000*	
Purchase of medicines (dispensary)	*3,00,000*	
Salaries:		
Administrative staff	*30,000*	
Doctors/Nurses	*1,50,000*	
Assistant at the dispensary	*15,000*	
Electricity & power charges:		
Hospital	*1,05,000*	
Dispensary	*2,000*	
Furniture & equipments	*80,000*	
Ambulance	*30,000*	
Postage & telephone expenses less recovery	*26,000*	
Subscription to medical journals	*21,000*	
Ambulance maintenance charges less recovery		*800*
Consumption of bed sheets	*90,000*	
Fixed deposits made on 01-04-2008 for three years at interest @ 11% p.a.	*5,00,000*	
Cash & bank balances	*41,300*	
Sundry debtors (dispensary)	*60,500*	
Sundry creditors (dispensary)		*41,000*
Remuneration to trustees, trust office expenses etc.	*21,000*	

Additional information :

(a) *The dispensary supplied medicines to the hospital worth ` 60,000, for which no adjustment was made in the books.*

(b) *The closing stock of the medicines was ` 40,000 at the dispensary.*

(c) The stock of medicines on 31st March, 2009 at the hospital included ` 4,000 worth of medicines belonging to the patients, which has not been considered while arriving at the figure of consumption of medicines.

(d) The donations were received towards Corpus of the Trust.

(e) On 15th August, 2008, surgical equipments were donated having market value of ` 40,000.

(f) The hospital is to receive the grant of 25% of the amount spent on treatment of the poor patients from the Red Cross Society. Such expenditure was ` 50,000.

(g) Out of the fee recovered from the patients, 10% is to be given to the Specialist retained by the Hospital.

(h) Depreciation on the assets on the closing balances:

Surgical Equipments @ 20%

Building @ 5%

Furniture & Equipments @ 10%

Ambulance @ 30%

You are required to prepare:

(i) Income and Expenditure Account of the Hospital, Dispensary and Trust.

(ii) Statement of Affairs of the Trust for the year ended 31st March, 2009. *(16 Marks)*

Answer

Income & Expenditure Account of Dispensary
for the year ended 31st March, 2009

Particulars	*Amount*	*Particulars*	*Amount*
	`		`
To Opening stock of medicines	55,000	By Sales of medicine	3,10,000
To Purchase of medicines	3,00,000	By Supply of medicines to hospital	60,000
To Salaries to assistants	15,000	By Closing stock of medicines	40,000
To Electricity & power charges	2,000		
To Surplus transferred to trust income & expenditure account (Bal. Fig.)	38,000		
	4,10,000		4,10,000

Income & Expenditure Account of Hospital
for the year ended 31st March, 2009

Particulars	*Amount*	*Particulars*	*Amount*
	`		`
To Consumption of:		By Fees received from patients	3,00,000
Medicines (W.N.1) 1,84,000		By Recovery for rent	2,75,000
Food stuff 90,000		By Recovery of food supplies	1,40,000
Chemicals <u>30,000</u>	3,04,000	By Ambulance maintenance	
To Salaries:		charges less recovery	
Admn. staff 30,000		By Grant receivable	800
Doctors & nurses <u>1,50,000</u>	1,80,000	from Red Cross	
To Electricity & power charges	1,05,000	Society	
To Subscription to medical journals	21,000	(25% of ` 50,000)	12,500
To Consumption of bed sheets	90,000	By Deficit transferred	
To Retainership of specialists		to trust income &	1,33,700
outstanding (W.N.2)	30,000	expenditure account	
To Depreciation on:			
Surgical equipments 99,000			
Building 16,000			
Furniture & fixtures 8,000			
Ambulance <u>9,000</u>	<u>1,32,000</u>		
	<u>8,62,000</u>		<u>8,62,000</u>

Income & Expenditure Account of the Young Trust
for the year ended 31st March, 2009

Particulars	*Amount*	*Particulars*	*Amount*
	`		`
To Deficit from hospital	1,33,700	By Surplus from dispensary	38,000
To Postage & telephone expenses less recovery	26,000	By Interest accrued on fixed deposits	55,000
To Remuneration to trustees, trust office expenses etc.	21,000	By Deficit (Excess of expenditure over income)	87,700
	<u>1,80,700</u>		<u>1,80,700</u>

Statement of Affairs of Young Trust as on 31st March, 2009

Liabilities		*Amount* `	*Assets*		*Amount* `
Capital fund:			Building	3,20,000	
Opening balance	9,00,000		*Less:* Depreciation	16,000	3,04,000
Add: Donations:			Surgical equipment *Add:* Donation	4,55,000 40,000 4,95,000	
Cash	6,00,000		*Less:* Depreciation	99,000	3,96,000
Surgical equipment	40,000		Furniture	80,000	
	15,40,000		*Less:* Depreciation	8,000	72,000
Less: Deficit	87,700	14,52,300	Ambulance	30,000	
Sundry creditors (dispensary)		41,000	*Less:* Depreciation Stock:	9,000	21,000
Outstanding retainership to specialist (W.N.2)		30,000	Medicines: Dispensary	40,000	
			Hospital	16,000	
			Food stuff		
			Hospital (20,000 – 4,000)	4,000	
			Chemicals	1,000	61,000
			Sundry debtors		
			(Dispensary)		60,500
			Grant receivable from Red Cross		
			Society		12,500
			fixed deposits		5,00,000
			Interest accrued		55,000
			Cash & bank balance		41,300
		15,23,300			15,23,300

Working Notes:

1. Consumption of medicines in hospital:

	`
Medicines	1,20,000
Supplies received from dispensary	60,000
Medicines in stock belonging to patients	4,000
Total	1,84,000

2. Calculation of fee given to specialist:

   10% of ` 3,00,000 = ` 30,000

Note: It is presumed that surgical equipment donated on 15th August 2008 was not included in the closing balance of surgical equipments as on 31st March, 2009.

Question 3

From the following information, prepare a Cash Flow Statement as per AS 3 for Banjara Ltd., using direct method:

Balance Sheet as on March 31, 2010 (` ' 000)

		2010		*2009*
Assets:				
Cash on hand and balances with bank		*200*		*25*
Marketable securities (having one month maturity)		*670*		*135*
Sundry debtors		*1,700*		*1,200*
Interest receivable		*100*		*-*
Inventories		*900*		*1,950*
Investments		*2,500*		*2,500*
Fixed assets at cost	*2,180*		*1,910*	
Accumulated depreciation	*(1,450)*		*(1,060)*	
Fixed assets (net)		*730*		*850*
Total assets		*6,800*		*6,660*
Liabilities:				
Sundry creditors		*150*		*1,890*
Interest payable		*230*		*100*
Income tax payable		*400*		*1,000*
Long term debt		*1,110*		*1,040*
Total liabilities		*1,890*		*4,030*

Shareholder's fund:			
Share capital	*1,500*		*1,250*
Reserves	*3,410*		*1,380*
	4,910		*2,630*
Total liabilities and shareholders' fund	*6,800*		*6,660*

Statement of Profit or Loss for the year ended 31-3-10

(` '000)

Sales	*30,650*
Cost of sales	*(26,000)*
Gross profit	*4,650*
Depreciation	*(450)*
Administrative and selling expenses	*(910)*
Interest expenses	*(400)*
Interest income	*300*
Dividend income	*200*
Net profit before taxation and extraordinary items	*3,390*
Extraordinary items:	
Insurance proceeds from earthquake disaster settlement	*140*
Net profit after extraordinary items	*3,530*
Income tax	*(300)*
	3,230

Additional information: *(` '000)*

(i) An amount of ` 250 was raised from the issue of share capital and a further ` 250 was raised from long-term borrowings.

(ii) Interest expense was ` 400 of which ` 170 was paid during the period ` 100 relating to interest expense of the prior period was also paid during the period.

(iii) Dividends paid were ` 1,200.

(iv) Tax deducted at source on dividends received (including in the tax expense of ` 300 for the year) amounted to ` 40.

(v) During the period the enterprise acquired fixed assets for ` 350. The payment was made in cash.

(vi) Plant with original cost of ` 80 and accumulated depreciation of ` 60 was sold for ` 20.

(vii) Sundry debtors and Sundry creditors include amounts relating to credit sales and credit purchase only. *(16 Marks)*

Answer

Cash Flow Statement (direct method)

		`
Cash flows from Operating Activities		
Cash receipts from customers (W.N.2)	30,150	
Cash paid to suppliers, employees and for expenses (W.N.3)	(27,600)	
Cash generated from operations	2,550	
Income tax paid (W.N.4)	(860)	
	1,690	
Cash flow before extraordinary item: proceeds from earthquake disaster settlement	140	
Net cash from operating activities		1,830
Cash flows from Investing Activities		
Purchase of fixed assets	(350)	
Proceeds from sale of equipment	20	
Interest received (300 – 100)	200	
Dividends received (200 – 40)	160	
Net cash from investing activities		30
Cash flows from Financing Activities		
Proceeds from issuance of share capital	250	
Proceeds from long term borrowings	250	
Repayment of long term borrowings (W.N.5)	(180)	
Interest paid (W.N.6)	(270)	
Dividends paid	(1,200)	
Net cash used in financial activities		(1,150)
Net increase in cash and cash equivalents		710
Cash and cash equivalents at beginning of the period (W.N.1)		160
Cash and cash equivalents at end of the period (W.N.1)		870

Working Notes:

(1) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks and investments in money market instruments for short period.

		`'000
	2010	2009
Cash in hand and balance with bank	200	25
Short-term investments	670	135
Cash and cash equivalents	870	160

(2) Cash receipts from customers

	`'000
Total sales	30,650
Add: Sundry debtors at the beginning of the year	1,200
	31,850
Less: Sundry debtors at the end of the year	(1,700)
Cash sales	30,150

(3) Cash paid to suppliers, employees and for expenses

		`'000
Cost of sales		26,000
Administrative and selling expenses		910
		26,910
Add: Sundry creditors at the beginning of the year	1,890	
Inventories at the end of year	900	2,790
		29,700
Less: Sundry creditors at the end of year	(150)	
Inventories at the beginning of the year	(1,950)	(2,100)
		27,600

(4) Income tax paid (including TDS from dividends received)

	`'000
Income tax expense for the year	300
(including tax deducted at source from dividends received)	
Add: Income tax liability at the beginning of the year	1,000
	1,300
Less: Income tax liability at the end of the year	(400)
	900
Out of ` 900 thousands, tax deducted at source on dividends received (amounting to `40 thousands) is included in cash flows from investing activities and the balance of `860 thousands is included in cash flows from operating activities.	

(5) Repayment of long term borrowings during the year `’000

Long term debts at the beginning of the year	1,040
Add: Long term borrowings made during the year	250
	1,290
Less: Long term borrowings at the end of the year	(1,110)
	180

(6) Interest paid during the year `’000

Interest expense for the year	400
Add: Interest payable at the beginning of the year	100
	500
Less: Interest payable at the end of the year	(230)
	270

Question 4

Ramu, Shamu and Raju were partners sharing profits and losses in the ratio of 3 : 2 : 2. Their Balance Sheet as on 01-01-2009 was as follows:

Liabilities	`	*Assets*	`
Capital accounts		*Fixed assets*	*80,000*
Ramu 30,000		*Stock*	*15,000*
Shamu 20,000		*Debtors*	*12,000*
Raju 20,000	*70,000*	*Cash & bank*	*1,951*
Reserves	*14,000*		
Creditors	*24,951*		
	1,08,951		*1,08,951*

On 1st October, 2009, Ramu died. His heirs agreed that:

(i) Goodwill of the firm be valued at 2 years’ purchase of average profit of past three years. Profits for the year 2006, 2007 and 2008 were ` 30,000, ` 40,000 and ` 47,600 respectively.

(ii) Fixed assets be revalued at ` 1,01,000

(iii) Profit to be shared, earned in subsequent period after death of Ramu till settlement of his executors’ claim.

Ramu’s heirs account was settled on 31-12-2009 by bringing in required cash by remaining partners in equal proportion leaving cash balance of ` 1,234. Each partner had drawn @ ` 1,000 per month for personal use.

Profit for the current year after charging depreciation of ` 9,000 ( ` 6,000 for first three quarters and ` 3,000 for last quarter ) was ` 46,600 earned evenly through-out the year.

You are requested to prepare Profit & Loss Appropriation A/c, Cash & Bank A/c, Ramu's Executor's A/c and Partners' Capital Accounts for the year ended on 31-12-2009 assuming remaining partners' decided not to retain goodwill in the books. *(16 Marks)*

Answer

(i) Profit & Loss Account

	` (for nine months)	` (for three months		` (for nine months)	` (for three months)
To Depreciation	6,000	3,000	By Profit (W.N.1)	41,700	13,900
To Net profit	35,700	10,900			
	41,700	13,900		41,700	13,900

Profit & Loss Appropriation Account

	` (for nine months)	` (for three months		` (for nine months)	` (for three months
To Partners' capital A/cs			By Net Profit	35,700	10,900
Ramu	15,300				
Shamu	10,200	3,043			
Raju	10,200	3,044			
To Ramu's Executor A/c (W.N.2)	-	4,813			
	35,700	10,900		35,700	10,900

(ii) Partners' Capital Accounts as on 1st October, 2009

	Ramu	Shamu	Raju		Ramu	Shamu	Raju
	(`)	(`)	(`)		(`)	(`)	(`)
To Drawings	9,000	9,000	9,000	By Balance b/d	30,000	20,000	20,000
To Ramu's Executors A/c	87,414	-	-	By Reserves	6,000	4,000	4,000
To Balance c/d	-	55,276	55,276	By Goodwill*			

* As per para 36 of AS 10, 'Accounting for fixed Assets, 'goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. However,

				(W.N.3)	36,114	24,076	24,076
				By Fixed Assets**	9,000	6,000	6,000
				By Profit & Loss Appropriation A/c	15,300	10,200	10,200
	96,414	64,276	64,276		96,414	64,276	64,276

(iii) Partners' Capital Accounts as on 31.12.2009

	Shamu	Raju		Shamu	Raju
	(`)	(`)		(`)	(`)
			By Balance b/d	55,276	55,276
To Drawings	3,000	3,000	By Cash	62,255	62,255
To Goodwill	42,133	42,133	By Profit & Loss Appropriation A/c	3,043	3,044
To Balance c/d	75,441	75,442			
	1,20,574	1,20,575		1,20,574	1,20,575

(iv) Ramu's Executors' A/c as on 31.12.2009

	(`)		(`)
To Bank	92,227	By Balance b/d	87,414
		By P&L Appropriation A/c	4,813
	92,227		92,227

(v) Cash & Bank A/c

	(`)		(`)
To Balance b/d	1,951	By Ramu's executors A/c	92,227
To Shamu's capital A/c	62,255	By Partners' Capital A/cs (Drawings):	
To Raju's capital A/c	62,255	Ramu	9,000
		Shamu	12,000
		Raju	12,000
		By Balance c/d	1,234
	1,26,461		1,26,461

---

in the above solution, goodwill has been raised in the books at the time of death of a partner and written off by the remaining partners, as per the information given in the question.

** Appreciation of fixed assets may also be recorded through "Revaluation Account".

Working Notes:

1. Profit for the year before depreciation:

	`
Profit after depreciation	46,600
Add: Depreciation	9,000
Profit before depreciation	55,600

2. As per section 37 of Partnership Act, in case of settlement of deceased partner's account on the date other then the date of death, the executor of deceased partner has a choice to take

   Either-

   (A) Profit earned on un-settled capital $= \text{Profit x } \dfrac{\text{Unsettled capital as on 1.10.09}}{\text{Total capital as on 1.10.09}}$

   $$= 10{,}900 \text{ x } \frac{87{,}414}{(87{,}414 + 55{,}276 + 55{,}276)}$$

   $$= 10{,}900 \text{ x } \frac{87{,}414}{1{,}97{,}966} = \text{` } 4{,}813$$

   Or-

   (B) Interest on capital @ 6% i.e.

   ` 87,414 ´ 6% ´ 3/12 = ` 1,311

   Option A is beneficial, therefore heirs of Ramu will opt for proportionate share of profit i.e. ` 4,813.

3. Valuation of Goodwill:

		`	Weight	Product
Profit for	2006	30,000	1	30,000
	2007	40,000	2	80,000
	2008	47,600	3	1,42,800
		1,17,600	6	2,52,800

   Weighted Average Profit = $\dfrac{2{,}52{,}800}{6}$ = ` 42,133

   Goodwill = 2 years' purchase of average profit = ` 42,133 ´ 2

   = ` 84,266.

Question 5

(a) The following is the Balance Sheet of Bumbum Limited as at 31st March, 2009:

	`
Sources of funds	
Authorized capital	
50,000 Equity shares of ` 10 each	*5,00,000*
10,000 Preference shares of ` 100 each	*10,00,000*
	15,00,000
Issued subscribed and paid up	
30,000 Equity shares of ` 10 each	*3,00,000*
5,000 Redeemable 8% Preference shares of ` 100 each	*5,00,000*
Reserves & Surplus	
Securities Premium	*6,00,000*
General Reserve	*6,50,000*
Profit & Loss A/c	*1,80,000*
2500, 9% Debentures of ` 100 each	*2,50,000*
Sundry Creditors	*1,70,000*
	26,50,000
Application of funds	
Fixed Assets (net)	*7,80,000*
Investments (market value ` 5,80,000)	*4,90,000*
Deferred Tax Assets	*3,40,000*
Sundry Debtors	*6,20,000*
Cash & Bank balance	*2,80,000*
Preliminary expenses	*1,40,000*
	26,50,000

In Annual General Meeting held on 20th June, 2009 the company passed the following resolutions:

(i) To split equity share of ` 10 each into 5 equity shares of ` 2 each from 1st July, 09.

(ii) To redeem 8% preference shares at a premium of 5%.

(iii) To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at ` 10 per share or accept cash on redemption.

(iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2009 investments were sold for ` 5,55,000 and preference shares were redeemed.

40% of Debentureholders exercised their option on accept cash and their claims were settled on 1st August, 2009.

The company fixed 5th September, 2009 as record date and bonus issue was concluded by 12th September, 2009.

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2009. All working notes should form part of your answer. *(12 Marks)*

(b) *Ujju Enterprise furnishes you the following information for the period October to December, 2009. You are requested to draw up Debtors Ledger Adjustment account in the General Ledger:*

(i) *Total sales amounted to ` 2,20,000 including sale of old motor car for ` 10,000 (book value ` 5,000). Total credit sales were 80% higher than the cash sales.*

(ii) *Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to ` 40,000 and credit sales for the period. Debtors were allowed discount of ` 10,000.*

(iii) *Bills receivables drawn during the period totalled ` 20,000 of which one bill of ` 5,000 was dishonoured for non-payment as the party became insolvent and his estate realized 50 paise in a rupee.*

(iv) *A sum of ` 3,000 was written off as bad debts, ` 7,000 was realized against bad debts written off in earlier years and provision of ` 6,000 was made for doubtful debts.* *(4 Marks)*

Answer

(a) Bumbum Limited

Journal Entries

2009			*Dr. (`)*	*Cr. (`)*
July 1	Equity Share Capital A/c (` 10 each)	Dr.	3,00,000	
	To Equity share capital A/c (` 2 each)			3,00,000
	(Being equity share of ` 10 each splitted into 5 equity shares of ` 2 each)			
July 10	Cash & Bank balance A/c	Dr.	5,55,000	
	To Investment A/c			4,90,000
	To Profit & Loss A/c			65,000
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)			

July 10	8% Redeemable preference share capital A/c	Dr.	5,00,000	
	Premium on redemption of preference share A/c	Dr.	25,000	
	To Preference shareholders A/c			5,25,000
	(Being amount payable to preference share holders on redemption)			
July 10	Preference shareholders A/c	Dr.	5,25,000	
	To Cash & bank A/c			5,25,000
	(Being amount paid to preference shareholders)			
July 10	Securities premium A/c	Dr.	5,00,000	
	To Capital redemption reserve A/c			5,00,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)			
Aug 1	9% Debentures A/c	Dr.	2,50,000	
	Interest on debentures A/c	Dr.	7,500	
	To Debentureholders A/c			2,57,500
	(Being amount payable to debentureholders along with interest payable)			
Aug. 1	Debentureholders A/c	Dr.	2,57,500	
	To Cash & bank A/c (1,00,000 + 7,500)			1,07,500
	To Equity share capital A/c			30,000
	To Securities premium A/c			1,20,000
	(Being claims of debenture holders satisfied)			
Sept. 5	Securities premium A/c	Dr.	1,10,000	
	To Bonus to shareholders A/c			1,10,000
	(Being securities premium capitalized to issue bonus shares)			
Sept. 12	Bonus to shareholders A/c	Dr.	1,10,000	
	To Equity share capital A/c			1,10,000
	(Being 55,000 fully paid equity shares of ` 2 each issued as bonus in ratio of 1 share for every 3 shares held)			

Sept. 30	Securities Premium A/c	Dr.	25,000	
	To Premium on redemption of preference shares A/c			25,000
	(Being premium on preference shares adjusted from securities premium account)			
Sept. 30	Profit & Loss A/c	Dr.	7,500	
	To Interest on debentures A/c			7,500
	(Being interest on debentures transferred to Profit and Loss Account)			

Note: For capitalisation of Bonus shares and transfer to capital redemption reserve account any other free reserves given in the balance sheet may also be used.

Balance Sheet as at 30th September, 2009

	(`)
Sources of funds	
Authorized share capital	
2,50,000 Equity shares of ` 2 each	5,00,000
10,000 Preference shares of ` 100 each	10,00,000
	15,00,000
Issued, subscribed and paid up	
2,20,000 Equity shares of ` 2 each	4,40,000
Reserves & Surplus	
Securities Premium	85,000
Capital Redemption Reserve	5,00,000
General Reserve	6,50,000
Profit & Loss A/c (1,80,000 + 65,000 – 7,500)	2,37,500
Current Liabilities & Provisions	
Sundry Creditors	1,70,000
Total	20,82,500
Application of funds	
Fixed assets (Net)	7,80,000
Deferred tax assets	3,40,000
Sundry debtors	6,20,000
Cash & bank balance	2,02,500
Preliminary expenses	1,40,000
Total	20,82,500

Working Notes:

		`
1.	Redemption of preference share:	
	5000 preference shares of ` 100 each	5,00,000
	Premium on redemption @ 5%	25,000
	Amount Payable	5,25,000
2.	Redemption of Debentures	
	2,500 Debentures of ` 100 each	2,50,000
	Less:Cash option exercised by 40% holders	(1,00,000)
	Conversion option exercised by remaining 60%	1,50,000

Equity shares issued on conversion = $\frac{1,50,000}{10}$ = 15,000 shares

		`
3.	Issue of Bonus Shares	
	Existing equity shares after split (30,000 x 5)	1,50,000 shares
	Equity shares issued on conversion	15,000 shares
	Equity shares entitled for Bonus	1,65,000 shares
	Bonus shares (1 share for every 3 shares held) to be issued	55,000 shares
4.	Securities Premium A/c	`
	Balance as per balance sheet	6,00,000
	Add: Premium on equity shares issued on conversion of debentures (15,000 x 8)	1,20,000
		7,20,000
	Less: Capitalization for bonus issue (55,000 x 2)	(1,10,000)
	Adjustment for premium on preference shares	(25,000)
	Transfer to capital redemption reserve	(5,00,000)
	Balance	85,000
5.	Cash and Bank Balance	
	Balance as per balance sheet	2,80,000
	Add: Realization on sale of investment	5,55,000
		8,35,000
	Less: Paid to preference share holders	(5,25,000)
	Paid to Debenture holders (7,500 + 1,00,000)	(1,07,500)
	Balance	2,02,500

6. Interest of ` 7,500 paid to debenture holders have been debited to Profit & Loss Account.

(b) In the book of Ujju Enterprise

Debtors Ledger Adjustment Account in the General Ledger

Dr.							*Cr.*
2009			`	*2009*			`
Oct. 1	To	Balance b/d	40,000	Oct. 1 to Dec. 31	By	General Ledger Adj. A/c:	
Oct. 1 to Dec.31	To	General Ledger Adj. A/c:				Collection from debtors-bank [60% of `	1,05,000
		Sales (Refer W.N.)	1,35,000			(40,000 + 1,35,000)]	
		Bills Receivables dishonoured	5,000			Discount allowed	10,000
						Bills receivables	20,000
						Bad debts (`2500 + `3000)	5,500
					By	Balance c/d	39,500
		Total	1,80,000			Total	1,80,000

Note: No entries are to be made:

(a) For ` 7,000 realised against bad debts written off in earlier years, and

(b) For provision of ` 6,000 made for doubtful debts.

Working Note:

Calculation of credit sales :

		`
Total trade sales = 2,20,000 – 10,000	=	2,10,000
Less: Cash sales = $2,10,000 \times \frac{100}{(180+100)}$	=	(75,000)
Credit sales	=	1,35,000

Question 6

(a) The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2008. However, company could be incorporated only on 1st June, 2008. The business was continued on behalf of the company and the consideration of ` 6,00,000 was settled on that day along with

interest @ 12% per annum. The company availed loan of ` 9,00,000 @ 10% per annum on 1st June, 2008 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2009 and presents you the following summarized profit and loss account:

	`	`
Sales		*19,80,000*
Cost of goods sold	*11,88,000*	
Discount to dealers	*46,200*	
Directors' remuneration	*60,000*	
Salaries	*90,000*	
Rent	*1,35,000*	
Interest	*1,05,000*	
Depreciation	*30,000*	
Office expenses	*1,05,000*	
Sales promotion expenses	*33,000*	
Preliminary expenses (to be written off in first year itself)	*15,000*	*18,07,200*
Profit		*1,72,800*

Sales from June, 2008 to December, 2008 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2009. The company recruited additional work force to expand the business. The salaries from July, 2008 doubled. The company also acquired additional showroom at monthly rent of ` 10,000 from July, 2008.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods. Also suggest how the pre-incorporation profits/losses are to be dealt with. *(10 Marks)*

(b) *Sonam Corporation sells goods on hire purchase basis. The hire purchase price is cost plus 50%.*

From the following particulars prepare Hire Purchase Trading Account for the year ended 31st March, 2010:

	`
Instalments not yet due on 01-04-09	*3,00,000*
Instalments due on 01-04-09	*1,50,000*
Goods sold on hire purchase during the year	*9,00,000*
Instalments collected from HP debtors	*6,80,000*
Stock with customers at hire purchase price	*4,50,000*
Goods re-possessed during the year	*60,000*
On 31-03-2010 Goods repossessed were valued at	*Cost less 40%*

(6 Marks)

Answer

(a) Shreya (P) Limited

Profit and Loss Account

for 15 months ended 31st March, 2009

	Pre. inc. (5 months)	Post inc. (10 months)		Pre. inc. (5 months)	Post inc. (10 months)
	(`)	(`)		(`)	(`)
To Cost of sales	1,80,000	10,08,000	By Sales	3,00,000	16,80,000
To Gross profit	1,20,000	6,72,000	(W.N.1)		
	3,00,000	16,80,000		3,00,000	16,80,000
To Discount to dealers	7,000	39,200	By G.P.	1,20,000	6,72,000
To Directors' remuneration	-	60,000	By Loss	750	
To Salaries (W.N.2)	18,750	71,250			
To Rent (W.N.3)	15,000	1,20,000			
To Interest (W.N.4)	30,000	75,000			
To Depreciation	10,000	20,000			
To Office expenses	35,000	70,000			
To Preliminary expenses	-	15,000			
To Sales promotion expenses	5,000	28,000			
To Net profit	-	1,73,550			
	1,20,750	6,72,000		1,20,750	6,72,000

Treatment of pre-incorporation loss:

Pre-incorporation loss may, either be considered as a reduction from any capital reserve accruing in relation to the transaction or be treated as goodwill.

Working Notes:

1. Calculation of sales ratio:

Let the average sales per month in pre-incorporation period be x

Average Sales (Pre-incorporation) = x X 5 = 5x

Sales (Post incorporation) from June to December, 2008 = 2½x X 7 = 17.5x

From January to March, 2009 = 3½x X 3 = 10.5x

Total Sales 28.0x

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. Calculation of ratio for salaries

Let the average salary be x

Pre-incorporation salary = x X 5= 5x

Post incorporation salary

June, 2008 = x

July to March, 2009 = x X 9 X 2 = 18x

19x

Ratio is 5 : 19

3. Calculation of Rent

		`
Total rent		1,35,000
Less: Additional rent for 9 months @ ` 10,000 p.m.		90,000
Rent of old premises apportioned in time ratio		45,000

Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent		90,000
	15,000	1,20,000

4. Calculation of interest

Pre-incorporation period from January, 2008 to May, 2008

$$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12}\right) = \text{` } 30,000$$

Post incorporation period from June, 2008 to March, 2009

$$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12}\right) = \text{` } 75,000$$

` 1,05,000

(b) Hire Purchase Trading Account for the year ended 31.03.2010

		`			`
To	Opening balance:		By	Hire purchase stock reserve (opening)	1,00,000
	Hire purchase stock	3,00,000			
	Hire purchase debtors	1,50,000	By	Bank (Installments Collected)	6,80,000
To	Goods sold on hire purchase	9,00,000	By	Goods re-possessed (W.N.3)	24,000
To	Hire purchase stock reserve (closing)	1,50,000	By	Goods sold on hire purchase (loading)	3,00,000

To Profit & Loss A/c	2,14,000	By	Closing balances: Hire purchase stock	4,50,000
		By	Hire purchase debtors (W.N.2)	1,60,000
	17,14,000			17,14,000

Working Notes:

(1) Memorandum Hire Purchase Stock A/c

		`			`
To	Balance b/d	3,00,000	By	Hire purchase debtors A/c (Bal. fig.)	7,50,000
To	Goods sold on hire purchase	9,00,000	By	Balance c/d	4,50,000
		12,00,000			12,00,000

(2) Memorandum Hire Purchase Debtors A/c

		`			`
To	Balance b/d	1,50,000	By	Bank/Cash	6,80,000
To	Hire purchase stock A/c (W.N.1)	7,50,000	By	Goods repossessed	60,000
			By	Balance c/d (Bal. fig.)	1,60,000
		9,00,000			9,00,000

(3) Value of goods re-possessed: (` 60,000 x $\frac{100}{150}$ x $\frac{60}{100}$) = ` 24,000

Note : It is assumed that figures given in the question are at invoice price.

Question 7

Answer any four *of the following:*

(a) A company installed a plant at a cost of ` 20 lacs with estimated useful life of 10 years and decided to depreciate on straight line method. In the fifth year, company decided to switch over from straight line method to written down value method. Compute the resultant surplus/deficiency if any, and state how will you treat the same in the accounts.

(b) 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?

(c) An amount of ` 9,90,000 was incurred on a contract work upto 31-03-2010. Certificates have been received to date to the value of ` 12,00,000 against which ` 10,80,000 has been received in cash. The cost of work done but not certified amounted to ` 22,500. It is estimated that by spending an additional amount of ` 60,000 (including provision for

contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is ` 12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS 7.

(d) 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:

	`
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 ` 31,250.

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

Date of Bill	*Amount (`)*	*Usance of Bill*
29th January, 2009	*5,000*	*1 month*
20th March, 2009	*4,000*	*2 months*
12th July, 2009	*7,000*	*1 month*
10th August, 2009	*6,000*	*2 months*

(4 ´ 4 = 16 Marks)

Answer

(a) Table showing depreciation under Straight Line Method (SLM) and depreciation under Written Down Value Method (WDV)

	Depreciation	` *in lacs*
Year	SLM	WDV
I	2.00[1]	2.00[2]
II	2.00	1.80
III	2.00	1.62

[1] Depreciation as per SLM ` 20 lakhs/10years = ` 2 lakhs.

[2] Depreciation rate under SLM is 10% (2,00,000/20,00,000 ´ 100). It is assumed that depreciation rate will remain same under WDV method also.

IV		2.00	1.46*
	Total	8.00	6.88

Resultant surplus on change in method of depreciation from SLM to WDV = (8.00 – 6.88) ` 1.12 lakhs.

As per para 21 of AS 6 'Depreciation Accounting', when a change in the method of depreciation is made, depreciation should be re-calculated in accordance with the new method from the date of the asset put to use. The deficiency or surplus arising from retrospective re-computation 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 the given case, surplus amounting ` 1.12 lakhs (8.00 – 6.88) should be credited to profit and loss statement in the fifth year. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed as per AS 5. "Net Profit loss for the period, prior period items and changes in Accounting Policies).

(b) 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.

(c) **Computation of estimate of profit as per AS 7**

	`
Expenditure incurred upto 31.3.2010	9,90,000
Estimated additional expenses (including provision for contingency)	60,000
Estimated cost (A)	10,50,000
Contract price (B)	12,50,000
Total estimated profit [(B-A)]	2,00,000
Percentage of completion (9,90,000 / 10,50,000) x 100	94.29%

* Rounded off up to two decimals.

Computation of estimate of the profit to be taken to Profit and Loss Account:

$$\text{Total estimated profit} \times \frac{\text{Expenses incurred till 31.3.2010}}{\text{Total estimated cost}}$$

$$2{,}00{,}000 \times \frac{9{,}90{,}000}{10{,}50{,}000} = ₹\ 1{,}88{,}571$$

According to para 21 of AS 7 'Construction Contracts', when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to stage of completion of the contract activity at the reporting date. Thus estimated profit amounting ₹1,88,571 should be recognised as revenue in the statement of profit and loss.

(d) (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

	₹
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 ₹ 2,00,000.

(e) Calculation of Average Due Date

(Taking 3rd March, 2009 as base date)

Date of bill 2009	*Term*	*Due date 2009*	*Amount*	*No. of days from the base date i.e. 3rd March,2009*	*Product*
			(`)	*(`)*	*(`)*
29th January	1 month	3rd March[1]	5,000	0	0
20th March	2 months	23rd May	4,000	81	3,24,000
12th July	1month	14th Aug.[2]	7,000	164	11,48,000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		28,16,000

$$\text{Average due date} = \text{Base date + Days equal to } \frac{\text{Sum of Products}}{\text{Sum of Amounts}}$$

$$= 3^{rd}\text{ March, 2009} + \frac{28{,}16{,}000}{22{,}000}$$

$$= 3^{rd}\text{ March, 2009 + 128 days}$$

$$= 9^{th}\text{ July, 2009}$$

[1] Bill dated 29th January, 2009 has the maturity period of one month, but there is no corresponding date in February, 2009. Therefore, the last day of the month i.e. 28th February, 2009 shall be deemed maturity date and due date would be 3rd March, 2009 (after adding 3 days of grace).

[2] Bill dated 12th July, 2009 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2009. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2009.