Gurukripa's Guideline Answers to Nov 2015 Exam Questions CA Inter (IPC) Group I Accounting

Question No.1 is compulsory **(4 X 5 = 20 Marks).**
Answer **any five** questions from the **remaining six** questions **(16 X 5 = 80 Marks).** [Answer any 4 out of 5 in Q.7]
Working Notes should form part of the answer.
Wherever necessary, suitable assumptions should be made and indicated in answer by the Candidates.

Note: All Page References given are from Padhuka's Ready Referencer on Accounting – For CA Inter (IPC)

Question 1(a): AS – 9 Revenue Recognition **5 Marks**

Umang Ltd sold goods through its Agent. As per terms of Sales, consideration is payable within one month. In the event of delay in payment, Interest is chargeable at 12% p.a. from the Agent. The Company has not realized interest from the Agent in the past. For the year ended 31st March 2015, Interest due from the Agent (because of delay in payment) amounts to ₹ 1,72,000. The Accountant of Umang Ltd booked ₹ 1,72,000 as Interest Income in the year ended 31st March 2015. Discuss the contention of the Accountant with reference to Accounting Standard–9.

Solution: **Similar to Page No.B.6.4, Q.No.13, F (A/c) – M 03 Qn**

1. **Analysis:**
   (a) Interest is incidental to the sales transaction. If at the time of raising the claim of interest, it is unreasonable to expect ultimate collection, Revenue recognition should be postponed.
   (b) Past experience of the Company shows that the Company has not realized any Interest from the Agent.

2. **Conclusion:** The Company should **not** recognize the entire Interest Receivable. It should be recognized only on cash basis, i.e. as and when received.

Question 1(b): AS – 2 Valuation of Inventories **5 Marks**

In the books of Prashant Ltd, Closing Inventory as on 31st March 2015 amounts to ₹ 1,63,000 (on the basis of FIFO Method).

The Company decides to change from FIFO Method to Weighted Average Method for ascertaining the Cost of Inventory from the year 2014–15. On the basis of Weighted Average Method, Closing Inventory as on 31st March 2015 amounts to ₹ 1,47,000. Realisable Value of the Inventory as on 31st March 2015 amounts to ₹ 1,95,000.

Discuss the disclosure requirements of change in accounting policy as per AS–1.

Solution: **Similar to Page No.B.1.4, Q.No.12**

1. **Principle:** Change in an Accounting Policy should be disclosed –
   (a) When such change has a material effect in the current period, and
   (b) When such change is reasonably expected to have a material effect in later periods.

2. **Analysis and Conclusion:** Due to the change in valuation of Inventory from FIFO to Weighted Average Method, the Inventory has been valued at ₹ 1,47,000, which is lower by ₹ 16,000 than the old method (₹ 1,63,000) . Consequently, the Profit is lower by ₹ 16,000. Hence the change in Accounting Policy should be disclosed in Notes to Accounts.

Question 1(c): AS – 6 Depreciation **5 Marks**

A Machinery with a useful life of 6 years was purchased on 1st April 2012 for ₹ 1,50,000. Depreciation was provided on straight line method for first three years considering a Residual Value of 10% of cost.

In the beginning of fourth year, the Company re–assessed the remaining useful life of the Machinery at 4 years and Residual Value was estimated at 5% of Original Cost.

The Accountant recalculated the Revised Depreciation historically and charged the difference to Profit and Loss Account. You are required to comment on the treatment by the Accountant and calculate the Depreciation to be charged for the fourth year.

Solution: **Similar to Page No.B.4.10, Q.No.32 & Principles in Page No.B.4.9, Q.No.29**

	Particulars	₹
	Original Cost of the Machinery	1,50,000
Less:	Depreciation for Year 1 to 3 on SLM Basis = $\frac{1,50,000 - 10\%\ \text{Salvage Value}}{6\ \text{years}} \times 3$ Years	(67,500)
	Book Value at the Beginning of Year 4	**82,500**
	Depreciation for 4th Year = $\frac{82,500 - (1,50,000 \times 5\%)}{4\ \text{years}}$	**18,750**

Comment: Change in the **method** of Depreciation is always applied with retrospective effect.
However, when there is only a **revision of the Estimated Useful Life** of the Asset, the Unamortised Depreciable Amount should be charged over the **revised** remaining Useful Life. Hence, the treatment given by the Accountant by re–calculating the Revised Depreciation historically and charging the difference to P&L A/c is **not proper**.

Question 1(d): AS – 10 Fixed Assets — 5 Marks

Briefly explain the treatment of following items as per relevant Accounting Standards:

(a) The Accountant of Stat Limited valued the Goodwill of the Company at ₹ 50 Lakhs and showed the same as Fixed Asset in Balance Sheet. The corresponding credit was given to Reserves.

(b) An expense of ₹ 5 Crores was incurred on a Machine towards its Repairs and Maintenance. The Accountant wants to capitalize the same considering the significance of amount spent.

(c) A Plant was ready for Commercial Production on 01.04.2014 but could commence actual production only on 01.06.2014. The Company incurred ₹ 50 Lakhs as Administrative Expenditure during the period of which 20% was allocable to the Plant. The Accountant added ₹ 10 lakhs to Cost of Plant.

Solution:

	Remarks	Page Reference in AS–10
(a)	Goodwill is recorded in the books only when some consideration in money or money's worth is paid for it. Hence, recording Goodwill by crediting Reserves is **not** proper. **Note:** Also, as per AS–26 Intangible Assets, **Internally Generated Goodwill** should not be recognized as an Asset.	**See Principles in Page No.B.7.23, Q.No.64**
(b)	The expenditure ₹ 5 Crores towards Repairs and Maintenance has not increased the earning capacity of the Machinery, or reduced the Production Cost. It should not be capitalized. It should be **recognized as Expense**, irrespective of amount involved.	**Similar to Page No.B.7.3, Q.No.9, P(Aud)–RTP Qn**
(c)	The given Administrative Expenditure is **not** a Directly Attributable Cost to bringing the asset to working condition for its intended use. Hence, it should **not** be added to the Cost of the Asset.	**Similar to Page No.B.7.5, Q.No.16, P(Aud)–M 14 Qn**

Question 2: Internal Reconstruction — 16 Marks

The Balance Sheet of Clean Ltd as on 31st March 2015 was summarized as follows:

Liabilities	₹	Assets	₹
Share Capital		Land & Buildings	75,00,000
Equity Shares of ₹ 50 Each fully paid up	60,00,000	Plant & Machinery	22,00,000
9% Preference Shares of ₹ 10 each fully paid up	40,00,000	Trade Investments	16,50,000
7% Debentures (Secured by Plant & Machinery)	23,00,000	Inventories	9,50,000
8% Debentures	17,00,000	Trade Receivables	18,00,000
Trade Payables	6,00,000	Cash and Bank Balances	3,60,000
Provision for Tax	75,000	Profit & Loss Account	2,15,000
Total	1,46,75,000	Total	1,46,75,000

The Board of Directors of the Company decided upon the following scheme of reconstruction duly approved by all concerned parties:

(1) The Equity Shareholders agreed to receive in lieu of their present holding of 1,20,000 Shares of ₹ 50 each as under –

(a) New Fully Paid Equity Shares of ₹ 10 each equal to 2/3rd of their holding.

(b) 9% Preference Shares of ₹ 8 each to the extent of 25% of the above New Equity Share Capital.

(c) ₹ 2,80,000, 10% Debentures of ₹ 80 each.

(2) The Preference Shareholders agreed that their ₹ 10 Shares should be reduced to ₹ 8 by cancellation of ₹ 2 per Share. They also agreed to subscribe for two new Equity Shares of ₹ 10 each for every five Preference Shares held.

(3) The Taxation Liability of the Company is settled at ₹ 66,000 and the same is paid immediately.

(4) One of the Trade Creditors of the Company to whom the Company owes ₹ 1,00,000 decides to forego 30% of his claim. He is allotted Equity Shares of ₹ 10 each in full satisfaction of his balance claim.

(5) Other Trade Creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% Preference Shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 3,50,000 accepted Preference Shares option and rest of them opted for cash towards full settlement of their claim.

(6) Company's Contractual Commitments amounting to ₹ 6,50,000 have been settled by paying 4% Penalty of Contract Value.

(7) Debentureholders having charge on Plant and Machinery accepted Plant and Machinery in full settlement of their dues.

(8) The Rate of Interest on 8% Debentures is increased to 10%. The Debentureholders surrender their existing Debentures of ₹ 50 each and agreed to accept 10% Debentures of ₹ 80 each for every two Debentures held by them.

(9) The Land and Building to be depreciated by 5%.

(10) The Debit Balance of Profit and Loss Account is to be eliminated.

(11) 1/4th of Trade Receivables and 1/5th of Inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the Reconstruction Scheme in the books of Clean Ltd as per Schedule III to the Companies Act, 2013.

Solution: **Similar to Page No.A.10.11, Q.No.8 – N 09 Qn**

1. Journal Entries in the books of Clean Ltd

S.No	Particulars		Dr. (₹)	Cr. (₹)
1.	Equity Share Capital (₹ 50) A/c	Dr.	60,00,000	
	To Equity Share Capital (₹ 10) A/c (for 2/3rd of 60,00,000)			40,00,000
	To 9% Preference Share Capital (₹ 8) A/c (for 25% of 40,00,000)			10,00,000
	To 10% Debentures (₹ 80) A/c			2,80,000
	To Reconstruction A/c (balancing figure)			7,20,000
	(Being reduction in value of Equity Shares of ₹ 50 each to ₹ 8 each and issue of 9% Preference Shares equal to 25% of the New Equity Capital and 3,500 10% Debentures of ₹ 80 each as per approved scheme of reconstruction dated….)			
2.	9% Preference Share Capital (₹ 10) A/c	Dr.	40,00,000	
	To 9% Preference Share Capital (₹ 8) A/c			32,00,000
	To Equity Share Capital (₹ 10) A/c			1,60,000
	To Reconstruction A/c			6,40,000
	(Being reduction in value of Preference Shares of ₹ 10 each to ₹ 8 each and issue of 2 New Equity Shares for every 5 Shares held as per approved scheme of reconstruction dated….)[It is assumed that New Equity Shares are issued **not for Cash**, but against cancellation of existing Preference Share Capital.]			
3.	Provision for Tax A/c	Dr.	75,000	
	To Cash/Bank A/c			66,000
	To Reconstruction A/c			9,000
	(Being Taxation Liability of the Company settled at ₹ 66,000 as per approved scheme of reconstruction dated…. paid immediately.)			
4.	Trade Creditors / Payables A/c	Dr.	1,00,000	
	To Equity Share Capital (₹ 10) A/c			70,000
	To Reconstruction A/c			30,000
	(Being cancellation of 30% dues, and 7,000 fully paid Equity Shares allotted for the balance claim of Creditor, as per approved scheme of reconstruction dated…)			
5.	Trade Creditors / Payables A/c	Dr.	5,00,000	
	To 9% Preference Share Capital (₹ 8) A/c			3,50,000
	To Cash /Bank A/c			1,20,000
	To Reconstruction A/c			30,000

S.No	Particulars		Dr. (₹)	Cr. (₹)
	(Being 9% Preference Shares of ₹ 8 each issued to Trade Creditors of ₹3,50,000 and balance 80% of Claims (₹ 5,00,000 – ₹ 3,50,000) × 80% settled in cash as per approved scheme of reconstruction dated…)			
6.	Reconstruction A/c	Dr.	26,000	
	To Cash /Bank A/c			26,000
	(Being payment of Penalty for settling Contractual Obligations (₹ 6,50,000 × 4%), as per scheme of reconstruction dated….)			
7.	7% Debentures A/c	Dr.	23,00,000	
	To Plant and Machinery A/c			22,00,000
	To Reconstruction A/c			1,00,000
	(Being takeover of Plant and Machinery by 7% Debentureholders by as per approved scheme of reconstruction dated….)			
8.	8% Debentures (₹ 50 each) A/c	Dr.	17,00,000	
	To 10% Debentures A/c (₹ 80 each)			13,60,000
	To Reconstruction A/c (balancing figure)			3,40,000
	(Being conversion of 8% Debentures to 10% Debentures at 1 for every 2 held as per approved scheme of reconstruction dated….) Existing Number of Debentures = ₹ 17,00,000 ÷ ₹ 50 = 34,000. New Debentures to be issued = 34,000 ÷ 2 = 17,000. Value of New Debentures =17,000 × ₹ 80 = ₹ 13,60,000			
9.	Reconstruction A/c	Dr.	3,75,000	
	To Land and Building A/c			3,75,000
	(Being Depreciation of Land and Building by 5% as per approved scheme of reconstruction dated….)			
10.	Reconstruction A/c	Dr.	2,15,000	
	To Profit and loss A/c			2,15,000
	(Being P&L (Dr.Balance) w/off as per approved scheme of reconstruction dated….)			
11.	Reconstruction A/c	Dr.	6,40,000	
	To Trade Receivables A/c ($1/4^{th}$ × ₹ 18,00,000)			4,50,000
	To inventories A/c ($1/5^{th}$ × ₹ 9,50,000)			1,90,000
	(Being writing off of $1/4^{th}$ in Trade Receivables and $1/5^{th}$ in Inventories as per approved scheme of reconstruction dated….)			
12.	Reconstruction A/c	Dr.	6,13,000	
	To Capital Reserve A/c			6,13,000
	(Being balance in Reconstruction A/c transferred to Capital Reserve WN 1)			

2. Reconstruction A/c

Particulars	₹	Particulars	₹
To Cash / Bank A/c (Penalty on Contract)	26,000	By Equity Share Capital A/c	7,20,000
To Land and Building A/c	3,75,000	By 9% Preference Share Capital A/c	6,40,000
To Profit and Loss A/c (Debit balance)	2,15,000	By Trade Creditors A/c (30,000 + 30,000)	60,000
To Trade Receivables	4,50,000	By 7% Debentures A/c	1,00,000
To Inventories	1,90,000	By 8% Debentures A/c	3,40,000
To Capital Reserve **(balancing figure)**	6,13,000	By Provision for Tax A/c	9,000
Total	**18,69,000**	**Total**	**18,69,000**

3. Cash and Bank A/c

Particulars	₹	Particulars	₹
To balance b/d	3,60,000	By Provision for Tax	66,000
		By Trade Creditors A/c	1,20,000
		By Reconstruction A/c (Penalty for Contract)	26,000
		By balance c/d **(balancing figure)**	1,48,000
Total	**3,60,000**	**Total**	**3,60,000**

4. Balance Sheet of Clean Ltd (after reconstruction) as at 1st April

	Particulars as at 31st March	Note	Current Year	Prev. Yr
I	**EQUITY AND LIABILITIES:**			
(1)	**Shareholders' Funds:**			
	(a) Share Capital	**1**	87,80,000	
	(b) Reserves and Surplus – Capital Reserve (on Reconstruction) **(WN 2)**		6,13,000	
(2)	**Non–Current Liabilities:**			
	Long Term Borrowings: 10% Debentures (2,80,000 + 13,60,000)		16,40,000	
	Total		**1,10,33,000**	
II	**ASSETS**			
(1)	**Non–Current Assets**			
	(a) Fixed Assets: Tangible Assets – Land and Building (75,00,000 – 5%)		71,25,000	
	(b) Non–Current Investments: Trade Investments (**assumed** Long Term)		16,50,000	
(2)	**Current Assets:**			
	(a) Trade Receivables (18,00,000 – 4,50,000)		13,50,000	
	(b) Inventories (9,50,000 – 1,90,000)		7,60,000	
	(c) Cash and Cash Equivalents – **(WN 3)**		1,48,000	
	Total		**1,10,33,000**	

Note: Trade Investments are assumed as in the same line of business, e.g. Subsidiaries, etc. and hence taken as Long Term. Alternatively, it can be assumed as Investments held for trading purposes, and classified under Current Investments Category.

Note 1: Share Capital

Particulars	This Year	Prev. Yr
Authorised: .... Equity Shares of ₹ 10 each & ....9% Preference Shares of ₹ 8 each		
Issued, Subscribed & Paid up: 4,23,000 Equity Shares of ₹ 10 each	42,30,000	
5,68,750 9% Preference Shares of ₹ 8 each	45,50,000	
(all the above Shares are issued as per approved scheme of reconstruction dated….)		
Total	**87,80,000**	

Question 3 (a): Cash Flow Statement – Direct Method **8 Marks**

Prepare Cash Flow Statement of MNT Ltd for the year ended 31st March 2015 with the help of the following information:

1. **Company sold goods for cash only.**
2. **Gross Profit Ratio was 30% for the year, Gross Profit amounts to ₹ 3,82,500.**
3. **Opening Inventory was lesser than Closing Inventory by ₹ 35,000.**
4. **Wages paid during the year ₹ 4,92,500.**
5. **Office and Selling Expenses paid during the year ₹ 75,000.**
6. **Dividend paid during the year ₹ 30,000 (including Dividend Distribution Tax.)**
7. **Bank Loan repaid during the year ₹ 2,15,000 (including Interest ₹ 15,000)**
8. **Trade Payables on 31st March 2014 exceed the balance on 31st March 2015 by ₹ 25,000.**
9. **Amount paid to Trade Payables during the year ₹ 4,60,000.**
10. **Tax paid during the year amounts to ₹ 65,000 (Provision for Taxation as on 31.03.2015 ₹ 45,000).**
11. **Investments of ₹ 7,00,000 sold during the year at a profit of ₹ 20,000.**
12. **Depreciation on Fixed Assets amounts to ₹ 85,000.**
13. **Plant and Machinery purchased on 15th November 2014 for ₹ 2,50,000.**
14. **Cash and Cash Equivalents on 31st March 2014 ₹ 2,00,000.**
15. **Cash and Cash Equivalents on 31st March 2015 ₹ 6,07,500.**

Similar to Page No.B.3.19, Q.No.7 – M 06 Qn

Solution: **Cash Flow Statement for the year ended 31st March 2015 (Direct Method)**

Particulars	₹	₹
A. **CASH FLOW FROM OPERATING ACTIVITIES:**		
Cash Receipts from Sale of Goods (Sales = $\frac{\text{Gross Profit Amount}}{\text{Gross Profit Rate}} = \frac{3,82,500}{30\%}$)	12,75,000	
Cash Payments to Suppliers of Goods	(4,60,000)	
Cash Payments to & on behalf of Employees (Wages)	(4,92,500)	
Cash Payments for Expenses / Services (Administration and Selling Expenses)	(75,000)	
Cash Generated from Operations before Taxes & Extra Ordinary Items	2,47,500	
Less: Taxes Paid	(65,000)	
Net Cash Flow from / (used in) Operating Activities [A]		**1,82,500**
B. **CASH FLOW FROM INVESTING ACTIVITIES:**		
Sale Proceeds of Investments (Book Value 7,00,000 + Profit 20,000)	7,20,000	
Purchase of New Plant & Machinery	(2,50,000)	
Net Cash Flow from / (used in) Investing Activities [B]		**4,70,000**
C. **CASH FLOW FROM FINANCING ACTIVITIES:**		
Repayment of Bank Loan Principal (2,15,000 – 15,000)	(2,00,000)	
Interest on Bank Loan	(15,000)	
Dividends paid (inclusive of Dividend Distribution Tax)	(30,000)	
Net Cash Flow from / (used in) Financing Activities [C]		**(2,45,000)**
D. Net Increase or Decrease in Cash or Cash Equivalents [A + B + C]		4,07,500
E. Opening Balance of Cash & Cash Equivalents (given)		2,00,000
F. **Closing Balance of Cash & Cash Equivalents** (given)		**6,07,500**

Note: Change in Inventory & Trade payments are not relevant for above Direct Method.

Question 3 (b): Average Due Date – Partners Drawings **8 Marks**

Yash and Harsh are Partners in a Firm. They drawn the following amounts from the Firm during the year ended 31.03.2015 –

Date	Amount	Drawn by
01.05.2014	**₹ 75,000**	**Yash**
30.06.2014	**₹ 20,000**	**Yash**
14.08.2014	**₹ 60,000**	**Harsh**
31.12.2014	**₹ 50,000**	**Harsh**
04.03.2015	**₹ 75,000**	**Harsh**
31.03.2015	**₹ 15,000**	**Yash**

Interest is charged at 10% p.a. on all drawings. Calculate Interest Chargeable from each Partner by using Average Due Date system. (Consider 1st May as Base Date.)

Solution: **Similar to Page No.A.2.11, Q.No.18, Q.No.19 – M 11 Qn**

1. Computation of Average Due Date for Mr. Yash(Note: Base Date = 1st May)

Due Date	No. of Days from Base Date	Amount (₹)	Product (₹)
Col. (1)	**Col. (2)**	**Col. (3)**	**Col. (4) = (2) × (3)**
1st May 2014	0	75,000	0
30th June 2014	30+30=60	20,000	12,00,000
31st March 2015	30+30+31+31+30+31+30+31+31+28+31=334	15,000	50,10,000
Total		**1,10,000**	**62,10,000**

Average Due Date = Base Date ± $\frac{\text{Total of Products}}{\text{Total of Amounts}}$ = 1st May + $\frac{62,10,000}{1,10,000}$ = 1st May + 57 days (approx.) = **27th June**

2. Computation of Average Due Date for Mr. Harsh (**Note:** Base Date = 1st May)

Due Date	No. of Days from Base Date	Amount (₹)	Product (₹)
Col. (1)	**Col. (2)**	**Col. (3)**	**Col. (4) = (2) × (3)**
14th August 2014	30+30+31+14 =105	60,000	63,30,000
31st December 2014	30+30+31+31+30+31+30+31 = 244	50,000	1,22,00,000
4th March 2015	30+30+31+31+30+31+30+31+31+28+4 = 307	75,000	2,30,25,000
Total		**1,85,000**	**4,15,55,000**

Average Due Date = Base Date ± $\frac{\text{Total of Products}}{\text{Total of Amounts}}$ = 1st May + $\frac{4,15,55,00\ 0}{1,85,000}$ 1st May + 225 days (approx.) = **12th Dec**

3. Calculation of Interest

Partner	Days from ADD to Period End	Interest
Yash	27th June 2014 to 31st March 2015 = 3+31+31+30+31+30+31+31+28+31= **277 days**	₹ 1,10,000 × 10% × $\frac{277}{365}$ = ₹ **8,348**
Harsh	12th Dec 2014 to 31st March 2015 = 19+31+28+31 = **109 days**	₹ 1,85,000 × 10% × $\frac{109}{365}$ = ₹ **5,525**

Question 4 (a): Policy Amount for Loss of Profit **8 Marks**

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 the last financial year	**₹ 6,75,000**
Standing Charges in the last financial year	**₹ 1,14,750**

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

Increase in Turnover expected 30%. To achieve additional sales, the Trader has to incur additional expenditure of ₹ 42,500.

Solution: **Similar to Page No.A.5.16, Q.No.21 – N 10 Qn**

1. Profit and Loss Account for Previous Year

Particulars	₹	Particulars	₹
To Variable Expenses **(balancing figure)**	**4,92,750**	By Sales	6,75,000
To Standing Charges	1,14,750		
To Net Profit (10% on Sales)	67,500		
Total	**6,75,000**	**Total**	**6,75,000**

2. Computation of Insurance Policy to be taken

	Particulars	₹
	Gross Profit (Sales ₹ 6,75,000 **Less** Variable Expenses ₹ 4,92,750) as per Previous Year	1,82,250
Add:	Additional GP for 30% increase in Turnover (₹ 1,82,250 x 30%)	54,675
Add:	Additional Expenditure to achieve Additional Sales	42,500
	Policy to be Taken for Current Year	**2,79,425**

Question 4(b): Profits prior to Incorporation **8 Marks**

SALE Limited was incorporated on 01.08.2014 to take–over the business of a Partnership Firm w.e.f. 01.04.2014. The following is the extract of Profit and Loss Account for the year ended 31.03.2015:

Particulars	₹	Particulars	₹
To Salaries	**1,20,000**	**By Gross Profit**	**6,00,000**
To Rent Rates & Taxes	**80,000**		
To Commission on Sales	**21,000**		

Particulars	₹	Particulars	₹
To Depreciation	25,000		
To Interest on Debentures	32,000		
To Directors Fees	12,000		
To Advertisement	36,000		
To Net Profit for the Year	2,74,000		
Total	6,00,000	Total	6,00,000

(i) SALE Ltd initiated an Advertising Campaign which resulted increase in monthly average sales by 25% post– incorporation.

(ii) The Gross Profit Ratio post incorporated increased to 30% from 25%.

You are required to apportion the profit for the year between Pre–Incorporation and Post–Incorporation periods. Also explain how Pre–Incorporation Profit is treated in the accounts.

Solution: **Similar to Page No.A.9.6, Q.No.5 – M 13 Qn**

1. Computation of Ratios

Particulars	Pre – Incorporation	Post – Incorporation	Total
(a) No. of Months	1st Apr to 31st Jul = 4 Months	1st Aug to 31st Mar = 8 Months	4 : 8 = **1 : 2**
(b) Sales Ratio	Sales = 100 × 4 Months =400	Sales =125 × 8 Months =1000	400 : 1000= **2:5**
(c) GP on Sales	25%	30%	
(d) Ratio of GP (Pre:Post) (b × c)	400 × 25% = 100	1000 × 30% = 300	100:300 = **1:3**

2.Statement showing computation of Profit / Loss for Pre and Post Incorporation Periods (₹)

Particulars	Ratio	Pre Incorpn.	Post Incorpn.
A. **Gross Profit** (as per Note 1)	1:3	**1,50,000**	**4,50,000**
B. **Apportionment of Expenses**			
Salaries	1:2	40,000	80,000
Rent, Rates & Taxes	1:2	26,667	53,333
Commission on Sales	2:5	6,000	15,000
Depreciation	1:2	8,333	16,667
Debenture Interest (issued after the Company is formed)		Nil	32,000
Directors Fee (Paid by the Company only after incorporation)		Nil	12,000
Advertisement Expenses(initiated post–incorporation)		Nil	36,000
Total Expenses		**81,000**	**2,45,000**
C. **Profit (A – B)**		**69,000**	**2,05,000**

3. Treatment: Pre–Incorporation Profits are transferred to "**Capital Reserve**", (i.e. capitalized), and may be used for –

(a) Writing off Goodwill on Acquisition, if any.

(b) Writing off Preliminary Expenses,

(c) Writing down Overvalued Assets, if any, etc.

Question 5: Admission, Retirement, Accounts from Incomplete Records **16 Marks**

Ms. Naina, Ms. Radha and Ms. Khushi were partners in a Firm sharing Profits and Losses in the ratio of 4:3:2. Balance Sheet of the Firm as on 31.03.2014 was a follows:

Liabilities	₹	Assets	₹
Capital Accounts: Naina	3,00,000	Plant & Machinery	4,26,000
Radha	2,25,000	Stock	1,85,800
Khushi	1,50,000	Debtors	1,30,500
Current Accounts:Naina	25,000	Bank Balances	92,700
Radha	12,500		
Khushi	18,750		
Creditors	1,03,750		
Total	8,35,000	Total	8,35,000

On 1st April 2014, Ms. Naina retired. On her retirement, Goodwill is valued at ₹ 1,80,000. Ms.Radha and Ms. Khushi do not wish to raise Goodwill account in the Books.

Ms. Naina drew her balance of Current Account 2nd April 2014, and it is agreed to pay balance of her Capital Account over a period of two years by half yearly instalments with interest at 10% per annum.

On 1st October 2014, Ms.Asmita (Daughter of Ms.Radha) was admitted as a Partner. Ms. Radha surrendered one third of her share of Profit and Loss in favour of Ms.Asmita and also transferred one–third of her Capital to Ms. Asmita. Ms. Asmita was Manager in the Firm with Annual Salary of ₹ 16,000, prior to admission as Partner.

The other Bank Transactions during the financial year 2014–2015 were as follows:

1. Payment to Creditors	**7,75,000**
2. Received from Debtors	**11,25,000**
3. Expenses Paid	**11,250**
4. Asmita's Salary Paid	**8,000**
5. Partner's Drawings: Ms. Radha	**50,000**
Ms. Khushi	**41,250**
Ms. Asmita	**11,250**
6. First instalment with interest paid to Ms. Naina on 1st October 2014.	
7. Plant & Machinery sold at ₹ 9,000 on 3rd April 2014 (Cost ₹ 10,000 & Book Value ₹ 7,000)	
8. Balances as on 31st March 2015: Debtors ₹ 1,50,000, Creditors for Purchases ₹ 1,25,000, Creditors for Expenses ₹ 10,000 and Stock ₹ 1,71,250.	
9. Depreciation is to be written off on Plant & Machinery ₹ 30,350.	
10. Second instalment with interest paid to Ms. Naina on 1st April 2015.	

You are required to prepare:

(a) Ms. Naina's Loan Account,

(b) Partners' Capital Account,

(c) Partners' Current Account,

(d) Bank Account, and

(e) Balance Sheet as on 31st March 2015 in the books of the Firm.

Solution: Similar to Principles in Page A.6.42, Q.No.32 – M 98 Qn, and Page A.3.34, Q.No.26 – N 07 Qn

(a) Naina's Loan A/c

Particulars	₹	Particulars	₹
To Bank A/c (1st Instalment + Interest)	90,000	By Naina's Capital A/c	3,00,000
To balance c/d **(bal.figure)**	**2,36,250**	By P & L A/c: Interest (3,00,000 x 10% x 6/12)	15,000
		By P & L A/c: Interest (2,25,000 x 10% x 6/12)	11,250
Total	**4,31,250**	**Total**	**4,31,250**

Note: Instalments in half years over 2 years = 4 instalments. So, Amount = $\frac{3,00,000}{4}$ = ₹ 75,000 per instalment.

(b) Partners' Capital Account (Amount in ₹)

Particulars	N	R	K	A	Particulars	N	R	K	A
To N's Loan	3,00,000	–	–	–	By bal. b/d	3,00,000	2,25,000	1,50,000	–
To A's Cap. A/c–1/3rd tfr	–	75,000	–	–	By R's Capital A/c	–	–	–	75,000
To bal. c/d	–	**1,50,000**	**1,50,000**	**75,000**					
Total	3,00,000	2,25,000	1,50,000	75,000	Total	3,00,000	2,25,000	1,50,000	75,000

Note: In the above account N = Naina, R= Radha, K= Kushi and A = Asmita.

(c) Partners' Current Account (Amount in ₹)

Particulars	N	R	K	A	Particulars	N	R	K	A
To Bank A/c	1,05,000	–	–	–	By bal. b/d	25,000	12,500	18,750	–
To Bank A/c – Drawings	–	50,000	41,250	11,250	By R's Current A/c	48,000	–	–	–
To N's Current A/c	–	48,000	32,000	–	By K's Current A/c	32,000	–	–	–
To bal.c/d	–	**14,440**	**45,440**	**38,720**	By P&L A/c	–	99,940	99,940	49,970
Total	1,05,000	1,12,440	1,18,690	49,970	Total	1,05,000	1,12,440	1,18,690	49,970

Note: In the above account N = Naina, R= Radha, K= Kushi and A = Asmita.

(d) Bank A/c

Receipts	₹	Payments	₹
To balance b/d	92,700	By Creditors	7,75,000
To Debtors	11,25,000	By Expenses	11,250
To Plant and Machinery	9,000	By Salary (to Asmita as Manager)	8,000
		By Drawings / Current A/c of Partners	
		– Radha – 50,000	
		– Kushi – 41,250	
		– Asmita – 11,250	1,02,500
		By Naina's Current A/c (2nd April)	1,05,000
		By Naina's Loan (1st Instalment)	90,000
		By balance c/d **(balancing figure)**	**1,34,950**
Total	**12,26,700**	**Total**	**12,26,700**

(e) Balance Sheet as on 31st March 2015

Capital and Liabilities		₹	Assets	₹
Capital Accounts:	Radha	1,50,000	**Non–Current Assets:**	
	Kushi	1,50,000	Plant and Machinery **(WN 5)**	3,88,650
	Asmita	75,000	**Current Assets:**	
Current Accounts:	Radha	14,440	Inventories	1,71,250
	Kushi	45,440	Trade Receivables	1,50,000
	Asmita	38,720	Bank Balance **(WN d)**	1,34,950
Naina's Loan A/c		2,36,250		
Other Current Liabilities:				
Trade Payables / Creditors		1,25,000		
Expenses Outstanding		10,000		
Total		**8,44,850**	**Total**	**8,44,850**

Working Notes: **1. Adjustment of Goodwill on Naina's Retirement**

(a)	Goodwill (given) =	₹ 1,80,000
(b)	Naina's Share in above Goodwill of the Firm at 4/9th Share = ₹1,80,000 × 4/9th	₹ 80,000
(c)	Since Goodwill is not to be shown in the books, Naina's Share of Goodwill is debited to other Partners in their PSR 3:2	₹ 80,000 as 3:2 = ₹ 48,000 & ₹ 32,000

2. New PSR

Particulars	Radha	Kushi	Asmita	Total
(a) New PSR before admission of Ashmita (= Old PSR between R & K)	$\frac{3}{5}$	$\frac{2}{5}$	–	**3:2**
(b) **Add / Less:** Transfer by Radha to Asmita (1/3rd of $\frac{3}{5}$)	$-\frac{1}{5}$	–	$\frac{1}{5}$	
(c) **New Ratio**	$\frac{2}{5}$	$\frac{2}{5}$	$\frac{1}{5}$	**2:2:1**

3. Debtors A/c

Particulars	₹	Particulars	₹
To balance b/d	1,30,500	By Bank A/c	11,25,000
To Sales **(Balancing Figure)**	**11,44,500**	By balance c/d	1,50,000
Total	**12,75,000**	**Total**	**12,75,000**

4. Creditors A/c

Particulars	₹	Particulars	₹
To Bank	7,75,000	By balance b/d	1,03,750
To balance c/d	1,25,000	By Purchases **(Balancing Figure)**	**7,96,250**
Total	**9,00,000**	**Total**	**9,00,000**

5. Plant and Machinery A/c

Particulars	₹	Particulars	₹
To balance b/d	4,26,000	By Bank (Proceeds of Sale)	9,000
To P &L A/c = Gain on Sale (9,000 – 7,000)	2,000	By Depreciation (given)	30,350
		By Balance c/d	**3,88,650**
Total	**4,28,000**	**Total**	**4,28,000**

6. Trading and Profit & Loss A/c

Particulars	₹	Particulars	₹
To Opening Stock	1,85,800	By Sales (WN 3)	11,44,500
To Purchases (WN 4)	7,96,250	By Closing Stock	1,71,250
To Gross Profit c/d (balance figure)	3,33,700		
Total	**13,15,750**	**Total**	**13,15,750**
To Expenses (paid 11,250 + Payable 10,000)	21,250	By Gross Profit b/d	3,33,700
To Salary to Manager	8,000	By Profit on Sale of Machinery	2,000
To Interest on Loan (1st Instalment)	15,000		
To Interest on Loan (2nd Instalment)	11,250		
To Depreciation on Plant & Machinery	30,350		
To Net Profit (in **2:2:1**)			
- Radha – 99,940			
- Kushi – 99,940			
- Asmita – 49,970	**2,49,850**		
Total	**3,35,700**	**Total**	**3,35,700**

Question 6(a): Not for Profit Organisations – Subscription, Sports Material Expense **6 Marks**

The following information of TT Club are related for the year ended 31st March 2015.

1.

Balances	As on 01.04.2014 (₹)	As on 31.03.2015(₹)
Stock of Sports Material	**75,000**	**1,12,500**
Amount due for Sports Material	**67,500**	**97,500**
Subscription due	**11,250**	**16,500**
Subscription Received in Advance	**9,000**	**5,250**

2. Subscription received during the year ₹ 3,75,000

3. Payments for Sports Material during the year ₹ 2,25,000

You are required to – (a) ascertain the amount of Subscription and Sports Material that will appear in Income & Expenditure Account for the year ended 31.03.2015, and (b) also show how these items would appear in the Balance Sheet as on 31.03.2015.

Solution: Refer Procedures in Page A.4.3, A.4.5 Q.No.6 Subscription Income & Consumption Items

1. **Subscription A / c**

Particulars	₹	Particulars	₹
To balance b/d – (Subscriptions Receivable at the year beginning)	11,250	By balance b/d – (Subscriptions Received in Advance at year beginning)	9,000
To Income and Expenditure A/c – Subscription Income **Recognised** during the year **(Bal.Fig.)**	**3,84,000**	By Cash / Bank – Subscriptions Received as per Receipts & Payments A/c	3,75,000
To balance c/d – (Subscriptions Received in Advance at year end)	5,250	By balance c/d – (Subscriptions Receivable at year end)	16,500
Total	**4,00,500**	**Total**	**4,00,500**

2. **Amount due for Sport Materials (Creditors) A/c**

Particulars	₹	Particulars	₹
To Cash/Bank A/c–Payment during the year	2,25,000	By balance b/d – (O/s at year beginning)	67,500
To balance c/d – (O/s at the year end)	97,500	By Cost of **Purchases** made during the year **(b/f)**	**2,55,000**
Total	**3,22,500**	**Total**	**3,22,500**

3. **Stock of Sport Materials A/c**

Particulars	₹	Particulars	₹
To balance b/d – (Opening Stock)	75,000	By Income & Expenditure A/c – Cost of Consumption during the year **(Bal.Fig.)**	2,17,500
To Creditors A/c – Purchases during the year	2,55,000	By balance c/d – (Closing Stock)	1,12,500
Total	**3,30,000**	**Total**	**3,30,000**

4. **Balance Sheet as on 31.03.2015 (Extract)**

Capital and Liabilities	₹	Assets	₹
Current Liabilities:		**Current Assets:**	
Subscription received in Advance	5,250	Subscription Receivable	16,500
Amount due for Sports Materials	97,500	Stock of Sports Materials	1,12,500

Question 6(b): Investment in Equity Shares **6 Marks**

A Limited purchased 5,000 Equity Shares (Face Value ₹ 100 each) of Allianz Limited for ₹ 105 each on 1st April 2014. The Shares were quoted cum dividend. On 15th May 2014, Allianz Limited declared & paid Dividend of 2% for year ended 31st March 2014. On 30th June 2014, Allianz Limited issued Bonus Shares in ratio of 1:5. On 1st October 2014, Allianz Limited issued Rights Share in the ratio of 1:12 at ₹ 45 per Share. A Limited subscribed to half of the rights issue and the balance was sold at ₹ 5 per Right Entitlement. The Company declared Interim Dividend of 1% on 30th November 2014, Right Shares were not entitled to Dividend. The Company sold 3,000 Shares on 31st December 2014 at ₹ 95 per Share. The Company A Ltd incurred 2% as Brokerage while buying and selling Shares.

You are required to prepare Investments Account in books of A Ltd.

Solution: Similar to Page No.A.5.60, Q.No.14 – N 10 Qn

Points for Consideration

- Sale Proceeds of Rights is to be credited to P&L A/c and not Investment A/c, assuming the Ex–Rights Price is not lower than the Cost of Acquisition.
- Reduce the Dividend on Shares on 15th May 2014 from the cost of acquisition, to arrive at the Net Cost of Shares since it is Pre–Acquisition Dividend.

Working Notes

Particulars	Computation	Result
1. Cost of Purchases	(5,000 × ₹ 105) Add 2%Brokerage	₹ 5,35,500
2. Dividend Received	5,000 × ₹ 100 × 2%	₹ 10,000

Particulars	Computation	Result
3. Pre–Acquisition No. of Bonus Shares	5,000 ÷ 5	1,000 Shares
4. No. of Rights Shares eligible	(5,000 + 1,000) × 1/12	500 Shares
5. No. of Rights Shares subscribed	500 × 1/2 = 250 Shares at ₹ 45	₹ 11,250
6. No. of Rights Shares Renounced	500–250 = 250 Shares at ₹ 5 will be taken to P & L	₹ 1,250
7. Interim Dividend on 30/11/2014	(5,000 +1,000)× ₹ 100×1%, will be taken to P & L	₹ 6,000
8. Cost of Shares sold on 31/12/2014	$(5,35,500 + 11,250 - 10,000) \times \frac{3,000}{6,250}$	₹ 2,57,640
9. Net Sale Proceeds for Sale on 31/12/2014	(3,000 Shares × ₹ 95) **less** Brokerage 2%	₹ 2,79,300
10. Profit on Sale of Shares on 31/12/2014	Net Sale Proceeds ₹ 2,79,300 **less** Cost ₹ 2,57,640	₹ 21,660

Investment (Equity Shares in Vaikuntam Ltd) Account

Date	Particulars	Shares Nos.	₹	Date	Particulars	Shares Nos.	₹
01/04/14	To Bank (WN 1)	5,000	5,35,500	15/05/14	By Bank (Dvd) **(WN 2)**		10,000
30/06/14	To Bonus **(WN 3)**	1,000	–	31/12/14	By Bank (Sale of Shares) **(WN 7)**	3,000	2,79,300
01/10/14	To Bank (Rights) **(WN5)**	250	11,250				
31/12/14	To P&L– Prft **(WN 8)**		21,660	31/03/15	By balance c/d	3,250	2,79,110
	Total	**6,250**	**5,68,410**		**Total**	**6,250**	**5,68,410**

Question 7(a): General Ledger Adjustment Account – Creditors Ledger **4 Marks**

Prepare General Ledger Adjustment A/c in Creditors Ledger for the year ending 31st March 2015 from the following information –

- **Sundry Creditors as on 01.04.2014 ₹ 2,30,000.**
- **Total Purchases amounted to ₹ 8,25,000 including purchase of Trade Investments for ₹ 45,000 (Face Value ₹ 50,000). The Total Cash Purchases were 60% more than the Credit Purchases.**
- **Cash paid to Creditors during the year was 50% of the aggregate of the Opening Creditors and Credit Purchases for the period. Creditors allowed a Cash Discount of ₹ 8,000.**
- **A cheque paid to Creditors ₹ 7,000 was dishonoured.**
- **Goods returned to Suppliers ₹ 11,000.**
- **Bills Receivable amounting to ₹ 30,000 endorsed in favour of a Creditor in the month of February 2015.**

Solution: **Computation similar to Page A.2.36, Q.No.7 – N 10 Qn (on Debtors)**

General Ledger Adjustment A/c (in Creditors Ledger)

Particulars	₹	Particulars	₹
To balance b/d (as per Crs Ledger Contra)	2,30,000	By Creditors Ledger Adjustment A/c	
To Creditors Ledger Adjustment A/c		Cash Paid = 50% of (2,30,000 + 3,00,000)	2,65,000
Credit Purchase [**WN 1**]	3,00,000	Discount Received	8,000
Cheque dishonoured	7,000	Bills Receivable Endorsed	30,000
		Returns Outward	11,000
		By balance c/d **(balancing figure)**	**2,23,000**
Total	**5,37,000**	**Total**	**5,37,000**

Note: Computation of Credit Purchases

- Net Purchase for the period = ₹ 8,25,000 – ₹ 45,000 (Investments) = ₹ 7,80,000.
- If Credit Purchase is 100%, then Cash Purchase is 60% higher = 100% + 60% = 160%. So, Cash Purchase and Credit Purchase are in the ratio 160: 100, i.e. 8: 5.
- Therefore, Credit Purchases = ₹ 7,80,000 × 5/13th = ₹ 3,00,000.

Question 7(b): AS – 14 Amalgamation in the Nature of Merger – Conditions **4 Marks**

Describe the conditions to be satisfied for Amalgamation in the nature of Merger as per AS–14.

Solution: **Refer Page A.11.2, Q.No.6 – N 06, N 08 Qn**

Amalgamation in the nature of Merger is an amalgamation, which satisfies **all** the following conditions –

1. **Assets and Liabilities:** All the Assets and Liabilities of the Transferor Company become, after amalgamation, the assets and liabilities of the Transferee Company.

2. **Equity Shareholders:** Shareholders holding not less than 90% of the Face Value of the Equity Shares of the Transferor Company, (other than the Equity Shares already held therein, immediately before the amalgamation, by the Transferee Company or its Subsidiaries or their Nominees) become Equity Shareholders of the Transferee Company by virtue of the amalgamation.

3. **Consideration to Equity Shareholders = Equity Shares:** The consideration for the amalgamation receivable by those Equity Shareholders of the Transferor Company who agree to become Equity Shareholders of the Transferee Company, is discharged by the Transferee Company wholly by the issue of Equity Shares in the Transferee Company, except that cash may be paid in respect of any fractional Shares.

4. **Continuity of business:** The business of the Transferor Company is intended to be carried on, after the amalgamation, by the Transferee Company.

5. **Book Values of Assets and Liabilities:** No adjustment is intended to be made to the Book Values of the Assets and Liabilities of the Transferor Company, when they are incorporated in the Financial Statements of the Transferee Company, except to ensure uniformity of accounting policies.

Question 7(c): Average Due Date – Interest Impact **4 Marks**

Anand purchased goods from Amirtha, the Average Due Date for payment in cash is 10.08.2015 and the Total Amount Due is ₹ 67,500. How much amount should be paid by Anand to Amirtha, if the total payment is made on following dates and interest is to be considered at the rate of 12% p.a. – (i) On Average Due Date. (ii) On 25th August 2015. (iii) On 30th July 2015.

Solution: **Refer Principles in Page A.2.2, Q.No.5**

Pymt on	Effect	Interest	Amount to be paid
Average Due Date	No Gain or Loss of Interest for Debtor as well as Creditor.	Not Applicable	**₹ 67,500**
25th August 2015	Interest Loss to the Creditor (due to delay in receipt), which the Creditor will charge from the Debtor.	**Period: From** 10.8.2015 (ADD) **To** 25.8.2015 (DOP) Interest at 12% for 15 days = 67,500×12%×15/ 365 = ₹ **333**	**₹ 67,833** (67,500+ Interest 333)
30th July 2015	Interest Loss to the Debtor (since he makes early payment) which he will claim from Creditor, in the form of Discount.	**Period: From** 30.7.2015 (DOP) **To** 10.8.2015 (ADD) Interest at 12% for 11 days = 67,500×12%×11/ 365 = ₹ **244**	(67,500 – Interest 244) = **67,256**

Question 7(d): Single Entry – Computation of Total Sales **4 Marks**

A Company sold 20% of the goods on cash basis and the balance on credit basis. Debtors are allowed 1½ month's credit and their balance as on 31.03.2015 is ₹ 1,25,000. Assume that the sale is uniform throughout the year. Calculate the Credit Sales and Total Sales of the Company for the year ended 31.03.2015.

Solution: **Similar to Page A.3.7, Q.No.5 – M 08 Qn**

1. **Credit Sales** = $\text{Debtors} \times \frac{12 \text{ Mths}}{1.5 \text{ Mths}} = ₹\ 1{,}25{,}000 \times \frac{12 \text{ Mths}}{1.5 \text{ Mths}} = ₹\ 10{,}00{,}000$ = 80% of Total Sales.

2. **Total Sales** = $\text{Credit Sales} \times \frac{100\%}{80\%} = ₹\ 10{,}00{,}000 \times \frac{100\%}{80\%} = ₹\ 12{,}50{,}000$

Question 7(d): Accounting in E–Environment **4 Marks**

What are the disadvantages of using an Enterprise Resource Planning Package?

Solution: Disadvantages of using ERP for Accounting – Refer Page A.1.9, Q.No.9 – N 09 Qn

1. **Lack of Flexibility:** User may have to modify their business procedure at times, to effectively use the ERP.

2. **Implementation Hurdles:** Many Consultants implementing the ERP Package are not able to fully appreciate the business procedure, which affects the objective implementation of the ERP Packages.

3. **Expensive:** ERP Packages are priced very high and are often beyond the reach of small Firms.

4. **Complex Software:** ERP Package has large number of options to choose from. Further the parameter settings and configuration makes it a little complex for the common users.

STUDENTS' NOTES