



- (v) There is no single list of accounting policies which are applicable to all circumstances.
- (c) Som Ltd. agreed to takeover Dove Ltd. on 1<sup>st</sup> April, 2018. The terms and conditions of takeover were as follows:
- (i) Som Ltd. issued 56,000 equity shares of ₹ 100 each at a premium of ₹ 15 per share to the equity shareholders of Dove Ltd.
  - (ii) Cash payment of ₹ 39,000 was made to equity shareholders of Dove Ltd.
  - (iii) 24,000 fully paid preference shares of ₹ 50 each issued at par to discharge the preference shareholders of Dove Ltd.
  - (iv) The 8% Debentures of Dove Ltd. (₹ 78,000) converted into equivalent value of 9% debentures in Som Ltd.
  - (v) The actual cost of liquidation of Dove Ltd. was ₹ 23,000. Liquidation cost is to be reimbursed by Som Ltd. to the extent of ₹ 15,000.

You are required to:

- (1) calculate the amount of purchase consideration as per the provisions of AS-14 and
  - (2) pass Journal Entry relating to discharge of purchase consideration in books of Som Ltd.
- (d) Explain 'Bearer Plant' & 'Biological Asset' as per AS-10. (4 Parts x 5 Marks = 20 Marks)

### Answer

#### (a) Cash Flow Statement of M/s GAGAN Ltd. for the year ended March 31, 2018

<b>A</b>	<b>Cash Flow from Operating Activities</b>	
	Net Profit as per Profit & Loss A/c	-----
	Add: Premium on Redemption of Debentures	1,650
	Add: Interest on 10% Debentures	11,000
	Less: Interest on 10% Investments	(35,000)
<b>B</b>	<b>Cash Flow from Investing Activities</b>	
	Interest on Investments [35,000-10,500]	24,500
<b>C</b>	<b>Cash Flow from Financing Activities</b>	
	Interest on Debentures paid [11,000 - (1,175 - 275)]	(10,100)
	Redemption of Debentures [(1,10,000 - 77,000) at 5% premium]	(34,650)

Note: Debtors written off against provision for doubtful debts does not require any further adjustment in Cash Flow Statement.

- (b) (i) **False;** As per AS 1 “Disclosure of Accounting Policies”, certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.
- (ii) **False;** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.
- (iii) **True;** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.
- (iv) **False;** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- (v) **True;** As per AS 1, there is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable.
- (c) As per AS 14, ‘Accounting for Amalgamations’ consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

(i) **Computation of Purchase Consideration:**

	₹
(a) Preference Shares: ₹ 50 per share	
24,000 Preference shares	12,00,000
(b) Cash	39,000
(c) Equity shares: 56,000 equity shares in Som Ltd. @ ₹ 115	<u>64,40,000</u>
	<u>76,79,000</u>

(ii) **Journal entry**

	₹	₹
Liquidator of Dove Ltd.	Dr.	76,79,000

To Cash	39,000
To Preference Share Capital A/c	12,00,000
To Equity Share Capital A/c	56,00,000
To Securities Premium A/c	8,40,000
[56,000 x 15 (115-100)]	

(Payment of cash and issue of shares in satisfaction of purchase consideration)

**(d) As per AS 10 Property, Plant and Equipment**

**Bearer plant is a plant that**

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than a period of twelve months; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.
- (d) The following are **not bearer plants**:
  - (i) plants cultivated to be harvested as agricultural produce (for example, trees grown for use as lumber);
  - (ii) plants cultivated to produce agricultural produce when there is more than a remote likelihood that the entity will also harvest and sell the plant as agricultural produce, other than as incidental scrap sales (for example, trees that are cultivated both for their fruit and their lumber); and
  - (iii) annual crops (for example, maize and wheat).

When bearer plants are no longer used to bear produce they might be cut down and sold as scrap, for example, for use as firewood. Such incidental scrap sales would not prevent the plant from satisfying the definition of a bearer plant.

**Biological Asset** is a living animal or plant.

**Question 2**

On 31<sup>st</sup> March, 2018, SR Ltd. provides the following ledger balances after preparing its Profit & Loss Account for the year ended 31<sup>st</sup> March, 2018.

Particulars	Amount (₹)	
	Debit	Credit
Equity Share Capital, fully paid shares of ₹ 50 each		80,00,000
Calls in arrear	15,000	
Land	25,00,000	
Buildings	30,00,000	

Plant & Machinery	24,00,000	
Furniture & Fixture	13,00,000	
Securities Premium		15,00,000
General Reserve		9,41,000
Profit & Loss Account		5,80,000
Loan from Public Finance Corporation (Secured by Hypothecation of Land)		26,30,000
Other Long Term Loans		22,50,000
Short Term Borrowings		4,60,000
Inventories: Finished goods	45,00,000	
Raw materials	13,00,000	
Trade Receivables	17,50,000	
Advances: Short Term	3,75,000	
Trade Payables		8,13,000
Provision for Taxation		3,80,000
Unpaid Dividend		70,000
Cash in Hand	70,000	
Balances with Banks	4,14,000	
<b>Total</b>	<b>1,76,24,000</b>	<b>1,76,24,000</b>

The following additional information was also provided in respect of the above balances:

- (1) 50,000 fully paid equity shares were allotted as consideration for land.
- (2) The cost of assets were:

Building	₹ 32,00,000
Plant and Machinery	₹ 30,00,000
Furniture and Fixture	₹ 16,50,000

- (3) Trade Receivables for ₹ 4,86,000 due for more than 6 months.
- (4) Balances with banks include ₹ 56,000, the Naya bank, which is not a scheduled bank.
- (5) Loan from Public Finance Corporation repayable after 3 years.
- (6) The balance of ₹ 26,30,000 in the loan account with Public Finance Corporation is inclusive of ₹ 1,34,000 for interest accrued but not due. The loan is secured by hypothecation of land.
- (7) Other long term loans (unsecured) includes:

Loan taken from Nixes Bank	₹ 13,80,000
(Amount repayable within one year)	₹ 4,80,000)
Loan taken from Directors	₹ 8,50,000

(8) Bills Receivable for ₹ 1,60,000 maturing on 15th June, 2018 has been discounted.

(9) Short term borrowings includes:

Loan from Naya bank	₹ 1,16,000 (Secured)
Loan from directors	₹ 48,000

(10) Transfer of ₹ 35,000 to general reserve has been proposed by the Board of directors out of the profits for the year.

(11) Inventory of finished goods includes loose tools costing ₹ 5 lakhs (which do not meet definition of property, plant & equipment as per AS-10)

You are required to prepare the Balance Sheet of the Company as on March 31<sup>st</sup> 2018 as required under Part - I of Schedule III of the Companies Act, 2013.

You are not required to give previous year figures.

**(16 Marks)**

**Answer**

**SR Ltd.**

**Balance Sheet as on 31st March, 2018**

Particulars		Notes	Figures at the end of current reporting period (₹)
<b>Equity and Liabilities</b>			
1	Shareholders' funds		
a	Share capital	1	79,85,000
b	Reserves and Surplus	2	30,21,000
2	Non-current liabilities		
a	Long-term borrowings	3	42,66,000
3	Current liabilities		
a	Short-term borrowings	4	4,60,000
b	Trade Payables		8,13,000
c	Other current liabilities	5	6,84,000
d	Short-term provisions	6	3,80,000
	Total		1,76,09,000

Assets			
1	Non-current assets		
a	Fixed assets		
	Tangible assets	7	92,00,000
2	Current assets		
a	Inventories	8	58,00,000
b	Trade receivables	9	17,50,000
c	Cash and cash equivalents	10	4,84,000
d	Short-term loans and advances		3,75,000
	Total		<u>1,76,09,000</u>

## Notes to accounts

		₹
1.	Share Capital	
	Equity share capital	
	Issued, subscribed and called up	
	1,60,000 Equity Shares of ₹ 50 each	80,00,000
	(Out of the above 50,000 shares have been issued for consideration other than cash)	
	Less: Calls in arrears	<u>(15,000)</u>
	Total	<u>79,85,000</u>
2.	Reserves and Surplus	
	General Reserve	9,41,000
	Add: Transferred from Profit and loss account	<u>35,000</u>
	Securities premium	15,00,000
	Surplus (Profit & Loss A/c)	5,80,000
	Less: Appropriation to General Reserve (proposed)	<u>(35,000)</u>
		<u>30,21,000</u>
3.	Long-term borrowings	
	Secured: Term Loans	
	Loan from Public Finance Corporation	24,96,000
	[repayable after 3 years	
	(26,30,000 - ₹ 1,34,000 for interest accrued but not due)]	

	Secured by hypothecation of land		
	Unsecured		
	Bank Loan (Nixes bank)	9,00,000	
	(₹ 13,80,000 - ₹ 4,80,000 repayable within 1 year)		
	Loan from Directors	8,50,000	
	Others	<u>20,000</u>	<u>17,70,000</u>
	Total		<u>42,66,000</u>
4.	Short-term borrowings		
	Loan from Naya bank (Secured)	1,16,000	
	Loan from Directors	48,000	
	Others	<u>2,96,000</u>	<u>4,60,000</u>
5.	Other current liabilities		
	Loan from Nixes bank repayable within one year	4,80,000	
	Unpaid dividend	70,000	
	Interest accrued but not due on borrowings	<u>1,34,000</u>	<u>6,84,000</u>
6.	Short-term provisions		
	Provision for taxation		<u>3,80,000</u>
7.	Tangible assets		
	Land		25,00,000
	Buildings	32,00,000	
	Less: Depreciation	<u>(2,00,000)</u>	30,00,000
	Plant & Machinery	30,00,000	
	Less: Depreciation	<u>(6,00,000)</u>	24,00,000
	Furniture & Fittings	16,50,000	
	Less: Depreciation	<u>(3,50,000)</u>	<u>13,00,000</u>
	Total		<u>92,00,000</u>
8.	Inventories		
	Raw Material	13,00,000	
	Finished goods	40,00,000	
	Loose tools	<u>5,00,000</u>	<u>58,00,000</u>
9.	Trade receivables		
	Outstanding for a period exceeding six months		4,86,000



	Others		<u>12,64,000</u>
		Total	<u>17,50,000</u>
10.	Cash and cash equivalents		
	Balances with banks		
	with Scheduled Banks	3,58,000	
	with others banks	<u>56,000</u>	4,14,000
	Cash in hand		<u>70,000</u>
		Total	<u>4,84,000</u>
11.	Contingent Liabilities and Commitments (to the extent not provided for)		
	<u>Contingent Liabilities:</u>		
	Bills discounted but not matured		1,60,000

**Question 3**

- (a) A partnership firm M/s. Nice Sons was carrying on business from 1<sup>st</sup> May, 2017. The partners of the firm decided to convert the partnership firm into a private company called Zenith (P) Ltd. with effect from 1<sup>st</sup> September, 2017. The annual accounts were drawn upto 31<sup>st</sup> March, 2018. The summarised Profit and Loss Account from 1<sup>st</sup> May, 2017 to 31<sup>st</sup> March, 2018 is as follows:

Particulars		Amount (₹)
Turnover		55,20,000
Interest on Investment		60,000
Profit on sale of Investment		<u>42,000</u>
		56,22,000
<b>Less:</b>		
Cost of goods sold	34,50,000	
Printing & Stationery	77,000	
Manager's Salary	82,000	
Audit Fees	41,000	
Rent	1,33,000	
Bad Debts	33,000	
Underwriting Commission	56,000	
Depreciation	71,500	
Interest on Debentures	8,900	

Advertising campaign expenses	69,800	
Sundry office expenses	1,06,700	
Interest on borrowings	<u>1,25,000</u>	
		<u>42,53,900</u>
<b>Net Profit</b>		<b>13,68,100</b>

**Additional Information Provided:**

- (1) The company's only borrowing was a loan of ₹ 15,00,000 at 9% p.a., to pay the purchase consideration due to the firm and for working capital requirements. The loan was taken on 1<sup>st</sup> September, 2017.
- (2) The company occupied additional space from 1<sup>st</sup> September, 2017 for which rent of ₹ 8,000 per month was incurred.
- (3) Audit fee pertains to the company.
- (4) Bad debts recovered amounting to ₹ 36,000 for a sale made in June 2017, has been deducted from bad debts mentioned above.
- (5) All investments were sold in August 2017.
- (6) Zenith (P) Ltd. initiated an advertising campaign on 1<sup>st</sup> September, 2017, which resulted increase in monthly average sales by 40%.
- (7) The salary of Manager was increased by ₹ 3,000 p.m. from 1<sup>st</sup> July, 2017.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31<sup>st</sup> March 2018. **(8 Marks)**

- (b) M/s. Heavy keeps self-balancing ledgers. From the following information available, you are required to prepare Debtors Ledger Adjustment Account in the General Ledger and General Ledger Adjustment Account in Creditors Ledger for the year ended 31<sup>st</sup> March, 2018:
  - (a) Debtor's Ledger Adjustment Account balance as on 01-04-2017 (Dr.) ₹ 8,78,500 & (Cr.) ₹ 75,250.
  - (b) Creditor's Ledger Adjustment Account balance as on 01-04-2017 (Dr.)? & (Cr.) ₹ 2,34,500.
  - (c) Goods purchased from Mr. Suraj ₹ 1,61,000 against advance which was paid last year.
  - (d) Goods returned by Mr. Ginni ₹ 70,000.
  - (e) From Debtor's ledger ₹ 87,500 transferred to Creditor's ledger.
  - (f) Total sales amounted to ₹ 49,70,000 including the sale of old machinery for ₹ 1,40,000.

- (g) The total credit sales were 25% less than the total cash sales.
- (h) A cheque received from a customer for ₹ 33,000 was dishonoured.
- (i) Bad debts written off in the earlier years and now recovered from debtors amounted ₹ 9,800.
- (j) Cash collection from debtors amounted to 90% of the opening debtors and 80% of the credit sales for the year.
- (k) Debtors were allowed cash discount for ₹ 10,850.
- (l) Bad debts written off ₹ 9,100.
- (m) Paid advance ₹ 66,000 to M/s. Chi Traders for purchase of goods.
- (n) Purchased goods from Mr. Rachel ₹ 6,13,000.
- (o) Cash purchases during the year amounted to ₹ 86,000.
- (p) Payment to creditors ₹ 3,23,000.
- (q) Goods returned to Mr. Rachel ₹ 15,000.
- (r) Bills Payable accepted during the year ₹ 89,000.
- (s) Bills Receivable dishonoured ₹ 54,000.
- (t) Bills Receivable matured ₹ 23,000.
- (u) Bills Receivable endorsed to creditors ₹ 5,800.
- (v) Over payments refunded by suppliers ₹ 5,900.
- (w) Interest charged on overdue Customer's Accounts ₹ 2,100. (8 Marks)

**Answer**

- (a) **Statement showing calculation of profit/loss for pre and post incorporation periods**

₹

	Ratio	Total	Pre Incorporation	Post Incorporation
Sales	1:2.45	55,20,000	16,00,000	39,20,000
Interest on Investments	Pre	60,000	60,000	-
Bad debts recovered	Pre	36,000	36,000	-
Profit on sale of investment	Pre	42,000	42,000	-
(i)		56,58,000	17,38,000	39,20,000
Cost of goods sold	1:2.45	34,50,000	10,00,000	24,50,000
Advertisement	Post	69,800	-	69,800
Sundry office expenses	4:7	1,06,700	38,800	67,900

Printing & Stationary	4:7	77,000	28,000	49,000
Manager Salary	(W.N.3)	82,000	26,000	56,000
Interest on Debentures	Post	8,900	-	8,900
Rent	(W.N.4)	1,33,000	28,000	1,05,000
Bad debts	1:2.45	69,000	20,000	49,000
Underwriting commission	Post	56,000	-	56,000
Audit fees	Post	41,000	-	41,000
Depreciation	4:7	71,500	26,000	45,500
Interest on Borrowing	(W.N. 5)	1,25,000	46,250	78,750
	(ii)	<u>42,89,900</u>	<u>12,13,050</u>	<u>30,76,850</u>
Net Profit [(i) – (ii)]		<u>13,68,100</u>	<u>5,24,950</u>	<u>8,43,150</u>

**Working Notes:****1. Calculation of Sales Ratio**

Let the average sales per month be x

Total sales from 01.05.2017 to 31.08.2017 will be 4x

Average sales per month from 01.09.2017 to 31.03.2018 will be 1.4x

Total sales from 01.09.2017 to 31.03.2018 will be 1.4x X 7 = 9.8x

Ratio of Sales will be 4x: 9.8x = 1:2.45

**2. Calculation of time Ratio**

4 Months: 7 Months i.e. 4:7

**3. Manager Salary**

₹

Total salary	82,000
Less: Increased salary	<u>27,000</u>
	<u>55,000</u>
Monthly Salary = 55,000/11	5,000
Salary from May to Aug	5,000 + 5,000 + 8,000 + 8,000 = 26,000
Salary from Sep to March	8,000 x 7 = 56,000

**4. Apportionment of Rent**

₹

Total Rent	1,33,000
Less: additional rent from 1.9.2017 to 31.3.2018	<u>56,000</u>
Rent of old premises for 11 months	<u>77,000</u>

	Pre	Post
Apportionment in time ratio (4:7)	28,000	49,000
Add: Rent for new space	<u>          </u>	<u>56,000</u>
Total	<u>28,000</u>	<u>1,05,000</u>

**5. Interest on borrowing**

Company's Borrowing Interest = ₹ 15,00,000 x 9% x 7/12 = ₹ 78,750

Interest for Pre-incorporation period = ₹ 1,25,000 – 78,750 = ₹ 46,250

(b)

**In General Ledger**

**Debtors Ledger Adjustment Account**

17-18	Particulars	₹	17-18	Particulars	₹
To	Balance b/d	8,78,500	By	Balance b/d	75,250
To	General ledger adjustment account:		By	General ledger adjustment account:	
	Sales - Credit	20,70,000		Cash Collection	24,46,650
	Bank- cheques dishonoured	33,000		Discount	10,850
	Interest	2,100		Sales Return	70,000
	B/R dishonoured	54,000		Bad debts	9,100
				Transfers to credit ledger	87,500
			By	Balance c/d	<u>3,38,250</u>
		<u>30,37,600</u>			<u>30,37,600</u>

**In Creditors Ledger**

**General Ledger Adjustment Account**

17-18	Particulars	₹	17-18	Particulars	₹
To	Balance b/d	2,34,500	By	Balance b/d (advance to Suraj)	1,61,000
To	Creditors ledger adjustment account:		By	Creditors ledger adjustment account:	
	Purchases from Rachel	6,13,000		Cash paid	3,23,000
	Purchase from Suraj	1,61,000		Return outwards	15,000

	Cash (overpayments refunded)	5,900		Bills payable	89,000
To	Balance c/d (advance to M/s Chi Traders)	66,000		Bill receivable endorsed	5,800
				Advances given	66,000
				Transfers from debtor ledger	87,500
			By	Balance c/d	3,33,100
		<u>10,80,400</u>			<u>10,80,400</u>

**Working Notes:**

- Total sales = ₹49,70,000 - ₹1,40,000 = ₹48,30,000  
Total sales = Cash sales + Credit sales  
Let cash sales = a  
Total sales = a + (a x 75%)  
Therefore Cash sales is Total sales/ 1.75  
Cash sales = ₹48,30,000/ 1.75 = ₹27,60,000  
Credit sales = ₹20,70,000 (75% of ₹27,60,000)
- Cash Collection = 90% of 8,78,500 + 80% of 20,70,000  
= ₹7,90,650 + ₹16,56,000  
= ₹24,46,650
- Bad debts recovered will not appear in the Total Debtors Account. It should be credited to Profit and Loss Account.

**Question 4**

From the following Receipts and Payments Account of M/s. Antony Education Society for the year ended 31<sup>st</sup> March, 2018, prepare Income and Expenditure Account for the year ended 31<sup>st</sup> March, 2018 and Balance Sheet as on that date:

**Receipts and Payments Account**

Receipts	₹	Payments	₹
To Opening Cash and Bank Balance	37,000	By Staff Salaries	4,00,000
To Tuition Fees	7,00,000	By Electricity Charges	48,000
To Hire of School's Hall	70,000	By Repairs	60,000

To Sale of Investment (Building fund)	9,50,000	By Purchase of Building	9,50,000
To Grant-in-aid	5,00,000	By Purchase of Materials & Supplies	6,00,000
To Laboratory & Library Security Deposit	6,000	By Students Welfare Expenses	80,000
		By Closing Cash and Bank Balance	<u>1,25,000</u>
	<u>22,63,000</u>		<u>22,63,000</u>

**Additional Information:**

- (a) The Education Society maintained separate Building Fund of ₹ 9,50,000 from previous year represented by investment of equivalent amount. Building was acquired on 1<sup>st</sup> April, 2017 and payment of ₹ 9,50,000 was made and reflected in the Receipts and Payments Account. It was decided that maintenance of separate Building Fund is no longer required.
- (b) Grant-in-aid receivable from the State Govt. for backward students ₹ 1,00,000.
- (c) Opening stock of materials and supplies was ₹ 2,00,000. The consumption of materials and supplies during the year was as follows:
- For Students Welfare - ₹ 4,70,000  
 For Teaching - ₹ 20,000  
 For Laboratory - ₹ 1,30,000
- (d) Laboratory equipments of ₹ 1,80,000 received from Mr. Khaitan as donation.
- (e) Annual tuition fee receivable ₹ 20,000.
- (f) Annual tuition fees received in advance ₹ 10,000.
- (g) Staff salaries outstanding ₹ 40,000.
- (h) Depreciation is to be provided for full year on straight line basis on the following:
- Building - 5%  
 Laboratory Equipments - 10%

**(16 Marks)****Answer**

**Income and Expenditure Account A/c of M/s Antony Education Society  
for the year ended 31<sup>st</sup> March, 2018**

Expenditure	₹	₹	Incomes	₹	₹
To Staff Salaries	4,00,000		By Tuition Fees	7,00,000	
Add: Outstanding			Add: Receivable	20,000	

Staff salaries	<u>40,000</u>	4,40,000	Less: Advance Received	<u>(10,000)</u>	7,10,000
To Electricity Charges		48,000	By Hire of School Hall		70,000
To Repairs		60,000	By Grants in Aid	5,00,000	
To Students Welfare Expenses		80,000	Add: Receivable grant	<u>1,00,000</u>	6,00,000
To Depreciation:					
Building (5% of 9,50,000)		47,500			
Equipment (10% of 1,80,000)		18,000			
To Consumption of Materials & Supplies		6,20,000			
To Surplus – excess of income over expenditure (balancing fig.)		<u>66,500</u>			
		<u>13,80,000</u>			<u>13,80,000</u>

**Balance Sheet of M/s Antony Education Society**

**As on 31<sup>st</sup> March, 2018**

<i>Liabilities</i>	₹	₹	<i>Assets</i>	₹
Capital Fund (W.N. 1)	2,37,000		Building	9,50,000
Add: Donation of Lab equipment	1,80,000		Less: Depreciation	<u>47,500</u>
Add: Transferred from Building Fund	9,50,000		Lab Equipment	1,80,000
Surplus	<u>66,500</u>		Less: Depreciation	<u>18,000</u>
		14,33,500	Materials & Supplies	1,80,000
Tuition Fee (received in advance)		10,000	Tuition fee receivable	20,000
Staff Salaries outstanding		40,000	Cash & Bank	1,25,000
Lab and Library Security Deposit		<u>6,000</u>	Grant-in-aid receivable from State Govt.	1,00,000
		<u>14,89,500</u>		<u>14,89,500</u>



**Working Notes :****1. Balance Sheet (Opening) of M/s Antony Education Society as on 1<sup>st</sup> April, 2017**

	₹		₹
Building Fund	9,50,000	Cash & Bank	37,000
Capital Fund (balancing fig.)	2,37,000	Investments	9,50,000
		Opening Stock	<u>2,00,000</u>
	<u>11,87,000</u>		<u>11,87,000</u>

**2. Closing stock of Material & Supplies**

	₹
Opening Stock	2,00,000
Purchases	<u>6,00,000</u>
	8,00,000
Less: Consumed during the year (4,70,000 + 20,000 + 1,30,000)	<u>6,20,000</u>
Balance as closing stock	<u>1,80,000</u>

**Note:** It has been considered that M/s Antony Education Society is not registered under the Companies Act, 2013. Therefore, Income & Expenditure A/c and Balance Sheet are not prepared as per Schedule III of the Companies Act, 2013.

**Question 5**

- (a) M/s. Kodam Enterprises purchased a generator on hire purchase from M/s. Sanctum Ltd. on 1<sup>st</sup> April, 2017. The hire purchase price was ₹ 48,000. Down payment was ₹ 12,000 and the balance is payable in 3 annual instalments of ₹ 12,000 each payable at the end of each financial year. Interest is payable @ 8% p.a. and is included in the annual payment of ₹ 12,000.

Depreciation at 10% p.a. is to be written off using the straight line method.

You are required to:

- (i) calculate the cash price of the generator and the interest paid on each instalment.
- (ii) pass relevant journal entries in the books of M/s. Kodam Enterprises from 1<sup>st</sup> April, 2017 to 31<sup>st</sup> March, 2018 following the interest suspense method. **(8 Marks)**
- (b) A fire occurred in the premises of M/s. Raxby & Co. on 30-06-2017. From the salvaged accounting records, the following particulars were ascertained

	₹
Stock at cost as on 01-04-2016	1,20,000
Stock at cost as on 31-03-2017	1,30,000
Purchases less return during 2016-17	5,25,000

Sales less return during 2016-17	6,00,000
Purchases from 01-04-2017 to 30-06-2017	97,000
Purchases upto 30-06-2017 did not include ₹ 35,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown.	
Sales from 1.4.2017 to 30.6.2017	1,66,000

In valuing the stock for the Balance Sheet at 31<sup>st</sup> March, 2017, ₹ 5,000 had been written off on certain stock which was a poor selling line having the cost of ₹ 8,000. A portion of these goods were sold in May, 2017 at a loss of ₹ 1,000 on original cost of ₹ 7,000. The remainder of the stock was now estimated to be worth its original cost. Subject to that exception, gross profit had remained at a uniform rate throughout the year.

The value of the salvaged stock was ₹ 10,000. M/s. Raxby & Co. had insured their stock for ₹ 1,00,000 subject to average clause.

Compute the amount of claim to be lodged to the insurance company. **(8 Marks)**

### Answer

#### (a) (i) Calculation of Interest and Cash Price

Ratio of interest and amount due =  $8 / (100 + \text{rate of interest})$  i.e.  $8/108$

To ascertain cash price, interest will be calculated from last instalment to first instalment as follows:

No. of instalments	Amount due at the time of instalment	Interest	Cumulative Cash price
[1]	[2]	[3]	(2-3) = [4]
3 <sup>rd</sup>	12,000	$8/108$ of ₹ 12,000 = ₹ 889	11,111
2 <sup>nd</sup>	23,111 [W.N.1]	$8/108$ of ₹ 23,111 = ₹ 1,712	21,399
1 <sup>st</sup>	33,399 [W.N.2]	$8/108$ of ₹ 33,399 = ₹ 2,474	30,925
		<u>5,075</u>	

Total cash price = ₹ 30,925 + 12,000 (down payment) = ₹ 42,925

#### Working Notes:

- ₹ 11,111 + 2<sup>nd</sup> instalment of ₹ 12,000 = ₹ 23,111
- ₹ 21,399 + 1<sup>st</sup> instalment of ₹ 12,000 = ₹ 33,399

#### (ii) Journal Entries in the books of M/s Kodam Enterprises

1.4.2017			₹	₹
1.	Generator Account	Dr. [Full cash price]	42,925	

	To Sanctum Ltd. Account			42,925
	(Asset acquired on hire purchase)			
2.	H.P. Interest Suspense Account	Dr. [Total interest]	5075	
	To Sanctum Ltd. Account			5075
	(For total interest payment, due)			
3.	Sanctum Ltd. Account	Dr.	12,000	
	To Bank Account			12,000
	(When down payment is made)			
31.3.2018				
4.	Interest Account	Dr.	2,474	
	To H.P. Interest Suspense Account			2,474
	(For Interest of the year)			
5.	Sanctum Ltd. Account	Dr.	12,000	
	To Bank Account			12,000
	(Being instalment paid)			
6.	Depreciation Account	Dr. [Calculated on cash price i.e. 10% of ₹ 42,925]	4,292.50	
	To Generator Account			4,292.50
	(Being depreciation charged on the asset @ 10%)			
7.	Profit and Loss Account	Dr.	6,766.50	
	To Interest Account			4,292.50
	To Depreciation Account			2,474.00
	(For closing interest and depreciation account)			

(b)

M/s Raxby &amp; Co.

## Trading Account for 2016-17

(to determine the rate of gross profit)

		₹			₹	₹
To	Opening Stock	1,20,000	By	Sales A/c		6,00,000
To	Purchases	5,25,000	By	Closing Stock :		
To	Gross Profit	90,000		As valued	1,30,000	
				Add: Amount written off to restore stock to full cost	<u>5,000</u>	<u>1,35,000</u>
		<u>7,35,000</u>				<u>7,35,000</u>

The normal rate of gross profit to sales is =  $\frac{90,000}{6,00,000} \times 100 = 15\%$

## Memorandum Trading Account up to June 30, 2017

	Normal	Abnormal	Total		Normal	Abnormal	Total
	items	items				items	items
	₹	₹	₹		₹	₹	₹
To Opening Stock	1,27,000	8,000*	1,35,000	By Sales	1,60,000	6,000	1,66,000
To Purchases (97,000+35,000)	1,32,000	—	1,32,000	By Loss	—	1,000	1,000
To Gross Profit (15% on ₹ 1,60,000)	<u>24,000</u>	<u>—</u>	<u>24,000</u>	By Closing Stock (bal. fig.)	<u>1,23,000</u>	<u>1,000</u>	<u>1,24,000</u>
	<u>2,83,000</u>	<u>8,000</u>	<u>2,91,000</u>		<u>2,83,000</u>	<u>8,000</u>	<u>2,91,000</u>

\* at cost.

## Calculation of Insurance Claim

	₹
Value of stock on June 30, 2017	1,24,000
Less: Salvage	<u>(10,000)</u>
Loss of stock	<u>1,14,000</u>

Claim subject to average clause:

$$\frac{\text{Amount of Policy}}{\text{Value of stock}} \times \text{Actual Loss of Stock} = 1,00,000 / 1,24,000 \times 1,14,000$$

$$= ₹ 91,935 \text{ (approx.)}$$

Therefore, insurance claim will be limited to ₹ 91,935 (approx.)

### Question 6

On 31<sup>st</sup> March, 2018, the Balance Sheet of Mary, Rima and Sunny who were sharing profits and losses in the ratio 3:4:2 stood as follows:

Liabilities	₹	₹	Assets	₹
Capital Account :			Land & Building	90,000
Mary	45,000		Machinery	55,000
Rima	60,000		Trade Receivables	60,000
Sunny	<u>30,000</u>	1,35,000	Inventories	30,000
General Reserve		45,000	Cash in hand and at Bank	20,000
Workmen Compensation Reserve		5,000		
Trade Payables		<u>70,000</u>		
		<u>2,55,000</u>		<u>2,55,000</u>

Sunny retired on 31<sup>st</sup> March 2018. Mary and Rima continued in partnership sharing profits / losses in the ratio 6:4.

The following adjustments are agreed upon:

- Adjustment for Machinery having net book value of ₹ 4,000 which had been scrapped during the year. The original cost of Machinery was ₹ 15,000.
- Debts amounting ₹ 3,000 considered bad and further debts amounting ₹ 5,000 were considered doubtful and required 100% provision.
- An item of the inventory having value of ₹ 6,000 had been omitted from the stock valuation.
- Provision of ₹ 3,000 to be made in respect of an outstanding bill of purchase.
- Goodwill of the entire firm be fixed at ₹ 36,000 and Sunny's share of the same be adjusted into the accounts of Mary and Rima. No goodwill account to be raised.
- The entire capital of the firm as newly constituted be fixed at ₹ 1,40,000 between Mary and Rima in proportion to their profit sharing ratio after passing entries in the accounts for adjustments i.e. actual cash to be paid off or to be brought in by the continuing partners as the case may be.

Sunny to be paid ₹ 30,000 cash on the date of retirement and balance to be transferred to her Loan Account.

Prepare Revaluation Account, Capital Account of the Partners and the Balance Sheet of the firm of Mary and Rima after retirement of Sunny. (Journal entries are not required) **(16 Marks)**

**Answer****(i) Revaluation Account**

	₹		₹	₹
To Machinery	4,000	By Inventory		6,000
To Provision for Doubtful Debts	5,000	By Loss on revaluation transferred		
To Bad debt	3,000	By Capital Accounts:		
To Provision for Outstanding bill	3,000	Mary (3/9)	3,000	
		Rima (4/9)	4,000	
		Sunny (2/9)	<u>2,000</u>	
				<u>9,000</u>
	<u>15,000</u>			<u>15,000</u>

**(ii) Capital Accounts of Partners**

	Mary	Rima	Sunny		Mary	Rima	Sunny
	₹	₹	₹		₹	₹	₹
To Revaluation A/c (loss)	3,000	4,000	2,000	By Balance b/d	45,000	60,000	30,000
To Rima	1,600	-	-	By General Reserve A/c	15,000	20,000	10,000
To Sunny	8,000	-	-	By Mary (goodwill)	-	1,600	8,000
To Cash	-	21,600	30,000	By cash	36,600	-	-
To Loan			16,000				
To balance c/d	<u>84,000</u>	<u>56,000</u>					
	<u>96,600</u>	<u>81,600</u>	<u>48,000</u>		<u>96,600</u>	<u>81,600</u>	<u>48,000</u>

**Balance Sheet of Mary and Rima (after Sunny's retirement)**

Liability	₹	₹	Assets	₹	₹
Capital Accounts			Land & Building		90,000
Mary	84,000		Machinery	55,000	
Rima	<u>56,000</u>	1,40,000	Less: Scrapped	<u>(4,000)</u>	51,000
Sunny's loan		16,000	Inventory		36,000

Workmen compensation reserve	5,000	Trade receivables	60,000	
Provision for outstanding bill	3,000	Less: Bad debt	(3,000)	
Trade payables	70,000	Less: Provision for doubtful debts	<u>(5,000)</u>	52,000
		Cash in hand & at Bank		<u>5,000</u>
	<u>2,34,000</u>			<u>2,34,000</u>

**Working Notes :**

- (1) Goodwill of the firm = ₹ 36,000

	Goodwill in Old ratio	Goodwill in New ratio
Mary	12,000	21,600
Rima	16,000	14,400
Sunny	8,000	--

**Journal Entry for adjustment of goodwill**

Mary's capital account	Dr.	9,600
To Sunny's capital account		8,000
To Rima's capital account		1,600

- (2) Cash balance given in the balance sheet after retirement of Sunny =

$$₹ 20,000 + ₹ 36,600 - ₹ 30,000 - ₹ 21,600 = ₹ 5,000$$

**Question 7**Answer any **four** questions:

- (a) Pass Journal Entries in the following conditions:

- (1) Super Ltd. had 62,000 equity shares of ₹ 50 each on which ₹ 45 is paid up. In September, 2017 company decided to sub-divide each share into 5 shares of ₹ 10 with ₹ 9 paid up.
- (2) Top Ltd. had 1,05,000 equity shares of ₹ 10 each fully paid up. In November 2017 company decided to convert the issued shares into stock. But in January 2018 the company re-converted the stock into equity shares of ₹ 100 each fully paid up.
- (3) New Ltd. had capital of ₹ 15,00,000 divided into 1,50,000 equity shares of ₹ 10 each on which ₹ 6 is paid up. During the year, company decided to reorganize its capital by consolidating 5 shares into one share of ₹ 50 each, ₹ 30 paid up.

- (b) The following transactions took place between Chiron and Berry during the year 2017-18:

Date	Particulars	Amount (₹)
April 3, 2017	Sales by Berry to Chiron	1,17,000
April 9, 2017	Purchases by Berry from Chiron	46,800
May 8, 2017	Purchase by Berry from Chiron	79,300
May 25, 2017	Sales to Berry to Chiron	1,07,250

They decided to settle their account on average due date.

Calculate Average Due Date and the amount to be paid or received by Chiron. Any fraction of a day arising from the calculation to be considered as full day.

- (c) Sun Ltd. wants to re-classify its investments in accordance with AS-13. State the values at which the investments have to be re-classified as per AS-13 in the following cases:
- (1) Current investments in Company Fine Ltd. costing ₹ 39,000 are to be re-classified as long term investments. The fair value on the date of transfer is ₹ 37,000.
  - (2) Long term investment in Company Bold Ltd., costing ₹ 16 lakhs are to be re-classified as current investments. The fair value on the date of transfer is ₹ 15 lakhs and book value is ₹ 16 lakhs.
- (d) State the advantages of outsourcing the Accounting Functions of an enterprise.
- (e) (i) Total capital employed by a partnership firm is ₹ 1,50,000. Last 3 years' profit of the firm are as follows:

	₹
2014	30,000
2015	26,000
2016	28,000

Rate of normal profit in the industry is 15%.

It is agreed that good's is valued at 3 years' purchase. Calculate, the value of goodwill of the firm under Super Profit Basis.

- (ii) What are the conditions that require valuation of goodwill in a partnership firm?

**(4 Parts x 4 Marks = 16 Marks)**

### Answer

- (a)

			₹	₹
Sept, 2017	<b>Journal Entries in books of Super Ltd.</b>			
(i)	Equity Share Capital A/c (₹ 50)	Dr.	27,90,000	



	To Equity Share Capital A/c (₹ 10) (Being subdivision of 62,000 equity shares of ₹ 50 (₹ 45 paid up) each into 3,10,000 shares of ₹ 10 each (₹ 9 paid up) as per resolution dated...)		27,90,000
Nov. 2017	<b>Journal Entries in books of Top Ltd.</b>		
(ii)	(a) Equity share Capital A/c (₹ 10) To Equity Stock A/c (Being conversion of 1,05,000 lakh equity shares of ₹ 10 each into stock of 10,50,000 as per resolution dated...)	Dr. 10,50,000	10,50,000
	(b) Equity Stock A/c To Equity share Capital A/c (₹ 100) (Being conversion of 10,50,000 stock into 10,500 equity shares of ₹ 100 each)	Dr. 10,50,000	10,50,000
(iii)	<b>Journal Entries in books of New Ltd.</b> Equity Share Capital A/c (₹ 10) To Equity Share Capital A/c (₹ 50) (Being consolidation of 1,50,000 shares of ₹ 10, ₹ 6 paid up each into 30,000 shares of ₹ 50 each (₹ 30 paid up) as per resolution dated...)	Dr. 9,00,000	9,00,000

(b)

**Calculation of Average Due Date**

**Computation of products for Berry payments  
(Taking 3.4.17 as base date)**

Due Date	Amount	No. of days from base date to due date	Product
	₹		₹
9.4.2017	46,800	6	2,80,800
8.5.2017	79,300	35	27,75,500
	1,26,100		30,56,300

**Computation of products for Chiron payments (Base date = 3.4.17)**

Due Date	Amount	No. of days from base date to due date	Product
	₹		₹
3.4.17	1,17,000	0	0
25.5.17	1,07,250	52	55,77,000
	2,24,250		55,77,000

Excess of Chiron products over Berry [55,77,000-30,56,300] ₹ 25,20,700  
 Excess of Chiron amounts over Berry [2,24,250-1,26,100] ₹ 98,150  
 Number of days from base date to date of settlement is =  $25,20,700/98,150 = 26$  days (approx.)

Hence, the date of settlement of the balance amount is 26 days after 3<sup>rd</sup> April, i.e. 29<sup>th</sup> April.

Thus, on 29<sup>th</sup> April, 2017, Chiron has to pay ₹ 98,150 to Berry.

(c) Re-classification will be done on the following basis:

- (i) As per AS 13, where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer. In this case, fair value is ₹ 37,000 which is lower than the cost of ₹ 39,000. The reclassification of current investment as long-term investments will be made at ₹ 37,000.
- (ii) As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer. The carrying / book value of the long term investment is same as cost i.e. ₹ 16 lakhs. Hence this long term investment will be reclassified as current investment at book value of ₹ 16 lakhs only.

(d) **Advantages of outsourcing the accounting functions:**

1. **Saving of Time:** The organization that outsources its accounting function is able to save time to concentrate on the core area of business activity.
2. **Expertise of the third party:** The organization is able to utilize the expertise of the third party in undertaking the accounting work.
3. **Maintenance of data:** Storage and maintenance of the data is in the hand of professional people.
4. **Economical:** The organization is not bothered about people leaving the organization in key accounting positions. The proposition is proving to be economically and more sensible as they do not have to train the people again. Hence, the training cost is saved.

(e) (i) **Average Profit:**

Year	Profit (₹)
2014	30,000
2015	26,000
2016	<u>28,000</u>
	84,000

Average Profit = ₹  $84,000/3 = 28,000$

**Super Profit Basis**

	₹
Average Profit	28,000
Normal Profit (15% on ₹ 1,50,000)	<u>22,500</u>
	<u>5,500</u>

Goodwill is to be valued at 3 years purchase.

Value of Goodwill: ₹ 5,500 × 3 = ₹ 16,500

- (ii) Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits. The necessity for valuation of goodwill in a firm arises in the following conditions:
- (a) When the profit sharing ratio amongst the partners is changed;
  - (b) When a new partner is admitted;
  - (c) When a partner retires or dies, and
  - (d) When the business is dissolved or sold.