C.A. IPCC

First Study

Subject: Accounting

Instructions :

(i) ***All questions are compulsory.***

(ii) ***Date of Examination : 17.02.2010***

(iii) ***Total Number of Questions : 6***

(iv) ***Total marks : 100***

(v) ***Total duration : 3 Hours***

(vi) ***Use of two colour pens (black & blue or Black or Pink etc) is NOT allowed. Use only single colour pen.***

(vii) ***Begin answer of the next question in new page.***

Question 1. Answer the following questions:

(i) In self balancing system, whenever a balance is transferred from an account in on e ledger to that in another, only one entry is recorded through the respective ledger. State with reason whether the statement is true or false.

Answer. False- Whenever a balance is transferred from one account in one ledger to that in another, the entry is recorded through the journal. Also an additional entry is made in the control accounts for recording the corresponding effect.

(ii) Explain Garner v/s Murray rule applicable in the case of partnership firms. State, when is this rule not applicable.

Answer. Garner vs. Murray rule requires-

1.That the solvent partners should bear the loss arising due to insolvency of a partner in their capital ratio after making adjustments for past accumulated reserves, profits or losses, drawings, interest on drawings/capitals, remuneration to partners etc, to the date of dissolution but before making adjustment for profit or loss on realization in case of fluctuating capital. In case of fixed capital no such adjustments required.

2. That the solvent partners should bring in cash equal to their respective shares of the loss on realization. This rule is not applicable when:

a) Only one partner is solvent.
b) All partners are insolvent.
c) The Partnership deed provides for a specific method to be followed in case of insolvency of a partner, then the conditions in the deed would prevail.

(iii) Explain the 'Accounting for Revaluation of fixed assets' with reference to AS 10.

Answer. An increase in net book value arising on revaluation of fixed assets is normally credited directly to revaluation reserves and is not available for distribution. A decrease in net book value arising on revaluation of fixed assets is charged to P & L statement except that, to the extent that such a decrease is considered to be related to a previous increase on revaluation that is included in revaluation reserve, it is sometimes charged against that earlier increase. It sometimes happens that an increase to be recorded is a reversal of a previous decrease arising on revaluation which has been charged to profit and loss statement in which case the increase is credited to profit and loss statement to the extent that it offsets the previously recorded decrease.

(iv) If there appears a sports fund, the expenses incurred on sports activities will be taken to income and expenditure account. State whether the statement is true or false.

Answer. False- If there exists a specific sports fund, the expenditure incurred in carrying out the purpose of the fund i.e. incurred on sports activities will be deducted from that fund only.

(v) A Ltd. take over B Ltd. on April 01, 2007 and discharges consideration for the business as follows:

(a) Issued 42,000 fully paid equity shares of Rs. 10 each at par to the equity shareholders of B Ltd.

(b) Issued fully paid up 15% preference shares of Rs. 100 each to discharge the preference shareholders (Rs. 1,70,000) of B Ltd. at a premium of 10%.

(c) It is agreed that the debentures of B Ltd. (Rs. 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

Calculate the amount of purchase consideration.

Answer.

Particulars	**Rs.**	**Rs.**
Equity Shares (42,000 x 10)		4,20,000
Preference Share Capital	1,70,000	
Add: Premium on Redemption (10% on 1,70,000)	17,000	1,87,000
Purchase Consideration		**6,07,000**

(vi) What is meant by 'Red-Ink interest' in an Account Current?

Answer. In an Account Current, interest is calculated on the amount of a bill from the date of transaction to the closing date of the period concerned. In case the due date of the bill falls after the closing date of the account, then no interest is allowed for that period. However, it is customarily followed that interest from the date of closing to the due date is written in red ink in the appropriate side of the Account Current. This interest is called Red-Ink Interest. This Red-Ink interest is treated as negative interest.

(vii) A, B and C are partners with profit sharing ratio 5:3:2. A wants to retire, B and C agreed to continue at 2:1. Find the profit gaining ratio between B and C.

Answer. B : 2/3 less 3/10 = 11/30

C: 1/3 less 2/10 = 4/30

Gaining ratio = B : C =11 : 4

(viii) What is B list contributories?

Answer. B list contributories are the shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up. They may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to pay off such creditors, as existed on the date of transfer of shares and cannot be paid out of the funds otherwise available with the liquidator, provided also that the existing shareholders have failed to pay the amount due on the shares.

(ix) X Ltd. purchased debentures of Rs.15 lacs of Y Ltd., which are traded in stock exchange. How will you show this item as per AS 3 while preparing cash flow statement for the year ended on 31st March, 2009?

Answer. As per AS 3 on 'Cash flow Statement', cash and cash equivalents consists of cash in hand, balance with banks and short-term, highly liquid investments

If investment, of Rs.15 lacs, made in debentures is for short-term period then it is an item of 'cash equivalents'.

However, if investment of Rs.15 lacs made in debentures is for long -term period then as per AS 3, it should be shown as cash flow from investing activities.

(x) What are the conditions that are to be satisfied for 'Amalgamation in the nature of merger'?

Answer. Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions.

i) All the assets and liabilities of the transferor company become the assets and liabilities of the transferee company.
ii) Shareholders of transferor company (selling company) holding not less than 90% of the "face value" of equity shares become the shareholders of transferee company (purchasing company) by virtue of amalgamation. For purpose of computing 90%, shares already held prior to amalgamation by transferee company, One or more of its subsidiaries, its nominee must be excluded.
iii) The consideration paid to equity shareholders of the transferee company is wholly in the form of equity shares in the transferor company, except that cash may be paid in respect of any fractional shares.
iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company, and
v) Assets and liabilities of transferor company are incorporated in the financial statement of the transferee company at book values except to ensure uniform accounting policies.

(10X2=20 Marks)

Question 2. Vasant Ltd. and Vihar Ltd. are to be amalgamated into Vasant Vihar Ltd. (VVL). The new company is to take over all the assets and liabilities of the amalgamating companies.

Assets and liabilities of Vasant Ltd. are to be taken over at book values in exchange of shares in VVL. Three shares in the new company are to be issued at a premium of 20% for two shares of Vasant Ltd.

The scheme of Vihar Ltd. is as follows:

(a) 10% preference shareholders are to be allotted two 15% preference shares of Rs 100 each in VVL for three preference shares held in Vihar Ltd.;
(b) The debentures of Vihar Ltd. are to be paid off by the issue of same number of debentures at 5% discount by the VVL:
(c) The equity shareholders of Vihar Ltd. are to be allotted as many shares in VVL as will cover the balance of their account and for this purpose, plant and machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.

The balance sheets of the two companies prior to amalgamation are as under :

Particulars	**Vasant Ltd.**	**Vihar Ltd.**
Equity Capital (Shares of Rs. 10 each)	6,40,0000	12,50,000
10% Preference shares of Rs. 100 each	--	7,50,000
Secured debentures	--	5,00,000
General reserves	8,80,000	--
Sundry Creditors	1,20,000	2,25,000
Total	**16,40,000**	**27,25,000**
Plant and Machinery	12,80,000	20,00,000
Sundry debtors	1,52,000	1,25,000
Inventories	1,00,000	1,50,000
Cash and bank balances	1,08,000	1,00,000
Profit and loss account	--	3,50,000
Total	**16,40,000**	**27,25,000**

Pass the necessary journal entries in the books of VVL and prepare the Balance Sheet immediately after amalgamation.

Answer. (a)Computation of Purchase Consideration

(i) Due to Vasant Ltd.

3 shares in VVL @ Rs. 12 each for every 2 shares in Vasant Ltd.

i.e., $\frac{64,000}{2}$ x 3 x Rs. 12 = Rs. 11,52,000

of which the premium would be = $\frac{64,000}{2}$ x 3 x Rs. 2 = Rs. 1,92,000

(ii) Due to Vihar Ltd.

		Rs.
Plant and Machinery		17,00,000
Sundry debtors		1,25,000
Inventories		1,35,000
Cash and Bank Balance		1,00,000
Gross Assets		20,60,000
Less : Liabilities		
Sundry creditors	2,25,000	
Debentures @ 5% discount	4,75,000	7,00,000
Net assets forming the purchase price		13,60,000
Discharged by		
Issue of Preference shares $\frac{7,500 \times 2}{3}$ x Rs. 100		5,00,000
Equity shares – balancing figure		8,60,000
		13,60,000

(b) In the Journal of Vasant Vihar Ltd.(VVL)

Date	Particulars		Debit Rs.	Credit Rs.
	Business Purchase A/c To Liquidator of Vasant Ltd. (Being the purchase consideration due to Vasant Ltd.	Dr.	11,52,000	 11,52,000
	Plant and Machinery A/c Sundry debtors A/c Inventories A/c Cash and bank balance To Trade creditors To Capital Reserve (bal. Fig) To Business purchase A/c (Being the assets and liabilities taken over from Vasant Ltd. and credit to Capital reserve being the difference between net assets and purchase price)	Dr. Dr. Dr. Dr.	12,80,000 1,52,000 1,00,000 1,08,000	 1,20,000 3,68,000 11,52,000
	Liquidator of Vasant Ltd. To Equity Share Capital A/c To Share Premium A/c (Being the issue of 96,000 shares at a premium of Rs. 2 per share towards the settlement of purchase	Dr.	11,52,000	 9,60,000 1,92,000
	Business Purchase A/c To Liquidator of Vihar Ltd. [Being the purchase consideration due to Vihar Ltd. on purchase of the business)	Dr.	13,60,000	 13,60,000
	Plant and Machinery A/c Sundry Debtors A/c Inventories A/c Cash and Bank Balance A/c To Sundry Creditors A/c To Debentures A/c To Business Purchase A/c (Being the assets and liabilities taken over from Vihar Ltd.)	Dr. Dr. Dr. Dr.	17,00,000 1,25,000 1,35,000 1,00,000	 2,25,000 4,75,000 13,60,000
	Debentures (Vihar Ltd.) Discount on Issue of debentures To Debentures (Being the issue of debentures to debentures holders of Vihar Ltd.	Dr. Dr.	4,75,000 25,000	 5,00,000
	Liquidator of Vihar Ltd. To Equity Share Capital A/c To Preference Share Capital A/c (Being the discharge of purchase consideration by issue of equity and preference shares)	Dr.	13,60,000	 8,60,000 5,00,000

(c) Balance Sheet of Vasant Vihar Ltd. [after merger}

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital:		Fixed Assets;	
Equity Share Capital		Plant and Machinery	29,80,000
(Shares of Rs 10 each)	18,20,000	Current Assets:	
Preference Share Capital		Sundry debtors	2,77,000
(Shares of Rs 100 each)	5,00,000	Inventory	2,35,000

(All the above shares have been		Cash and Bank	2,08,000
issued for acquiring the business			
of Vasant Ltd. and Vihar Ltd.)		Misc. Expenditure:	
Reserve and Surplus:		Discount on issue of debentures	25,000
Share Premium	1,92,000		
Capital Reserve	3,68,000		
Secured Loans:			
Debentures	5,00,000		
Unsecured Loans	Nil		
Current Liabilities:			
Sundry Creditors	3,45,000		
	37,25,000		37,25,000

(16 Marks)

Question 3.

A, B and C are in partnership sharing profits and losses in the ratio 3:2:1 respectively. The Balance Sheet of the partnership firm as on31.12.1997 is as under-

Liabilities	Rs	Assets	Rs
Capital A/cs: (A — Rs 85,000; B — Rs 65,000; C — Rs 35,000)	1,85,000	Premises	90,000
		Plant	37,000
Current A/cs: [A — Rs 3,714; B — (- Rs 2,509); C — Rs 4,678]	5,883	Vehicles	15,000
		Fixtures	2,000
Loan—C	28,000	Stock	62,379
Creditors	19,036	Debtors	34,980
Bank overdraft	4,200	Cash	760
	2,42,119		**2,42,119**

C decides to retire from the business as on the above date and D is admitted as a partner on that date. The following matters are agreed:

1) Assets revalued as : Premises — Rs 1,20,000; Plant — Rs 35,000; Stock — Rs 54,179.
2) A provision of Rs 3,000 is created against debtors.
3) Goodwill is to be recorded in the books on the day C retires at Rs 42,000. The partners in the new firm do not wish to maintain a Goodwill Account so that amount is to be written-off against the New Partners' Capital Accounts.
4) A and B are to share profit in the same ratio as-before, and D is to have the same share of profits as B,
5) C is to take a car at its book value of Rs 3,900 in part payment, and the balance of all he is owed by the firm in cash except Rs 20,000 which he is willing to leave as a Loan Account.
6) The partners in the new firm are to start on an equal footing so far as Capital and Current Accounts are concerned. D is to contribute cash to bring his Capital and Current Accounts to the same amount as the original partner from the old firm who has the lower investment in the business. The original partner in the old firm who has the higher investment will draw out cash so that his capital and current account balances equal those of his new partners.
7) Revaluation profit or loss is to be adjusted in the Partners' Current Account.

You are required to prepare necessary Ledger Accounts to record the above transactions and to prepare the Balance Sheet of the new firm as at 1.1.1998.

Answer. In the books of the Firm

Dr. **Revaluation Account** Cr.

Date	Particulars	Rs	Date	Particulars	Rs

31.12.97	To Plant A/c To Stock A/c To Provision for doubtful debts A/c To Partners' Current A/cs: (A — Rs 8,400; B — Rs 5,600; C — Rs 2,800)	2,000 8,200 3,000 16,800	31.12.97	By Premises A/c	30,000
		30,000			**30,000**

Dr. **Partners' Capital Accounts** Cr.

Particulars	A	B	C	D	Particulars	A	B	C	D
To Goodwill A/c	18,000	12,000	--	12,000	By Balance b/d	85,000	65,000	35,000	--
To C Loan A/c	--	--	42,000	--	By Goodwill A/c	21,000	14,000	7,000	--
To Bank A/c	21,000	--	--	--	By Bank A/c	--	--	--	79,000
To Balance c/d	67,000	67,000	--	67,000					
	1,06,000	**79,000**	**42,000**	**79,000**		**1,06,000**	**79,000**	**42,000**	**79,000**

Dr. **Partners' Current Accounts** Cr.

Particulars	A	B	C	D	Particulars	A	B	C	D
To Balance b/d	--	2,509	--	--	By Balance b/d	3,714	--	4,678	--
To C Loan A/c	--	--	7,478	--	By Revaluation A/c	8,400	5,600	2,800	--
To Bank A/c	9,023	--	--	--					
To Balance c/d	3.091	3,091	--	3,091	By Bank A/c	--	--	--	3,091
	12,114	**5,600**	**7,478**	**3,091**		**12,114**	**5,600**	**7,478**	**3,091**

Dr. **C Loan Account** Cr.

Date	Particulars	Rs	Date	Particulars	Rs
31.12.97	To Vehicles A/c	3,900	31.12.97	By Balance b/d	28,000
	To Bank A/c (balancing figure)	53,578		By C Capital A/c	42,000
	To Balance c/d	20,000		By C Current A/c	7,478
		77,478			**77,478**

Dr. **Bank Account** Cr.

Date	Particulars	Rs	Date	Particulars	Rs
31.12.97	To D Capital A/c	79,000	31.12.97	By Balance b/d	4,200
	To D Current A/c	3,091		By C Loan A/c	53,578
	To Balance c/d	5,710		By A Capital A/c	21,000
				By A Current A/c	9,023
		87,801			87,801

Balance Sheet of the New Firm as at 1.1.1998

Liabilities	Rs	Assets	Rs
Capital A/cs: (A - Rs 67,000; B - Rs 67,000; D - Rs 67,000) Current A/cs: (A — Rs 3,091; B — Rs 3,091; D — 3,091)	2,01,000 9,273	Premises Plant Vehicles Fixtures	1,20,000 35,000 11,100 2,000
Loan—C	20,000	Stock	54,179
Creditors	19,036	Debtors	31,980
Bank overdraft	5,710	Less: Provision for Bad Debts 34,980	760

		Cash 3,000	
	2,55,019		**2,55,019**

Tutorial Note: Revaluation profit will increase partners' permanent capital in the firm. Therefore, such profit is credited to Fanners' Capital Accounts but in this problem, it has been agreed by the partners to adjust it in the Current Account.

(16 Marks)

Question 4.

(a) The premises of XY Limited were partially destroyed by fire on 1st March, 1992 and as a result, the business was practically disorganised up to 31st August, 1992. The company is insured under a loss of profits policy for Rs. 1,65,000 having an indemnity period of 6 months.

From the following information, prepare a claim under the policy :

(i) Actual turnover during the period of dislocation (1.3.1992 to 31.8.1992)	80,000
(ii) Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire (1.3.1991 to 31.8.1991)	2,40,000
(iii)Turnover for the 12 months immediately preceding the fire (1.3.1991 to 28.2.92)	6,00,000
(iv)Net profit for the last financial year	90,000
(v) Insured standing charges for the last financial year	60,000
(vi)Uninsured standing charges	5,000
(vii)Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to time of the fire, it was agreed that an adjustment of l0% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to Rs. 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only Rs. 55,000.

There was also a saving during the indemnity period, of Rs. 2,700 in insured standing charge as a result of the fire.

Answer. Computation of loss of profit insurance claim

(1) Rate of gross profit:	**Rs.**
Net profit for the last financial year	90,000
Add : Insured standing charges	60,000
	1,50,000
Turnover for the last financial year	5,00,000

$$\text{Rate of gross profit} \left[\frac{\text{Rs. } 1,50,000}{\text{Rs. } 5,00,000} \times 100\right] = 30\%$$

(2) Short sales:	
Standard Turnover	2,40,000
Add : 10% increasing trend	24,000
	2,64,000
Less: Turnover during the dislocation period (which is at par with the indemnity period of 6 months)	80,000
	1,84,000

(3) Annual (Adjusted) Turnover:	
Annual Turnover (1.3.91 to 28.2.92)	6,00,000
Add: 10% increasing trend	60,000
	6,60,000

Note : Assumed that trend adjustment is required on total amount of annual turnover However, part of the annual turnover represents trend adjusted figure. Alternatively, the students may ignore trend and take

simply annual turnover. The claim would be Rs. 55,000. So the Insurance Company would insist on trend adjustment on annual turnover.

		Rs.
(4)	**Additional Expenses :**	
(i)	Actual Expenses	9,300
(ii)	Gross profit on sales generated by additional expenses	
	$\frac{30}{100} \times (\text{Rs. } 80,000 - \text{Rs. } 55,000)$	7,500

(iii) Gross profit on Annual (Adjusted) Turnover x Additional Expenses / Gross profit shown in the numerator + Uninsured standing charges

$$\frac{30\% \text{ on Rs. } 6,60000}{(30\% \text{ on Rs. } 6,60,000) + \text{Rs. } 5000} \times \text{Rs.}9,300$$

$$= \frac{\text{Rs. } 1,98,000}{\text{Rs. } 2,03,000} \times \text{Rs. } 9,300 \text{ i.e.,} \quad 9,071$$

Least of the above three figures, i.e., Rs. 7,500 is allowable.

(5) Claim :	**Rs.**
Loss of profit on short sales (30% on Rs. 1,84,000)	55,200
Add : Allowable additional expenses	7,500
	62,700
Less: Savings in insured standing charges	2,700
	60,000
Application of average clause $\left[\text{Rs. } 60,000 \times \frac{\text{Rs. } 1,65,000}{\text{Rs. } 1,98,000}\right]$	50,000

(8 Marks)

(b) From the following, prepare an account current as sent by Arun to Bhola on 30th June, 20X1, charging interest on debits @ 6% and on credits @ 4% p.a. :

20X1		**Rs.**
Jan. 1	Balance due from Bhola	600
Jan. 10	Sold goods to Bhola	520
Jan. 17	Bhola returned goods	125
Feb. 10	Bhola paid by cheque	400
Feb. 14	Bhola accepted Arun's draft for one month	300
Apr. 29	Goods sold to Bhola	615
May 15	Received cash from Bhola	700
June 5	Bhola accepted Arun's bill for 3 months	500

Answer.

Bhola in Account Current with Arun

For the year ending 30th June 20X1

Date	Particulars	Amount Rs.	Days	Product	Date	Particulars	Amount Rs.	Days	Product
20X1					20X1				
Jan 1	To Balance b/d	600	181	1,08,600	Jan. 17	By Sales Return	125	164	20,500
Jan. 10	To Sales A/c	520	171	88,920	Feb 10	By Bank A/c	400	140	56,000
Apr 29	To Sales A/c	615	62	38,130	Feb 14	By B/R A/c (Due date : March 17)	300	105	31,500
					May 15	By Cash A/c	700	46	32,200
June 30	To Interest A/c	27.21			June 5	By B/ R (Due date, 8th Sept)	500	-70	-35,000
	To Balance c/d	262.79	-	-					
		2,025	**-**	**2,35,650**			**2,025**	**-**	**2,35,650**

Interest on Debit side Product Total = $2,35,650 \times \frac{6}{100} \times \frac{1}{365} = 38.74$

Interest on Credit side Product Total = $1,05,200 \times \frac{4}{100} \times \frac{1}{365} = 11.53$

Net = 27.21

(8 Marks)

Question5.

(a) The following is the Balance sheet of Sydney Club for the year ended m 31st March, 20X2:

Liabilities	Rs	Assets	Rs
Outstanding sundry expenses Capital Fund (Balancing figure)	700 3,12,050	Building Investments Stock of stationery Cash Prepaid rates Outstanding Subscriptions	1,00,000 2,00,000 500 10,250 1,500 500
	3,12,750		**3,12,750**

The following is the Receipts and Payments Account of Sydney Club for the year ended m 31st March, 20X2:

Receipt	Rs	Payments	Rs
Opening Balances:		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and Stationery	70,000
Subscription Received	2,02,750	Postage	40,000
Entrance Donation	1,00,000	Telephones and Telex	52,000
Interest Received	58,000	Repairs and Maintenance	48,000
Sale of Assets	8,000	Glass and Table Linen	12,000
Miscellaneous Income	9.000	Crockery and Cutlery	14,000
Receipts at:		Garden Upkeep	8,000
Coffee Room	10,70,000	Membership Fees	4,000
Wines and Spirits	5,10,000	Insurance	5,000
Swimming Pool	80,000	Electricity	28,000
Tennis Court	1,02,000	Closing Balances:	
		Cash	8,000
		Bank	2,24,600
	21,53,600		**21,53,600**

The Assets and Liabilities as on 1.4.20X1 were as follows:
Fixed Assets (net): Rs 5.00,000; Stock: Rs 3,80,000; Investment in 12% Tax free Government Securities: Rs 5,00,000: Outstanding Subscription: Rs 12,000: Prepaid Insurance: Rs 1,000: Sundry Creditors: Rs 1,12,000; Subscription received in advance: Rs 15,000. Entrance Donation Received pending membership: Rs 1.00.000: Gratuity Fund: Rs 1,50,000.

The following adjustments are to be made while drawing up the Accounts:

a) Subscription received in advance as on 31st March. 20X2 was Rs 18,000.
b) Outstanding Subscription as on 31st March. 20X2 was Rs 7,000.
c) Outstanding Expenses are: Salaries: Rs 8.000 and Electricity: Rs 15.000.

d) 50% of the Entrance Donation was to be capitalised. There was no pending membership as on 31st March, 20X2.
e) The cost of assets sold net as on 1.4.20X1 was Rs 10,000.
f) Depreciation is to be provided at the rate of 10% on assets.
g) A sum of Rs 20,000 received in October 20X1 as Entrance Donation from an applicant was to be refunded as he had not fulfilled the requisite membership qualifications. The refund was made on 3.6.20X2.
h) Purchases made during the year amounted to Rs 15,00.000.
i) The value of closing stock was Rs 2,10,000.
j) The club as a matter of policy charges off to Income and Expenditure Account all purchases made on Account of crockery, cutlery, glass and linen in the year of purchase.

You are required to prepare an Income and Expenditure Account for the year ended on 31st March, 20X2 and the Balance Sheet as on 31st March, 20X2 along with necessary workings

Answer.

Dr. Income and Expenditure Account of Sydney Club for the year ending on 31st March, 20X2 Cr.

Expenditure	Rs	Income	Rs
To Salaries	1,28,000	By Subscription	1,94.750
To Printing and Stationery	70,000	By Entrance Donation	90,000
To Postage	40,000	By Interest	60,000
To Telephone and Telex	52,000	By Miscellaneous Income	9,000
To Repairs and Maintenance	48,000	By Profit from Operations	92,000
To Glass and Table Linen	12,000	By Excess of Expenditure Over	
To Crockery and Cutlery	14,000	Income transferred to	
To Garden Upkeep	8,000	Capital Fund	30,250
To Membership Fees	4,000		
To Insurance	6,000		
To Electricity Charges	43,000		
To Loss on Sale of Assets	2,000		
To Depreciation	49,000		
	4,76,000		**4,76,000**

Balance Sheet of Sydney Club as at 31st March, 20X2

Liabilities		Rs	Asset		Rs
Capital Fund:			Fixed Assets:		
Opening Balance	10,29,850		Opening Balance	5,00,000	
Add: Donation	90,000		Less; Sale	10,000	
Less- Deficit	30,250	10,89,600	Less; Depreciation	49,000	4,41,000
Gratuity Fund		1,50,000	Stock Investments		2,10,000
Sundry Creditors		92,000	Outstanding Subscription		5.00,000
Subscription Received in Advance		18,000	Interest Accrued		7,000
Entrance Donation refundable		20,000	Bank		2,000
Outstanding Salaries		8,000	Cash		2,24,600
Outstanding Electricity Charges		15,000			8,000
		13,92,600			13,92.600

Working Notes:

(i) Balance Sheet of Sydney Club as at 1st April, 20X1

Liabilities	Rs	Assets	Rs
Sundry Creditors	1,12,000	Fixed Assets	5,00,000

Subscription Received in Advance	15,000	Stock	3,80,000
Entrance Donation Received		Investments	5,00,000
in Advance	1,00,000	Outstanding Subscription	12,000
Gratuity Fund	1,50,000	Prepaid Expenses	1,000
Capital Fund (Balancing figure)	10,29,850	Cash	10,000
		Bank	3,850
	14,06,850		**14,06,850**

(ii) Subscription Account

Particulars	Rs	Particulars	Rs
To Outstanding Subscription A/c (Beginning)	12,000	By Advance Subscription A/c (Beginning)	15,000
To Income and Expenditure A/c	1,94,750	By Bank A/c	2,02,750
To Advance Subscription A/c (End)	18,000	By Outstanding Subscription A/c (End)	7,000
	2,24,750		**2,24,750**

(iii) Entrance Donation

A Entrance Donation received during the year	1,00,000
B Add: Received in Advance as on 1.4.20X1	1,00,000
	2,00,000
C Less; Entrance Donation refundable in respect of In-eligible Member	20,000
	1,80,000
D Less; 50% Capitalised	90,000
E Taken to Income and Expenditure Account	90,000

(iv) Loss on Sale of Assets = Cost - Sale Proceeds = Rs 10,000 - Rs 8,000 = Rs 2,000.

(v) Depreciation = On unsold Fixed Assets = 10% of (Rs 5,00,000 - Rs 10,000) = Rs 49,000.

(vi) Interest Accrued = Rs 60,000 - Rs 58,000 = Rs 2,000

(iii) Trading Account

Particulars	Rs	Particulars	Rs
To Opening Stock	3,80,000	By Receipts from Coffee Room	10,70,000
To Purchases	15,00,000	By Receipts from Wines and Spirits	5,10,000
To Profit from Operations	92,000	By Receipts from Swimming Pool	80,000
		By Receipts from Tennis Court	1,02,000
		By Closing Stock	2,10,000
	19,72,000		**19,72,000**

(iv) Sundry Creditors Account

Particulars	Rs	Particulars	Rs
To Bank A/c	15,20,000	By Balance b/d	1,12,000
To Balance c/d	92,000	By Purchases	15,00,000
	16,12,000		**16,12,000**

(10 Marks)

(b) New Ventures Ltd. was incorporated on 1st January 2000 with an authorized capital consisting of 5,000 equity shares of Rs. 10 each to take over the running business of Rundown Brothers as from 1st October, 1999.The following is the summarized profit and loss account for the year ended 30th September, 2000 :

Particulars	Rs.	Particulars		Rs.
Cost of sales for the year	16,000	Sales		
Administration expenses	1,768	1st Oct. 99 to 31st Dec. 99	6,000	
Selling commission	875	1st Jan. 2000 to 30th Sep.'2000	19,000	25,000

Goodwill written off	200		
Interest paid to vendors (Loan repaid on 1st February)	373		
Distribution expenses (60 per cent variable)	1,250		
Preliminary expenses written off	330		
Debenture interest	320		
Depreciation	444		
Directors' fees	100		
Net profit	3,340		
Total	**25,000**	**Total**	**25,000**

The company deals in one type of product. The unit cost of sales was reduced by 10 per cent in the post-incorporation period as compared to the pre-incorporation period in the year. You are required to apportion the net profit amount between pre-incorporation and post-incorporation periods showing the basis of apportionment.

Answer.

Statement of Pre & Post-Incorporation Profits of New Venture Ltd.

(Year ended September 30, 2000)

	Basis of allocation	**Total amount**	**Pre-incorporation**	**Post-incorporation**
			(1st October'99 to 31st Dec.'99)	(1st Jan. 2000 30th Sep.2000)
Sales	Actual	Rs. 25,000	Rs. 6,000	Rs. 19,000
Less costs and expenses				
Cost of Sales	(see note)	16,000	4,156	11,844
Administration expenses	Time (1 : 3)	1,768	442	1,326
Selling commission	Sales (6 : 19)	875	210	665
Goodwill -		200	--	200
Interest to vendors	Time (3 : 1)	373	280	93
Distributive expenses :	40% fixed (time)	500	125	375
	60% variable (sales)	750	180	570
Preliminary expenses	--	330	--	330
Debenture interest	--	320	--	320
Depreciation	Time (1 : 3)	444	111	333
Directors' fees	--	100	--	100
		21,660	5,504	16,156
Profit		3,340	496	2,844

Tutorial note :

Let cost of sales in the pre-incorporation period be Rs. 100
Then cost of sales in the post-incorporation period is Rs. 90.
Sales in the pre-incorporation period = Rs. 6,000
Sales in the post-incorporation period = Rs. 19,000

The ratio of cost of sales of the two period
= (100 x 6,000) : (90 x 19,000) = 60 : 171.

Divided the total cost of sales in this ratio.

(6 Marks)

Question 6. Answer the following:

(a) What are the advantages of outsourcing the accounting functions?

Answer. Following are the advantages of outsourcing the accounting functions:

(i) Out sourcing of accounting function saves time so that an organisation is able to concentrate on the core area of business activity.

(ii) The facility of expertise knowledge is available to the enterprise.
(iii) Storage and maintenance is in the hands of professionals.
(iv) No botheration about turnover of key accounting positions.
(v) Economies can be achieved.

(b)A Mega Ltd. manufactures fancy bedsheets valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.
Comment on the valuation of the stocks by the company.
Answer. Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at historical cost and net realisable value whichever is lower. AS 9 on "Revenue Recognition" says that in some cases like agricultural crops or mineral ores, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are **often valued at Net-realisable value.**"

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

(c) Aryaman Ltd. sold farm equipments through its dealers. Payment of consideration must be within 10 days and in the event of delay interest is chargeable @ 12.5 % per annum. The Company has not realized interest from the dealers in the past. However, for the year ended 31.3.2009, it wants to recognise interest due on the balances due from dealers. The amount is ascertained at Rs.7.5 lakhs. Decide whether the income by way of interest from dealers is eligible for recognition as per AS 9.
Answer. As per AS 9 "Revenue Recognition", where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, the revenue recognition is postponed to the extent of uncertainty inverted. In such cases, the revenue is recognized only when it is reasonably certain that the ultimate collection will be made.
In this case, the company never realized interest for the delayed payments make by the dealers. Hence, it has to recognize the interest only if the ultimate collection is certain. The interest income hence is not to be recognized.

(d)A firm of contractors obtained a contract for construction of bridges across river Ganga. The following details are available in the records kept for the year ended 31st March, 2009.

	(Rs. in lakhs)
Total Contract Price	2,000
Work Certified	1,000
Work not Certified	210
Estimated further Cost to Completion	990
Progress Payment Received	800
To be Received	280

The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by ICAI.
Answer.

(a)Amount of foreseeable loss	**(Rs in lakhs)**
Total cost of construction (1000 + 210 + 990)	2,200
Less: Total contract price	2,000
Total foreseeable loss to be **recognized as expense**	200

According to para 35 of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total

contract revenue, the expected loss should be recognized as an expense immediately.

(b)**CONTRACT WORK-IN-PROGRESS** i.e. cost incurred to date are Rs. 1,210 lakhs

	(Rs in lakhs)
Work certified	1000
Work not certified	210
	1210

This is 55% (1,210/2,200 × 100) of total costs of construction.

(c) Proportion of total contract value recognised as **REVENUE** as per para 21 of AS 7 (Revised).
55% of Rs. 2,000 lakhs = Rs. 1100 lakhs
(d) Amount due from/to customers = Contract costs + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received)
= [1210 + Nil – 200 – (800 + 280)]
= [1210 – 200 – 1080]
Amount due to customers = Rs. 70 lakhs
The amount of Rs. 70 lakhs will be shown in the balance sheet as **LIABILITY.**

(e) The relevant **disclosures** under AS 7 (Revised) are given below:

	Rs. in lakhs
Contract revenue	1100
Contract expenses	1210
Recognised profits less recognized losses	(200)
Progress billings (800 + 280)	1080
Retentions (billed but not received from contractee)	280
Gross amount due to customers	70

(4x4 = 16 Marks)