

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 one ledger to that in another, only one entry is recorded through the respective ledger. State with reason whether the statement is true or false.
- (ii) Explain Garner v/s Murray rule applicable in the case of partnership firms. State, when is this rule not applicable.
- (iii) Explain the 'Accounting for Revaluation of fixed assets' with reference to AS 10.
- (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.
- (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.

- (vi) What is meant by 'Red-Ink interest' in an Account Current?
- (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.
- (viii) What are B list contributories?
- (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?
- (x) What are the conditions that are to be satisfied for 'Amalgamation in the nature of merger'?

(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	<u>1,20,000</u>	<u>2,25,000</u>
Total	<u>16,40,000</u>	<u>27,25,000</u>

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.

(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 on 31.12.1997 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
Current A/cs: [A — Rs 3,714; B — (- Rs 2,509); C — Rs 4,678]	5,883	Plant	37,000
Loan—C	28,000	Vehicles	15,000
Creditors	19,036	Fixtures	2,000
Bank overdraft	4,200	Stock	62,379
		Debtors	34,980
		Cash	760
Total	2,42,119	Total	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.

(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 upto 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 10% 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.

(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

(8 Marks)

Question 5.

(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	700	Building	1,00,000
Capital Fund (Balancing figure)	3,12,050	Investments	2,00,000
		Stock of stationery	500
		Cash	10,250
		Prepaid rates	1,500
		Outstanding Subscriptions	500
Total	3,12,750	Total	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
Total	21,53,600	Total	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

(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	1 st Oct. 99 to 31 st Dec. 99	6,000
Selling commission	875	1 st Jan. 2000 to 30 th Sep. '2000	<u>19,000</u>
Goodwill written off	200		
Interest paid to vendors (Loan repaid on 1 st 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	<u>3,340</u>		
Total	<u>25,000</u>	Total	<u>25,000</u>

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.

(6 Marks)

Question 6. Answer the following:

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

- (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.
- (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.

(4x4 = 16 Marks)