QUESTIONS

CHAPTER-2 COMPANY FINAL ACCOUNTS

Q. 1. The following is the Trial Balance of Raul Ltd. as on 31-3-2011. (Figures in '000)

Particulars	Dr. (₹)	Particulars	Cr. (₹)
Land at cost	110	Equity Capital	
Plant & Machinery at cost	385	(Shares of ₹ 10 each)	150
Debtors	46	10% Debentures opening	
Stock at cost (31-3-2011)	45	balance (Secured against	100
Bank	15	Plant & Machinery)	
Material consumed	150	General Reserve	66
Factory Expenses	40	Profit & Loss A/c	35
Administration Expenses	15	Securities Premium	20
Selling Expenses	20	Sales	350
Debentures Interest	5	Creditors	25
Interim dividend paid	9	Provision for Depreciation (on Machinery)	86
		Suspense Account	2
		TDS payable	6
	840		**840**

Additional Information :

(a) The Authorised share capital of the company is 30,000 shares of ₹ 10 each.

(b) On 31-3-2011 the company issued one bonus share for every three shares held by utilising Securities Premium fully & balance from General Reserve A/c. No entry relating to this has yet been made.

(c) The company on the advice of an independent valuer, wishes to revalue the land at ₹ 1,80,000.

(d) Proposed final dividend @ 10%. The provision for tax is to be made for ₹ 30,000. Transfer to reserve ₹ 15,000.

(e) Suspense account of ₹ 2,000 represents cash received for the Sale of some of the machinery on 1-4-2010. The cost of the machinery was ₹ 5,000 and the accumulated depreciation thereon being ₹ 4,000.

(f) Depreciation is to be provided on plant and machinery at 10% on cost.

(g) Debtors include ₹ 6,000 outstanding for more than 6 months.

Prepare: Profit and loss statement for the year ended 31-3-2011 and the Balance Sheet as per the provision of the schedule III of the Companies Act, 2013 taking into consideration the above mentioned adjustments.

Q. 2. The Trial Balance of Zidane Limited having authorised capital of ₹ 10,00,000 as at 31st March, 2011 was as under :

Particulars	Dr. (₹)	Cr. (₹)
Share Capital (Share of ₹ 10- each fully paid,	—	5.00.000
Securities Premium Account	—	50.000
Land & Building Cost ₹ 3,00,000)	2,50,000	—
Plant & Machinery (Cost ₹ 4,00,000)	3,00,000	—
Live Stock	20,000	—
Gross Profit earned during the year	—	1,80,000
General Reserve	—	1,80,000
6% Debentures (Issued on 1st April 2009 secured by mortgage on land and redeemable on 31-3-2011,	—	1,00,000
Sundry Debtors & Creditors	60,000	20,000
Stock as at 3 1-3-2011 (At cost or market value whichever is lower)	50,000	—
Salaries	20,000	—
Directors Fees	9,000	—
General Expenses	15,000	—
Cash at Bank	30,000	—
Cash in Hand	2,000	—
Bills Receivable	20,000	—
Discount on Issue of Debentures	4,000	—
Profit & Loss b/f	—	10,000
Investment (4% Government Securities, face value of ₹ 1,00,000 purchased on 1-4-2010)	95,000	—
Investments in Equity Shares (10,000 shares of ₹ 25/- each ₹ 20/- paid up)	1,50,000	—
Advance Income Tax	15,000	—
	10,40,000	10,40,000

Further Information:

(a) Of the shares allotted 20,000 shares worth ₹ 2,00,000 were allotted as fully paid to vendor from whom a running business was acquired.

(b) Of the debtors ₹ 20,000 were outstanding for more than six months are considered good except doubtful debt of ₹ 5,000.

(c) A provision is to be made for Income Tax for ₹ 10,000.

(d) The Market Value of Government Securities on the date of Balance Sheet was ₹ 1,10,000 and that of equity shares was ₹ 1,70,000.

(e) Auditors fees ₹ 5,000 should be provided for.

(f) Included in General Expenses is Insurance ₹ 2,000 paid for the year ended on 30th September, 2011.

(g) Interest on debentures issued and on investment in Government Securities should be taken into account.

(h) Depreciation is to be provided for 5% on the original cost of Machinery and 3% on the original cost of land and building.

(i) Provide for dividend of 8% on shares.

Prepare : Profit and Loss Statement for the year ended 31-3-2011 and the Balance Sheet of Zidane Limited as on that date as per the provision of the Schedule III of the Companies Act, 2013 taking into consideration the above mentioned adjustments.

Q. 3. The following Trial Balance was taken from the Books of S Ltd. On 31st March, 2011.

Particulars	Dr. ₹	Cr. ₹	Particulars	Dr. ₹	Cr. ₹
Share Capital		6,00,000	Motor Car Sales		14,200
Goodwill (at cost)	2,30,000		Profit & Loss A/c		54,000
Land and Building (at cost)	4,00,000		Income-Tax		
Plant and Machinery (at cost)	4,20,000		(Ass. Year 2010-11)	58,000	
Office Equipment (at cost)	30,000		Advance Tax		
Motor Cars (at cost)	70,000		(Ass. Year 2011-12)	70,000	
Opening Stock	35,000		Cash and Bank Balance	94,000	
Purchases	2,80,000		Provision for Depreciation		
Salaries and Wages	64,000		(1-4-2010) :		
Rent and Taxes	15,000		i) Land and Building		30,000
Travelling Expenses	9,000		ii) Plant and Machinery		1,28,000
Repairs and Renewals	2,500		iii) Office Equipment		7,000
Printing and Stationery	6,500		iv) Motor Cars		25,200
Motor Car Expenses	14,900		Security Premium		20,000
Sundry Creditors		80,000	Interest on Debentures	22,500	
Sundry Debtors	1,76,000		Prepaid Expenses	3,000	
Provision for Taxation			General Reserve		62,000
(Assessment Year 2010-11)		60,000	15% Debentures (1-4-2010)		3,00,000
Sales		6,20,000			
				20,00,400	**20,00,400**

Adjustments :

(1) Motor Car was sold on 1-4-2010. It was purchased on 1-4-2007 for ₹ 20,000 and depreciation at 20% p.a. on written down value was provided.

(2) Closing Stock is ₹ 59,000.

(3) Depreciation is to be provided on written down value at - (a) Land and Building 2% p.a. (b) Plant and Machinery 20% p.a. (c) Motor Car 20% p.a. (d) Office Equipment 10% p.a.

(4) Income-tax Assessment for Assessment Year 2010-11 has been completed and has resulted in a gross demand of ₹ 61,000.

(5) Debts of ₹ 26,000 are due for more than six months.

(6) Provide for Audit fees ₹ 4,000 and Income-tax at 50% of Net Profit.

(7) Directors propose to transfer ₹ 38,000 to General Reserve and recommend dividend of 10%.

(8) Debentures are secured by a floating charge on the assets.

Prepare a Profit and Loss Account for the year ending 31st March 2011 and a Balance Sheet on that date in the form prescribed by the Companies Act, 2013.

Q. 4. Savita Limited is a Company registered with an authorised capital of ₹ 25,00,000 divided into equity shares of ₹ 100/- each. 50% of the Shares are issued on which ₹ 80/- per share is called up.

The following balance are extracted from its Ledger as on 31st March, 2011.

Particulars	**Debit** ₹	**Credit** ₹
Share Capital		10,00,000
Machinery (Cost ₹ 20,00,000)	14,60,000	
Furniture (Cost ₹ 1,75,000)	1,30,000	
Stock	8,30,000	
Debtors / Creditors	10,18,750	6,58,400
Cash on Hand	2,500	
Current Account with Bank	1,25,000	
General Reserves		5,50,000
Interim Dividend Paid	50,000	
Share Premium		25,000
12% Secured Debentures		5,00,000
Debentures Redemption Reserves		1,00,000
Profit & Loss Account :		
(Opening Balance)		2,86,900
(Current Year)		4,56,500
Provision for Income - tax		2,45,000
Advance Income - tax	1,90,550	
Pre - payments	15,000	
	38,21,800	**38,21,800**

Additional Information :

1. During the year General Reserve was utilised to the extent of ₹ 5,00,000 as under :
   - (i) Paying up final call of ₹ 20/- per share on present capital, and
   - (ii) Issue of bonus shares in ratio of one fully paid share for five shares held. The accounting entries for the same is yet to be made.
2. One of the employees who was injured while working in the company has filed a suit for damages for ₹ 5,00,000. The company has not made any provision as it has been advised that suit is likely to be decided in favour of Company.
3. As per instructions given to Bank ₹ 1,00,000/- is transferred from Current Account to account of Vanita Ltd. as Consideration for 10,000 equity shares at ₹10/- per shares. (Market Value of Investment is ₹ 1,05,000).
4. One of customer directly paid ₹ 30,000/- to one of the supplier since the intimation was not received in time, effect is yet be given.
5. The Director propose to transfer :
   - i. ₹ 1,00,000/- to debenture redemption reserve,
   - ii. Declare Final Dividend at 10% on revised share capital.

You are required to prepare Balance Sheet as per Schedule III.

Q. 5. The following trial balance has been made up from the books of Wholesale Traders Ltd., as on 31st March, 2011.

Authorised and Issued Capital		7% Debentures	1,50,000
(equity shares of ₹ 10/- each)	4,20,000	Debentures Interest	10,500
Properties (at cost)	8,00,000	Bank Interest	5,800
Motor Van	25,000	Bank Overdraft	7,300
Provision for Depreciation (as on 31.3.2010)		Debtors	3,10,000
Leasehold properties	21,000	Creditors	1,51,000
Other properties	50,000	Interim Dividend	16,800
Motor Van	10,000	Profit & Loss A/c (as on 31.3.2010) Cr.	57,500
Administration & Selling Expenses	1,76,500	Calls in arrears	1,000
Opening Stock	1,20,000	General Reserve (as on 31.3.2010)	1,00,000
Purchases	13,87,500	Share Suspense (Cr.)	3,000
Sales	20,65,000	Unclaimed Dividend	1,500
Mg. Director's Remuneration	50,000	Cash in hand	15,100
Rent Received	36,000	Cash at Bank	90,000
Investments (at cost)	67,500		
Investment income	3,400		

The following further information is available :

1) Closing stock at or under cost was ₹ 1,67,000/-.

2) No effect has been given to the following board resolutions :

   a) Passed on 15th July, 2010 forfeiting 500 shares for non-payment of call of ₹ 1,000.

   b) Passed on 18th Sept., 2010 for re-issuing the 500 forfeited shares as fully paid for a consideration of ₹ 3,000 received and lying credited to share suspense account.

3) The directors have recommended the following appropriations :

   a) Final dividend @ ₹ 1/- per share including the interim dividend already declared on 23rd December, 2010.

   b) transfer of ₹ 10,000 to general reserve.

4) Depreciation to be provided as follows :

   a) Motor Van 20% on written down value.

   b) Properties other than leasehold 3% on written down value.

   c) Leasehold property purchased on 1st April, 2005 at a cost of ₹ 1,40,000 for a period of 40 years.

5) Managing Directors are entitled to a remuneration of 10% of the net profit subject to a minimum of ₹ 50,000.

6) Provision for taxation to be made @ 55%. Ignore previous year's figures.

You are required to prepare the Profit & Loss Account for the year ended 31st March, 2011 and also to draw up the balance sheet as on that date after making such assumption as may be necessary.

Q. 6. Given below is the Trial Balance (rounded off to rupees thousands) of Bharat Implements Limited as at the end of their financial year 2010-11 and additional information to be considered while preparing the final accounts which you are required to do in proper form:

Trial Balance as on 31st March, 2011

	Dr.	Cr.
	₹	₹
Stock (1-4-2010)		
Raw materials and stores	50,020	
Work- in- process	20,080	
Finished goods	99,900	
Purchases	4,48,400	
Sales		6,69,700
Salaries and wages	29,710	
Other expenses	1,17,640	
Other income		2,880
Depreciation	3,550	
Fixed Assets at Cost	63,870	
Investments	190	
Interest accrued	25	
Sundry debtors	59,000	
Cash at Bank	320	
Loans and advances	580	
Share capital		20,000
Development Rebate Reserve		2,340
Investment Allowance Reserve		4,250
General Reserve		25,800
Secured Loans		13,480
Fixed Deposits		16,000
Depreciation Reserve		28,000
Provision for doubtful debts		60
Sundry creditors		1,10,775
	8,93,285	**8,93,285**

Additional Information :

(1) Stock at the end of 31st March 2011: ₹

Raw materials and stores	30,010 thousand
Work-in-process	25,040 thousand
Finished goods	75,950 thousand

(2) Depreciation as per Schedule II for the year ₹ 4,250 thousand.

(3) Market value of investments ₹ 150 thousands.

(4) Sundry debtors include ₹ 121 thousands due for more than six months of which provision has been made for doubtful debts at ₹ 45 thousands during the year.

(5) Included in other expenses are :

(i) Fees to auditors ₹ 65 thousands out of which ₹ 15 thousands are in the other capacities.

(ii) Interest on fixed loan ₹ 620 thousands and other interest ₹1,000 thousands.

(6) ₹ 340 thousands are to be re-transferred from Development Rebate Reserve A/c.

(7) Income-tax is to be provided at 61% of taxable income.

(8) Provision is to be made for Managing Director's remuneration at 5% of the net profits as provided under law, subject to a maximum of ₹ 120 thousands per annum.

(9) Balance of profit is to be transferred to General Reserve after providing for dividend at 25% on capital.

(10) The authorised capital of the company is 20 lakhs equity shares of ₹ 10 each.

Q. 7. The director of ABC Ltd. is entitled to get a salary of ₹ 2,500 p.m. plus 1% commission on the profits of the Company after such salary and commission. The following is the profits and loss account of the company for the year ended 31st March, 2011.

	₹		₹
To Salaries wages and Bonus	1,92,500	By Gross Profit b/d	9,00,000
To General Expenses	74,000	By Subsidy from Governments	60,000
To Depreciation	82,000	By Profit on sale of assets	
To Expenditure on scientific Research	14,000	(cost price ₹ 2,50,000 and	
To Director's salary	30,000	written down value ₹ 1,80,000)	1,00,000
To Commission to Director (on account)	6,000		
To Reserve for Bad and doubtful debts	17,500		
To Provision for income tax	2,40,000		
To Proposed Dividend	1,00,000		
To Balance c/d	3,04,000		
	10,60,000		**10,60,000**

Depreciation as per Schedule II amounts to ₹ 81,000. Calculate the remuneration payable to Manager.

Q. 8. A Ltd. has ₹ 11,20,000 in Equity Share Capital consisting of 80,000 shares of ₹ 10 each fully paid and 40,000 shares of ₹ 10 each of which ₹ 8 paid per share. It has ₹ 1,00,000 in capital Reserve and ₹ 3,00,000 in Share Premium Account ₹ 3,40,000 in Capital Redemption Reserve Account and ₹ 3,00,000 in General Reserve.

The Company declared bonus in the ratio 2 : 3.

Pass journal entries showing bonus issues as mentioned above with the minimum reduction in free reserves.

Q. 9. ET limited are in the midst of finalizing their accounts for the year ended 30th September 2005. A Profit and Loss Account has been prepared in draft. The account balances as rounded off to the nearest thousands, are listed below :

	₹
Share Capital	25,000
General Reserve	6,031
Development Rebate Reserve	6,271
Land	2,225
Buildings	9,316
Plant and Machinery	64,282
Furniture, Fixtures and Office Equipment	1,594
Vehicles	454
Depreciation Reserve – Buildings	2,193
Depreciation Reserve – Plant And Machinery	30,328
Depreciation Reserve – Furniture etc.	568
Depreciation Reserve – Vehicles	245
Loan from State Government	575
Other secured loans	32,460
Fixed deposits from public	2,400
Unsecured loans	1,114
Raw materials and components	42,014
Work - in – progress	6,116
Finished goods	1,414
Stores and Spares	2,771
Tools, Jigs and Dies	9,187
Cash credits from banks	30,672
Acceptances	2,645
Sundry creditors	6,162

Other current liabilities	10,317
Interest accrued but not due on loans	589
Provision for Gratuity and Pension	241
Interest accrued on deposits	2
Sundry debtors	24,231
Cash in hand	37
Balances with Banks – on current A/cs	39
Balances with Banks – on deposits A/cs	27
Loans and Advances	4,518
Preliminary expenses	8
Advance Income-tax paid	3,489
Capital work - in - progress	596
Profit and Loss A/c (profit for the year)	14,509

In arriving at the profit for the year, the following have been charged :

		₹ thousands
(a)	Depreciation	12,424
(b)	Salary and perquisites to Managing Director	72
(c)	Director's fees	4

The authorised capital is 3,50,000 Equity Shares of ₹ 100 each. The loan from the State Government is secured by charge on the land, cash credits by hypothecation of stocks and book debts and the other secured loans on the buildings and plant and machinery.

The followings adjustments are yet to be made (₹ in Thousands) :

(i) Investment allowance reserve to be created ₹ 5,400;

(ii) Provision to be made for Income-tax ₹ 4,400;

(iii) Provision to be made for Managing Director's Commission at 1% of the net profits;

(iv) Proposed dividends at 10%.

Depreciation as per Section 123 of the Companies Act is 10,424.

You are required to :

(a) Show the computation of commission to the Managing Director, and

(b) Prepare the Balance Sheet of the company, based on all the above.

Q. 10. The following notes pertain to Brite Ltd's Balance Sheet as on 31st March, 2012:

Notes	₹ in lakhs
(1) Share Capital	
Authorised :	
20 crore shares of ₹10 each	20,000
Issued and subscribed :	
10 crore Equity Shares of ₹10 each	10,000
2 crore 11 % Cumulative Preference Shares of ₹ 10 each	2,000
	12,000
Called and paid up :	
10 crore Equity Shares of 10 each, ₹ 8 per share called and paid	8,000
2 crore 11% of Cumulative Preference Shares of ₹10 each,	
fully called and paid up:	2,000
	10,000
(2) Reserves and Surplus :	
Capital Reserve	485
Capital Redemption Reserve	1,000
Securities Premium	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss (Appropriation) Account	273
	4,798

On 2nd April 2012, the company made the final call on equity shares @ ₹ 2 per share.

The entire money was received in the month of April, 2012.

On 1st June 2012, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it decided to utilize the capital reserves to the maximum possible extent.

Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

CHAPTER-4 INTERNAL RECONSTRUCTION

Q. 1. Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the Company on 31.3.2012 before reconstruction :

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
Authorised:		Goodwill	20,00,000
1,50,000 Equity Shares of ₹50 each	75,00,000	Building	10,00,000
Subscribed and Paid up Capital:		Plant	10,00,000
50,000 Equity Shares of ₹ 50 each	25,00,000	Computers	25,00,000
1,00,000 Equity Shares of ₹50 each		Investments	Nil
40 per share paid up	40,00,000	Current Assets	Nil
Secured Loans:		Profit and Loss A/c-Loss	20,00,000
12% First Debentures	5,00,000		
12% Second Debentures	10,00,000		
Current Liabilities:			
Trade payables	5,00,000		
	85,00,000		**85,00,000**

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X	Mr. Y
	₹	₹
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Trade Payables	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up ₹ 50 shares	3,00,000	2,00,000
Parly paid up shares (₹ 40 paid up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

(a) Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of ₹ 20 each.

(b) Mr. X is to cancel ₹ 7,00,000 of his total debt (other than share amount) and to pay ₹ 2 lakhs to the company and to receive new 14% First Debentures for the balance amount

(c) Mr. Y is to cancel ₹ 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.

(d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company.

Q. 2. Following is the Balance Sheet of M Ltd. as at 31st March, 2013:

Liabilities	₹	Assets	₹
15,000, 10% Preference shares of		Goodwill	3,50,000
₹ 100 each	15,00,000	Land & Buildings	15,00,000
35,000 Equity shares of ₹100 each	35,00,000	Plant & Machinery	10,00,000
Securities Premium account	1,00,000	Inventory	6,00,000
7% Debentures of ₹100 each	5,00,000	Trade Receivables	15,00,000
Trade Payables	12,50,000	Cash at bank	1,00,000
Loan from Director	1,50,000	Profit & Loss A/c	19,50,000
	70,00,000		**70,00,000**

No dividend on Preference shares has been paid for the last 5 years.

The following scheme of reorganization was duly approved by the Tribunal:

(i) Each Equity share to be reduced to ₹ 25.

(ii) Each existing Preference share to be reduced to ₹ 75 and then exchanged for 1 new 13% Preference share of ₹ 50 each and 1 Equity share of ₹ 25 each.

(iii) Preference shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity Shares of ₹ 25.

(iv) The Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of ₹ 50 each issued at par. One half (in value) of the debentureholders accepted Preference shares for their claims. The rest were paid cash.

(v) Contingent liability of ₹ 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the company.

(vi) Goodwill does not have any value in the present. Decrease the value of Plant and Machinery, Inventory and Trade receivables by ₹ 4,00,000, ₹ 1,00,000 and ₹ 1,50,000 respectively. Increase the value of Land and Buildings to ₹ 18,00,000.

(vii) 40,000 new Equity shares of ₹ 25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.

(viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to ₹ 15,000.

Pass necessary Journal Entries to record the above transactions.

Q. 3. The Balance Sheet of A Co. Ltd. as on 31.03.2011 is as follows :

Assets	₹	₹
Fixed Assets :		
Freehold property	4,25,000	
Plant	50,000	
Patents	37,500	
Goodwill	1,30,000	6,42,500
Traded investments (at cost)		55,000
Current Assets :		
Debtors	4,85,000	
Stock	4,25,000	
Deferred Advertising	1,00,000	10,10,000
Profit and Loss Account		4,35,000
Total		21,42,500
Liabilities	₹	₹
Share Capital		
4,000 6% Cumulative Preference Shares of ₹ 100 each	4,00,000	
75,000 Equity Shares of ₹ 10 each	7,50,000	11,50,000
6% Debentures (Secured on Freehold Property)	3,75,000	
Accrued interest	22,500	3,97,500
Current Liabilities :		
Bank Overdraft	1,95,000	
Creditors	3,00,000	
Directors Loans	1,00,000	5,95,000
		21,42,500

The court approved a scheme of re-organisation to take effect on 1.4.2011 whereby :

(i) The preference shares to be written down to ₹ 75 each and equity shares to ₹ 2 each.

(ii) Of the preference shares dividends which are in arrears for four years, three fourths to be waived and equity shares of ₹ 2 each to be allotted for the remaining quarter.

(iii) Accrued interest on debentures to be paid in cash.

(iv) Debenture holders agreed to take over freehold property (book value ₹ 1,00,000) at a valuation of ₹ 1,20,000 in part repayment of their holdings and to provide additional cash of ₹ 1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.

(v) Patent, Goodwill and Deferred Advertising to be written off.

(vi) Stock to be written off by ₹ 65,000.

(vii) Remaining freeholds property to be re-valued at ₹ 3,87,500.

(viii) Amount of ₹ 68,500 to be provided for doubtful debts.

(ix) Trade investments to be sold for ₹ 1,40,000.

(x) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 2 each, and as to 5% in cash and balance 5% being waived.

(xi) There were capital commitments totalling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(xii) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the scheme.

Q. 4. The draft Balance Sheet of Y Limited as on 31st March, 2013was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
5,00,000 Equity shares of ₹10 each fully paid	50,00,000	Goodwill	10,00,000
		Patent	5,00,000
9% 20,000 Preference shares of ₹ 100 each fully paid	20,00,000	Land and Building	30,00,000
		Plant and Machinery	10,00,000
10% First debentures	6,00,000	Furniture and Fixtures	2,00,000
10% Second debentures	10,00,000	Computers	3,00,000
Debentures interest outstanding	1,60,000	Trade Investment	5,00,000
Trade payables	5,00,000	Trade receivables	5,00,000
Directors' loan	1,00,000	Inventory	10,00,000
Bank Overdraft	1,00,000	Discount on issue of debentures	1,00,000
Outstanding liabilities	40,000		
Provision for tax	1,00,000	Profit and Loss Account (Loss)	15,00,000
	96,00,000		**96,00,000**

Note: Preference dividend is in arrears for last three years.

A holds 10% first debentures for ₹ 4,00,000 and 10% second debentures for ₹ 6,00,000. He is also trade payables for ₹ 1,00,000. B holds 10% first debentures for ₹ 2,00,000 and 10% second debentures for ₹ 4,00,000 and is also trade payables for ₹ 50,000.

The following scheme of reconstruction has been agreed upon and duly approved.

(i) All the equity shares be converted into fully paid equity shares of ₹ 5 each.

(ii) The preference shares be reduced to ₹ 50 each and the preference shareholders agree to forego their arrears of preference dividends in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. 'A' is to cancel ₹ 6,00,000 of his total debt including interest on debentures and to pay ₹ 1 lakh to the company and to receive new 12% debentures for the Balance amount.

(iv) Mr. 'B' is to cancel ₹ 3,00,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.

(v) Trade payables (other than A and B) agreed to forego 50% of their claim.

(vi) Directors to accept settlement of their loans as to 60% thereof by allotment of equity shares and balance being waived.

(vii) There were capital commitments totalling ₹ 3,00,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(viii) The Directors refund ₹ 1,10,000 of the fees previously received by them.

(ix) Reconstruction expenses paid ₹ 10,000.

(x) The taxation liability of the company is settled at ₹ 80,000 and the same is paid immediately.

(xi) The assets are revalued as under :

	₹
Land and Building	28,00,000
Plant and Machinery	4,00,000
Inventory	7,00,000
Trade receivables	3,00,000
Computers	1,80,000
Furniture and Fixtures	1,00,000
Trade Investment	4,00,000

Pass Journal entries for all the above mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit & Loss Account and Discount on issue of debentures.

Prepare :

Bank Account and working of allocation of Interest on Debentures between A and B.

Q. 5. S.P. Construction Co. finds itself in financial difficulty. The following is the summarized balance sheet on 31st December 2012:

Liabilities	₹	Assets	₹
Share Capital		Land	1,56,000
20,000 Equity Shares of		Building (net)	27,246
₹ 10 each fully paid	2,00,000	Equipment	10,754
5% Cum. Pref. Shares of		Goodwill	60,000
₹ 10 each fully paid	70,000	Investments (Quoted) in shares	27,000
8% Debentures	80,000	Inventory	1,20,247
Loan from Directors	16,000	Trade receivables	70,692
Trade Payables	96,247	Profit & Loss Account	39,821
Bank Overdrafts	36,713		
Interest Payable on Debentures	12,800		
	5,11,760		**5,11,760**

The authorised capital of the company is 20,000 Equity Shares of ₹ 10 each and 10,000 5% Cum. Preference Shares of ₹ 10 each.

During a meeting of shareholders and directors, it was decided to carry out a scheme of internal reconstruction. The following scheme has been agreed :

(1) The equity shareholders are to accept reduction of ₹ 7.50 per share. And each equity share is to be redesignated as a share of ₹ 2.50 each.

(2) The equity shareholders are to subscribe for a new share on the basis of 1 for 1 at a price of ₹ 3 per share.

(3) The existing 7,000 Preference Shares are to be exchanged for a new issue of 3,500 8% Cumulative Preference Shares of ₹ 10 each and 14,000 Equity Shares of ₹ 2.50 each.

(4) The Debenture holders are to accept 2,000 Equity Shares of ₹ 2.50 each in lieu of interest payable.

The interest rate is to be increased to 9½%. Further ₹ 9,000 of this 9½% Debentures are to be issued and taken up by the existing holders at ₹ 90 for ₹ 100.

(5) ₹ 6,000 of directors' loan is to be credited. The balance is to be settled by issue of 1,000 Equity Shares of ₹ 2.50 each.

(6) Goodwill and the profit and loss account balance are to be written off.

(7) The investment in shares is to be sold at current market value of ₹ 60,000.

(8) The bank overdraft is to be repaid.

(9) ₹ 46,000 is to be paid to trade payables now and balance at quarterly intervals.

(10) 10% of the trade receivables are to be written off.

(11) The remaining assets were professionally valued and should be included in the books of account as follows :

	₹
Land	90,000
Building	80,000
Equipment	10,000
Inventory	50,000

(12) It is expected that due to changed condition and new management operating profit will be earned at the rate of ₹ 50,000 p.a. after depreciation but before interest and tax.

Due to losses brought forward it is unlikely that any tax liability will arise until 2014.

You are required to show the necessary journal entries to affect the reconstruction scheme; prepare the balance sheet of the company immediately after the reconstruction.

Q. 6. M/s. Bhansali Ltd. Whose Balance Sheet as at 31st March, 2011 is as given below :

	₹	₹
Sources of Funds :		
1,00,000 Equity shares of ₹ 20 each ₹ 10 Paid up		10,00,000
8% Preference Share Capital :		
8,000 shares of ₹ 100 each, ₹ 75 paid up		6,00,000
Secured Loans 9% Debentures	6,00,000	
Outstanding Interest	1,08,000	7,08,000
Loan from ICICI Ltd.	1,50,000	
Outstanding interest	15,000	1,65,000
Total ₹		**24,73,000**
Application of Funds :		
Fixed Assets	11,20,000	
Goodwill	80,000	12,00,000
Investment at cost (Market value 55,000)		65,000
Current assets and loans and advances :		
Current assets :		
Stock		6,80,000
Debtors	1,20,000	
Bills Receivable	49,000	
	8,49,000	
Less : Current Liabilities :		
Sundry Creditors	69,000	
		7,80,000
Profit and Loss Account		4,28,000
Total ₹		**24,73,000**

Preference dividend is in arrears for one year.

Following Scheme of reconstruction is approved and agreed upon.

(i) Preference shareholders to give up their claims, inclusive of dividends to the extent of 30% and balance to be paid off.

(ii) Debenture holders agree to give up their claims to receive interest in consideration of their rate of interest being enhanced to 10% henceforth.

(iii) ICICI Ltd. agree to give up 50% of their interest outstanding in consideration of their claim paid off at once.

(iv) Sundry creditors would like to grant a discount of 5% if they were to be paid off immediately.

(v) Balance of profit and loss account, Goodwill and 25% of the total sundry debtors to be written off.

(vi) Fixed assets to be written down by ₹ 14,000.

(vii) Investment to be reflected at their market value.

(viii) Cost of reconstruction is ₹ 3,350.

(ix) To the extent required, Equity shareholders suffers on reduction of their rights.

(x) The Equity shareholders bring in necessary cash against their partly paid shares to leave working capital at ₹ 20,000. Pass necessary Journal entries in the books of the company assuming that scheme has been put through fully and prepare the Balance Sheet after reconstruction.

Q. 7. Following is the Balance Sheet of Delta Ltd. as on 31st March, 2011.

Trial Balance as on 31-03-2011

Liabilities	₹	Assets	₹
15,000 11.5% Preference Shares of		Goodwill	80,000
₹ 10 each fully paid up	1,50,000	Patents	54,000
13,000 10% Preference Shares of		Land and Buildings	1,75,000
₹ 10 each, ₹ 5 per share paid up	65,000	Plant and Machinery	3,25,000
20,000 Equity Shares of ₹ 10 each full paid up	2,00,000	Furniture	15,000
12% Debenture of ₹ 100 each	1,50,000	Investments	75,000
11% debentures of ₹ 100 each	3,00,000	Sundry debtors	3,15,000
Interest due to debentures holders	19,500	Bills Receivables	1,00,000
Sundry Creditors	4,50,000	Bank	20,000
		Profit & loss A/c	1,75,500
	13,34,500		**13,34,500**

The following scheme of reconstruction was submitted and approved by the court :

(1) 11.5% Preference Shares of ₹10 each fully paid were reduced to 14% Preference Share of ₹ 10 each, ₹ 6 per share paid up.

(2) 10% Preference Shares of ₹ 10 each, ₹ 5 per share paid up, were reduced to 13% Preference Shares of ₹ 10 each, ₹ 3 per share paid up.

(3) Equity Shares of ₹ 10 each, fully paid were reduced to the denomination of ₹ 5 each fully paid.

(4) 11% debenture holders agreed to accept 50,000 equity shares of ₹ 5 each in full settlement of their claims.

(5) Debenture holders agree to forego the interest due on debentures.

(6) Sundry Creditors agreed to forego 10% of their claims.

(7) The Company recovered as damages a sum of ₹ 50,000 which was not recorded in the books.

(8) Cost of Reconstruction was paid ₹ 2,250.

(9) Assets are to be revalued as under :

	₹
Land and Buildings	2,50,000
Plant and Machinery	2,75,000
Furniture	10,000
Investments	90,000
Sundry Debtors	3,00,000

(10) All intangible assets and accumulated losses are to be written off.

You are required to :

(i) Pass Journal Entries in the Books of Delta Ltd.

(ii) Prepare Capital Reduction A/c and Balance Sheet after reconstruction.

Q. 8. The shareholders of Maitri Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2012 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Maitri Ltd.

Summarised Balance Sheet of Maitri Ltd. as on 31.3.2012

Liabilities		₹	Assets		₹
Share Capital			Fixed Assets		
30,000 Equity shares of ₹ 10 each		3,00,000	Trademarks and Patents		1,10,000
40,000 8% Cumulative Preference			Goodwill at cost		36,100
shares ₹ 10 each		4,00,000	Freehold Land		1,20,000
Reserves and Surplus			Freehold Premises		2,44,000
Securities Premium Account		10,000	Plant and Equipment		3,20,000
Profit and Loss Account		(1,38,400)	Investment (marked to market)		64,000
9% Debentures (₹ 100)	1,20,000		Current Assets		
Accrued Interest	5,400	1,25,400	Inventories:		
Current liabilities			Raw materials and packing		
Trade payables		1,20,000	materials	60,000	
Vat payable		50,000	Finished goods	16,000	76,000
Temporary bank overdraft		2,23,100	Trade receivables		1,20,000
		10,90,100			**10,90,100**

Note : Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

(1) The authorized capital of the Company to be re-fixed at ₹ 10 lakhs (preference capital of ₹ 3 lakhs and equity capital of ₹ 7 lakhs). Both classes of shares are of ₹10 each.

(2) The preference shares are to be reduced to ₹ 5 each and equity shares reduced by ₹ 3 per share. Post reduction, both classes of shares to be re-consolidated into ₹ 10 shares.

(3) Trade Investments are to be liquidated in open market.

(4) One fresh equity shares of ₹ 10 to be issued for every ₹ 40 of preference dividends in arrears (ignore taxation).

(5) Expenses for the scheme were ₹ 10,000.

(6) The debenture holders took over freehold land at ₹ 2,10,000 and settled the balance after adjusting their dues.

(7) Unprovided contingent liabilities were settled at ₹ 54,000 and a pending insurance claim receivable settled at ₹ 12,500.

(8) The intangible assets were all to be written off along with ₹ 10,000 worth obsolete packing material and 10% of the receivables.

(9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.

(10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose.

CHAPTER-5

AMALGAMATION, ABSORPTION AND RECONSTRUCTION

Q. 1. The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2012

Liabilities	₹	Assets	₹
14,000 Equity shares of ₹ 100 each fully paid	14,00,000	Sundry assets	18,00,000
General reserve	10,000	Discount on issue of debentures	10,000
10% Debentures	2,00,000	P & L A/c	90,000
Trade payables	2,40,000		
Bank overdraft	50,000		
	19,00,000		**19,00,000**

'R' Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis of the following :

The market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of ₹ 25,000.

Q. 2. The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2011 was as under :

Assets	Hari Ltd. (₹)	Vayu Ltd. (₹)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Stock	2,50,000	1,75,000
Debtors	2,00,000	1,00,000
Cash at Bank	50,000	20,000
Preliminary Expenses	30,000	10,000
	13,80,000	**5,80,000**
Liabilities	**Hari Ltd. (₹)**	**Vayu Ltd. (₹)**
Share Capital :		
Equity shares of ₹ 10 each	10,00,000	3,00,000
9% Preference Shares of ₹100 each	1,00,000	----
10% Preference Shares of ₹ 100 each	----	1,00,000
General Reserve	1,00,000	80,000
Retirement Gratuity Fund	50,000	20,000
Sundry Creditors	1,30,000	80,000
	13,80,000	**5,80,000**

Hari Ltd. absorbs Vayu Ltd. on the following terms :

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.

(c) Stock to be taken over at 10% less value and Reserve for Bad and Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

Calculate the PC.

Q. 3. Exe Limited was wound up on 31.3.2011 and its Balance Sheet as on that date was given below :

Balance Sheet of Exe Limited as on 31.3.2011

Liabilities	₹	Assets			₹
Share Capital		Fixed Assets			9,64,000
1,20,000 Equity Shares		Current Assets			
of ₹ 10 each	12,00,000	Stock		7,75,000	
Reserves and Surplus		Sundry Debtors	1,60,000		
Profit Prior to Incorporation	42,000	Less Provision for			
Contingency Reserve	2,70,000	bad and doubtful debts	8,000	1,52,000	
Profit and Loss A/c	2,52,000	Bills Receivable		30,000	
Current Liabilities		Cash at Bank		3,29,000	12,86,000
Bills Payable	40,000				
Sundry Creditors	2,26,000				
Provisions :					
Provision for Income - tax	2,20,000				
	22,50,000				**22,50,000**

Wye Limited tookover the following assets at values shown as under :

Fixed assets ₹ 12,80,000, Stock ₹ 7,70,000 and Bills Receivable ₹ 30,000.

Purchase consideration was settled by Wye Limited as under :

₹ 5,10,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of ₹ 100 each. The balance was settled by issuing equity shares of ₹ 10 each at ₹ 8 per share paid up.

You are required to :

Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.

Q. 4. The following are the Balance Sheets of Strong Limited and Small Limited as at 31st March, 2011 :

Liabilities	Strong Ltd.	Small Ltd.	Assets	Strong Ltd.	Small Ltd.
	₹	₹		₹	₹
Share Capital			**Fixed Assets, at cost less depreciation**	1,40,000	75,000
Equity Shares of face value of ₹10 each	1,50,000	1,20,000	**Current Assets**		
Reserves	95,000	10,000	Stock	42,000	47,000
Secured Loans			Trade Debtors	30,000	50,000
10% Debentures	----	20,000	Bank	80,000	10,000
Current Liabilities					
Trade Creditors	47,000	32,000			
	2,92,000	**1,82,000**		**2,92,000**	**1,82,000**

Strong Limited agreed to absorb Small Limited as on 31st March, 2011 on the following terms :

1. Strong Limited agreed to repay 10% Debentures of Small Limited.
2. Strong Limited to revalue its Fixed Assets at ₹ 1,95,000 to be incorporated in the books.
3. Shares of both the companies to be valued on net Assets basis, after considering ₹ 50,000 towards value of goodwill of Small Limited.
4. The cost of absorption of ₹ 3,000 is met by Strong Limited.

You are required to :

Calculate the ratio of exchange of shares.

Q. 5. Following are the summarised Balance Sheets as on 31st March of Arun Ltd. & Varun Ltd.

Arun Ltd.

Liabilities	₹	Assets	₹
Authorised & Issued Capital		Buildings	6,00,000
15,000 Equity shares of ` 100 each	15,00,000	Plant & Machinery	5,50,000
General Reserve	2,00,000	Furniture	10,000
Profit and Loss Account	1,20,000	Stock	3,80,000
Sundry Creditors	2,40,000	Sundry Debtors	2,30,000
		Cash and Bank Balances	2,90,000
	20,60,000		**20,60,000**

Varun Ltd.

Liabilities	₹	Assets	₹
Authorised & Issued Capital		Goodwill	1,00,000
5,000 Equity shares of ₹ 100 each	5,00,000	Plant & Machinery	4,20,000
Capital Reserve	50,000	Furniture	5,000
Revenue Reserve	25,000	Stocks	1,80,000
Profit & Loss A/c	35,000	Sundry Debtors	1,80,000
6% Debentures	3,00,000	Expense on New Project	75,000
Sundry Creditors	95,000	Cash and Bank balances	45,000
	10,05,000		**10,05,000**

Varun Ltd. was absorbed by Arun Ltd. on 1st April, 2011 on following terms :

(a) Fixed assets other than goodwill to be valued at ₹ 5,00,000 including ₹ 6,000 for furniture.

(b) Value of stock to be reduced by ₹ 20,000 in respect of obsolete items and balance of sundry debtors by 5%.

(c) Arun Ltd. to assume liabilities and to discharge 6% debenture by issue of 5% debentures of equivalent amount and a cash premium of 6%.

(d) New project is to be valued at ₹ 95,000.

(e) Shareholders of Varun Ltd. to receive cash payment of ₹ 30 per share plus for equity shares in Arun Ltd. for five shares held by them.

(f) Both the companies to declare and pay dividend at 6% prior to absorption.

(g) Expenses of liquidation of Varun Ltd. are to be reimbursed by Arun Ltd. to the extent of ₹ 5,000. The actual expenses amounted to ₹ 6,000. Show journal entries in the books of Varun Ltd. and Balance Sheet of Arun Ltd. after absorption assuming that Arun Ltd.'s, Authorised Capital has been increased to ₹ 20,00,000.

Q. 6. S. Ltd. is absorbed by P. Ltd. The draft balance sheet of S. Ltd. is as under :

Balance Sheet

	₹		₹
Share Capital :			
2,000 7% Preference shares		Sundry Assets	13,00,000
of ₹ 100 each (fully paid-up)	2,00,000		
5,000 Equity shares of			
₹100 each (fully paid-up)	5,00,000		
Reserves	3,00,000		
6% Debentures	2,00,000		
Trade payables	1,00,000		
	13,00,000		**13,00,000**

P. Ltd. has agreed :

(i) to issue 9% Preference shares of ₹100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.

(ii) to issue to the debenture-holders in S. Ltd. 8% Mortgage Debentures at ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%;

(iii) to pay ₹ 20 per share in cash and to issue six equity shares of ₹100 each (market value ₹ 125) in lieu of every five shares held in S. Ltd.; and

(iv) to assume the liability to trade payables.

You are required to calculate the purchase consideration.

Q. 7. Let us consider the draft Balance Sheet of X Ltd. as on 31st March, 2014:

Liabilities	**₹ ('000)**	**Assets**	**₹ ('000)**
Share Capital:		Land & Buildings	50,00
Equity Shares of 10 each	75,00	Plant & Machinery	45,00
14% Preference Shares of		Furniture	10,50
₹ 100 each	25,00	Investments	5,00
General Reserve	12,50	Inventory	23,00
12% Debentures	40,00	Trade receivables	24,00
Trade payables and other		Cash & Bank balance	15,00
Current liabilities	20,00		
	172,50		**172,50**

Other Information:

(i) Y Ltd. takes over X Ltd. on 10th April, 2014.

(ii) Debentureholders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.

(iii) 14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value ₹ 100 each).

(iv) Intrinsic value per share of X Ltd. is ₹ 20 and that of Y Ltd. ₹ 30. Y Ltd. will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. However, the entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹ 10

Compute the purchase consideration.

Q. 8. Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2012.
Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2012:

Liabilities	**Neel**	**Gagan**	**Assets**	**Neel**	**Gagan**
	₹	**₹**		**₹**	**₹**
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	**14,12,600**		**13,98,500**	**14,12,600**

Following are the additional information:

(i) The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.

(ii) Liabilities of Neel Ltd. includes ₹ 50,000 due to Gagan Ltd. for the purchases made. Gagan Ltd. made a profit of 20% on sale to Neel Ltd.

(iii) Neel Ltd. had purchased goods costing ₹ 10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 2012.

(iv) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	**Gagan**
	₹	**₹**
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(v) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	Neel	**Gagan**
	₹	**₹**
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	**4,75,000**	**5,25,000**

(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.2012 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the :

(i) equity and preference shares issued to Neel Ltd. and Gagan Ltd.,

(ii) Purchase consideration.

Q. 9. Following are the Balance Sheets of Batuk Ltd. and Vaman Ltd. as on 31st March, 2011.

Balance Sheet of Batuk Ltd.

Liabilities	₹	Assets	₹
5,000 Shares of 10 each	50,000	Buildings	15,000
General Reserve	19,000	Machinery	55,000
Profit and Loss A/c	1,000	Stock	8,000
Sundry Creditors	15,000	Debtors	7,000
Employee's Provident Fund	1,500	Cash	1,500
	86,500		**86,500**

Balance Sheet of Vaman Ltd.

Liabilities	₹	Assets		₹
1,500 Shares of 20 each	30,000	Machine		25,000
Sundry Creditors	4,000	Stock		4,000
		Debtors	5,000	
		Less : Provision for Bad Debts	500	4,500
		Cash		500
	34,000			**34,000**

The two companies agree to amalgamate and form a new company called Virat Ltd. which takes over the assets and liabilities of both the companies.

The assets of Batuk Ltd. are taken over at a reduced valuation of 5 per cent with the exception of Buildings and Cash which are taken at book values. The assets of Vaman Ltd. are taken over at book values with the exception that provision for bad debts is no longer to be continued.

Both companies are to receive 10 per cent of the Net valuation of their respective business as Goodwill. The entire purchase price is to be paid by Virat Ltd. in fully paid shares of 10 each. Give Journal Entries to close the books of Batuk Ltd. and show the Opening Balance Sheet of Virat Ltd.

Q. 10. X Co. Ltd. agrees to absorb Y Co. Ltd. on 31-3-2011 on which date their Balance Sheets are follows :

Liabilities	X Co. Ltd. ₹	Y Co. Ltd. ₹	Assets	X Co. Ltd. ₹	Y Co. Ltd. ₹
Share Capital			Fixed assets	2,50,000	1,00,000
Equity Shares			Stock	1,50,000	80,000
of ₹ 10 each	3,00,000	1,50,000	Debtors	80,000	60,000
Profit and Loss A/c	1,00,000	50,000	Bills Receivable	70,000	40,000
General Reserve	1,00,000	50,000	Cash and Bank	50,000	30,000
Bills Payable	40,000	20,000			
Sundry Creditors	60,000	40,000			
	6,00,000	**3,10,000**		**6,00,000**	**3,10,000**

The purchase consideration is ₹ 2,80,000 payable in Equity shares of ₹ 10 each.

Additional information :

(a) Sundry Debtors of X Co. Ltd. include ₹ 30,000 due from Y Co. Ltd.

(b) Bills payable of X Co. Ltd. include ₹12,000 due to Y Co. Ltd.

(c) The Stock of X Co. Ltd. include ₹ 20,000 worth of goods purchased from Y Co. Ltd. on which Y Co. Ltd. made a profit of 25% on cost, whereas, the stock of Y Co. Ltd. include ₹ 16,000 worth of goods purchased from X Co. Ltd. on which X Co. Ltd. made a profit of 20% on sales.

Show the entries in the books of both the companies and the opening Balance Sheet of X Co. Ltd.

Q. 11. Y Ltd. decides to absorb X Ltd. The draft Balance Sheet of X Ltd. is as follows:

	₹		₹
3,000 Equity shares of		Net assets	2,90,000
₹100 each (fully paid)	3,00,000	Profit and Loss Account	70,000
Preference shares	60,000		
	3,60,000		**3,60,000**

Y Ltd. agrees to take over the net assets of X Ltd. An equity share in X Ltd., for purposes of absorption, is valued @ ₹ 70. Y Ltd. agrees to pay ₹ 60,000 in cash for payment to preference shareholders, equity shares will be issued at value of ₹120 each. Calculate purchase consideration to be paid by Y Ltd. and how will it be discharged?

Q. 12. The following draft Balance Sheets are given as on 31st March, 2014:

	(₹in lakhs)			(₹ in lakhs)	
	Best Ltd.	**Better Ltd.**		**Best Ltd.**	**Better Ltd.**
	₹	₹		₹	₹
Share Capital			Fixed Assets	25	15
Shares of ₹ 100, each			Investments	5	–
fully paid	20	10	Current Assets	20	5
Reserve and Surplus	10	8			
Other Liabilities	20	2			
	50	**20**		**50**	**20**

The following further information is given —

(a) Better Limited issued bonus shares on 1st April, 2014, in the ratio of one share for every two held, out of Reserves and Surplus.

(b) It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.

(c) The value of shares in Best Ltd. was considered to be ₹ 150 and the shares in Better Ltd. were valued at ₹100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.

(d) Liabilities of Better Ltd., included ₹1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet. Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 2014 after the takeover.

Q. 13. The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31.3.2014:

	(₹ in thousands)	
Liabilities	**A Ltd.**	**B Ltd.**
Share capital:		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	—
10% Debentures	500	—
Loans from Banks	250	450
Bank overdrafts	—	50
Trade payables	300	300
Proposed dividend	200	—
Total	**4,050**	**1,800**
Assets		
Tangible assets / fixed assets	2,700	850
Investments	700	---
Trade receivables	400	150
Cash at bank	250	---
Accumulated loss	---	800
Total	**4,050**	**1,800**

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of ₹ 60 thousands of B Ltd.

(ii) B Ltd. will reduce its shares to ₹10 per share and then consolidate 10 such shares into one share of ₹100 each (new share).

(iii) Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

(iv) Proposed dividend of A Ltd. will be paid after merger to shareholders of A Ltd.

(v) Trade payables of B Ltd. includes ₹100 thousands payable to A Ltd.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger.

Q. 14. Given below are the summarized balance sheets of Huge Ltd and Big Ltd. as on 31.12.2013. Big Ltd. was merged with Huge Ltd. with effect from 1.1.2014.

Balance Sheets as on 31.12.2013

(₹)

Liabilities	Huge Ltd.	Big Ltd.	Assets	Huge Ltd.	Big Ltd.
Share capital :			Sundry fixed assets	9,50,000	4,00,000
Equity shares of ₹ 10	7,00,000	2,50,000	Investments (Non-trade)	2,00,000	50,000
each			Inventory	1,20,000	50,000
General reserve	3,50,000	1,20,000	Trade receivables	75,000	80,000
Profit and loss A/c	2,00,000	65,000	Advance tax	80,000	20,000
Export profit reserve	70,000	40,000	Cash and bank	2,75,000	1,30,000
12% Debentures	1,00,000	1,00,000			
Trade payables	40,000	45,000			
Provision for taxation	1,00,000	60,000			
Proposed Dividend	1,40,000	50,000			
	17,00,000	**7,30,000**		**17,00,000**	**7,30,000**

Huge Ltd. would issue 12% debentures to discharge the claims of the debenture holders of Big Ltd. at par. Non-trade investments of Huge Ltd. fetched @ 25% while those of Big Ltd. fetched @ 18%. Profit of Huge Ltd. and Big Ltd. during 2011 2012 and 2013 were as follows:

Year	Huge Ltd.	Big Ltd.
	₹	₹
2011	5,00,000	1,50,000
2012	6,50,000	2,10,000
2013	5,75,000	1,80,000

Goodwill may be calculated on the basis of capi talization method taking 20% as the normal rate of return. Purchase consideration is discharged by Huge Ltd. on the basis of intrinsic value per share. Both companies decided to cancel the proposed dividend as it has already been not approved by Board of Directors.

Pass Journal Entries and prepare the balance sheet of Huge Ltd. after the merger.

CHAPTER-6 PROFIT PRIOR TO INCORPORATION

Q. 1. Hina Ispat Ltd. incorporated on 1st August, 2010 to take over a business from preceeding 1st April. The accounts were made upto 31st March, 2011 as usual and the trading and Profit and Loss Account showed the following results.

	₹		₹
To Opening Stock	30,000	By Sales	2,40,000
To Purchases	1,80,000	By Closing Stock	54,000
To Gross Profit c/d	84,000		
	2,94,000		**2,94,000**
To Salaries	12,000	By Gross Profit b/d	84,000
To Rent & Rates	4,800		
To Director's Fees	3,000		
To Travellers Commission	2,400		
To Bad Debts	500		
To Office Expenses	12,000		
To Debenture interest	1,000		
To Discount	3,600		
To Audit Fees	600		
To Depreciation	1,800		
To Interest on Purchase Consideration to 1.1.2011	4,500		
To Formation Expenses	5,000		
To Carriage Outwards	1,200		
To General Expenses	2,100		
To Advertising	1,800		
To Stationery and Printing	3,000		
To Net Profit	24,700		
	84,000		**84,000**

Notes :

1. It is ascertained that sales for April were one and a half times of the average of the year, whilst for July, November and March were only half the average and those for June twice the average. The sales for the remaining months was average of the year.
2. Out of bad debts ₹ 200 relate to debts created prior to incorporation. Apportion the year's profit between pre - incorporation and post incorporation periods.

Q. 2. ABC Ltd. took over a running business with effect from 1st April, 2014. The company was incorporated on 1st August, 2014. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2015:

	₹		₹
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Miscellaneous trade expenses	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	4,200		
To Director's fee	11,200		
To Bad debts	3,200		
To Commission to selling agents	16,000		
To Tax Audit fee	6,000		
To Debenture interest	3,000		
To Interest paid to vendor	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	87,600		
	3,20,000		**3,20,000**

Additional information:

(a) Total sales for the year, which amounted to ₹ 19,20,000 arose evenly upto the date of 30.9.2014. Thereafter they spurted to record an increase of two - third during the rest of the year.

(b) Rent of office building was paid @ ₹ 2,000 per month upto September, 2014 and thereafter it was increased by ₹ 400 per month.

(c) Travelling expenses include ₹ 4,800 towards sales promotion.

(d) Depreciation include ₹ 600 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2014 by issuing equity shares of ₹10 each.

Prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

Q. 3. Veekay Private Limited was incorporated on 1st August, 2010. This company agreed to take over business of M/s. Jay Vijay & Company as going concern, effective from 1st April, 2010.

The agreement also provided that vendors are entitled to 60% of profits for period upto 1st August, 2011. The Profit and Loss Account for year ended 31st March, 2011 is :

Particulars	**₹**	**Particulars**	**₹**
To Stock	30,000	By Sales	3,00,000
To Materials Consumed	1,20,000	By Stocks	42,000
To Wages	30,000		
To Factory Expenses	42,000		
To Gross Profit	1,20,000		
	3,42,000		**3,42,000**
To Salaries	30,000	By Gross Profit	1,20,000
To Rent	9,000	By Profit on Sale of Investment	20,000
To Office Expenses	6,000		
To Sales Commission	15,000		
To Bad Debts	5,000		
To Director Fees	8,000		
To Depreciation	18,000		
To Debentures Interest	8,000		
To Interest to Vendor	6,000		
To Net Profit	35,000		
	1,40,000		**1,40,000**

Additional Information :

(i) Monthly Sales for October, 2010 to March, 2011 is 150% of monthly sales for April, 2010 to September, 2010.

(ii) Bad debt is in respect of sales effected two years ago.

(iii) Investment was sold on 1st November, 2010.

(iv) Consideration to Vendors was paid on 1st October, 2010.

(v) Rent was increased from ₹ 500 per month to ₹ 1,000 per month effective from 1st October, 2010.

Prepare Profit & Loss Account.

CHAPTER-7 AVERAGE DUE DATE AND ACCOUNT CURRENT

AVERAGE DUE DATE

Q. 1. Hari owes Ram ₹ 2000 on 1st April, 2010. From 1st April, 2010 to 30th June, 2010 the following further transactions took place between Hari and Ram :

April 1 Hari buys goods from Ram for ₹ 5,000.

May 16 Hari receives cash loan of ₹ 10,000 from Ram.

June 9 Hari buys goods from Ram for ₹ 3,000.

Hari pays the whole amount together with interest @ 15% per annum to Ram on 30th June, 2010. Calculate the interest payable on 30th June, 2010 by the Average due date method.

Q. 2. Calculate Average Due date from the following information :

Date of the bill	Term	Amount ₹
August 10, 2009	3 months	6,000
October 23, 2009	60 days	5,000
December 4, 2009	2 months	4,000
January 14, 2010	60 days	2,000
March 8, 2010	2 months	3,000

Q. 3. A and B two partners of a firm, have drawn the following amounts from the firm in the year ending 31st March.

Date	A ₹	Date	B ₹
1.7	500	12.6	1,000
30.9	800	11.8	500
1.11	1,000	9.2	400
28.2	400	7.3	900

Interest at 6% p.a. is charged on all drawings. Calculate interest chargeable.

Q. 4. 'A' lent ₹ 25,000 to 'B' on 1st January, 2010. The amount is repayable in 5 yearly instalments commencing from 1st January, 2011. Calculate the Average due date and Interest @ 10% per annum.

Q. 5. Two traders A and B buy goods from one another, each allowing the other one month's credit. At the end of 3 months the account rendered are as follows :

Goods sold by A to B	₹	Goods sold by B to A	₹
April 17	100	April 25	150
May 20	200	May 20	100
June 15	250		

Q. 6. ₹ 10,000 lent by Dass Bros. to Kumar & Sons on 1st January, 2010 is repayable in 5 equal instalments commencing on 1st January, 2011. Find the average due date and calculate interest at 5% per annum, which Das Bros. will recover from Kumar & Sons.

Q. 7. A partner has withdrawn the following amounts, in anticipation of profits, during the half year ended 30th June, 2010.

January	15	500
February	20	800
March	17	1,600
April	25	900
May	12	2,400
June	30	600

According to the partnership agreement interest @ 10% p.a. is to be charged on all drawings. Ascertain, by the average due date method, the amount of interest to be paid by the partner for the half year.

ACCOUNT CURRENT

Q. 8. From the following information prepare a statement shown by B in Account current with A. Books of A :

2011

Jan. 15	sold good to B ₹ 20,000 ;
Feb. 1	sold goods of B ₹ 10,000
Feb. 15	cash received from B ₹ 18,000 ;
March 1	sold goods to B ₹ 25,000
March 10	cash received from B ₹ 7,000
March 28	cash received from B ₹ 7,000

Calculate the amount of interest to be payable by one party to the other @ 15% p.a.

Q. 9. From the following transactions to be payable by one party of Mr. Hariharan, prepare an Account Current to be sent by him to Mr. Maniramappa for the quarter ending 31st March charging and or allowing interest @ 12% p.a.

2010

Jan. 1	Balance in Muniramppa's Account (credit) ₹ 20,000 ;
Jan. 12	sold goods to Maniramappa ₹25,000
Jan. 31	sold goods to Muniramappa ₹ 25,000
Feb. 15	cash received ₹ 35,000
Feb. 20	cash received 5,000
March 1	goods returned by Muniramappa ₹ 5,000
March 20	cash received ₹ 10,000

Prepare an Account Current by means of product and by means of period of balance. What is the amount of interest?

CHAPTER-8

SELF - BALANCING LEDGERS

Q. 1. From the following information prepare (1) Debtors Ledger Adjustment Account in the General Ledger (2) General Ledger Adjustment Account in the Debtors Ledger.

		₹
Opening Balance of Sundry Debtors	(Dr.)	40,000
	(Cr.)	2,000
Cash and Cheques receipts		1,60,000
Credit sales as per Sales Day Book		2,00,000
Discount Allowed		6,000
Returns Inward		4,000
Bad Debts		3,000
Bills Receivable Received		20,000
Bills Receivable Dishonoured		2,000
Provision for bad debts		2,000
Closing credit balance of Sundry Debtors		6,000
Transfer from Debtors Ledger to Creditors Ledger		1,000
Transfer from Creditors Ledger to Debtors Ledger		1,200

Q. 2. From the following particulars, prepare the Creditors Ledger Adjustment Account as it would appear in general ledger and General Ledger Adjustment Account as it would appear in creditors ledger for the year ended 31st March, 2011.

		₹
Sundry Creditors (on 1.4.2010)	Cr.	60,000
———— do ———	Dr.	2,000
Purchases (including Cash Purchase ₹ 10,000)		70,000
Returns Outward		10,000
Cash and Cheques paid to Creditors		30,000
Discount allowed by Creditors		6,000
Trade Discount		1,000
Price reduction allowed on damaged goods		2,000
Bills Receivable endorsed to Creditors		5,000
Bills payable issued during the year		8,000
Bills payable matured		1,000
Bills payable dishonoured		2,000
Bills payable renewed		1,000
Interest on Bills payable renewed		50
Sundry charges paid for dishonour of Bills Payable		50
Total set-off in Debtors Ledger		4,000
Sundry Creditors (on 31.3.2011) Dr.		1,000

Q. 3. The following particulars are obtained from books of Z Ltd. for the year ended 31st March, 2012:

	₹		₹
Cash Sales	75,000	Bills Receivable dishonoured	2,500
Credit Purchases	2,80,000	Returns Inward	10,500
Collection from Debtors	5,00,000	Payment to creditors	2,62,000
Bills Receivable drawn	20,000	Discount allowed by creditors	3,000
Discount Received	5,000	Debtors' cheque returned	7,000
Cash Purchases	72,000	Dishonoured	
Bills Payable paid	6,500	Credit Sales	5,25,000
Recovery of Bad Debts	1,500	Bills Receivables collected	10,000
Bills Receivable disounted with Bank	8,000	Returns outward	3,700
Interest charged on overdue	1,200	Bills Receivable endorsed to creditors	7,900
Customer's Accounts		Over payments refunded by suppliers	600
Endorsed Bills Receivable dishonoured	5,500	Bad Debts	1,000
Bills Payable accepted	16,000	Opening Balances	
		Sundry Debtors	78,000
		Sundry Creditors	85,000

You are required to prepare Total debtors a/c & Total creditors a/c.

Q. 4. From the following information available from the books of a Trade from 1.1.2011 to 31.3.2011, you are required to draw up the Debtors Ledger Adjustment Account in the General Ledger :

(a) Total sales amounted to ₹ 1,80,000 including the sale of old Xerox Machine for ₹ 4,800 (Book value ₹ 8,000). The total Cash sales were 80% less than the total Credit sales.

(b) Cash collections from debtors amounted to 70% of the aggregate of the opening debtors and Credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.

(c) Bills Receivable drawn during the three months totalled ₹ 30,000 of which bills amounting to ₹ 10,000 were endorsed in favour of suppliers. Out of the endorsed Bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realised nothing.

(d) Cheques received from customers ₹ 8,000 were dishonoured, a sum of ₹ 2,000 was irrecoverable; Bad debts written off in the earlier years realised ₹ 11,000.

(e) Sundry debtors as on 1.1.2011 stood at ₹ 50,000.

Q. 5. The following particulars are obtained from books of a Self Ltd. for the year ended 31st March, 2013:

	₹		₹
Cash Sales	25,000	Bills Receivable dishonoured	2,500
Credit Purchases	2,80,000	Return Inward	8,500
Collection from Debtors	4,25,000	Payments to creditors	1,62,000
Bills Receivable drawn	20,000	Discount allowed	3,000
Discount Received	2,500	Debtors' cheque returned dishonoured	7,500
Cash Purchases	12,000	Credit Sales	4,90,000
Bills Payable paid	6,500	Bills Receivables collected	10,000
Recovery of Bad Debts	1,500	Return outward	3,700
Bills Receivable discounted with Bank	8,000	Bills Receivable endorsed to creditors	7,900
Interest charged on overdue	1,200	Overpayments refunded by suppliers	600
Customer's Accounts		Bad Debts	1,000
Endorsed Bills Receivable	5,500	<u>Opening Balances</u>	
dishonoured (noting charges ₹ 75)		Sundry Debtors	78,000
Bills Payable accepted	16,000	Sundry Creditors	85,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

CHAPTER-9 FINAL ACCOUNTS OF NOT - FOR PROFIT ORGANISATIONS

Q. 1. The following is the Receipts and Payments Account of Ramnagar Sporting Club for the year ended 31.3.2011 :

Receipts and Payments Account

Receipts		₹	Payments	₹
To Cash in hand (1.4.10)		3,200	By Bank Overdraft (1.4.10)	6,000
To Subscriptions			By Investments in Securities	8,000
2009-10	800		By Furniture	3,200
2010-11	36,400		By Salaries & Wages	15,200
2011-12	400	37,600	By Printing & Stationery	1,700
To Income from Drama		6,000	By Insurance	300
To Sale of old Furniture		300	By Cost of staging Drama	3,000
To Interest on Securities		1,000	By General Expenses	3,000
To Entrance Fees		1,400	By Cash in Hand	1,200
			By Cash at Bank	7,900
		49,500		**49,500**

Additional Information :

(a) Subscription of ₹ 200 are still in arrears for the year 2009-10. Subscriptions of ₹ 3,000 are to be received in respect of the year 2010-11.

(b) Entrance fees are to be capitalised.

(c) Stock of stationery on 31.3.2010 was ₹ 500 and on 31.3.2011 was ₹150.

(d) Salaries of ₹ 1,000 are outstanding on 31.3.2011.

(e) Balances (on 1.4.2010) : Land & Building ₹ 60,000 ; Investments ₹ 10,000 ; Furniture ₹ 6,000.

(f) Depreciate Land and Buildings and Furniture at 5% p.a.

(Depreciation to be calculated on opening balances).

You are required to prepare an Income & Expenditure Account for the year ended 31.3.2011, and a Balance Sheet as on that date.

Q. 2. From the following Income & Expenditure A/c of Premium Sports Club for the year ended 31st March, 2012, you are required to prepare Receipts & Payment A/c for the year ended 31st March, 2012 and Balance Sheet as on that date:

Expenditure	(₹)	Income	(₹)
To Salaries	1,18,800	By Subscriptions	4,20,000
To Rent	2,16,000	By Entrance Fee	1,20,000
To Printing & Stationery	28,000	By Profit on sale of Sports	
To Postage & Telephone	41,600	Material	5,500
To Membership Fee	3,200	By Interest on 8%	
To Electricity Charges	38,500	Government Bonds	12,000
To Garden Upkeep	19,300	By Sale of Old Newspaper	11,600
To Sports Material Utilized	62,800		
To Repairs & Maintenance	18,700		
To Depreciation	13,000		
To Miscellaneous Expenses	5,700		
To Surplus carried to CapitalFund	3,500		
Total	**5,69,100**	**Total**	**5,69,100**

The following additional information is provided to you:

(a)

	Balances as on 01.04.2011	Balances as on 31.03.2012
Fixed Assets	2,40,000	?
Bank Balance	8,300	?
Stock of Sports Material	43,450	35,670
Outstanding Subscription	10,200	5,700
Subscription received in advance	2,400	4,900
8% Government Bonds	1,50,000	1,50,000
Outstanding Salaries	16,000	14,300
Outstanding Rent	21,000	15,000
Advance for Stationery	1,350	1,550
Outstanding Repairs & Maintenance	1,200	Nil
Creditors for purchase of Sports Material	3,400	4,200

(b) Some of Fixed Assets were purchased on 01.10.2011 and depreciation is to be charged @ 5% p.a.

(c) Sports Material worth ₹ 72,000 was purchased on credit during the year.

(d) The Club became member of State Table Tennis Association on 01.01.2012 when it paid fee up to 31.12.2012.

(e) 50% of Entrance Fee is to be capitalized.

(f) Interest on 8% GovernmentBonds was received for two quarters only.

(g) A Fixed Deposit of ₹ 80,000 was made on 31st March, 2012.

Q. 3. From the following Income and Expenditure Account and the Balance Sheet of a club, prepare its Receipts and Payments Account and Subscription Account for the year ended 31st March, 2013:

Income & Expenditure Account for the year 2012-13

	₹		₹
To Upkeep of Ground	10,000	By Subscriptions	17,320
To Printing	1,000	By Sale of Newspapers (Old)	260
To Salaries	11,000	By Lectures	1,500
To Depreciation on Furniture	1,000	By Entrance Fee	1,300
To Rent	600	By Misc. Income	400
		By Deficit	2,820
	23,600		**23,600**

Balance Sheet as at 31st March, 2013

Liabilities		₹	**Assets**	₹
Subscription in Advance			Furniture	9,000
(2013-14)		100	Ground and Building	47,000
Prize Fund :			Prize Fund Investment	20,000
Opening Balance	25,000		Cash in Hand	2,300
Add : Interest	1,000		Subscription (2012-13)	700
	26,000			
Less : Prizes	(2,000)	24,000		
General Fund :				
Opening Balance	56,420			
Less : Deficit	(2,820)			
	53,600			
Add : Entrance Fee	1,300			
		54,900		
		79,000		**79,000**

The following adjustments have been made in the above accounts:

(1) Upkeep of ground ₹ 600 and Printing ₹ 240 relating to 2011-2012 were paid in 2012-13.

(2) One-half of entrance fee has been capitalised by transfer to General Fund.

(3) Subscription outstanding in 2011-12 was ₹ 800 and for 2012-13 ₹ 700.

(4) Subscription received in advance in 2011-12 was ₹ 200 and in 2012-13 for 2013-14 ₹ 100.

Q. 4. The Income and Expenditure Account of the Bombay Club for the year 2010-11 is as follows :

	₹		₹
To Salaries	1,20,000	By Subscription	1,70,000
To Printing and Stationery	6,000	By Entrance Fees	4,000
To Postage	500	By Contribution for Dinner	36,000
To Telephone	1,500		
To Interest and Bank Charges	5,500		
To Audit Fees	2,500		
To Annual Dinner Expenses	25,000		
To Depreciation	7,000		
To Surplus	42,000		
	2,10,000		**2,10,000**

The Account has been prepared after the following adjustments :

Subscription outstanding on 31st March, 2010	16,000
Subscription outstanding on 31st March, 2011	18,000
Subscription received in advance on 31st March, 2010	13,000
Subscription received in advance on 31st March, 2011	8,400
Salaries outstanding on 31st March, 2011	6,000
Salaries outstanding on 31st March, 2010	8,000
Audit fees for 2009-10 paid during 2010-11	2,000
Audit fees for 2010-11 not paid	2,500
The club owned a building since 2006-07	1,90,000
The club had sports equipments on 31st March, 2010 valued at	52,000
At the end of the year after depreciation of ₹7,000 equipments amounts to	63,000
In 2009-10 the club has raised a bank loan which is still not paid	30,000
Cash in hand on 31st March, 2011	28,500

Prepare the Receipt and Payments Account of the Club for 2010-11 and the Balance Sheet on 31st March, 2011. All workings should from part of your answer.

Q. 5. A political association prepared its accounts on 31st March, 2011 every year Following information is available for the year 2010-11 :

(a) They started the year with ₹ 20,000 cash and bank balance and ended with a cash and bank balance of ₹ 9,650.

(b) They received subscription amounting to ₹ 8,350 of which ₹ 250 represented arrears of 2009-10, ₹ 7,600 for current year and ₹ 500 received in advance for the year 2011-12.

(c) They received ₹ 5,200 donation to Capital Fund and ₹ 8,500 to Election Fund. Balance of Election Fund on 1-4-10 amounted to ₹ 150 and election expenses paid during the year were ₹ 7,200.

(d) They held ₹ 10,000 investments on 1-4-10 and interest received on investment during 2010-11 amounted to ₹ 1,400.

(e) Office space was purchased during the year at a cost of ₹ 30,000 out of which ₹ 20,000 was to be treated as loan and the balance was paid in cash.

(f) Office furniture was valued at ₹ 1,500 on 1-4-2010 and ₹1,700 was paid for additions during the year. At the end of the year furniture was valued at ₹ 2.500.

(g) Cost of literature published and distributed amounted to ₹ 750 and ₹ 1,250 was collected on distribution of literature.

(h) Other payments during the year 2010-11 were as follows :

(I) Salaries ₹ 10,500 (out of which ₹ 500 related to the year 2010-11)

(II) Rent: ₹ 1,700 (out of which ₹ 500 related to the year 2009-10)

(III) Meeting and Propaganda ₹ 1,650 (₹ 300 paid for arrangement of meetings to be hold in the year 2010-11).

(IV) Stationery ₹ 1,500.

Prepare :

(1) Receipt and Payment Account for the year ended 31st March, 2011 ;

(2) Income and Expenditure Account for the year ended 31st March, 2011 ;

(3) Balance Sheet as at 1-4-2010; and

(4) Balance Sheet as at 31st March, 2011.

Q. 6. The Sportwriters Club gives the following Receipts and Payments Account for the year ended March 31, 2013 :

Receipts and Payments Account

Receipts	₹	Payments	₹
To Balance b/d	4,820	By Salaries	12,000
To Subscriptions	28,600	By Rent and electricity	7,220
To Miscellaneous income	700	By Library books	1,000
To Interest on Fixeddeposit	2,000	By Magazines and newspapers	2,172
		By Sundry expenses	10,278
		By Sports equipments	1,000
		By Balance c/d	2,450
	36,120		**36,120**

Figures of other assets and liabilities are furnished as follows:

	As at March 31	
	₹	₹
	2012	**2013**
Salaries outstanding	710	170
Outstanding rent & electricity	864	973
Outstanding for magazines and newspapers	226	340
Fixed Deposit (10%) with bank	20,000	20,000
Interest accrued thereon	500	500
Subscription receivable	1,263	1,575
Prepaid expenses	417	620
Furniture	9,600	
Sports equipments	7,200	
Library books	5,000	

The closing values of furniture and sports equipments are to be determined after charging depreciation at 10% and 20% p.a. respectively in clusive of the additions, if any, during the year. The Club's library books are revalued at the end of every year and the value at the end of March 31, 2013 was ₹ 5,250.

From the above information you are required to prepare:

(a) The Club's Balance Sheet as at March 31, 2012;

(b) The Club's Income and Expenditure Account for the year ended March 31, 2013.

(c) The Club's Closing Balance Sheet as at March 31, 2013.

Q. 7. From the following balances and particulars of Republic College prepare Income & Expenditure Account for the year ended March, 2013 and a Balance Sheet as on the date :

	₹	₹
Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit-Students		1,50,000
Capital fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000
Tuition Fee received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts (Net)		2,00,000
College Stores-Sales		7,50,000
Outstanding expenses		2,25,000
Stock of-stores and Supplies	3,00,000	
Purchases-Stores & Supplies	8,00,000	
Salaries - Teaching	8,50,000	
Research	1,20,000	
Scholarships	80,000	
Students Welfare expenses	38,000	
Repairs & Maintenance	1,12,000	
Games & Sports Expenses	50,000	
Misc. Expenses	65,000	
Research Fund Investments	8,00,000	
Other Investments	18,50,000	
Provident Fund Investment	5,10,000	
Seminar & Conference Expenses	4,50,000	
Consultancy Expenses	28,000	
Land	1,00,000	
Building	16,00,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	6,00,000	
Motor Vehicle	1,80,000	
Provision for Depreciation Building		4,80,000
Plant & Equipment		5,10,000
Furniture & Fittings		3,36,000
Cash at Bank	6,42,000	
Library	3,60,000	
	1,03,85,000	**1,03,85,000**

Adjustments:

		₹
(1)	Materials & Supplies consumed:	
	Teaching	50,000
	Research	1,50,000
	Students Welfare	75,000
	Games or Sports	25,000
(2)	Tuition fee receivable from Government for	
	backward class Scholars	80,000
(3)	Stores selling prices are fixed to give a	
	net profit of 10% on selling price	
(4)	Depreciation is provided on straight line basis at the following rates:	
	(1) Building	5%
	(2) Plant & Equipment	10%
	(3) Furniture & Fixtures	10%
	(4) Motor Vehicle	20%

Q. 8. The following is the Receipts and Payments Account of Lion Club for the year ended 31st March, 2012.

Receipts	₹	Payments	₹
Opening balance		Salaries	1,20,000
Cash	10,000	Creditors	15,20,000
Bank	3,850	Printing and stationary	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 balance	
		Cash	8,000
		Bank	2,24,600
	21,53,600		**21,53,600**

The assets and liabilities as on 1.4.2011 were as follows:

	₹
Fixed assets (net)	5,00,000
Stock	3,80,000
Investment in 12% Government securities	5,00,000
Outstanding subscription	12,000
Prepaid insurance	1,000
Sundry creditors	1,12,000
Subscription received in advance	15,000
Entrance donation received pending membership	1,00,000
Gratuity fund	1,50,000

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

(i) Subscription received in advance as on 31st March, 2012 was ₹ 18,000.

(ii) Outstanding subscription as on 31st March, 2012 was ₹7,000.

(iii) Outstanding expenses are salaries ₹ 8,000 and electricity ₹ 15,000.

(iv) 50% of the entrance donation was to be capitalized. There was no pending membership as on 31st March, 2012.

(v) The cost of assets sold net as on 1.4.2011 was ₹ 10,000.

(vi) Depreciation is to be provided at the rate of 10% on assets.

(vii) A sum of ₹ 20,000 received in October 2011 as entrance donation from an applicant was to be refunded as he has not fulfilled the requisite membership qualifications. The refund was made on 3.6.2012.

(viii) Purchases made during the year amounted ₹ 15,00,000.

(ix) The value of closing stock was ₹ 2,10,000.

(x) 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 31st March, 2012 and the Balance Sheet as on 31st March, 2012 along with necessary workings.

Q. 9. The Accountant of Diana Club furnishes you the following receipts and payments account for the year ending 30th September, 2011:

Receipts	**Amount ₹**	**Payments**	**Amount ₹**
Opening balance:		Honoraria to secretary	9,600
Cash and bank	16,760	Misc. expenses	3,060
Subscription	21,420	Rates and taxes	2,520
Sale of old newspapers	4,800	Groundman's wages	1,680
Entertainment fees	8,540	Printing and stationary	940
Bank interest	460	Telephone expenses	4,780
Bar receipts	14,900	Payment for bar purchases	11,540
		Repairs	640
		New car (Less sale proceeds of old car ₹ 6,000)	25,200
		Closing balance:	
		Cash and bank	6,920
	66,880		**66,880**

Additional information :

	1.10.2010	30.9.2011
	₹	₹
Subscription due (not received)	2,400	1,960
Cheques issued, but not presented for payment of printing	180	60
Club premises at cost	58,000	----
Depreciation on club premises provided so far	37,600	----
Car at cost	24,380	----
Depreciation on car	20,580	----
Value of Bar stock	1,420	1,740
Amount unpaid for bar purchases	1,180	860

Depreciation is to be provided @ 5% p.a. on the written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an income and expenditure account of Diana Club for the year ending 30th September, 2011 and balance sheet as on that date.

Q. 10. Income and Expenditure Account for the year ended 31st March, 2012 of South Asia Club is given below:

Expenditure	₹	Income	₹
To Salaries & wages	47,500	By Subscription	75,000
To Miscellaneous expenses	5,000	By Entrance fee	2,500
To Audit fees	2,500	By Contribution for annual day (After deducting expenses ₹ 7,500)	7,500
To Executive's honorarium	10,000		
To Sports day expenses	5,000		
To Printing & stationary	4,500		
To Interest on bank loan	1,500		
To Depreciation on sports equipment	3,000		
To Excess of income over expenditure	6,000		
	85,000		**85,000**

Following additional information are also available:

		31.3.2011	31.3.2012
		₹	₹
(1)	Subscription received in advance	4,500	2,700
(2)	Subscription outstanding	6,000	7,500
(3)	Salaries outstanding	4,000	4,500
(4)	Sports equipment (After deducting depreciation)	26,000	27,000

(5) Cash in hand on 31-3-12 was ₹ 16,000.

(6) The club took a 5% loan of ₹ 30,000 from a bank during 2010- 11 for which interest was not paid in the financial year 2011 -12 .

Prepare Receipts and Payments account of South Asia Club for the year ending 31st March 2012.

Q. 11. The Receipts and Payments Account, the Income and Expenditure Account and additional information of a sports club for the year ended 31st March, 2013 were as follows:

Receipts & Payments Account

For the year ending on 31st March, 2013

Receipts	₹	Payments	₹
To Balance b/d	42,000	By Secretary's Salary	10,000
To Entrance Fees 2011-12	10,000	By Printing & Stationary	26,000
To Entrance Fees 2012-13	1,00,000	By Advertising	16,000
To Subscription 2011-12	6,000	By Fire Insurance	12,000
To Subscription 2012 -13	1,50,000	By 12% Investments	
To Subscription 2013-14	4,000	(Purchased on 01-10-2012)	2,00,000
To Rent Received	24,000	By Furniture	20,000
To Interest Received	6,000	By Balance c/d	58,000
	3,42,000		**3,42,000**

Income & Expenditure Account

For the year ending on 31st March, 2013

Expenditure	₹	Income	₹
To Secretary Salary	15,000	By Entrance Fees	1,05,000
To Printing & Stationery	22,000	By Subscription	1,56,000
To Advertising	16,000	By Rent	28,000
To Audit Fees	5,000	By Interest on Investments	12,000
To Fire Insurance	10,000		
To Depreciation:			
Sports Equipments	90,000		
Furniture	5,000		
To Surplus	1,38,000		
	3,01,000		**3,01,000**

Additional Information :

The assets and liabilities as on 31st March, 2012 include Club Grounds & Pavilion ₹ 4,40,000, Sports Equipments ₹ 2,50,000, Furniture & Fixtures ₹ 40,000, Subscription in Arrear ₹ 8,000, Subscription received in advance ₹ 2,000 and Creditors for Printing & Stationery ₹ 5,000.

You are required to prepare the Balance Sheet of the Club as on 31st March, 2013.

CHAPTER-10 SINGLE ENTRY SYSTEM

Q. 1. M/s Ice Limited gives you the following information to find out Total Sales and Total Purchases:

Particulars	Amount (₹)
Debtors as on 01.04.2011	70,000
Creditors as on 01.04.2011	81,000
Bills Receivables received during the year	47,000
Bills Payable issued during the year	53,000
Cash received from customers	1,56,000
Cash paid to suppliers	1,72,000
Bad Debts recovered	16,000
Bills Receivables endorsed to creditors	27,000
Bills Receivables dishonoured by customers	5,000
Discount allowed by suppliers	7,000
Discount allowed to customers	9,000
Endorsed Bills Receivables dishonoured	3,000
Sales Return	11,000
Bills Receivable discounted	8,000
Discounted Bills Receivable dishonoured	2,000
Cash Sales	1,68,500
Cash Purchases	1,97,800
Debtors as on 31.03.2012	82,000
Creditors as on 31.03.2012	95,000

Q. 2. Ramesh carries on business as dressmaker. He does not keep any accounts but wants to ascertain his profit or loss for the year 2010-11. He gives you has idea of the assets and liabilities as on 31.3.2010 and 31.3.2011 which is as follows :

	31.3.2010	31.12.2011
	₹	₹
Cash in hand	470	430
Bank Balance as per Pass Book	6,230	8,170
Book Debts	3,100	2,900
Stock in trade	15,000	18,000
Investment in D.C.M. Debentures.	8,000	3,000
Equipment at cost	6,000	10,000
Owing for Supplies	5,000	6,000

On enquiry you find the following :

(i) Certain cheques for payment for taxes amounting to ₹ 2,500 issued on 28.3.2010 had not been presented; these were paid in April, 2010.

(ii) Stock in trade is valued at selling price; the mark up in 2009-10 has 25% on selling price but during 2010-11 it was 25% on cost.

(iii) Book debts on 31.3.2010 include ₹ 1,000 for goods sent on sale or return basis, the customers still having the right to return the goods.

(iv) The investments are shown at face value, the purchase having been made at 95.

(v) Half the equipment as on 31.3.2010 was purchased in 2008-09 and the remaining in 2009-10; depreciation @10% p.a. on original cost on closing balance is charged.

(vi) A cheque for ₹ 500 was returned by the bank dishonoured on 30th March, 2011 and a customer had deposited ₹ 700 directly into the bank on the same date. Ramesh did not know of these as yet.

(vii) His drawings during 2000 have been at the rate of ₹ 500 p.m.

(viii) A cheque issued for ₹ 3,100 for his income tax was not presented as on 31.3.2011.

You are requested to ascertain the profit earned or loss suffered by Ramesh in 2010 - 11.

Q. 3. K. Azad, who is in business as a wholesaler in sunflower oil, is a client of your accounting firm. You are required to draw up his final accounts for the year ended 31.3.2011.

From the files, you pick up his Balance Sheet as at 31.3.2010 reading as below:

Balance Sheet as at 31.3.2010

Liabilities	**₹**	**₹**
K. Azad's Capital		1,50,000
Creditors for Oil Purchases		2,00,000
12% Security Deposit from Customers		50,000
Creditors for Expenses :		
Rent		6,000
Salaries		4,000
Commission		20,000
		4,30,000
Assets	**₹**	**₹**
Cash and Bank Balances		75,000
Debtors		1,60,000
Stock of Oil (125 tins)		1,25,000
Furniture	30,000	
Less : Depreciation	(3,000)	27,000
Rent Advance		12,000
Electricity Deposit		1,000
3–Wheeler Tempo Van	40,000	
Less: Depreciation	(10,000)	30,000
		4,30,000

A Summary of the rough Cash Book of K. Azad for the year ended 31.3.2011 is as below:

Cash and Bank Summary

Receipts	**₹**
Cash Sales	5,26,500
Collections from Debtors	26,73,500
Payments	
To Landlord	79,000
Salaries	48,000
Miscellaneous Office Expenses	12,000
Commission	20,000
Personal Income–tax	50,000
Transfer on 1.10.2010 to 12% Fixed Deposit	6,00,000
To Creditors for Oil Supplies	24,00,000

A scrutiny of the other records gives you the following information :

(i) During the year oil was purchased at 250 tins per month basis at a unit cost of ₹ 1,000. 5 tins were damaged in transit in respect of which insurance claim has been preferred. The surveyors have since approved the claim at 80%. The damaged ones were sold for ₹1,500 which is included in the cash sales. One tin has been used up for personal consumption. Total number of tins sold during the year was 3,000 at a unit price of ₹1,750.

(ii) Rent until 30.9.2010 was ₹ 6,000 per month and was increased thereafter by ₹ 1,000 per month. Additional advance rent of ₹ 2,000 was paid and this is included in the figure of payments to landlord.

(iii) Provide depreciation at 10% and 25% of WDV on furniture and tempo van respectively.

(iv) It is further noticed that a customer has paid ₹ 10,000 on 31.3.2011as security deposit by cash. One of the staff has defalcated. The claim against the Insurance Company is pending.

You are requested to prepare final accounts for the year ended 31.3.2011.

Q. 4. From the following furnished by Shri Ramji, prepare Trading and Profit and Loss Account for the year ended 31.3.2011. Also draft his Balance Sheet as at 31.3.2011 :

	1.4.2010	31.3.2011
	₹	₹
Creditors	3,15,400	2,48,000
Expenses outstanding	12,000	6,600
Fixed Assets (Includes machinery)	2,32,200	2,40,800
Stock in hand	1,60,800	2,22,400
Cash in hand	?	24,000
Cash at bank	80,000	?
Sundry debtors	3,30,600	?
Details of the year's transactions are as follows :		
Cash and discount credited to debtors		12,80,000
Returns from Debtors		29,000
Bad Debts		8,400
Sales (Both cash and credit)		14,36,200
Discount allowed by creditors		14,000
Returns to Creditors		8,000
Capital introduced by cheque		1,70,000
Collection from debtors (Deposited into bank after receiving cash)		12,50,000
Cash purchases		20,600
Expenses paid by cash		1,91,400
Drawings by cheque		8,600
Machinery acquired by cheque		63,600
Cash deposited into bank		1,00,000
Cash withdrawn from bank		1,84,800
Cash sales		92,000
Payment to creditors by cheque		12,05,400

Note : Ramji has not sold any Fixed Asset during the year.

Q. 5. 'A' and 'B' are in partnership sharing profits and losses equally. They keep their books by single entry system. The following balances are available from their books as on 31.3.2010 and 31.3.2011.

	31.3.2010	31.3.2011
	₹	₹
Building	1,50,000	1,50,000
Equipments	2,40,000	2,72,000
Furniture	25,000	25,000
Debtors	?	1,00,000
Creditors	65,000	?
Stock	?	70,000
Bank loan	45,000	35,000
Cash	60,000	?

The transactions during the year ended 31.3.2011 were the following:

	₹
Collection from debtors	3,80,000
Payment to creditors	2,50,000
Cash purchases	65,000
Expenses paid	40,000
Drawings by 'A'	30,000

On 1.4.2010 an equipment of book value ₹ 20,000 was sold for ₹15,000. On 1.10.2010, some equipments were purchased.

Cash sales amounted to 10% of sales.

Credit sales amounted to ₹ 4,50,000.

Credit purchases were 80% of total purchases.

The firm sells goods at cost plus 25%.

Discount allowed ₹ 5,500 during the year.

Discount earned ₹ 4,800 during the year.

Outstanding expenses ₹ 3,000 as on 31.3.2011.

Capital of 'A' as on 31.3.2010 was ₹15,000 more than the capital of 'B', equipments and furniture to be depreciated at 10% p.a. and building @ 2% p.a.

You are required to prepare:

(I) Trading and Profit and Loss account for the year ended 31.3.2011 and

(ii) The Balance Sheet as on that date.

Q. 6. The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 2010 :

Liabilities	₹	Assets	₹
Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
Cash at bank	14,500	Cash in hand	2,000
		Cash at Bank	14,500
	1,21,500		**1,21,500**

You are furnished with the following information

(1) Sri Srinivas sells his goods at a profit of 20% on sales.

(2) Goods are sold for cash and credit. Credit customers pay by cheques only.

(3) Payments for purchases are always made by cheques.

(4) It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of ₹ 300 to the clerk, Sundry expenses of ₹ 50 and personal expenses ₹ 100.

Analysis of the Bank Pass Book for the 13 weeks period ending 31st March, 2011 disclosed the following:

	₹
Payments to creditors	75,000
Payments of rent upto 31.3.2011	4,000
Amounts deposited into the bank (include ₹ 30,000 received from debtors by cheques)	1,25,000
The following are the balances on 31st March,2011	**₹**
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31st March, 2011 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.

You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 2011and a Balance Sheet as on that date.

Q. 7. A trader keeps his book of account under single entry system. On 31st March, 2010 his statement of affairs stood as follows :

Liabilities	₹	Assets	₹
Trade Creditors	5,80,000	Furniture, Fixture and Fittings	1,00,000
Bills Payable	1,25,000	Stock	6,10,000
Outstanding Expenses	45,000	Trade Debtors	1,48,000
Capital Account	2,50,000	Bills Receivable	60,000
		Unexpired Insurance	2,000
		Cash in Hand and at Bank	80,000
	10,00,000		**10,00,000**

The following was the summary of Cash - book for the year ended 31st March, 2011 :

Receipts	₹	Payments	₹
Cash in hand and at bank on		Payments to Trade Creditors	75,07,000
1st April, 2010	80,000	Payments for Bills Payable	8,15,000
Cash Sales	73,80,000	Drawings	2,40,000
Receipts from Trade Debtors	15,10,000	Sundry Expenses Paid	6,20,700
Receipts for Bills Receivable	3,40,000	Balance on 31st March, 2011	1,27,300
	93,10,000		**93,10,000**

Discount allowed to trade debtors and received from trade creditors amounted to ₹ 36,000 and ₹ 28,000 respectively. Bills endorsed amounted to ₹ 15,000. Annual Fire insurance premium of ₹ 6,000 was paid every year on 1st August for the renewal of the policy. Furniture, fixtures and fittings were subject to depreciation @ 15% per annum on diminishing balance method.

You are also informed about the following balances as on 31st March, 2011:

	₹
Stock	6,50,000
Trade Debtors	1,52,000
Bills Receivable	75,000
Bills Payable	1,40,000
Outstanding Expenses	5,000

The trade maintains a steady gross profit ratio of 10% on sales.

Prepare Trading and Profit and Loss Account for the year ended 31st March, 2011 and Balance Sheet as at that date.

CHAPTER-11 HIRE PURCHASE & INSTALMENT SELLING

Q. 1. On 1st April, 2008, the Hind Oil Mills Ltd. purchased machinery on hire-purchase terms. The cash price was ₹ 34,000 and the hire-purchase price ₹ 37,300 payable as to ₹ 7,300 down and the balance in five half yearly instalments of ₹ 6,000 each, payable on 30th September and 31st March.

Give the relevant accounts in the company's ledger for the three years assuming that- (a) its books are closed annually on 31st March (b) the hire-purchase price includes interest at 8 percent per annum; and (c) the asset is to be depreciated at 10 percent on the written down value.

Q. 2. X Ltd. purchased a machine on hire purchase basis from Y Ltd. on the following terms: (a) Cash Down payment - ₹1,58,500 (b) Four instalments of ₹ 2,21,900, ₹2,06,050, ₹1,90,200 and ₹ 1,74,350 at the end of the 1st year, 2nd year, 3rd year and 4th year respectively. (c) The payment of cash price in each instalment is uniform. Compute the amount of interest and total cash price of the machine.

Q. 3. Jatin Transport Co. Purchased a truck on 1st Oct. 2008 on Hire-purchases basis from M. Ltd. The cash price of the truck was ₹ 30,000 under the agreement, a sum of ₹12,000 was payable initially on 1st Oct. 2008, and the balance in 12 quarterly instalment of ₹ 1,920 each. The financial year of the transport company ended on 31st March, 30th June 2010 truck was sold for ₹ 20,000 and the amount due to M Ltd., settled for ₹ 10,200.

Jain transport company opened Truck Account at total cash price and spread the interest over the period of hire-purchase proportionally. Depreciation was provided at 20% p.a. on cost. Show the necessary ledger accounts in the books of Jain Transport Company.

Q. 4. A machinery is sold on hire purchase. The term s of payment is four annual instalments of ₹ 6,000 at the end of each year commencing from the date of agreement. Interest is charged@ 20% and is included in the annual payment of ₹ 6,000.

Show Machinery Account and Hire Vendor Account in the books of the purchaser who defaulted in the payment of the third yearly payment whereupon the vendor re-possessed the machinery. The purchaser provides depreciation on the machinery @ 10% per annum. All workings should form pa rt of your answers.

CHAPTER-12 INVESTMENT ACCOUNTS

Q. 1. On 1-4-2010, 200 6% debentures of ₹ 100 each of Y Ltd. were held as investments by Mr. X at a cost of ₹ 18,200. Interest is payable on December 31.
On 1-7-2010 ₹ 4,000 of such debentures were purchased by X @ ₹ 98 each cum-interest.
On 1-12-2010 ₹ 6,000 of debentures were sold at ₹ 96 ex-interest.
On 1-3-2011 ₹ 8,000 debentures were sold @ ₹ 99 cum-interest.
On 31-3-2011 X sold ₹ 10,000 debentures @ ₹ 95 cum-interest.
Prepare the Investment Account for 6% debentures of Y Ltd. in the books of X. Ignore income tax.

Q. 2. Mr. M. N. bought and sold 6% Stock as follows, interest being payable on 30th September and 31st March each year.

June 1, 2010	Bought ₹ 24,000 @ ₹ 90.875 ex-interest
Sept. 15, 2010	Sold ₹ 10,000 @ ₹ 92.625 cum-interest
Nov. 1, 2010	Bought ₹ 6,000 @ ₹ 91 .375 ex-interest
Dec. 1, 2010	Sold ₹ 4,000 @ ₹ 93.125 ex-interest
Mar. 1, 2011	Bought ₹ 12,000 @ ₹ 94.125 cum-interest

Prepare Investment Account for the year ended 31st March, 2008 assuming brokerage at 0.125% of ₹ 100 each in each case. (Detailed working are to be given).

Q. 3. On 1st April, 2011, Rajat has 50,000 equity shares of P Ltd. at a book value of ₹ 15 per share (face value ₹10 each). He provides you the further information:

(1) On 20th June,2011 he purchased another 10,000 shares of P Ltd. at ₹ 16 per share.

(2) On 1st August, 2011, P Ltd. issued one equity bonus share for every six shares held by the shareholders.

(3) On 31st October, 2011, the directors of P Ltd. announced a right issue which entitles the holders to subscribe three shares for every seven shares at ₹ 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold 1/3rd of entitlement to Umang for a consideration of ₹ 2 per share and subscribed the rest on 5th November, 2011.
You are required to prepare Investment A/c in the books of Rajat for the year ending 31st March, 2012.

Q. 4. On 01-04-2011, Mr. T. Shekharan purchased 5,000 equity shares of ₹ 100 each in V Ltd. @ ₹ 120 each from a broker, who charged 2% brokerage. He incurred 50 paisa per ₹ 100 as cost of shares transfer stamps. On 31-01-2012 bonus was declared in the ratio of 1 : 2. Before and after the record date of bonus shares, the shares were quoted at ₹ 175 per share and ₹ 90 per share respectively. On 31-03-2012, Mr. T. Shekharan sold bonus shares to a broker, who charged 2% brokerage.
Show the Investment Account in the books of T. Shekharan, who held the shares as Current Assets and closing value of investments shall be made at cost or market value whichever is lower.

CHAPTER-13 FIRE INSURANCE CLAIMS

LOSS OF STOCK

Q. 1. Northern Ltd. have taken out a fire policy of ₹ 64,000 covering its stock-in-trade. A fire occurred on 30th June 2011 and stock was destroyed with the exception of value of ₹16,544. Following particulars are avail able from the books of accounts of the company.

	₹
Stock on 31st March 2011	24,000
Purchases to the date of fire	1,04,000
Sales to the date of fire	72,000
Commission paid to purchase manager on purchases	20%
Average gross profit on cost	40%

The policy was subject to average clause. You are required to arrive at the

(i) total of stock &

(ii) the amount of claim to be made against the insurance company.

Q. 2. A fire accrued in the business premises of M/s. Poonawalla on 15th October 2011. From the following particular ascertain the loss of stock and claim insurance.

	₹
Stock as on 1.4.2010	30,600
Purchases from 1.4.2010 to 31.3.2011	1,22,000
Sales from 1.4.2010 to 31.3.2011	1,80,000
Stock as on 31.3.2011	27,000
Purchases from 1.4.2011 to 14.10.2010	1,47,000
Sales from 1.4.2011 to 14.10.2011	1,50,000

The stock were always valued at 90 percent of cost. The stock saved from fire was worth ₹ 18,000. The amount of policy was ₹ 63,000. There was average clause in policy.

Q. 3. The premises of M/s New and Company were gutted by fire on 31st Aug. 2011 and some stock was found badly damaged. The accounts of the firm are closed on 31st March each year. On 31st March 2011 stock was valued at cost at ₹ 26,544 against ₹ 19,288 as on 31st March 2010. Purchases and sales were as follows :

	Full year 2010-11	Period upto 31.8.2011
Purchase	90,516	69,657
Sales	1,04,000	98,340

In additional to above you collect the following information :

(1) Some time in May 2011 goods costing ₹ 10,000 were distributed as a part advertisement campaign in support thereof no entry appears to have been passed in the books.

(2) During 2011-12 cash sales of ₹ 1,190 were misappropriated and the these were not recorded in the books. Ascertain the estimated value of stock at the date of fire assuming that the rate of gross profit was constant.

Q. 4. From the following particulars you are required to prepare a statement of claim for X, Y, whose business premises were partly destroyed by fire on 30th September, 2011. He prepares account on 31st March each year.

	₹
Stock on 1st April, 2011	34,017
Purchase from 1st April, 2011 to 30th September 2011	80,000
Wages from 1st April, 2011 to 30th September 2011	30,500
Sales from 1st April, 2011 to 30th September 2011	1,50,000

Average percentage of gross profit to cost is 16 $^2/_3$%. Stock to the value of ₹ 10,000 was salvages policy was ₹ 8,000. Claim was subject to average clause.

Following additional information is available

(i) Purchases included purchase of plant of ₹ 8,000.

(ii) Plant was installed in August and firm's own men had spent time amounting to ₹ 500 which was included in wages.

(iii) Stock in the beginning was calculated at 15% less than cost. You are required to calculate the claim for the loss of stock.

Q. 5. On 1st July 2011 a fire took place in the godown of Ram Kumar which destroyed all Stocks. Calculate the amount of insurance claim for the stock from the following details :

	₹
Sales in 2009-2010	2,00,000
Gross profit in 2009-2010	60,000
Sales in 2010-2011	3,00,000
Gross profit 2010-2011	60,000
Stock as on 1.1.2011	2,70,000
Purchases from 1.4.2011 to 30.6.2011	4,00,000
Sales from 1.4.2011 to 30.6.2011	7,20,000

The following are also to be taken in to consideration.

(1) Stock as on 31st March 2011 had been undervalued by 10%.

(2) Stock raking conducted in March 2011 had revealed that stocks costing ₹ 80,000 were lying in damaged condition. 50% of these stocks had been sold in June 2011 at 50% of cost and the balance were expected to be sold at 40% of cost.

(3) Amount of policy ₹ 1,50,000.

Q. 6. From the following information, ascertain the value of stock as on 31st March, 2012:

	₹
Stock as on 01-04-2011	28,500
Purchases	1,52,500
Manufacturing Expenses	30,000
Selling Expenses	12,100
Administration Expenses	6,000
Financial Expenses	4,300
Sales	2,49,000

At the time of valuing stock as on 31st March, 2011, a sum of ₹ 3,500 was written off on a particular item, which was originally purchased for ₹ 10,000 and was sold during the year for ₹ 9,000. Barring the transaction relating to this item, the gross profit earned during the year was 20% on sales.

LOSS OF PROFIT

Q. 7. Financial year on 31st March, 2011 with turnover of ₹ 2,00,000. Fire takes place on September 1, 2011 Period interruption being 5 months (from 1st September 2011 to 1st Feb. 2012, Period of indemnity according to policy - 6 month.

Net profit for 31st March, 2011 ₹ 12,000 and insured standing charges ₹ 24,000. Sum insured ₹ 42,240. Uninsured standing charges ₹ 2,000; Standard turnover i.e. for corresponding months of interruption (from 1st September to 1st Feb.) in the year preceeding the fire ₹ 75,000.

Turnover in the period of interruption ₹ 22,500. Annual turnover (for 1st Sept. 2010 to 31st August 2011 ₹ 2,20,000).

Additional expenses ₹ 4,000 with a saving of insured standing charges ₹ 1,500. But for this additional expenditure, the turnover after the fire would have been only ₹ 12,500. The expenses on putting the fire out were ₹ 500. During 2011 - 2012 increase in turnover (both standard and annual) is expected to be 20% and increase in G.P. rate is expected by 2%. Calculated amount of claim for loss of profit.

Q. 8. Y The premises of X Y Limited were partially destroyed by fire on 1st March 2011 and as a result, the business was partially disorganised up to 31st August 2011, The company is insured under a Loss of Profit Policy for ₹ 1,65,000 having an indemnity period of 6 months.

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

		₹
1.	Actual turnover during the period of dislocation (1-3-2011 to 31-3-2011)	80,000
2.	Turnover for the corresponding period (dislocation) in the last year immediately before the fire (1-3-2010 to 31-8-2010)	2,40,000
3.	Turnover for the 12 months immediately preceeding the fire (1-3-2010 to 29-2-2011)	6,00,000
4.	Net profit for the last financial year	90,000
5.	Insured standing charges for the last financial year	60,000
6.	Uninsured standing charges	5,000
7.	Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to the 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 ₹ 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only ₹ 55,000. There was also a saving during the indemnity period of ₹ 2,700 is insured standing charge as a result of the fire.

Q. 9. From the following particulars, you are required to calculate the amount of claim for Buildwell Ltd., whose business premises was partly des troyed by fire:

Sum insured (from 31st December 2011)	₹ 4,00,000
Period of indemnity	12 months
Date of damage	1stJanuary, 2012
Date on which disruption of business ceased	31st October, 2012

The subject matter of the policy was gross prof it but only net profit and insured standing charges are included.

The books of account revealed:

(a) The gross profit for the financial year 2011 was ₹ 3,60,000.

(b) The actual turnover for financial year 2011 was ₹ 12,00,000 which was also the turnover in this case.

(c) The turnover for the period 1st January to 31st October, in the year preceding the loss, was ₹ 10,00,000.

During dislocation of the position, it was learnt that in November-December 2011, there has been an upward trend in business done (compared with the figure of the previous years) and it was stated that had the loss not occurred, the trading results for 2012 would have been better than those of the previous years.

The Insurance company official appointed to assess the loss accepted this view and adjustments were made to the pre-damaged figures to bring them up to the estimated amounts which would have resulted in 2012. The pre-damaged figures together with agreed adjustments were:

Period Figures	**Pre-damaged be added**	**Adjustmentto turnover**	**Adjusted standard**
	₹	₹	₹
January	90,000	10,000	1,00,000
Feb. to October	9,10,000	50,000	9,60,000
November to December	2,00,000	10,000	2,10,000
	12,00,000	70,000	12,70,000
Gross Profit	3,60,000	46,400	4,06,400

Rate of Gross Profit 30% (actual for 2011), 32% (adjusted for 2012).

Increased cost of working amounted to ₹ 1,80,000.

There was a clause in the policy relating to savings in insured standard charges during the indemnity period and this amounted to ₹ 28,000.

Standing Charges not covered by insurance amounted to ₹ 20,000 p.a. The annual turnover for January was nil and for the period February to October 2012 ₹8,00,000.

Q. 10. Sony Ltd.'s. Trading and profit and loss account for the year ended 31st December, 2011 were as follows:

Trading and Profit and Loss Account for the year ended 31.12.2011

	₹		₹
To Opening stock	20,000	By Sales	10,00,000
To Purchases	6,50,000	By Closing stock	90,000
To Manufacturing expenses	1,70,000		
To Gross profit	2,50,000		
	10,90,000		**10,90,000**
To Administrative expenses	80,000	By Gross profit	2,50,000
To Selling expenses	20,000		
To Finance charges	1,00,000		
To Net profit	50,000		
	2,50,000		**2,50,000**

The company had taken out a fire policy for ₹ 3,00,000 and a loss of profits policy for ₹ 1,00,000 having an indemnity period of 6 months. A fire occurred on 1.4.2012 at the premises and the entire stock were gutted with nil salvage value. The net quarter sales i.e. 1.4.2012 to 30.6.2012 was severely affected. The following are the other information:

Sales during the period	1.1.12 to 31.3.12	2,50,000
Purchases during the period	1.1.12 to 31.3.12	3,00,000
Manufacturing expenses	1.1.12 to 31.3.12	70,000
Sales during the period	1.4.12 to 30.6.12	87,500
Standing charges insured		50,000
Actual expense incurred after fire		60,000

The general trend of the industry shows an increase of sales by 15% and decrease in GP by 5% due to increased cost.

Ascertain the claim for stock and loss of profit.

CHAPTER-14 PARTNERSHIP ACCOUNTS

Q. 1. The balance sheet of Arun and Chandra was as under on 31st March, 2011:

Liabilities		₹	Assets	₹
Sundry Creditors		9,000	Cash	1,000
Reserve		5,000	Debtors	10,000
Capital Account			Stock	12,000
Arun	15,000		Furniture	2,000
Chandra	12,000	27,000	Building	16,000
		41,000		**41,000**

Dass was admitted as a partner and was given 1/4 share on the following terms :

(a) He should bring ₹ 15,000 as his capital.

(b) His share of goodwill was valued at ₹ 5,000 but he was unable to bring it in cash.

(c) Stock and furniture be depreciated by 10%.

(d) A provision of 5% on debtors be credited.

(e) An amount of ₹ 1,000 included in creditors not to be treated as a liability.

(f) A provision of ₹ 500 be credited against bill discounted.

(g) The buildings be treated as worth ₹ 20,000

It was agreed that except cash, the other assets and liabilities were to be shown at the same old figures in the Balance Sheet. Give Journal entries to record the transactions on the admission of Dass and show the Balance Sheet after his admission.

Q. 2. E, F and G were partners sharing Profits and Losses in the ratio of 5 : 3 : 2 respectively. On 31st March, 2011 Balance Sheet of the firm stood as follows :

Liabilities		₹	Assets	₹
Capital A/cs			Buildings	55,000
E	50,000		Furniture	25,000
F	40,000		Stock	42,000
G	28,000	1,18,000	Debtors	20,000
Creditors		33,500	Cash at Bank	11,200
		1,53,200		**1,53,200**

On 31st March 2011, E decided to retire and F and G decided to continue as equal partners. Other terms of retirement were as follows :

(i) Building be appreciated by 20%.

(ii) Furniture be depreciated by 10%.

(iii) A provision of 5% be created for bad debts on debtors.

(iv) Goodwill be valued at two years' purchase of profit for the latest accounting year. The firm's Profit for the year ended 31st March, 2011 was ₹ 25,000. No goodwill account is to be raised in the books of accounts.

(v) Fresh capital be introduced by F and G to the extent of ₹ 10,000 and ₹ 35,000 respectively.

(vi) Out of sum payable to retiring partner E, a sum of ₹ 45,000 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% per annum. The loan is to be paid off by 31st March, 2013.

One month after E's retirement, F and G agreed to admit E's son H as a partner with one - fourth share in Profit / Losses. E agreed that the balance in his loan account be converted into H's Capital. E also agreed to forgo one month's interest on his loan.

It was also agreed that H will bring in, his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.

You are requested to pass necessary Journal Entries to give effect to the above transactions and prepare Partners' Capital Accounts.

Q. 3. A and C are partners in a firm of accountants who maintain accounts on the cash basis sharing profits and losses in the ratio of 2 : 3 : 1. Their Balance Sheet as on 31st March 2011 on which date D is admitted as a partner is as follows :

Liabilities	₹	Assets	₹
B's Capital	35,000	Furniture	10,000
C's Capital	22,000	Motor Car	20,000
		Cash at Bank	18,000
		A's Capital	9,000
	57,000		**57,000**

D is given 1/4th share in the profits and losses in the firm and the profit and loss sharing ratio as between the other partners remain as before. The following adjustments are to be made prior to D's admission :

(a) The Motor Car is taken over, by B at a value of ₹ 25,000

(b) The furniture is revalued at 18,000.

(c) Goodwill account is raised in the books at ₹ 50,000. It is agreed among A, B and C that C is interested in goodwill only up to value of ₹ 30,000.

(d) Fees billed but not realised, ₹ 11,000, are brought into account.

(e) Expenses insured but not paid ₹ 3,000 are provided for.

D bring in ₹ 20,000 in cash as his capital contribution. He is also to be credited with ₹ 20,000 for having agreed to amalgamate his separate practice as Charted Accountant with this firm.

Pass necessary journal entries and prepare the Balance Sheet of the firm after D's admission.

Q. 4. A & B commencing business some years ago as manufactures of garments for export and sharing profit & losses in the ratio of 3 : 2 had the following balance sheet on March 31, 2011.

Particulars		₹	Particulars	₹
Sundry Creditors		24,000	Plant & Machinery	40,000
Capital			Design & Pattern	8,000
A	64,000		Stock	28,000
B	52,000		Book Debts	52,000
			Cash at Bank	12,000
		2,40,250		**2,40,250**

C, an expert technician was offered to join firm as partner with effect from 1st April 2011 having shares of 1/5 in all respect contributing ₹ 32,000 as cash.

Goodwill of A & B was to be valued at three years purchase of average profits for 4 years. The books showed the undermentioned figures of profits.

2007-08	19,600
2008-09	24,000
2009-10	20,480
2010-11	21,264

It was found that overhauling expenditure on plant and machinery. ₹ 12,000 incurred in 2007-08 has been add to the cost of assets was subject to 20% depreciation p.a. on the diminishing value basis. The design and patterns were found to be of value of ₹ 11,744 on date of admission of C. A & B were to bring cash or draw cash to make the capital in the profit sharing ratio without changing the total capital. Draw up the Balance Sheet of the firm as on 31st March, 2011.

Q. 5. On 31st March, 2011 the Balance Sheet of M/s. A, B and C, sharing profits and losses in proportion to their capitals, stood as follows :

Liabilities		₹	Assets		₹
Creditors		1,08,000	Cash at Bank		80,000
Capital accounts			Debtors		1,00,000
A	4,50,000		Less : Reserve	2,000	98,000
B	3,00,000		Stock	90,000	
C	1,50,000	9,00,000	Machinery		2,40,000
			Land & Building		5,00,000
		10,08,000			**10,08,000**

On that date, B wants to retire from the firm and the remaining partners decides to carry on firm. The following re-adjustments of assets and liabilities have been agreed upon before the ascertainment of the amount payable to B :

(1) that out the amount of insurance premium which was debited annually entirely to Profit and Loss A/c, ₹ 10,000 be carried forward for unexpired insurance on 31.3.2011;

(2) that the land and building be appreciated by 10%

(3) that the reserve for doubtful debts be brought upto 5% on debtors;

(4) that machinery be depreciated by 5%.

(5) that a provision for ₹ 15,000 be made in respect of an outstanding bill for repairs ;

(6) that the goodwill of the entire firm be fixed at ₹ 1,80,000 and B's share of the same adjusted in the A/cs of A and C who share future profits in the proportion of 3/4th and 1/4th respectively (no goodwill account being raised); and

(7) that B paid ₹ 50,000 in cash and the balance be transferred to his loan A/c.

Prepare Revaluation A/c, the capital A/cs of the partners and the Balance Sheet of the firm of A and C.

Q. 6. A, B & C were sharing profits and losses as 7 : 5 : 4. Their Balance Sheet as on 31st March, 2011 was as under :

BALANCE SHEET

Liabilities	₹	Assets	₹
Bills payable	2,350	Cash	5,850
Creditors	15,450	Bank	16,000
Loan	14,200	Bills receivable	950
General reserve	16,000	Debtors	16,250
Capitals :		Stock	9,450
A	22,750	Furniture	2,100
B	15,250	Machinery	6,800
C	12,000	Building	40,600
	98,000		**98,000**

C died on 1st July, 2011 and the following adjustments were agreed as per deed :

(1) Goodwill is to be valued at three times of the average profit of the last five years which were :

2006-2007	28,600
2007-2008	27,400
2008-2009	20,000
2009-2010	17,000
2010-2011	12,000

(2) C's share in the profit upto the date of his death is to be calculated on the basis of the average of the last two year's profit.

(3) Furniture, machinery and building are to be revalued at ₹ 1,800/-; ₹ 5,000/-; ₹ 44,700/- respectively.

(4) C is entitled to get salary ₹ 750/- a month.

(5) Interest on capital @ 10% p.a. is to be provided.

(6) C's drawings from 1st April, 2011 upto his death were at the rate of ₹ 624/- a month.

You are required to prepare :

(a) C's capital showing amount payable to his executors.

(b) Give working of share of profit and share of goodwill of deceased partner.

Q. 7. Ram and Co., is a partnership firm with the partners Mr. A, Mr. B and Mr. C, sharing profit and losses in the ratio of 5 : 3 : 2. The Balance Sheet of the firm as on 31st March 2011 is as under :

Liabilities		₹	Assets	₹
Capital	Mr. A	80,000	Land and Building	2,10,000
	Mr. B	20,000	Plant and Machinery	1,30,000
	Mr. C	30,000	Furniture and Fitting	40,000
Unappropriated profit (Reserve)		20,000	Investments	12,000
Long term loan		3,00,000	Stock	1,26,000
Bank Overdraft		44,000	Debtors	1,39,000
Trade Creditors		1,63,000		
		6,57,000		**6,57,000**

It was mutually agreed that Mr. B will retire from partnership and in his place Mr. D will be admitted as a partner with effect from 1st April, 2011. For this purpose, the following adjustments are to be made :

(a) Goodwill is to be valued at ₹ 1 lakh but the same will not appear as an asset in the books of the reconstituted firm.

(b) Land and building and plant and machinery are to be depreciated by 10% and 5% respectively. Investments are to be taken over by the retiring partner at ₹ 15,000. Provision of 20% is to be made on debtors to cover doubtful debts.

(c) In the reconstituted firm, the total capital will be ₹ 2 lakhs which will be contributed by Mr. A, Mr. C and Mr. D in their new profit sharing ratio which is 2 : 2 : 1.

(d) The surplus funds, if any, will be used for repaying the Bank Overdraft.

(e) The amount due to retiring partner shall be transferred to his Loan A/c.

You are requested to prepare :

(1) Revaluation Account

(2) Partner's Capital Account

(3) Bank Account

(4) Balance Sheet of the reconstituted firm as on 1st April, 2011.

Q. 8. X, Y & Z are in partnership. Y and Z are entitled to 15% commission on net profit to be shared equally for the special service rendered by them to the partnership. However, all the partners are entitled to 8% interest on fixed capital of ₹ 5,00,000 each. The business is run at the premises of Mr. X who is further entitled to get a monthly rent of ₹ 2,000 to be adjusted against his current account. They share profits and losses equally. Net profit during the year 2012 was ₹ 7,00,000.

During the year they were discussing to change the profit sharing ratio because X could not attend to business work. Finally they decided to increase interest on capital to 12% p.a. with effect from 1-10-2012 and to change the profit sharing ratio to 1 : 2 :2 with effect from the same date and Y and Z would not get any commission. Prepare Profit and Loss Appropriation Account.

Q. 9. X, Y Ltd. and Z Ltd. are partners of X & Co. The partnership deed provided that :

(a) The working partner Mr. X is to be remunerated at 15% of the net profits after charging his remuneration, but before charging interest on capital and provision for taxation;

(b) Interest is to be provided on capital at 15% per annum;

(c) Balance profits after making provision for taxation, is to be shared in the ratio of 1 : 2 : 2 by the three partners.

During the year ended 31 st March, 2011 :

(i) the net profit before tax and before making any payment to partners amounted to ₹ 6,90,000;

(ii) interest on capitals at 15% per annum amounted to :

(iii) ₹ 60,000 for X; ₹1,50,000 for Y Ltd. and ₹1,80,000 for Z Ltd. The capitals have remained unchanged during the year;

Provision for tax is to be at 40% of “total income” of the firm. The total income has been computed at ₹1,95,000.

You are asked by :

(a) the firm to pass closing entries in relation to the above;

(b) Y Ltd. to pass journal entries in its books pertaining to its income from the firm and show the investment in partnership account as it would appear in its ledger;

(c) Z Ltd. to show, how the above information will appear in its financial statements for the year;

(d) Shri X to show the working, if any, in relation to the above.

Q. 10. Messers Dalal, Banerji and Mallick is a firm sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31st March, 2013 is as below :

Liabilities		**₹**	**Assets**	**₹**
Trade Payables		12,850	Land and Buildings	25,000
Outstanding liabilities		1,500	Furniture	6,500
General reserve		6,500	Inventory	11,750
Capital Account :			Trade Receivable	5,500
Mr. Dalal	12,000		Cash in hand	140
Mr. Banerji	12,000		Cash at bank	960
Mr. Malick	5,000	29,000		
		49,850		**49,850**

The partners have agreed to take Mr. Mistri as a parner with effect from 1st April, 2013 on the following terms :

(1) Mr. Mistri shall bring 5,000 towards his capital.

(2) The value of Inventory should be increased by ₹ 2,500 and Furniture should be depreciated by 10%.

(3) Provision for bad and doubtful debts should be made at 10% of the trade receivables.

(4) The value of land and buildings should be enhanced by 20% and the value of the goodwill be fixed at ₹ 15,000.

(5) The value of the goodwill be fixed at ₹ 15,000.

(6) General Reserve will be transferred to the partner's Capital Accounts.

(7) The new profit sharing ratio shall be : Mr. Dalal 5/15, Mr. Banerji 5/15, Mr. Mallick 3/15 and Mr. Mistri 2/15.

(8) The goodwill account shall be written back to the Partner's accounts in accordance with the new profit sharing proportion.

The outstanding liabilities include ₹ 1,000 due to Mr. Sen which has been paid by Mr. Dalal. Necessary entries were not made in the books.

Prepare :

(i) Revaluation Account, and

(ii) The Capital Accounts of the partners, and

(iii) The Balance Sheet of the firm as newly constituted (Journal entries are not required)

CHAPTER-2 PARTNERSHIP ACCOUNTS

Q. 1. 'Thin', 'Short' and 'Fat' were in partnership sharing profits and losses in the ratio of 2 : 2 : 1. On 30th September, 2012 their Balance Sheet was as follows :

Liabilities		**₹**	**Assets**	**₹**
Capital Accounts :			Premises	50,000
Thin	80,000		Fixtures	1,25,000
Short	50,000		Plant	32,500
Fat	20,000	1,50,000	Stock	43,200
Current Accounts :			Debtors	54,780
Thin	29,700			
Short	11,300			
Fat (Dr.)	(14,500)	26,500		
Sundry Creditors		84,650		
Bank Overdraft		44,330		
		3,05,480		**3,05,480**

'Thin' decides to retire on 30th September, 2012 and as 'Fat' appears to be short of private assets, 'Short' decides that he does not wish to take over Thin's share of partnership, so all three partners decide to dissolve the partnership with effect from 30th September, 2012. It then transpires that 'Fat' has no private assets whatsoever. The premises are sold for ₹ 60,000 and the plant for ₹ 1,07,500. The fixtures realize ₹ 20,000 and the stock is acquired by another firm at book value less 5%. Debtors realise ₹ 45,900. Realisation expenses amount to ₹ 4,500.

The bank overdraft is discharged and the creditors are also paid in full.

You are required to write up the following ledger accounts in the partnership books following the rules in Garner vs. Murray:

(i) Realisation Account;

(ii) Partners' Current Accounts;

(iii) Partners' Capital Accounts showing the closing of the firm's books.

Q. 2. A, B and C carried on business in partnership, sharing Profits and Losses in the ratio of 1 : 2 : 3. They decided to form a private limited company, AB (P) Ltd., and C is not interested to take over the shares in AB (P) Ltd. The authorised share capital of the company is ₹ 12,00,000 divided into 12,000 ordinary shares of ₹ 100 each.

The company was incorporated and took over goodwill as valued and certain assets of the partnership firm on 31.3.2011. The Balance Sheet of the partnership firm on that date was as follows :

Liabilities		₹	Assets	₹
Capital Accounts :			Fixed Assets :	
A		1,00,000	Machinery	1,20,000
B		2,00,000	Land	1,74,000
C		3,00,000	Motorcycles	30,000
Current Accounts :			Furniture & Fittings	11,000
A		39,420	Current Assets :	
B		60,580	Stock	2,35,000
A's Loan A/c	28,000		Debtors	43,000
(+) Interest accrued	2,000	30,000	Cash in Hand	87,000
Current Liability :			C's overdrawn	1,00,000
Creditors		70,000		
		8,00,000		**8,00,000**

C, who retired was presented by the other partners (A and B) with one motorcycle valued in the books of the firm ₹ 9,000. The remaining motorcycles were sold in the open market for ₹ 13,000. C also received certain furniture for which he was charged ₹ 2,000. The debtors which were all considered good, were taken over by C for ₹ 40,000. A and B were charged in their profit sharing ratio for the book value of Motorcycle presented by them to C.

It was agreed that C who is not willing to take the shares in AB (P) Ltd. was discharged first by providing necessary cash. A and B should bring cash, if necessary.

AB (P) Ltd. took over the remaining furniture and fittings at a price of ₹13,000, the machinery for ₹ 1,25,000, the stock at an agreed value of ₹ 2,00,000 and the land at its book value. The value of the goodwill of the partnership firm was agreed at ₹ 88,000. The creditors of the firm were settled by the firm for ₹ 70,000. A's loan account together with interest accrued was transferred to his capital account.

The purchase consideration was discharged by the company by the issue of equal number of fully paid up equity shares at par to A and B.

Prepare :

Realisation A/c, Capital A/cs of the partners and Cash A/c. Also draw the Balance Sheet of AB (P) Ltd.

Q. 3. A, B and C had been in partnership for many years and shared profits and losses in the ratio of 1 : 2 : 2. Their respective capitals were :

A - ₹ 10,000 ; B - ₹ 10,000 ; C - ₹ 2,000.

The partners decided to dissolve the partnership after a succession of losses following a fall off in demand. On dissolution, there was a loss of ₹15,000 to be shared among the partners. C was insolvent and unable to contribute anything towards his deficiency which had to be borne by his co-partners.

Required :

Partners' Capital Accounts to record the above matters.

Q. 4. The following in the Balance Sheet of S and R as on 31.3.2011.

Liabilities	₹	Assets		₹
Sundry Creditors	76,000	Cash at Bank		23,000
Loan from Lalita	20,000	Stock - in - Trade		12,000
(Wife of S)		Sundry Debtors	40,000	
Loan from R	30,000	Less : Provision	2,000	38,000
Reserve Fund	10,000	Furniture		8,000
Capitals :		Plant		56,000
S	20,000	Investments		20,000
R	16,000	Profit and Loss A/c		15,000
	1,72,000			**1,72,000**

The firm was dissolved on 31.3.2011 and the following was the result :

(1) S took investments at an agreed value of ₹ 16,000 agreed to pay of the loan to Lalita (wife of S).

(2) The assets realised as under : Stock ₹ 10,000; Debtors ₹ 37,000; Furniture ₹ 9,000 and Plant ₹ 50,000. The expenses of realisation was ₹ 2,200.

(3) The Sundry Creditors were paid off less $2^1/_2$% discount. S & R share profits and losses in the ratio of 3 : 2. Show Realisation Account, Bank Account and Capital Account of partners.

Q. 5. A, B and C sharing profits in 3 : 1 : 1 agree upon dissolution. They each decide to take over certain assets and liabilities and continue business separately.

Balance Sheet as on date of dissolution

Liabilities		₹	Assets		₹
Creditors		6,000	Cash		3,200
Loan		1,500	Sundry Assets		17,000
Capitals			Debtors	24,200	
A	27,500		Less Bad Debts		
B	10,000		Provision	1,200	23,000
C	7,000	44,500	Stock		7,800
			Fixtures		1,000
		52,000			**52,000**

It is agreed as follows :

(1) Goodwill is to be ignored.

(2) A is to take over all the Fixture at ₹ 800; Debtors amounting to ₹ 20,000 at ₹ 17,200. Creditors of ₹ 6,000 to be assumed by A at that figure.

(3) B is to take over all the stock at ₹ 7,000 and certain of the sundry assets at ₹ 7,200 (being books values less 10%).

(4) C is to take over the remaining sundry assets at 90% of books values less ₹ 100 allowances and assume responsibility for the discharge of the loan, together with accruing interest of ₹ 30 which has not been recorded in the book of the firm.

(5) The expenses of dissolution were ₹ 270. The remaining debtors were sold to a debt collecting agency for 50% of book values.

Prepare Realisation Account, Partners' Capital Accounts and Cash Account.

Q. 6. A, B and C carrying on business sharing profit and loss equally, agreed to dissolve the partnership on 31.3.2011. The Balance Sheet of the partners as on that date was as follows :

Liabilities		₹	**Assets**	₹
Capital Account			Land and Building	50,000
A	40,000		Plant and Machinery	40,000
B	10,000		Furniture	10,000
C	50,000	1,00,000	Stock	35,000
Loan from X		30,000	Sundry Debtors	25,000
Sundry Creditors		45,000	Cash in hand	15,000
		1,75,000		**1,75,000**

It was decided that A and B would take over the following assets at figures shown against each of them :

	₹
Land and Building	60,000
Plant and Machinery	30,000
Furniture	6,000

X agreed to take the entire stock in full settlement of his loan. Sundry Debtors were realised at ₹ 20,000 and Creditors were settled at ₹ 34,000.

A and B decided to form a partnership sharing profit and losses in the ratio 3 : 1. It was agreed that the firm will require a total capital of ₹ 1,00,000 and A and B should bring sufficient capital for the purpose in such proportion that their capital should be in the profit sharing ratio.

Draw up the relevant accounts to close the books of A, B and C and prepare the Opening Balance Sheet of A and B.

Q. 7. The firm of LMS was dissolved on 31.3.2012, at which date its Balance Sheet stood as follows:

Liabilities	₹	**Assets**	₹
Creditors	2,00,000	Fixed Assets	45,00,000
Bank Loan	5,00,000	Cash and Bank	2,00,000
L's Loan	10,00,000		
Capital : L	15,00,000		
M	10,00,000		
S	5,00,000		
	47,00,000		**47,00,000**

Partners share profits equally. A firm of Chartered Accountants is retained to realise the assets and distribute the cash after discharge of liabilities. Their fees which include all expenses is fixed at ₹ 1,00,000. No loss is expected on realisation since fixed assets include valuable land and building.

Realisations are:

S. No.	Amount in ₹
1	5,00,000
2	15,00,000
3	15,00,000
4	30,00,000
5	30,00,000

The Chartered Accountant firm decided to pay off the partners in 'Higher Relative Capital Method'. You are required to prepare a statement showing distribution of cash with necessary workings.

Q. 8. Ram, Shyam and Mahesh are in partnership. The following is their Balance Sheet as at March 31st 2011, On which date they dissolve partnership. They share profits in the ratio of 5 : 3 : 2.

Liabilities		₹	Assets	₹
Creditors		40,000	Premises	40,000
Loan A/c - Ram		10,000	Plant and Machinery	30,000
Capital Accounts :			Stock	30,000
Ram	50,000		Debtors	60,000
Shyam	15,000			
Mahesh	45,000	1,10,000		
		1,60,000		**1,60,000**

It was agreed to repay the amount due to the partners as and when the assets were realised, viz :

	₹
May 1, 2011	30,000
July 1, 2011	73,000
August 1, 2011	47,000

Prepare a Statement showing how the distribution should be made.

Q. 9. On March 31, 2011 M/s A and B and M/s X and Y, two firms have following Balance Sheets.

Balance Sheet as of M/s A & B

Liabilities	₹	Assets	₹
Sundry Creditors	20,000	Cash at Bank	5,600
Mrs. A's Loan	5,000	Stock	20,400
Capital		Sundry Debtors	15,000
A	40,000	Office Furniture	4,000
B	20,000	Premises	40,000
	85,000		**85,000**

Balance Sheet as of M/s X & Y

Liabilities	₹	Assets	₹
Capital Creditors	25,000	Cash at Bank	6,700
Capital		Stock	18,300
X	24,000	Sundry Debtors	20,000
Y	16,000	Office Furniture	5,000
		Investments	15,000
	65,000		**65,000**

On April 1, 2011, both firm have decided to amalgamate. For this Mrs. A's loan was paid and investments of M/s. X and Y were not accepted by the new firm. The goodwill of M/s. A and B and M/s. X and Y was valued ₹ 8,000 and ₹ 10,000 respectively. Premises of M/s. A and B was revalued at ₹ 50,000 and stock was found overvalued by ₹ 4,000. Stock of M/s. X and Y was valued ₹ 2,000 over. Reserve for Bad Debts on the debtors of both firms was provided at 5%. The total capital of the new firm was agreed to be ₹ 80,000, which should be in the new profit sharing ratio of the partners being 3 : 2 : 3 : 2 respectively. The Goodwill Account of new partners will be closed. Adjustment of capital is required to be made by opening current accounts.

Close the books of both the firm and give opening entries in books of the new firm M/s. A, B, X, Y. Also prepare Balance Sheet of the newly constituted firm.

CHAPTER - 3 COMPANY ACCOUNTS (ESOP & BUY BACK)

Q. 1. Extra Ltd. (a non-listed company) furnishes you with the following summarized Balance Sheet as on 31st March, 2012:

(₹ in lakhs)

Liabilities	₹	Assets	₹
Equity shares of ₹ 10 each fully paid	100	Fixed assets less depreciation	50
9% Redeemable preference		Investments at cost	120
shares of ` 100 each fully paid	20	Current assets	142
Capital reserves	8		
Revenue reserves	50		
Securities premium	60		
10% Debentures	4		
Current liabilities	70		
	312		**312**

(i) The company redeemed the preference shares at a premium of 10% on 1st April, 2012.

(ii) It also bought back 3 lakhs equity shares of ₹ 10 each at ₹ 30 per share.
The payment for the above was made out of huge bank balances, which appeared as a part of the current assets.

(iii) Included in its investment were "investments in own debentures" costing ₹ 2 lakhs (face value ₹ 2.20 lakhs). These debentures were cancelled on 1st April, 2012.

(iv) The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at ₹ 20 when the market price was ₹ 30 (This was included under current liabilities). On 1.04.2012 employees exercised their options for 50,000 shares.

(v) Pass the journal entries to record the above.

(vi) Prepare Balance Sheet as at 01.04.2012.

Q. 2. The following is the Balance Sheet of XYZ Ltd., as on 31.3.2011.

Balance Sheet as on 31.3.2011

Particulars	Amount ₹	Amount ₹
(I) SOURCES OF FUNDS		
(a) **Equity Share Capital**		
50,000 shares of ₹ 100 each		50,00,000
(b) **Reserves and Surplus**		
Securities Premium A/c	10,00,000	
General Reserve	60,00,000	
Profit and Loss A/c Surplus	5,00,000	75,00,000

(c) **Loans**		
Secured Loans	85,00,000	
Unsecured Loans	30,00,000	1,15,00,000
₹		**2,40,00,000**
(II) FUNDS EMPLOYED AS		
(a) Fixed Assets (at WDV)		80,00,000
(b) Investments		10,00,000
(c) Net Current Assets		1,50,00,000
₹		**2,40,00,000**

The directors wish to buy back 10,000 equity shares at a premium of ₹ 150 per share. Ascertain whether the various limits laid down by the Companies Act, 1956 are complied with.

Q. 3. Dee Limited furnishes the following Balance Sheet as at 31st March, 2011 :

	₹ '000	**₹ '000**
Liabilities		
Share Capital :		
Authorised capital		30,00
Issued and subscribed capital :		
2,50,000 Equity shares of ₹ 10 each fully paid up	25,00	
2,000, 10% Preference shares of ₹ 100 each		
(Issued two months back for the purpose of buy back)	2,00	27,00
Reserves and Surplus :		
Capital reserve	10,00	
Revenue reserve	30,00	
Securities premium	22,00	
Profit and loss account	35,00	
		97,00
Current liabilities and provisions :		14,00
		1,38,00
Assets		
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances (including cash and bank balance)		15,00
		1,38,00

The company passed a resolution to buy back 20% of its equity capital @ ₹ 50 per share. For this purpose, it sold all of its investment for ₹ 22,00,000.

You are required to pass necessary journal entries and prepare the Balance Sheet.

CHAPTER - 4 UNDERWRITERS LIABILITY

Q. 1. XYZ Ltd. made a public issue of 1,25,000 equity shares of ₹ 100 each, ₹ 50 payable on application. The entire issue was underwritten by four parties - A, B, C and D in the proportion of 30%, 25%, 25% and 20% respectively. Under the terms agreed upon, a commission of 2% was payable on the amounts underwritten.

A, B, C, and D had also agreed on "firm" underwriting of 4,000, 6,000, Nil and 15,000 shares respectively.

The total subscriptions, excluding firm underwriting, including marked applications were for 90,000 shares. Marked applications received were as under :

A	C	B	D
24,000	12,000	20,000	24,000

Ascertain the liability of the individual underwriting.

Q. 2. Apple Limited planned to set up a unit for manufacture of bulk drugs. For the purpose of financing the unit the Board of Directors have issued 15,00,000 equity shares of ₹ 10 each. 30% of the issue was reserved for promoters and the balance was offered to the public. A, B and C have come forward to underwrite the public issue in the ratio of 3 : 1 : 1 and also agreed for firm undertaking of 30,000; 20,000 and 10,000 shares, respectively. The underwriting commission was fixed at 2.5%. The amount payable on application was ₹ 2.50 per share. The details of subscriptions (excluding firm underwriting) are :

Marked forms of	A	5,50,000 Shares
Marked forms of	B	2,00,000 Shares
Marked forms of	C	1,50,000 Shares
Unmarked forms		50,000 Shares

(a) You are required to show the allocation of liability among underwriters with workings.

(b) Pass journal entries in the books of Apple Limited :

- (i) For underwriters' net liability and the receipt or payment of cash to or from underwriters.
- (ii) Determining the liability towards the payment of commission to the underwriters.

Q. 3. Noman Ltd. issued 80,000 Equity Shares which were underwritten as follows :

A 48,000 Equity Shares, B 20,000 Equity Shares, C 12,000 Equity Shares

The above mentioned underwriters made applications for 'firm' underwritings as follows :

A 6,400 Equity Shares, B 8,000 Equity Shares, C 2,400 Equity Shares

The total applications excluding 'firm' underwriting, but including marked applications were for 40,000 Equity Shares.

The Marked Applications were as under :

A 8,000 Equity Shares, B 10,000 Equity Shares, C 4,000 Equity Shares

(The underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten)

You are required to show the allocation of liability.

CHAPTER - 5 REDEMPTION OF DEBENTURES

Q. 1. Pass journal entries in year 1 in the case of the issue of debentures by ABC Co. Ltd. Issued ₹ 1,00,000 11% debentures at 95 per cent redeemable at the end of 10 years
(i) At par (ii) at 102 percent, (iii) at 98 percent.

Q. 2. Libra Limited recently made a public issue in respect of which the following information is available:

(a) No. of partly convertible debentures issued 2,00,000; face value and issue price ₹ 100 per debenture.

(b) Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.

(c) Date of closure of subscription lists 1.5.2012, date of allotment 1.6.2012, rate of interest on debenture 15% payable from the date of allotment, value of equity share for the purpose of conversion ₹ 60 (Face Value ₹ 10).

(d) Underwriting Commission 2%.

(e) No. of debentures applied for 1,50,000.

(f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2013 (including cash and bank entries).

Q. 3. Videocon Ltd. issued 1,000, 12% debentures of ₹ 100 each on 1st April, 2009. Interest is payable on September 30th and March 31st every year.

On 1st July, 2008 the company purchased 100 of its own debentures at ₹ 98 ex-interest as Investments.

On 1st January, 2010 the Company purchased another 100 of its own debentures at ₹ 98 cum-interest.

The company closes its books of accounts on 31st March, every year.

On 31st March, 2011 the Company cancelled the debentures purchased on 1st July, 2008.

Journalise the above transactions in the books of Videocon Ltd. and show the relevant in the balance sheet for the three years.

Q. 5. Progressive Ltd. issued Re. 10,00,000 6% Debentures Stock at par on 21.01.2006. Interest was payable on 30th September and 31st March, in each year.

Under the terms of the Debentures Trust the owned stock is redeemable at par. The trust deed obliges the Company to pay to the trustees on 31st March, 2008 and annually thereafter the sum of ₹1,00,000 to be utilised for the redemption and cancellation of an equivalent amount of stock, which is to be selected by drawing lots. Alternatively, the

Company is empowered as from 31st March, 2008 to purchase its own debentures on the open market. These Debentures must be surrendered to the Trustees for cancellation and any adjustments for accrued interest recorded in the books of account. If in any year the nominal amount of the stock surrendered under this alternative does not amount to Re. 1,00,000 then the shortfall is to be paid by the company to the Trustees in cash on 31st March.

The following purchases of stock were made by the Company.

Particulars	Nominal value of stock purchased	Purchase price per ₹ 100 of stock
	₹	₹
(1) 31st December, 2008	1,20,000	98 (Cum - Interest)
(2) 31st August, 2009	75,000	95 (Ex-interest)
(3) 31st October, 2010	1,15,000	92 (Cum - Interest)

The Company fulfilled all its obligations under the trust deed. Prepare the following Ledger Accounts. (a) Debenture Stock A/c (b) Debenture Redemption A/c (c) Debenture Interest A/c.

Q. 6. On 1.4.2008 Irfan Ltd., issued 20,000 12% Debentures of ₹ 100 each at par. According to the terms of the issue, the Debenture - holders had the option of getting the debentures converted into Equity Shares of ₹ 100 each at a premium of ₹ 50 each after 1.4.2010. The company had the right to buy at anytime its debentures in the open market for cancellation. On 1.6.2009, the company purchased 2,000 Debentures at ₹ 99 cum - interest and on 1st December 2010, it purchased 3,000 Debentures at ₹ 95 ex - interest, the Debentures being cancelled in both cases immediately. On 31.12.2011, holders of 12,000 Debentures exercised the option of getting the debentures converted into Equity Shares.

Date of payment of interest is 30th June and 31st December.

You are required to prepare :

(1) 12% Debentures A/c.

(2) Debenture Interest A/c for the years 2008-09, 2009-10 and 2010-11.

Q. 7. The following ledger balances are extracted from the books of PQ Ltd. as on 31.3.2011.

Particulars	₹
9% Debentures issued @ ₹ 95	9,50,000
Debentures Redemption Reserve Fund A/c	9,37,000
Discount on Issue of Debentures	26,000
Investment against Debenture Redemption Reserve Fund	9,37,000

Following further information is given.

(1) Investments include own debentures of the face value of ₹ 2,00,000 purchased on 1.2.2011 @ ₹ 99.

(2) Interest on debentures is payable on 30th June and 31st December.

(3) All debentures are redeemable at par on 31st March.

(4) Income from outside investments of Redemption Fund from 31-12-2010 to 31-3-2011 is ₹ 45,000. Show ledger account assuming that the above transactions have been carried out and all outside investments were sold at a gain of 10% over cost.

Q. 8. B LTD. gave notice of its intention to redeem its outstanding ₹ 4,00,000 6% Debenture Stock of ₹ 100 each at ₹ 102 and offered the holders the following options to apply for their redemption moneys :

(a) To subscribe for 5% Cumulative Preference Shares of ₹ 20 each at ₹ 22.50 per share.

(b) To subscribe for 6% (New) Debenture Stock of ₹100 each at 96%.

(c) To have their holdings redeemed for cash.

Holders of ₹ 1,71,000 stock accepted the proposal (a);

Holders of ₹ 1,44,000 stock accepted the proposal (b);

The remaining stock holders accepted the proposal (c).

Pass the journal entries to record the above transactions in the books of B Ltd.

Q. 9. Bright Ltd., issued ₹ 6,00,000 debentures during 2001 on the following terms and conditions :

i. A Sinking Fund to be created by yearly appropriation of profit and similar amount to be invested outside.

ii. The Company will have the right of purchase for cancellation of debentures from the market if available below par value.

iii. The debentures are to be redeemed on 31st March, 2011 at a premium of 2%.

The following balances appeared in the books of the company as on 1st April, 2010 :

a.	Sinking Fund Investment	₹ 4,43,250
b.	Sinking Fund	₹ 4,43,250
c.	Debentures Account	₹ 4,50,000

The following transactions took place during the subsequent twelve months :

a. On 1st October, 2010 ₹ 30,000 Debentures were purchased for ₹ 26,664 and cancelled immediately, the amount being provided out of sale proceeds of investments of the book value of ₹ 34,800 made at ₹ 33,900.

b. The income from Sinking Fund Investment, ₹ 22,200 received on 1st October, 2010 was not invested.

c. On 29th March, 2011, ₹ 4,23,000 was received on sale of the remaining Sinking Fund Investments.

d. On 31st March, 2011 the remaining debentures were redeemed.

You are required to show for the year ended 31st March, 2011.

i. Debentures Account iii. Sinking Fund Investment Account.

ii. Sinking Fund Account. iv. Debenture Redemption Account.

CHAPTER - 7 LIQUIDATION OF COMPANIES

Q. 1. The summarised Balance Sheet of A Ltd. as on 31.3.2011, being the date of voluntary winding up is as under :

Liabilities	₹	Assets	₹
12% Cumulative preference shares	10,000	Land and Building	3,86,000
shares of ₹ 100 each fully paid up	10,00,000	Plant & Machinery	8,21,000
Equity Share Capital:		Stock in Trade	1,84,000
5,000 Equity shares at ₹ 100 each		Book Debts	13,37,000
₹ 60 per share called and paid up	3,00,000	Profit and Loss Account	3,72,000
5,000 Equity shares at ₹ 100 each ₹ 50			
per share called and paid up	2,50,000		
Paid up Share Capital	15,50,000		
15% Debentures	4,00,000		
Preferential Creditors	1,05,000		
Bank Overdraft	3,03,000		
Trade Creditors	7,42,000		
	31,00,000		**31,00,000**

Preference dividend is in arrears for two years. By 31.3.2011 the assets realised were as follows :

Land and Building ₹ 9,84,000, Stock in Trade ₹ 1,63,000, Plant and Machinery ₹ 7,12,000, Book Debts ₹ 11,91,000.

Expenses of liquidation is ₹ 54,000. The remuneration of the liquidator is 3 per cent of the realisation. Income tax payable on liquidation is ₹ 44,500. Assuming that the final payments are made on 31.3.2011.

Prepare the Liquidator's Final Statement of Account.

Q. 2. The following balances were extracted from the books of Sudden Death Limited, on 31st March, 2011, on which date a winding up order was made :

	₹
Share Capital :	
Equity Shares - 20,000 shares of ₹10 each ₹ 8 per share called up	1,60,000
Preference Shares - 2,000 shares of ₹100 each fully paid	2,00,000
Calls in arrears - Equity Shares - Estimated to realise ₹ 600	1,000
15% Debenture is secured by first floating charge on the assets	2,00,000
Bank Overdraft secured by a second floating charge on the assets	1,00,000

Fully secured Creditors (secured against Plant & Machinery)	60,000
Investments (estimated to realise ₹60,000)	80,000
Plant & Machinery - secured to creditors - estimated to realise ₹ 80,000	1,20,000
Land and Buildings - estimated to realise ₹ 80,000	40,000
Outstanding Rent	4,000
Outstanding Wages	3,000
Bills payable	24,000
Sundry Creditors	60,000
Bills receivable - estimated to realise ₹2,000	6,000
Debtors - estimated to realise 60%	1,40,000
Bills Discounted - ₹ 30,000 likely to dishonour ₹8,000	
Stock in trade - estimated to produce ₹38,000	60,000
Cash in hand and At Bank	3,200

Entry for accrued taxes of ₹4,000 and salary of ₹ 2,000 has still to be made in the books.

Prepare a Statement of Affairs.

Q. 3. Unfortunate Limited went Into voluntary liquidation and the proceedings commenced on 2nd July, 2011. Certain creditors could not receive payment out of the realisation of assets and out of the contributions from the contributories of the 'A' list. The following are the details of share transfers.

I	II	III	IV
Name of the transferror	No. of shares	Date of transfer transferred	Creditors remaining unpaid and outstanding at the time of the transferror ceasing to be a member
A	20	1st March, 2010	₹ 6,000
B	25	14th August, 2010	₹ 8,000
C	10	1st October, 2010	₹ 10,750
D	40	1st December, 2010	₹ 13,000
E	5	1st April, 2011	₹ 15,000

All the shares of ₹ 400 each, on which ₹ 150 per share had been paid up. Ignoring other details like liquidator's expenses etc.; you are required to work-out the liability of the individual contributories listed above.

Q. 4. In a winding up C Ltd. which commenced on 15th September, 2011. Certain creditors could not receive payments out of the realisation of assets and out of contribution from 'A' list of contributories. Following are the details of certain share transfers that took place prior to liquidation and the amount of creditors remaining unpaid :

Shareholders	No. of shares transferred	Date when ceased to be member	Creditors remaining unpaid and outstanding at the date of ceasing to be a member
A	2,000	31-8-2009	₹ 8,000
B	1,800	20-9-2009	₹ 12,000
C	1,200	15-11-2009	₹ 17,400
D	1,000	22-4-2010	₹ 18,600
E	500	10-7-2010	₹ 22,000

All the shares were of ₹ 10 each, on which ₹ 5 per share had been called and paid up. Ignoring expenses of liquidation, remuneration to liquidator etc., work out the amount to be realised from the above contributories.

Q. 5. D Ltd. went into voluntary liquidation on 31st March, 2011 when their Balance Sheet read as follows :

Liabilities :	₹
Issued and Subscribed Capital :	
15,000, 10% cumulative preference shares of ₹ 100 each fully paid	15,00,000
7,500 equity shares of ₹ 100 each, ₹ 75 paid	5,62,500
22,500 equity shares of ₹ 100 each, ₹ 60 paid	13,50,000
15% Debentures secured by a floating charge	7,50,000
Interest outstanding on Debentures	1,12,500
Creditors	9,56,250
Assets :	₹
Land and Buildings	7,50,000
Machinery and Plant	18,75,000
Patents	3,00,000
Stock	4,02,500
Sundry Debtors	8,25,000
Cash at Bank	2,25,000
Profit and Loss A/c	8,53,750

Preference dividends were in arrears for 2 years and the creditors included preferential creditors of ₹ 38,000.

The assets were realised as follows :

Land and Buildings	₹ 9,00,000
Machinery and Plant	₹ 15,00,000
Patents	₹ 2,25,000
Stock	₹ 4,50,000
Sundry Debtors	₹ 6,00,000

The expenses of liquidation amounted ₹ 27,250. The liquidators is entitled to a commission of 3%on assets realised except cash. Assuming the final payments including those on debentures were made on 30th September, 2011, show the Liquidator's Final Statement of Account.

Q. 6. The following particulars relate to a Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2½% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.

Share capital issued:

10,000 Preference shares of ₹ 100 each fully paid up.

50,000 Equity shares of ₹ 10 each fully paid up.

30,000 Equity shares of ₹ 10 each, ₹ 8 paid up.

Assets realized ₹ 20,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	₹
Preferential creditors	50,000
Unsecured creditors	18,00,000
Partly secured creditors (Assets realized ₹ 3,20,000)	3,50,000
Debenture holders having floating charge on all assets of the company	6,00,000
Expenses of liquidation	10,000

A call of ₹ 2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1,000 shares.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

Q. 7. (a) The liquidator of a company is entitled to a remuneration of 2% on assets realized and 3% on the amount distributed to unsecured creditors. The assets realized ₹ 10,00,000. Amount available for distribution to unsecured creditors before paying liquidator's remuneration is ₹ 4,12,000. Calculate liquidator's remuneration if the surplus is insufficient to pay off unsecured creditors, in toto.

(b) A Liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential Creditors and 3% on the payment made to Unsecured Creditors. The assets were realized for ₹ 25,00,000 against which payment was made as follows:

Liquidation	₹ 25,000
Secured Creditors	₹ 10,00,000
Preferential Creditors	₹ 75,000

The amount due to Unsecured Creditors was ₹ 15,00,000. You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

CHAPTER - 8 FINANCIAL STATEMENTS OF INSURANCE COMPANIES

Q. 1. Domestic Assurance Co. Ltd. received ₹ 5,90,000 as premium on new policies and ₹ 1,20,000 as renewal premium. The company received ₹ 90,000 towards reinsurance accepted and paid ₹ 70,000 towards reinsurance ceded. How much will be credited to Revenue Account towards premium?

Q. 2. From the following figures appearing in the books of Fire Insurance division of a General Insurance Company, show the amount of claims as it would appear in the Revenue Account for the year ended 31st March, 2011 :

	Direct Business	Re-insurance
	₹	₹
Claims paid during the year	46,70,000	7,00,000
Claims Payable - 1st April, 2010	7,63,000	87,000
31st March, 2011	8,12,000	53,000
Claims received	2,30,000	
Claims Receivable - 1st April, 2010	65,000	
31st March, 2011		1,13,000
Expenses of Management (includes ₹ 35,000 Surveyor's fee and ₹ 45,000 Legal expenses for settlement of claims)	2,30,000	

Q. 3. Prepare Revenue Account in proper form for the year ended 31st March, 2008, from the following particulars related to Krishna General Insurance Co. for the year ended 2007 :

	Related to Direct Business	Related to Reinsurance
	(₹)	(₹)
Premiums :		
Amount received	30,00,000	2,40,000
Receivable at the beginning	1,80,000	24,000
Receivable at the end	----	9,107
Amount paid	2,40,000	3,60,000
Payable at the beginning	----	30,000
Payable at the end	----	42,000
Claims :		
Amount paid	18,00,000	1,80,000
Payable at the beginning	60,000	12,000
Payable at the end	1,20,000	18,000
Amount Recovered	----	1,20,000
Receivable at the beginning	----	18,000
Receivable at the end	----	12,000
Commission :		
Amount Paid	72,000	10,800
Amount Received	----	14,400

Additional Information :

(i)	Interest, dividend and rent received	30,000
	Income - tax in respect of above	6,000
(ii)	Management expenses including ₹ 12,000 related to legal expenses regarding claims	1,32,000

(iii) Provision for income - tax existing at the beginning of the year was ₹ 1,95,000, the income - tax actually paid during the year ₹1,68,000 and the provision necessary at the year end ₹ 2,07,000.

(iv) The net premium income of the company during the year 2006-07 was ₹ 24,00,000 on which reserve for unexpired risk @ 50% and additional reserve @ $7^1/_2$% was created. This year, the balance to be carried forward is 50% of net premium on reserve for unexpired risk and 5% on additional reserve.

Q. 4. Prepare the Fire Insurance Revenue A/c as per IRDA regulations for the year ended 31st March, 2008 from the following details :

	₹
Claims paid	4,90,000
Legal expenses regarding claims	10,000
Premiums received	13,00,000
Re-insurance premium paid	1,00,000
Commission	3,00,000
Expenses of Management	2,00,000
Provision against unexpired risk on 1st April, 2007	5,50,000
Claims unpaid on 1st April, 2007	50,000
Claims unpaid on 31st March, 2008	80,000

CHAPTER - 9 FINANCIAL STATEMENTS OF BANKING COMPANIES

Q. 1. Rajatapeeta Bank Ltd., had extended the following credit lines to a Small Scale Industry, which had not paid any Interest since March, 2008 :

	Term Loan	Export Credit
Balance Outstanding on 31.03.2011	₹ 35 lakhs	₹ 30 lakhs
DICGC / ECGC over	40%	50%
Securities held	₹ 15 lakhs	₹ 10 lakhs
Realisable value of Securities	₹ 10 lakhs	₹ 8 lakhs

Compute necessary Provisions to be made for the year ended 31st March, 2011.

Q. 2. From the following information, prepare Profit and Loss Account of Zed Bank Ltd. for the year ended 31.3. 2013:

	(₹ in '000)
Interest and Discount	8,860
(Includes interest accrued on investments)	
Other Income	220
Interest expended	2,720
Operating expenses	2,830
Interest accrued on Investments	10
Additional Information:	
(a) Rebate on bills discounted to be provided for	30
(b) Classification of Advances:	
(i) Standard assets	4,000
(ii) Sub-standard assets	2,240
(iii) Doubtful assets - (fully unsecured)	390
(iv) Doubtful assets – covered fully by security	
Less than 1 year	100
More than 1 year, but less than 3 years	600
More than 3 years	600
(v) Loss assets	376
(c) Provide 35% of the profit towards provision for taxation.	
(d) Transfer 25% of the profit to Statutory Reserve.	

Q. 3. A commercial bank has the following capital funds and assets. Segregate the capital funds into Tier I and Tier II capitals. Find out the risk - adjusted asset and risk weighted assets ratio -

Capital Funds :	**(Figures in ₹ Lakhs)**
Equity Share Capital	4,80,00
Statutory Reserve	2,80,00
Capital Reserve (of which ₹ 280 lakhs were due to revaluation of assets and the balance due to sale)	12,10
Assets :	
Cash Balance with RBI	480
Balances with other Bank	12,50
Certificate of Deposits with other Commercial Banks	28,50
Other Investments	782,50
Loans and Advances :	
(i) Guaranteed by government	128,20
(ii) Guaranteed by public sector undertakings of Government of India	702,10
(iii) Others	52,02,50
Premises, furniture and fixtures	182,00
Other Assets	201,20
Off - Balance Sheet Items :	
Acceptances, endorsements and letters of credit	37,02,50

Q. 4. Given below interest on advances of a commercial bank (₹ in lakhs).

	Performing		NPA	
	Interest Assets	Interest Earned	Interest Received	Interest Earned Received
Terms Loans	120	80	75	5
Cash creditors and overdrafts	750	620	150	12
Bills purchased and discounted	150	150	100	20

Find out the income to be recognised for the year ended 31st March 2011.

Q. 5. The following are the figures extracted from the books of New Generation Bank Limited as on 31.3. 2013.

	₹
Interest and discount received	37,05,738
Interest paid on deposits	20,37,452
Issued and subscribed capital	10,00,000
Salaries and allowances	2,00,000
Directors fee and allowances	30,000
Rent and taxes paid	90,000
Postage and telegrams	60,286
Statutory reserve fund	8,00,000
Commission, exchange and brokerage	1,90,000
Rent received	65,000
Profit on sale of investments	2,00,000
Depreciation on bank's properties	30,000
Statutory expenses	40,000
Preliminary expenses	25,000
Auditor's fee	5,000

The following further information is given:

(i) A customer to whom a sum of ₹10 lakhs has been advanced has become insolvent and it is expected only 50% can be recovered from his estate.

(ii) There were also other debts for which a provision of ₹ 1,50,000 was found necessary by the auditors.

(iii) Rebate on bills discounted on 31.3. 2012 was ₹ 12,000 and on 31.3. 2013 was ₹ 16,000.

(iv) Provide ₹ 6,50,000 for Income-tax.

(v) The directors desire to declare 10% dividend.

Prepare the Profit and Loss account of New Generation Bank Limited for the year ended 31.3.2013 and also show, how the Profit and Loss account will appear in the Balance Sheet, if the Profit and Loss account opening balance was Nil as on 31.3.2012.

Q. 6. How will you disclose the following Ledger balances in the Final accounts of DVD bank:

	₹ in lacs
Current Accounts	700
Saving Accounts	500
Fixed Deposits	700
Cash Credits	600
Term Loans	500
Bills Discounted & Purchased	800

Additional information:

(i) Included in the current accounts ledger are accounts overdrawn to the extent of ₹ 250 lacs.

(ii) One of the cash credit account of ₹ 10 lacs (including interest ₹ 1 lac) is doubtful.

(iii) 60% of term loans are secured by government guarantees, 20% of cash credits are unsecured, other portion is secured by tangible assets.

Q. 7. From the following information, calculate the amount of Provisions and Contingencies and prepare Profit and Loss Account of 'Hamara Bank Limited' for the year ending 31st March, 2013:

	₹ in lakhs		₹ in lakhs
Interest and discount	4,430	Interest expended	1,360
Other Income	125	Operating Expenses	1,331
Interest accrued on Investments	10		

Additional Information:

		₹ in lakhs
(i)	Rebate on bills discounted to be provided for	15
(ii)	Classifications of Advances:	
	Standard Assets	2,500
	Sub-Standard Assets	560
	Doubtful Assets not covered by security	255
	Doubtful Assets covered by security	
	For 1 year	25
	For 2 years	50
	For 3 years	100
	For 4 years	75
	Loss Assets	100
(iii)	Make tax provisions @ 35% of the profit.	
(iv)	Profit and Loss Account (Cr.) brought forward from the previous year	40

Q. 8. On 1.4.2006 Acceptance, Endorsement, etc. not yet satisfied amounted to ₹ 14,50,000. During the year under question, Acceptances, Endorsements, Guarantees etc., amounted to ₹ 44,00,000. Bank honoured acceptances to the extent of ₹ 25,00,000 and client paid off ₹ 10,00,000 against the guaranteed liability. Clients failed to pay ₹ 1,00,000 which the Bank had to pay. Prepare the "Acceptances, Endorsements and other Obligations A/c" as it would appear in the General Manager.

Q. 9. The following balances are extracted from the Trial Balance as on 31.3.2008 :

	Dr.	Cr.
	₹	₹
Interest and Discounts		98,00,000
Rebate for bills discounted		20,000
Bills discounted and purchased	4,00,000	

It is ascertained that the proportionate discounts not yet earned for bills to mature in 2007-08 amount to ₹ 14,000. Prepare Ledger Accounts.

Q. 10. From the following information, you are required to prepare Profit and Loss Account of Zee Bank Ltd., for the year ending 31st March, 2013 :

	₹		₹
Interest and Discount	44,00,000	Interest Expended	13,60,000
Other Income	1,25,000	Operating Expenses	13,31,000
Income on investments	5,000	Interest on balance with RBI	25,000

Additional information :

(a) Rebate on bills discounted to be provided for ₹ 15,000

(b) Classification of advances:

	₹
Standard Assets	25,00,000
Sub-standard Assets	5,60,000
Doubtful Assets not covered by security	2,55,000
Doubtful Assets covered by security	
For 1 year	25,000
For 2 year	50,000
For 3 year	1,00,000
For 4 year	75,000
Loss Assets	1,00,000

(c) Make Tax Provision @ 35%

(d) Profit and Loss A/c (Cr.) ₹ 40,000.

Give schedule relating to Interest earned only.

CHAPTER - 11 DEPARTMENTAL ACCOUNTS

Q. 1. X Ltd has three departments A, B and C. From the particulars given below compute:

(a) the values of stock as on 31st Dec. 2012 and

(b) the departmental results

(i)

	A	B	C
	₹	₹	₹
Stock (on 1.1. 2012)	24,000	36,000	12,000
Purchases	1,46,000	1,24,000	48,000
Actual sales	1,72,500	1,59,400	74,600
Gross Profit on normal selling price	20%	25%	$33^1/_3$%

(ii) During the year certain items were sold at discount and these discounts were reflected in the value of sales shown above. The items sold at discount were:

	A	B	C
	₹	₹	₹
Sales at normal price	10,000	3,000	1,000
Sales at actual price	7,500	2,400	600

Q. 2. Department A sells goods to Department B at a profit of 50% on cost and to Department C at 20% on cost. Department B sells goods to A and C at a profit of 25% and 15% respectively on sales. Department C charges 30% and 40% profit on cost to Department A and B respectively.

Stock lying at different departments at the end of the year are as under:

	Department A	Department B	Department C
	₹	₹	₹
Transfer from Department A	----	45,000	42,000
Transfer from Department B	40,000	----	72,000
Transfer from Department C	39,000	42,000	----

Calculate the unrealized profit of each department and also total unrealized profit.

Q. 3. Z Ltd. has three departments and submits the following information for the year ending on 31st March, 2011:

	A	B	C	Total (₹)
Purchases (units)	6,000	12,000	14,400	
Purchases (Amount)	----	----	----	6,00,000
Sales (Units)	6,120	11,520	14,976	
Selling Price (per unit) ₹	40	45	50	
Closing Stock (Units)	600	960	36	

You are required to prepare departmental trading account of Z Ltd., assuming that the rate of profit on sales is uniform in each case.

Q. 4. FGH Ltd. has three departments I, J and K. The following information is provided for the year ended 31.3.2012:

	I	J	K
	₹	₹	₹
Opening stock	5,000	8,000	19,000
Opening reserve for unrealised profit	?	2,000	3,000
Materials consumed	16,000	20,000	?
Direct labour	9,000	10,000	?
Closing stock	5,000	20,000	5,000
Sales	?	?	80,000
Area occupied (sq. mtr.)	2,500	1,500	1,000
No. of employees	30	20	10

Stocks of each department are valued at costs to the department concerned. Stocks of I are transferred to J at cost plus 20% and stocks of J are transferred to K at a gross profit of 20% on sales. Other common expenses are salaries and staff welfare ₹ 18,000, rent ₹ 6,000.

Prepare Departmental Trading, Profit and Loss Account for the year ending 31.3.2012.

CHAPTER - 12 BRANCH ACCOUNTS

Q. 1. M/s Rahul operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.2012:

	₹
Stock at the outlet 1.4.11	30,000
Goods invoiced to the outlet during the year	3,24,000
Gross profit made by the outlet	60,000
Goods lost by fire	?
Expenses of the outlet for the year	20,000
Stock at the outlet 31.3.12	36,000

You are required to prepare the following accounts in the books of Rahul Limited for the year ended 31.3.12 :

(a) Outlet Stock Account.

(b) Outlet Profit & Loss Account.

(c) Stock Reserve Account.

Q. 2. Manmohan & Co. has its Head Office at Delhi and branch at Kanpur. The following transactions took place in the year 2010-2011.

	₹		₹
Opening Stock	30,000	Cash sent to branch :	
Closing stock	18,000	Rent	1,500
Opening debtors	15,000	Salaries	2,250
Opening petty cash	150	Other Expenses	2,250
Goods sent to Branch	1,05,000	Goods returned by branch	1,500
Cash sales	60,000	Petty cash at end (31.3.2011)	105
Cash received from debtors	30,000	Goods returned from debtors	500
		Closing debtors	60,000

Prepare Branch Account in the Books of the Head Office.

Q. 3. From the following information, prepare a Memorandum Trading and Profit and Loss account of Branches and also show the Branches. Account as it would appear in the Head Office books at the end of the year.

Dr. **Branches' Cash Account** **Cr.**

Date 2010-11	Particulars	₹	Date 2010-11	Particulars	₹
April 1	To Balance b/d	7,500	March 31	By Petty Cash	3,000
March 31	To Receipts from Debtors	37,500		By Bank	62,000
	To Cash Sales	25,000		By Balance c/d	5,000
		70,000			**70,000**

Dr. **Branch Debtors Account** Cr.

Date 2010-11	Particulars	₹	Date 2010-11	Particulars	₹
April 1	To Balance b/d	3,000	March 31	By Cash	37,500
March 31	To Sales	45,000	March 31	By Discounts allowed	1,000
			March 31	By Bad Debts	1,500
			March 31	By Balance c/d	8,000
		48,000			**48,000**

Dr. **Branch Account** Cr.

Date 2010-11	Particulars		₹	Date 2010-11	Particulars	₹
April 1	To Balance b/d			March 31	By Balance b/d	
	Cash	7,500			Expenses Outstanding	1,000
	Debtors	3,000		March 31	By Bank	62,000
	Furniture	7,500		March 31	By Balance	20,500
	Stock	10,000	28,000			
March 31	To Goods Transferred		45,000			
	To Furniture purchased		2,500			
	To Sundry Expenses		8,000			
			83,500			**83,500**

Closing stock at branched was ₹4,000 and expenses outstanding were ₹ 900. Depreciation at 10% of the book value has to be provided on furniture.

Q. 4. J. S. Trading Company Nagpur, invoices goods to its Kanpur Branch at cost which sells on credit as well as for cash. From the following particulars prepare Branch Stock Account, Branch Debtors Account, Branch Expenses Account. Cash is immediately remitted by Branch to Head Office. Expenses are paid direct by Head Office.

	₹
Stock at Branch on 1.4.2010	7,560
Goods from Head Office	35,000
Good returned by customer	300
Total sales	46,760
Cash sales	16,750
Good returned to Head Office	350
Stock at Branch on 31st March, 2011	6,950
Debtors on 1st April., 2010	13,000
Cash paid by Customers	24,600
Discount and commission to customers	1,360
Bad Debts	300
Rent Rates and Taxes	900
Salaries and Wages etc.	3,650

Q. 5. Hindustan Industries, Bombay has a branch in Cochin to which goods are invoiced at cost plus 25%. The branch sells both for cash and on credit. Branch expenses are paid direct from head office and the branch has to remit all cash received into the Head Office Bank Account at Cochin.

From the following details, relating to financial year 2010-11, prepare the accounts in the Head Office Ledger and ascertain the Branch Profit. Branch does not maintain any books of account, but sends weekly returns on the Head Office :

	₹
Goods Received from Head Office at invoice price	6,00,000
Returned to Head Office at invoice price	12,000
Stocks at Cochin as on 1st April, 2010	60,000
Sales in the Year - Cash	2,00,000
Credit	3,60,000
Sundry Debtors at Cochin as on 1st April 2010	72,000
Cash received from Debtors	3,20,000
Discount allowed to Debtors	6,000
Bad Debts in the year	4,000
Sales return at Cochin Branch	8,000
Rent, Rates, Taxes at Branch	18,000
Salaries, Wages, Bonus at Branch	60,000
Office Expenses	6,000
Stock at Branch on 31st March, 2011 at invoice price	1,20,000

Q. 6. Jhaveri Sons have their Head Office at Calcutta and a branch at Agra. The goods are sent to Branch at 20% less than the list price which is cost plus 100%.

From the following particulars, ascertain the profit made by the branch as well as the Head Office on wholesale basis :

	Head Office	Branch
	₹	₹
Opening Stock (Cost / Invoice Price)	40,000	20,000
Purchases	4,00,000	----
Expenses	60,000	12,000
Goods destroyed by accident at invoice price	----	2,000
Sales at list price	3,40,000	1,60,000
Goods sent to branch at invoice price	1,60,000	1,60,000

Q. 7. Show what entries would be passed by the Head Office to record the following transactions :

(1) Good valued ₹ 3,000 were transferred from kanpur branch to Agra branch under instructions from Head Office.

(2) Agra Branch collected ₹ 1,000 from an Agra customer of the Head Office.

(3) Kanpur Branch Paid ₹ 2,000 for certain goods purchased by the Head Office at Kanpur.

(4) Kanpur Branch remitted ₹ 1,000 to Head Office on 28th December which was received by the Head Office on 2nd January.

(5) Depreciation amounting to ₹ 500 an Agra Branch Fixed Assets when such accounts were opened in the Head Office books.

(6) Goods of ₹ 2,500 sent by the Head Office to Agra Branch on 26th December and received by the Branch on 10th January.

Assume that all adjustments for reconciliation of Branch Accounts are made in H.O. books.

Q. 8. Gram Udyog, a retail store, has two departments, 'Khadi and Silks' for each of which stock account and memorandum 'mark up' accounts are kept. All the goods supplied to each department are debited to the stock account at cost plus a 'mark up', which together make-up the selling-price of the goods and in the account of the sale proceeds of the goods are credited. The amount of 'mark-up' is credited to the Departmental Mark up Account. If the selling price of any goods is reduced below its normal selling price, the reduction 'marked down' is adjusted both in the Stock Account and the Departmental 'Mark up' Account. The rate of 'Mark up' for Khadi Department is $33^1/_3$% of the cost and for Silks Department it is 50% of the cost.

The following figures have been taken from the books for the year ended December 31, 2012:

	Khadi Deptt.	Silks Deptt.
	₹	₹
Stock as on January 1st at cost	10,500	18,600
Purchases	75,900	93,400
Sales	95,600	1,25,000

(1) The stock of Khadi on January 1, 2012 included goods the selling price of which had been marked down by ₹ 1,260. These goods were sold during the year at the reduced prices.

(2) Certain stock of the value of ₹ 6,900 purchased for the Khadi Department were later in the year transferred to the Silks department and sold for ₹ 10,350. As a result though cost of the goods is included in the Khadi Department the sale proceeds have been credited to the Silks Department.

(3) During the year 2012 to promote sales the goods were marked down as follows :

	Cost	Marked down
	₹	₹
Khadi	5,600	360
Silk	10,000	2,000

All the goods marked down, were sold except Silks of the value of ₹ 5,000 marked down by ₹ 1,000.

(4) At the time of stock-taking on December 31, 2012 it was discovered that Khadi cloth of the cost of ₹ 390 was missing and it was decided that the amount be written off.

You are required to prepare for both the departments for the year 2012.

(a) The Memorandum Stock Account;

(b) The Memorandum Mark up Account.

Q. 9. Messrs Ramchand & Co., Hyderabad have a branch in Delhi. The Delhi Branch deals not only in the goods from Head Office but also buys some auxiliary goods and deals in them. They, however, do not prepare any Profit & Loss Account but close all accounts to the Head Office at the end of the year and open them afresh on the basis of advice from their Head Office. The fixed assets accounts are also maintained at the Head Office.

The goods from the Head Office are invoiced at selling prices to give a profit of 20 per cent on the sale price. The goods sent from the branch to Head Office are at cost. From the following prepare Branch Trading and Profit & Loss Account and Branch Assets Account in the Head Office Books.

Trial Balance of the Delhi Branch as on 31-12-2012

Debit	**₹**	**Credit**	**₹**
Head office opening balance on 1-1-12	15,000	Sales	1,00,000
Goods from H.O.	50,000	Goods to H.O.	3,000
Purchases	20,000	Head Office Current A/c	15,000
Opening Stock		Sundry Creditors	3,000
(H.O. goods at invoice prices)	4,000		
Opening Stock of other goods	500		
Salaries	7,000		
Rent	3,000		
Office expenditure	2,000		
Cash on Hand	500		
Cash at Bank	4,000		
Sundry Debtors	15,000		
	1,21,000		**1,21,000**

The Branch balances as on 1st January, 2012, were as under: Furniture ₹ 5,000; Sundry Debtors ₹ 9,500; Cash ₹ 1,000, Creditors ₹ 30,000; Stock (H.O. goods at invoice price) ₹ 4,000; other goods ₹ 500. The closing stock at branch of the head office goods at invoice price is ₹ 3,000 and that of purchased goods at cost is ₹ 1,000. Depreciation is to be provided at 10 per cent on branch assets.

Q. 10. Martis Ltd. has several departments. Goods supplied to each department are debited to a Memorandum Departmental Stock Account at cost, plus a fixed percentage (mark-up) to give the normal selling price. The mark-up is credited to a memorandum departmental 'Mark-up account', any reduction in selling prices (mark-down) will require adjustment in the stock account and in mark-up account. The mark up for Department A for the last three years has been 25%. Figures relevant to Department A for the year ended 31st March, 2013 were as follows:

Opening stock as on 1st April, 2012, at cost	₹ 65,000
Purchase at cost	₹ 2,00,000
Sales	₹ 3,00,000

It is further ascertained that :

(1) Shortage of stock found in the year ending 31.03.2013, costing ₹ 1,000 were written off.

(2) Opening stock on 01.04.12 including goods costing ₹ 6,000 had been sold during the year and bad been marked down in the selling price by ₹ 600. The remaining stock had been sold during the year.

(3) Goods purchased during the year were marked down by ₹ 1,200 from a cost of ₹ 15,000. Marked-down stock costing ₹ 5,000 remained unsold on 31.03.2013.

(4) The departmental closing stock is to be valued at cost subject to adjustment for mark-up and mark-down.

You are required to prepare :

(i) A Departmental Trading Account for Department A for the year ended 31st March, 2013 in the books of Head Office.

(ii) A Memorandum Stock Account for the year.

(iii) A Memorandum Mark-up Account for the year.

SOLUTIONS

CHAPTER-1 ACCOUNTING STANDARDS

AS 1 : DISCLOSURE OF ACCOUNTING POLICIES

Ans. 1. A change in accounting policy should be made in the following conditions :

(i) If the change is required by some statute or for compliance with an Accounting Standard.

(ii) Change would result in more appropriate presentation of the financial statement.

Change in accounting policy may have a material effect on the items of financial statements. For example, if depreciation method is changed from straight - line method to written - down value method, or if cost formula used for inventory valuation is changed from weighted average to FIFO, or if interest is capitalized which was earlier not in practice, or if proportionate amount of interest is changed to inventory which was earlier not the practice, all these may increase or decrease the net profit. Unless the effect of such change in accounting policy is quantified, the financial statements may not help the users of accounts. Therefore, it is necessary to quantify the effect of change on financial statement items like assets, liabilities, profit / loss.

Ans. 2. Following are the examples of the areas in which different accounting policies may be adopted by different :

(i) Methods of depreciation, depletion and amortisation.

(ii) Treatment of expenditure during construction.

(iii) Valuation of Inventories.

(iv) Treatment of Goodwill.

(v) Valuation of Investments.

(vi) Valuation of Fixed Assets.

AS 2 : VALUATION OF INVENTORIES

Ans. 3. As per Para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost and net realizable value.

In this case, the cost of inventory is ₹10 lakhs. The net realizable value is 11,00,000 x 90% = ₹ 9,90,000. So, the stock should be valued at ₹ 9,90,000.

Ans. 4. As per para 24 of AS 2 'Valuation of Inventories', materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.

(i) When selling price is ₹ 175

Incremental Profit = ₹ 175 - ₹ 125 = ₹ 50

Current price of the material = ₹ 75

Therefore, it is better not to make the product. Raw material inventory would be valued at net realisable value i.e. ₹ 75 because the selling price of the finished product is less than ₹ 225 (100 + 125) per kg.

(ii) When selling price is ₹ 225

Incremental Profit = ₹ 225 - ₹ 125 = ₹ 100

Current price of the raw material = ₹ 75.

Therefore, it is better to make the product.

Raw material inventory would be valued at ₹ 100 per kg. because the selling price of the finished product is not less than ₹ 225.

AS 3 - CASH FLOW STATEMENTS

Ans. 5. 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 ₹ 10 lacs, made in debentures is for short - term period it is an item of 'cash equivalents'.

However, if investment of ₹ 10 lacs made in debentures is for long - term period then as per AS 3, it should be shown as cash flow from investing activities.

AS 6 : DEPRECIATION ACCOUNTING

Ans. 6. Paragraph 21 of Accounting Standard 6 on Depreciation Accounting says. "The depreciation method selected should be applied consistently from period to period. A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise".

The paragraph also mentions the procedure to be followed when such a change in the method of depreciation is made by an enterprise. As per the said paragraph, depreciation should be recalculated in accordance with the new method from the date of the asset coming to use. The difference in the amount, being deficiency or surplus from retrospective recomputation should be adjusted in the profit and loss account in the year such change is effected. Since such a change amounts to a change in the accounting policy, it should be properly quantified and disposed. In the question given, the surplus arising out of retrospective recomputation of depreciation as per the straight line method is ₹ 12.23 lakhs (₹ 32.23 lakhs - ₹ 20 lakhs). This should be written back to Profit and Loss Account and should be disclosed accordingly).

Ans. 7. As per para 21 of AS 6 on Depreciation Account, when a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of the asset coming into use. The deficiency or surplus arising from retrospective re-computation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed. In the given case, there is a surplus of ₹ 26.30 lakhs on account of change in method of depreciation, which will be credited to Profit and Loss Account. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed.

AS 7 : CONSTRUCTION CONTRACTS

Ans. 8. According to paragraphs 38, 39 and 41 of AS 7, an enterprise should disclose :

(a) the amount of contract revenue recognized as revenue in the period ;

(b) the methods used to determine the contract revenue recognized in the period ; and

(c) the methods used to determine the stage completion of contracts in progress.

In case of contract still in progress the following disclosures are required at the reporting date :

(a) the aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date ;

(b) the amount of advances received ; and

(c) the amount of retentions.

An enterprise should also present :

(a) the gross amount due from customers for contract work as an asset ; and

(b) the gross amount due to customers for contract work as a liability.

Ans. 9. As per para 35 of AS 7 "Construction Contracts', when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. Therefore, the foreseeable loss of ₹ 3 crores (₹ crores less ₹ 50 crores) should be recognised as an expense immediately in the year ended 31st March, 2008.

The amount of loss is determined irrespective of :

(i) Whether or not work has commenced on the contract ;

(ii) Stage of completion of contract activity ; or

(iii) The amount of profits expected to arise on other contracts which are not treated as a single construction contract in accordance with para 8 of AS 7.

AS 9 : REVENUE RECOGNITION

Ans. 10. Paragraph 8.4 and 13 of Accounting Standard 9 on Revenue Recognition states that dividends from investments in shares are not recognised in the statement of profit and loss until a right to receive payment is established.

In the given cases, the dividend is proposed on 10th April, 2011, while it is declared on 15th June, 2011. Hence, the right to receive payment is established on 15th June 2011. As per the above mentioned paragraphs, income from dividend on units of mutual funds should be recognised by X Ltd., in the financial year ended 31st March, 2012.

The recognition of ₹ 10 lakhs on accrual basis in the financial year 2010-2011 is not as per AS 9 'Revenue Recognition'.

(i) Acting as a banker in respect of funds of local bodies, Zila Parishads, Panchayat Institutions etc. who keep their funds with the treasuries.

(ii) Custody of opium and other valuables because of the strong room facility provided at the treasury.

(iii) Custody of cash balances of the State Government and conducting cash business of Government at non - banking treasuries.

AS 10 : ACCOUNTING FOR FIXED ASSETS

Ans.11. As per para 12.1 of AS 10 on Accounting for Fixed Assets, expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity. Hence, in the given case, Repairs amount ₹ 5 lakhs and Partial replacement of root tiles should be charged to profit and loss statement. ₹ 10 lakhs incurred for substantial improvement to the electrical writing which will increase efficiency should be capitalized.

Ans.12. As per para 39 of AS 10 "Accounting for Fixed Assets", following information should be disclosed in the financial statements :

1. Gross and net book values of fixed assets at the beginning and at the end of an accounting period showing additions, disposals, acquisitions and other movements.
2. Expenditure incurred on account of fixed assets in the course of construction or acquisitions ; and
3. Revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices uses, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

AS 13 : INVESTMENTS

Ans.13. **In the books of Rajat Investment**

(in shares of P Ltd. A/c for the Year Ended 31.3.2012

		Nos.	Div.	Amount			Nos.	Div.	Amount
1.4.11	To Balance b/d	50,000	—	7,50,000	31.3.12	By Balance c/d	90,000	----	12,10,000
20.6.11	To Bank A/c	10,000	—	1,60,000					
1.8.11	To Bonus	10,000	—	—					
5.11.11	To Rights (W.N.1)	20,000	—	30,000					
		90,000	**—**	**12,10,000**			**90,000**	**----**	**12,10,000**

P & L A/c (Extract)

By Sale of Rights 20,000

(W.N. 1)

Working Note :

(A) **Rights Issue :**

No. of shares held = 50,000 + 10,000 + 10,000

= 70,000 shares

No. of Right shares entitlement = $70,000 \times \frac{3}{7}$

= 30,000 shares

1/3 2/3

= 10,000 shares = 20,000 shares

Renounced @ ₹ 2 | Subscribed @ ₹ 15

∴ ₹ 20,000 income credited to P & L | ∴ ₹ 3,00,000 add to cost

CHAPTER-2 COMPANY FINAL ACCOUNTS

Ans. 1.

Raul Ltd.

Notes to Accounts

Particulars		₹	₹
Note 1 : Share Capital			
Authorised			
30,000 shares of ₹ 10/- each		3,00,000	
Issued, Subscribed and Paid - up			
20,000 Equity shares of ₹ 10/- each fully paid - up		2,00,000	
(out of above 5,000 Equity shares are issued as bonus)			
Reconciliation of Shares			
Shares at the beginning	15,000		
Add : Issued during the year	5,000		
	20,000	2,00,000	
Note 2 : Reserves and Surplus			
Securities Premium	20,000		
Less : Utilised for Bonus	(20,000)	----	
Revaluation Reserve	----		
Add : Transfer during the year	70,000	70,000	
General Reserve	66,000		
Less : Utilised for Bonus	(30,000)		
Add : Transfer during the year	15,000	51,000	
Surplus [P & L A/c]			
Surplus at the beginning	35,000		
Add : Profit for the period	48,000		
Less : Transfer to Reserve	(15,000)		
Less : Proposed Interim Dividend	(9,000)		
Less : Proposed Final Dividend	(23,000)	36,000	
(including D.D.T. @ 15%)		1,57,000	
Note 3 : Long - term borrowings			
10% Debentures		1,00,000	
(Secured against Plant & Machinery)		----	
		1,00,000	

Note 4 : Trade Payables Creditors		25,000	

		25,000	
Note 5 : Other Current Liabilities O/s Debentures Interest		5,000	
T.D.S. Payable		6,000	
		11,000	
Note 6 : Short - term provisions			
Proposed final dividend		23,000	
Provision for tax		30,000	
		53,000	
Note 7 : Tangible Assets			
Land [1,10,000 + 70,000]		1,80,000	
Plant & Machinery at cost	3,80,000		
Less : Provision for Depreciation [82,000 + 38,000]	(1,20,000)	2,60,000	
		4,40,000	
Note 8 : Inventories Stock at Cost		45,000	
		45,000	
Note 9 : Trade Receivables			
Sundry Debtors			
O/s for more than 6 months	6,000		
Other Debts	40,000	46,000	
		46,000	
Note 10 : Cash and Cash Equivalents			
Bank		15,000	
		15,000	
Note 11 : Finance Cost			
Debenture Interest	5,000		
Add : O/s	5,000	10,000	
		10,000	
Note 12 : Other Expenses			
Factory Expenses		40,000	
Administration Expenses		15,000	
Selling Expenses		20,000	
		75,000	
Note 13 : Exceptional Items			
Profit on Sale of Machinery		1,000	
		1,000	

Working Notes :

Adj. (b)

Bonus Ratio 1 : 3

(?) 15,000

= 5,000 shares

∴ Bonus amount ₹ 50,000

CR	CRR	Security Premium	Divisible Profits
NIL	NIL	20,000	50,000
			General Reserve

Adj. (e)

W.E.	Cash / Bank A/c	Dr.	2,000	
	To Suspense			2,000
R.E.	Suspense A/c	Dr.	2,000	
	To Cash / Bank			2,000
C.E.	Cash / Bank	Dr.	2,000	
	Provision for Depreciation	Dr.	4,000	
	To Plant & Machinery			5,000
	To P & L (Profit)			1,000

Ans. 2.

Zidane Ltd.

Notes to Accounts

Particulars		₹	₹
Note 1 : Share Capital			
Authorised			
1,00,000 shares of ₹ 10/- each		10,00,000	
Issued, Subscribed & Paid - up			
50,000 Equity shares of ₹ 10/- each, fully paid - up		5,00,000	
[Out of above, 20,000 shares are issued for consideration other than cash]			
Reconciliation of Shares			
Shares at the beginning	30,000		
Add : Issued during the year	20,000		
Shares at the end	50,000	5,00,000	

Note 2 : Reserves & Surplus		
Securities Premium		50,000
General Reserve		1,80,000
Surplus [P & L A/c]		
Surplus at the beginning	10,000	
Add : Profit for the period	82,000	
Less : Proposed Dividend	(46,000)	46,000
[Including D.D.T. @ 15%]		
		2,76,000
Note 3 : Trade Payables		
Creditors		20,000

		20,000
Note 4 : Other Current Liabilities		
O/s Auditors Remuneration		5,000
O/s Debenture Interest		6,000
6% Debentures		1,00,000
		1,11,000
Note 5 : Short - term Provisions		
Proposed Dividend		46,000
Provision for Tax		10,000
		56,000
Note 6 : Tangible Assets		
Land & Building at Cost	3,00,000	
(-) P.F.D. [50,000 + 9,000]	(59,000)	2,41,000
Plant & Machinery at Cost	4,00,000	
(-) P.F.D. [1,00,000 + 20,000]	(1,20,000)	2,80,000
Live Stock		20,000
		5,41,000
Note 7 : Non - current Investments		
4% Government Securities [M.V. ₹ 1,10,000]		95,000
Investments in Equity Shares [M.V. ₹ 1,70,000]		1,50,000
		2,45,000
Note 8 : Inventories		
Stock		50,000

		50,000

Note 9 : Trade Receivables			
Sundry Debtors			
O/s for more than 6 months	20,000		
Other Debts	40,000	46,000	
	60,000		
Less : Provision for Doubtful Debts	(5,000)	55,000	
Bills Receivable		20,000	
		75,000	
Note 10 : Cash & Cash Equivalents			
Cash at Bank		30,000	
Cash on Hand		2,000	
		32,000	
Note 11 : Short - term Loans & Advances			
Prepaid Insurance		1,000	
Advance Tax		15,000	
		16,000	
Note 12 : Other Current Assets			
Interest Income Receivable		4,000	
Discount on Issue of Debentures	4,000		
(-) W/off	(4,000)	----	
		4,000	
Note 13 : Contingent Liabilities & Commitments			
Commitment			
Uncalled amount of ₹ 50,000 on partly paid shares held as investments			
Note 14 : Other Incomes			
Interest on Investments	----		
Add : Receivable	4,000	4,000	
Note 15 : Employee Benefit Expenses Salaries		20,000	
Note 16 : Finance Cost			
Debenture Interest	----		
Add : O/s	6,000	6,000	
Note 17 : Other Expenses			
Provision for Doubtful Debts		5,000	
Auditors Remuneration		5,000	
General Expenses	15,000		
(-) Prepaid	(1,000)	14,000	
Directors Fees		9,000	
		33,000	
Note 18 : Exceptional Items			
Discount on Issue of Debentures W/off		4,000	

		4,000	

Ans. 3. **S Ltd.**

Notes to Accounts

Particulars		₹	₹
Note 1 : Share Capital			
Authorised		(?)	
Issued, Subscribed and Paid - up			
Equity shares of ..../- each, fully paid - up		6,00,000	
		6,00,000	
Note 2 : Reserves & Surplus			
Securities Premium		20,000	
General Reserve	62,000		
Add : Transfer during the year	38,000	1,00,000	
Surplus [P/L A/c]			
Surplus at the beginning	54,000		
Add : Profit for the period	65,024		
Less : Transfer to General Reserve	(38,000)		
Less : Proposed Dividend [Including D.D.T. @ 15%]	(69,000)	12,024	
		1,32,024	
Note 3 : Long - term borrowings			
15% Debentures		3,00,000	
(Secured against assets of the company)		----	
		3,00,000	
Note 4 : Trade Payables			
Sundry Creditors		80,000	

		80,000	
Note 5 : Other Current Liabilities			
I.T. Payable		3,000	
O/s Auditor's Remuneration		4,000	
O/s Debenture Interest		22,500	
		29,500	
Note 6 : Short - term Provisions			
Proposed Dividend		69,000	
Provision for Tax		66,024	
		1,35,024	

Note 7 : Tangible Assets		
Land & Building at Cost	4,00,000	
(-) P.F.D. [30,000 + 7,400]	(37,400)	3,62,600
Plant & Machinery at Cost	4,20,000	
(-) P.F.D. [1,28,000 + 58,400]	(1,86,400)	2,33,600
Office Equipment at Cost	30,000	
(-) P.F.D. [7,000 + 2,300]	(9,300)	20,700
Motor Car at Cost	50,000	
(-) P.F.D. [15,440 + 6,912]	(22,352)	27,648
		6,44,548
Note 8 : Intangible Assets		
Goodwill		2,30,000

		2,30,000
Note 9 : Inventories		
Closing Stock		59,000

		59,000
Note 10 : Trade Receivables		
Sundry Debtors		
O/s for more than 6 months	26,000	
Other debts	1,50,000	1,76,000
		1,76,000
Note 11 : Cash & Cash Equivalents		
Cash & Bank Balance		9,400

		9,400
Note 12 : Short - term Loans & Advances		
Advance - tax [2010-11] [A.Y. 2011-12]		70,000
Prepaid Expenses		3,000
		73,000
Note 13 : Change in Inventories		
Opening Stock		35,000
(-) Closing Stock		(59,000)
		24,000

Note 14 : Employee Benefit Expenses			
Salaries & Wages		64,000	

		64,000	
Note 15 : Finance Cost			
Interest on Debentures	22,500		
Add : O/s	22,500	45,000	
		45,000	
Note 16 : Other Expenses			
Auditors Remuneration		4,000	
Rent and Taxes		15,000	
Travelling Expenses		9,000	
Repairs & Renewals		2,500	
Printing & Stationery		6,500	
Motor Car Expenses		14,900	
		51,900	
Note 17 : Exceptional Items			
Profit on Sale of Motor Car		3,960	

		3,960	

Adj. 1	Cost as on 1.4.2007		20,000	
	(-) Depreciation @ 20%		(4,000)	
	W.D.V. on 1.4.2008		16,000	
	(-) Depreciation @ 20%		(3,200)	
	W.D.V. on 1.4.2009		12,800	
	(-) Depreciation @ 20%		(2,560)	
	W.D.V. on 1.4.2010		10,240	
	Sale Price		14,200	
	Profit		3,960	
W.E.	Cash / Bank	Dr.	14,200	
	To Motor Car Sales			14,200
R.E.	Motor Car Sales	Dr.	14,200	
	To Cash / Bank			14,200

C.E.	Cash / Bank	Dr.	14,200	
	P.F.D.	Dr.	9,760	
	To P & L A/c (Profit)			3,960
	To Motor Car			20,000

Adj. 4 Gross Demand = ₹ 61,000

Advance tax = 58,000

Liability for tax	Dr.	61,000	
To I.T. Payable			3,000
To Advance Tax			58,000

Provision for tax = 60,000

Provision for tax	Dr.	60,000	
P & L [Short I.T. Provision]		1,000	
To Liability for Tax			61,000

Ans. 4. **Sarita Ltd.**

Notes on Accounts

Particulars		₹	₹
Note 1 : Share Capital			
Authorised			
25,000 Equity shares of ₹ 100/- each		2,50,000	
Issued, Subscribed & Paid - up			
15,000, Equity shares of ₹ 100/- each, fully paid		15,00,000	
[Out of 2,500 Equity shares are issued as bonus shares]			
Reconciliation			
Shares at the beginning	12,500		
Add : Issued during the year	2,500		
Shares at the beginning	15,000		
		15,00,000	
Note 2 : Reserves and Surplus			
Securities Premium		25,000	
Debentures Redemption Reserve	1,00,000		
Add : Transfer during the year	1,00,000	2,00,000	
General Reserve	5,50,000		
Less : Utilised for Bonus issue	(5,00,000)	50,000	

Surplus [P/L A/c]			
Surplus as at the beginning	2,86,900		
Add : Profit for the period [PAT]	4,56,500		
Less : Transfer during the year	(1,00,000)		
Less : Proposed Dividend			
Interim	(50,000)		
Final (Including D.D.T. @ 15%)	(1,72,500)	4,20,500	
		6,95,500	
Note 3 : Long - term borrowings			
12% Secured Debentures		5,00,000	

		5,00,000	
Note 4 : Trade Payables			
Creditors		6,28,400	

		6,28,400	
Note 5 : Short - term Provisions			
Proposed Dividend		1,72,500	
Provision for Tax		2,45,000	
		4,17,500	
Note 6 : Tangible Assets			
Machinery at Cost	20,00,000		
(-) P.F.D.	5,40,000	14,60,000	
Furniture at Cost	1,75,000		
(-) P.F.D.	45,000	1,30,000	
		15,90,000	
Note 7 : Non - current Investments			
Investments in Equity shares of Vanita Ltd.		1,00,000	
[Market Value ₹ 1,05,000]		1,00,000	
Note 8 : Inventories			
Stock		8,30,000	

		8,30,000	
Note 9 : Trade Receivables			
Debtors		9,88,750	

		9,88,750	

Note 10 : Cash & Cash Equivalents		
Cash on Hand	2,500	
Current A/c with Bank	25,000	
	27,500	
Note 11 : Short - term Loans & Advances		
Advance tax	1,90,550	
Pre-payments	15,000	
	2,05,550	
Note 12 : Contingent Liabilities & Commitments		
Contingent Liabilities		
Claim against the company not acknowledged as debts ₹ 5,00,000		

Working Notes :

Adj. 1

Conversion of partly paid shares into fully paid

→	Share Final Call	Dr.	2,50,000	
	To Equity Share Capital			2,50,000
→	Bonus to Equity Shareholders A/c	Dr.	2,50,000	
	To Share Final Call			2,50,000
→	General Reserve	Dr.	2,50,000	
	To Bonus to Equity Shareholders			2,50,000

Bonus Issue

Bonus Ratio 1 : 5

↓ ↓

(?) 12,500

= 2,500

∴ Bonus Amount ₹ 2,50,000

↓

General Reserve

General Reserve	Dr.	2,50,000	
To Bonus to Equity Shareholders			2,50,000
Bonus to Equity Shareholders	Dr.	2,50,000	
To Equity Share Capital			2,50,000

Ans. 5. **Whole Sale Traders Ltd.**

Notes to Accounts

Particulars		₹	₹
Note 1 : Share Capital			
Authorised			
42,000 Equity Shares of ₹ 10/- each		4,20,000	
Issued, Subscribed & Paid - up			
42,000 Equity Shares of ₹ 10/- each fully paid - up		4,20,000	

		4,20,000	
Note 2 : Reserves & Surplus			
Capital Reserve	----		
Add : Transfer during the year	2,000	2,000	
General Reserve	1,00,000		
Add : Transfer during the year	10,000	1,10,000	
Surplus [Profit & Loss]			
Surplus as at the beginning	57,500		
Add : Profit for the period [PAT]	2,20,135		
Less : Transfer to General Reserve	(10,000)		
Less : Proposed Dividend			
Interim	(16,800)		
Final	(25,200)	2,25,635	
[D.D.T. assumed to be ignored]			
		3,37,635	
Note 3 : Long - term borrowings			
7% Debentures		1,50,000	

		1,50,000	
Note 4 : Short - term borrowings			
Bank Overdraft		7,300	

		7,300	
Note 5 : Trade Payables			
Creditors		1,51,000	

		1,51,000	
Note 6 : Other Current Liabilities			
Unclaimed Dividend		1,500	
O/s M. R. Remuneration		4,630	
		6,130	
Note 7 : Short - term provisions			
Proposed Dividend [Final]		25,200	
Provision for tax		2,70,419	
		2,94,255	

Note 8 : Tangible Assets			
Leasehold Properties	1,40,000		
Less : Provision for Depreciation [21,000 + 3,500]	(2,45,000)	1,15,500	
Other Properties	6,60,000		
Less : Provision for Depreciation	(60,300)	5,91,700	
Motor van at cost	25,000		
(-) P.F.D. [10,000 + 3,000]	(13,000)	12,000	
		7,19,200	
Note 9 : Non - current Investments			
Investments		67,500	

		67,500	
Note 10 : Inventories			
Closing Stock		1,67,000	

		1,67,000	
Note 11 : Trade Receivables			
Debtors		3,10,000	

		3,10,000	
Note 12 : Cash & Cash Equivalents			
Cash in Hand		15,100	
Cash at Bank		90,000	
		1,05,100	
Note 13 : Other Incomes			
Rent		36,000	
Investment Income		3,400	
		39,400	
Note 14 : Change in Inventories			
Opening Stock		1,20,000	
Less : Closing Stock		(1,67,000)	
		(47,000)	
Note 15 : Employee Benefit Expenses			
M. D. Remuneration	50,000		
(+) O/s	4,630	54,630	
Note 16 : Finance Cost			
Debenture Interest	10,500		
(+) O/s	----	10,500	
Bank Interest		**5,800**	
Note 17 : Other Expenses			
Administration & Selling Expenses		1,76,500	

		1,76,500	

Adj. 2

For Forfeiture

Equity Share Capital A/c	Dr.	5,000	
To Share Forfeiture			4,000
To Calls in Arrears			1,000

For Re-issue

Wrong Entry

Cash / Bank A/c	Dr.	3,000	
To Share Suspense A/c			3,000

R.E.

Share Suspense A/c	Dr.	3,000	
To Cash / Bank			3,000

C.E.

Cash / Bank A/c	Dr.	3,000	
To Share Forfeiture			2,000
To Equity Share Capital			5,000
Share Forfeiture	Dr.	2,000	
To Capital Reserve			2,000

Final Entry

Share Suspense A/c	Dr.	3,000	
To Calls in Arrears			1,000
To Capital Reserve			2,000

Calculation of Net Profit for managerial remuneration

	Sales	20,65,000
(+)	Closing Stock	1,67,000
(-)	Opening Stock	(1,20,000)
(-)	Purchases	(13,87,500)
	Gross Profit	7,24,500
(+)	Other Incomes	39,400
(-)	Finance Cost	(16,300)
(-)	Other Expenses	(1,76,500)
(-)	Depreciation as per books	(24,800)
		5,46,300
	Remuneration entitled @	54,630

Ans. 6. **Bharat Implements Ltd.**

Notes to Accounts

Particulars		**₹**	**₹**
Note 1 : Share Capital			
Authorised			
2000 Equity Shares of ₹ 10/- each		20,000	
Issued, Subscribed & Paid - up			
2000 Equity Shares of ₹ 10/- each fully paid - up		20,000	

		20,000	
Note 2 : Reserves & Surplus			
Development Rebate Reserve		2,680	
Investment Allowance Reserve		4,250	
General Reserve at the beginning	25,800		
Add : Profit for the period [PAT]	12,538		
Less : Proposed Dividend	(5,750)		
(including D.D.T. @ 15%)			
Less : Transfer to D.R.R.	(340)	32,248	
		39,178	
Note 3 : Long - term borrowings			
Secured Loans		13,480	
Fixed Deposits		16,000	
		29,480	
Note 4 : Trade Payables			
Sundry Creditors		1,10,775	

		1,10,775	
Note 5 : Other Current Liabilities			
O/s Managerial Remuneration		2,199	

		2,199	
Note 6 : Short - term provisions			
Proposed Dividend		5,750	
Provision for Tax		19,612	
		25,362	

Note 7 : Tangible Assets			
Fixed Assets at Cost		63,870	
(-) Depreciation Provision		28,000	
		35, 870	
Note 8 : Non - current Investments			
Investments [Market Value ₹ 150]		190	

		190	
Note 9 : Long - term Loans & Advances			
Loans & Advances		580	

		580	
Note 10 : Inventories			
Closing Stock		30,010	
W.I.P.		25,040	
Finished Goods		75,950	
		1,31,000	
Note 11 : Trade Receivables			
Sundry Debtors			
O/s for more than 6 months	121		
Other Debts	58,879		
	59,000		
(-) Provision for Doubtful Debts	(60)	58,940	
		58,940	
Note 12 : Cash & Cash Equivalents			
Cash at Bank		320	

		320	
Note 13 : Other Current Assets			
Interest accrued		25	

		25	
Note 14 : Other Incomes			
Other Income		2,880	

		2,880	

Note 15 : Cost of Materials Consumed			
Opening Stock of R.M.		50,020	
(+) Purchases of R.M.		4,48,400	
(-) Closing Stock of R.M.		(30,100)	
		4,68,410	
Note 16 : Change in Inventories			
Opening Stock of F.Y. + W.I.P. [20,080 + 99,900]		1,19,980	
(-) Closing Stock of F.Y. + W.I.P. [25,040 + 75,790]		(1,00,990)	
		18,990	
Note 17 : Employee Benefit Expenses			
M. D. Remuneration O/s		2,129	
Salaries & Wages		29,710	
		31,839	
Note 18 : Finance Cost			
Interest on Fixed Loan		620	
Other Interest		1,000	
		1,620	
Note 19 : Other Expenses			
Auditors Remuneration			
Audit Fees	50		
Other Matter	15	65	
Other Expenses		1,15,955	
		1,16,020	

Calculation of Net Profit for Managerial Remuneration

Sales	6,69,700
(+) Closing Stock	1,31,000
(-) Opening Stock	(1,61,000)
(-) Purchases	(4,48,400)
Gross Profit	1,91,300
(-) Salaries & Wages	(29,710)
(-) Finance Cost	(1,620)
(-) Other Expenses	(1,16,020)
(-) Depreciation as per Schedule XIV	(4,250)
Net Profit for Managerial Remuneration	39,700
(+) Other Income	2,880
Remuneration entitled @ 5%	2,129

Ans. 7.

Particulars	₹	₹
Gross Profit		9,00,000
Add :		
Subsidies from Government	60,000	
Revenue profit on sale of asset	70,000	1,30,000
Less :		
Salaries, Wages & Bonus	1,92,500	
General Expenses	74,000	
Depreciation as per Schedule XIV	81,000	(3,47,500)
Net Profit for Managerial Remuneration		6,82,500
Remuneration entitled @ 5%		34125

Ans. 8. **Journal entries in books of A Ltd.**

Conversion of partly paid shares into fully paid

→ Share Final Call A/c	Dr.	80,000	
To Equity Share Capital			80,000
→ Bonus to Equity Shareholders	Dr.	80,000	
To Share Final Call			80,000
→ General Reserve A/c	Dr.	80,000	
To Bonus to Equity Shareholder			80,000

Bonus Ratio 2 : 3

↓ ↓

(?) 1,20,000

= 8,00,000

Bonus Amount = ₹ 8,00,000

Capital Reserve	**Securities Premium**	**C.R.R.**	**Divisible Profits**
1,00,000	3,00,000	3,40,000	60,000

Bonus Issue Entries

Capital Reserve A/c	Dr.	1,00,000	
Securities Premium A/c	Dr.	3,00,000	
Capital Redemption Reserve	Dr.	3,40,000	
General Reserve	Dr.	60,000	
To Bonus to Equity Shareholders			8,00,000
Bonus to Equity Shareholders		8,00,000	
To Equity Share Capital			8,00,000

Q. 9. **ET Ltd.**

Balance Sheet as at 31 March, 20XX

	Particulars	Note No.	As at 31 March, 20XX ₹	As at 31 March, 20XX ₹
A.	**EQUITY AND LIABILITIES**			
	1. Shareholders' funds			
	(a) Share capital		25,000	
	(b) Reserves and surplus		19,442	
	(c) Money received against share warrants		——	
	2. Share application money pending allotment		——	
	3. Non-current liabilities			
	(a) Long-term borrowings		36,549	
	(b) Deferred tax liabilities (net)		-----	
	(c) Other long-term liabilities		-----	
	(d) Long-term provisions		241	
	4. Current liabilities			
	(a) Short-term borrowings		30,672	
	(b) Trade payables		8,807	
	(c) Other current liabilities		11,000	
	(d) Short - term provisions		7,275	
		TOTAL	**1,38,986**	
B.	**ASSETS**			
	1. Non-current assets			
	(a) Fixed assets			
	(i) Tangible assets		44,537	
	(ii) Intangible assets		-----	
	(iii) Capital work-in-progress		596	
	(iv) Intangible assets under development		-----	
	(b) Non-current investments		-----	
	(c) Deferred tax assets (net)		-----	
	(d) Long-term loans and advances		4,518	
	(e) Other non-current assets		-----	
	2. Current assets			
	(a) Current investments		-----	
	(b) Inventories		61,502	
	(c) Trade receivables		24,231	
	(d) Cash and cash equivalents		103	
	(e) Short-term loans and advances		3,489	
	(f) Other current assets		10	
		TOTAL	**1,38,986**	

E Ltd.

Notes attached to and forming part of Accounts

(₹ in 000's)

Particulars	31st March 20XX	31st March 20XX
Note : 1 Share Capital		
Authorised Capital		
3,50,000 Equity Shares of ₹ 100/- Each		35,000
		35,000
Issued, Subscribed and paid-up		
2,50,000 Equity shares of ₹ 100/- each, fully paid up		25,000
Total		**25,000**
Note : 2 Reserves and Surplus		
Development Reabate Reserve		6,271
Investment Allowance Reserve	----	
Add: Transfer During the year	5,400	5,400
General reserve		6,031
Profit and Loss (PBT)	14,509	
Less: Provision for Managerial Remuneration	94	
Less: Provision for Tax	4,400	
Less: Transfer to Investment Allowance Reserve	5,400	
Less: Proposed Dividend (including DDT @ 15%)	2,875	1,740
Total		**19,442**
Note: 3 Long Term Borrowings		
Loan from State Government (secured by charge on land)		575
other Secured Loans (secured by charge on biulding and plant and mach)		32,460
Fixed Deposits from Public		2,400
Unsecured Loans		1,114
Total		**36,549**
Note: 4 Long Term Provision		
Provision for Gratuity and Pension		241
Total		**241**
Note: 4 Short Term Borrowings		
Cash Credit from Banks (Hypothecation of Stocks)		30,672
Total		**30,672**
Note: 4 Trade payables		
Acceptances		2,645
Sundry Creditors		6,162
Total		**8,807**
Note: 5 Other Current Liabilities		
Other current liabilities		10,317
Interest accrued but not due on loans		589
Managerial Remuneration o/s		94
Total		**11,000**

Note : 6 Short Term Provisions		
Provision for Income tax		4,400
Proposed Dividend		2,875
Total		**7,275**
Note : 7 Tangible Assets		
Land at Cost		2,225
Building at Cost	9,316	
Less: Provision for Depreciation	2,193	7,123
Plant and Machinery at Cost	64,282	
Less: Provision for Depreciation	30,328	33,954
Furniture, Fixtures and office Equipment at Cost	1,594	
Less: Provision for Depreciation	568	1,026
Vehicles at cost	454	
Less: Provision for Depreciation	245	209
Total		**44,537**
Note : 9 Long term Loans and Advances		
Loans and advances		4,518
Total		**4,518**
Note : 10 Inventories		
Closing Stock		
Raw Materials		42,014
WIP		6,116
Finished Goods		1,414
Stores and Spare		2,771
Tools, Jigs and Dies		9,187
Total		**61,502**
Note : 11 Trade receivables		
Debtors		24,231
Total		**24,231**
Note : 12 Cash and Cash Equivalents		
Cash in Hand		37
Balance with Bank		
On current accounts	39	
On deposit accounts	27	66
Total		103
Note : 13 Short Term Loans and Advances		
Advance Tax		3,489
Total		3,489
Note : 13 other Current Assets		
Preliminary Expenses		8
Interest accrued on Deposits		2
Total		**10**
Computation of Net profit for Managerial Remuneration		
Net Profit before Tax	14,509	
Add:		
Depreciation as per books	12,424	
Salaries and perquisities to manager	72	
Less:		
Depreciation as per Sch XIV	10,424	
Net profit for Managerial Remuneration	16,581	
Remuneration entitled @ 1%	166	
Already paid	72	
Provision required	94	

Ans. 10. Journal Entries in the books of Brite Ltd.

2015			**Dr. ₹ in lakhs**	**Cr. ₹ in lakhs**
April 2	Equity Share Final Call A/c	Dr.	2,000	
	To Equity Share Capital A/c			2,000
	(Final call of X 2 per share on 10 crore equity shares made due)			
	Bank A/c	Dr.	2,000	
	To Equity Share Final Call A/c			2,000
	(Final call money on 10 crore equity shares received)			
June 1	Capital Reserve A/c	Dr.	485	
	Capital Redemption Reserve A/c	Dr.	1,000	
	Securities Premium A/c	Dr.	2,000	
	General Reserve A/c	Dr.	515	
	To Bonus to Shareholders A/c			4,000
	(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated……..)			
	Bonus to Shareholders A/c	Dr.	4,000	
	To Equity Share Capital A/c			4,000
	(Capitalisation of profit)			

Notes to Accounts

			₹ in lakhs
1.	Share Capital		
	Authorised share capital		
	20 crore shares of ₹10 each		20,000
	Issued, subscribed and fully paid up share capital		
	14 crore Equity shares of ₹ 10 each, fully paid up	14,000	
	(Out of the above, 4 crore equity shares @ ₹ 10 each were issued by way of bonus)		
	2 crore, 11% Cumulative Preference share capital of ₹ 10 each, fully paid up		2,000
			16,000
2.	Reserves and Surplus		
	Capital Reserves	485	
	Less: Utilized for bonus issue	(485)	—
	Capital Redemption reserve	1,000	
	Less: Utilized for bonus issue	(1,000)	—
	Securities Premium	2,000	
	Less: Utilized for bonus issue	(2,000)	—
	General Reserve	1,040	
	Less: Utilized for bonus issue	(515)	525
	Surplus (Profit and Loss Account)		273
	Total		**789**

CHAPTER-4 INTERNAL RECONSTRUCTIONS

Ans. 1. **Green Limited Journal Entries**

	Dr.	Cr.
	₹	₹
Bank Account Dr.	10,00,000	
To Equity Share Capital Account		10,00,000
(Balance of ? 10 per share on 1,00,000 equity shares called up as per reconstruction scheme)		
Equity Share Capital Account (? 50) Dr.	75,00,000	
To Equity Share Capital Account (? 20)		30,00,000
To Capital Reduction Account		45,00,000
(Reduction of equity shares of X 50 each to shares of ? 20 each as per reconstruction scheme)		
12% First Debentures Account Dr.	3,00,000	
12% Second Debentures Account Dr.	7,00,000	
Trade payables Account Dr.	2,00,000	
To X		12,00,000
(The total amount due to X, transferred to his account)		
Bank Account Dr.	2,00,000	
To X		2,00,000
(The amount paid by X under the reconstruction scheme)		
12% First Debentures Account Dr.	2,00,000	
12% Second Debentures Account Dr.	3,00,000	
Trade payables Account Dr.	1,00,000	
To Y		6,00,000
(The total amount due to Y, transferred to his account)		
Y Dr.	6,00,000	
To 14% First Debentures Account		3,00,000
To Capital Reduction Account		3,00,000
(The amount due to Y discharged by issue of 14% first debentures)		
X Dr.	14,00,000	
To 14% First Debentures Account		7,00,000
To Capital Reduction Account		7,00,000
(The cancellation of ? 7,00,000 out of total debt of Mr. X and issue of 14% first debentures for the balance amount as per reconstruction scheme)		
Capital Reduction Account Dr.	55,00,000	
To Goodwill Account		20,00,000
To Profit and Loss Account		20,00,000
To Computers Account		15,00,000
(The balance amount of capital reduction account utilised in writing off goodwill, profit and loss account, and computers—Working Note		

Balance Sheet of Green Limited (and reduced) as on 31st March, 2015

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	30,00,000
2 Non-current liabilities		
a Long-term borrowings	2	10,00,000
3 Current liabilities		
a Trade Payables		2,00,000
Total		**42,00,000**
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	3	30,00,000
2 Current assets		
Cash and cash equivalents		12,00,000
Total		**42,00,000**

Notes to accounts

	₹
1. Share Capital	
Equity share capital	
Issued, subscribed and paid up	
1,50,000 equity shares of ? 20 each	
Total	**30,00,000**
2. Long-term borrowings	
Secured	
14% First Debentures	10,00,000
Total	**10,00,000**
3. Tangible assets	
Building	10,00,000
Plant	10,00,000
Computers	10,00,000
Total	**30,00,000**

Working Note:

Capital Reduction Account

	₹		₹
To Goodwill A/c	20,00,000	By Equity Share Capital A/c	
ToP&LA/c	20,00,000	By X	7,00,000
To Computers (Bal. Fig.)		ByY	3,00,000
	55,00,000		**55,00,000**

Ans. 2. **In the books of M Ltd.**

Journal Entries

	Particulars	Dr. Amount (₹)	Cr. Amount (₹)
1.	Equity Share Capital (₹ 100) A/c Dr. To Equity Share Capital (₹ 25) A/c To Capital Reduction A/c (Being Equity shares of ₹100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c)	35,000	 8,75,000 26,25,000
2.	10% Preference Share Capital (₹100) A/c Dr. To 10% Preference Share Capital (₹ 75) A/c To Capital Reduction A/c (Being Preference shares of ₹ 100 each reduced to ₹ 75 each and balance transferred to Capital Reduction A/c. Total Pref Shares = 15,000)	15,00,000	 11,25,000 3,75,000
3.	10% Preference Share Capital (₹75) A/c Dr. To 13% Preference Share Capital (₹ 50) A/c To Equity Share Capital A/c (Being one new 13% Preference share of ₹ 50 each and one equity share of ₹ 25 each issued against 10% Preference Share of ₹ 75 each. Total Pref Shares = 15,000)	11,25,000	 7,50,000 3,75,000
4.	Capital Reduction A/c Dr. To Preference share dividend payable A/c (Being arrear of Preference share dividend payable for one year)	1,50,000	 1,50,000
5.	Preference share dividend payable A/c Dr. To Equity Share Capital A/c Being Equity Shares of ₹ 25 each issued for arrears of Preference Share dividend)	1,50,000	 1,50,000
6.	7 % Debentures A/c Dr. To Debenture holders A/c (Being balance of 7% Debentures transferred to [Debenture holders A/c)	5,00,000	 5,00,000
7.	Debenture holders A/c Dr. To 13% Preference Share Capital A/c To Bank A/c To Capital Reduction A/c Being 50% of Debenture holders opted to take 13% Preference shares at par and remaining took 90% cash payment for their claims)	5,00,000	 2,50,000 2,25,000

8.	Loan from Director A/c Dr.	1,50,000	
	To Provision for Contingent Liability A/c		1,50,000
	(Being provision for contingent liability of ‘ 1,50,000 as it is payable and the same is adjusted against Loan from director A/c)		
9.	Bank A/c Dr.	1,00,000	
	To Equity Share Application & Allotment A/c		1,00,000
	(Being application money received on 40,000 Equity shares @ ₹ 25 each)		
10.	Equity Share Application & Allotment A/c Dr.	10,00, 000	
	To Equity Share Capital A/c		10,00,000
	(Being application money transferred to capital A/c, on allotment)		
11.	Underwriting Commission A/c Dr.	40,000	
	To Bank A/c		40,000
	(Being underwriting commission paid)		
12.	Land & Buildings A/c Dr.	3,00,000	
	To Capital Reduction A/c		3,00,000
	(Being value of Land & Buildings appreciated)		
13.	Expenses on Reconstruction A/c Dr.	15,000	
	To Bank A/c		15,000
	(Being payment of expenses on reconstruction)		
14.	Capital Reduction A/c Dr.	31,75,000	
	To Goodwill A/c		3,50,000
	To Plant & Machinery A/c		4,00,000
	To Inventory A/c		1,00,000
	To Trade receivables A/c		1,50,000
	To Profit & Loss A/c		19,50,000
	To Expenses on Reconstruction A/c		15,000
	To Underwriting Commission A/c		40,000
	To Capital Reserve A/c (bal fig)		1,70,000
	(Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)		

Note: Capital Reduction Account is inter changeable with Internal Reconstruction Ac Reconstruction Account. Any Account form may be used in answering the question.

Ans. 3. **Journal Entries In the books of A Co.Ltd.**

Date	Particulars		LF	Amt. (Dr.)	Amt. (Cr.)
	Preference Share Capital A/c (4,000 x 100)	Dr.		4,00,000	
	Equity Share Capital A/c (75,000 x 10)	Dr.		7,50,000	
	To 6% Preference Share Capital A/c (4,000 x 75)			3,00,000	
	To Equity Share Capital (75,000 x 2)				1,50,000
	To Capital Redemption A/c				7,00,000
	Capital Redemption A/c	Dr.		24,000	
	To Equity Share Capital A/c (12,000 x 2)			24,000	
	Accrued Interest A/c	Dr.		22,500	
	To Cash / Bank A/c				22,500
	Freehold Property A/c	Dr.		20,000	
	To Capital Redemption A/c				20,000
	6% Debenture A/c	Dr.		1,20,000	
	To Freehold Property A/c				1,20,000
	Cash A/c	Dr.		1,30,000	
	To 8% Debenture A/c				1,30,000
	Capital Red. A/c	Dr.		2,67,500	
	To Patent A/c				37,500
	To Goodwill A/c				1,30,000
	To Deffered Advertising A/c				1,00,000
	Capital Red. a/c	Dr.		65,000	
	To Stock a/c				65,000
	Free hold Property	Dr.		62,500	
	To Capital Reduction				62,500
	Cap. Red. A/c	Dr.		68,500	
	To Debtors A/c				68,500
	Bank A/c	Dr.		1,40,000	
	To Trade Investment A/c				55,000
	To Cap. Red. A/c				85,000
	Dir's Loan a/c	Dr.		1,00,000	
	To Equity Share capital a/c				90,000
	To Cash A/c				5,000
	To Cap. Red. A/c				5,000
	Cap. Red. A/c	Dr.		12,500	
	To Cash & Bank A/c				12,500
	Capital Reduction A/c	Dr.		4,35,000	
	To Profit and Loss A/c				4,35,000

A Co. Ltd. (And Reduced)
Balance Sheet as at 01.04.2011

		C.Y.	P.Y.
I. Equity and Liabilities			
1. Shareholder's Fund			
Share Capital	1	5,64,000	
Reserve & Surplus		-----	
2. Share app. money pending allotment		-----	
3. Non-current Liabilities	2	3,85,000	
4. Current Liabilities	3	4,95,000	
Total		**14,40,000**	
II. Assets			
1. Non-Current Assets	4	4,37,500	
2. Current Assets	5	10,06,500	
Total		**14,40,000**	

Notes To A/c's		C.Y.	P.Y.
1. Share Capital			
Authorised		?	
Issued, Subscribed & Paid up			
4,000 6% cum - Preference Share Capital of ₹ 75 each fully paid up		3,00,000	
1,32,000 Equity Share Capital of ₹ 2 each fully paid up		2,64,000	
		5,64,000	
Note : Of the above 57,000 Equity Share are issue for Consideration other than cash			
2. Non Current Liabilities			
8% Debenture		1,30,000	
6% Debenture		2,56,000	
		3,85,000	
3. Current Liabilities			
Bank Old		1,95,000	
Creditors		3,00,000	
		4,95,000	
4. Non-current Assets			
Freehold Property		3,87,500	
Plant		50,000	
		4,37,500	
5. Current Assets			
Stock	3,60,000		
Debtors	4,85,000		
Less : Doubtful Debt	(68,500)	4,16,500	
Cash / Bank		2,30,000	
		10,06,500	

Ans. 4. Journal Entries in the Books of Y Ltd.

		Dr. ₹	Cr. ₹
(i)	Equity Share Capital (? 10 each) A/c Dr.	50,000	
	To Equity Share Capital (? 5 each) A/c		25,00,000
	To Reconstruction A/c		25,00,000
	(Being conversion of 5,00,000 equity shares of ? 10 each fully paid into same number of fully paid equity shares of ? 5 each as per scheme of reconstruction.)		
(ii)	9% Preference Share Capital (?100 each) A/c Dr.	20,00,000	
	To 10% Preference Share Capital (? 50 each) A/c	10,00,000	
	To Reconstruction A/c		10,00,000
	(Being conversion of 9% preference share of ? 100 each into same number of 10% preference share of ? 50 each and claims of preference dividends settled as per scheme of reconstruction.)		
(iii)	10% First Debentures A/c Dr.	4,00,000	
	10% Second Debentures A/c Dr.	6,00,000	
	Trade payables A/c Dr.	1,00,000	
	Interest on Debentures Outstanding A/c Dr.	1,00,000	
	Bank A/c Dr.	1,00,000	
	To 12% New Debentures A/c (bal fig)		7,00,000
	To Reconstruction A/c		6,00,000
	(Being ? 6,00,000 due to A (including trade payables) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)		
(iv)	10% First Debentures A/c Dr.	2,00,000	
	10% Second Debentures A/c Dr.	4,00,000	
	Trade payables A/c Dr.	50,000	
	Interest on Debentures Outstanding A/c Dr.	60,000	
	To 12% New Debentures A/c		4,10,000
	To Reconstruction A/c		3,00,000
	(Being Z 3,00,000 due to B (including trade payables) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)		
(v)	Trade payables A/c Dr.	1,75,000	
	To Reconstruction A/c		1,75,000
	(Being remaining trade payables sacrificed 50% of their claim.)		

(vi)	Directors' Loan A/c Dr. To Equity Share Capital (? 5) A/c To Reconstruction A/c (Being Directors' loan claim settled by issuing 12,000 equity shares of ? 5 each as per scheme of reconstruction.)	1,00,000	 60,000 40,000
(vii)	Reconstruction A/c Dr. To Bank A/c (Being payment made towards penalty of 5% for cancellation of capital commitments of ?3 Lakhs.)	15,000	 15,000
(viii)	Bank A/c Dr. To Reconstruction A/c (Being refund of fees by directors credited to reconstruction A/c.)	1,10,000	 1,10,000
(ix)	Reconstruction A/c Dr. To Bank A/c Being payment of reconstruction expenses.)	10,000	 10,000
(x)	Provision for Tax A/c Dr. To Bank A/c To Reconstruction A/c	1,00,000	 80,000 20,000
(xi)	(Being payment of tax for 80% of liability in settlement against provision for tax.)		
(xi)	Reconstruction A/c Dr. To Goodwill A/c To Patent A/c To Profit and Loss-A/c To Discount on issue of Debentures A/c To Land and Building A/c To Plant and Machinery A/c To Furniture & Fixture A/c To Computers A/c To Trade Investment A/c To Inventory A/c To Trade receivables A/c (Being writing off of losses and reduction in the value of assets as per scheme of reconstruction.)	47,20,000	 10,00,000 50,00,000 15,00,000 1,00,000 2,00,000 6,00,000 1,00,000 1,20,000 1,00,000 3,00,000 2,00,000

Note: Goodwill, patents, losses should be written off under a scheme of reconstruction whether or not it is mentioned in the question. The objective of reconstruction is to remove fictitious values from the assets of the Company and correspondingly reduce capital or pump in additional!

Working Notes:

(1) Outstanding interest on debentures have been allocated between A and B as follows :

			₹
As Share			
10% First Debentures		4,00,000	
10% Second Debentures		6,00,000	10,00,000
10% on `10,00,000 i.e.	(A)		1,00,000
B's Share			
10% First Debentures		2,00,000	
10% Second Debentures		4,00,000	6,00,000
10% on` 6,00,000 i.e.	(B)		60,000
Total (A + B)			**1,60,000**

(2) Bank Account

	₹		₹
To A (reconstruction)	1,00,000	By Balance b/d	1,00,000
To Reconstruction A/c (refund of earlier fees by directors)	1,10,000	By Reconstruction A/c (capital commitment penalty paid)	15,000
		By Reconstruction A/c (reconstruction expenses paid)	10,000
		By Provision for tax A/c(tax paid)	80,000
		By Balance c/d	5,000
	2,10,000		**2,10,000**

Ans. 5. S.P. Construction Co. Ltd

		₹	₹
Equity Share Capital (₹10)A/c	Dr.	2,00,000	
To Capital Reduction A/c			1,50,000
To Equity Share Capital (₹2.50) A/c			50,000
(Equity shareholders rights of ? 10 shares reduced to a are of ₹ 2.50 vide Board's Resolution dated..., the amount of sacrifice credited to Capital Reduction Account)			
Bank A/c	Dr.	60,000	
To Equity Share Capital A/c			50,000
To Securities Premium A/c			10,000
(20,000 Equity shares issued for cash at premium of Re. 0.05 per share vide Board's Resolution dated...)			
5% Preference share capital A/c	Dr.	70,000	
To 8% Pref. Share Capital A/c			35,000
To Equity Share Capital A/c			35,000
5 % Preference share capital converted into 3,500 8% preference shares of ₹ 10 each and 14,000 Equity shares of ₹ 2.50 each vide Board's Resolution dated...)			

Interest Payable on Debentures A/c Dr.	12,800	
To Equity Share Capital A/c		5,000
To Capital Reduction A/c		7,800
(2,000 Equity shares of ₹ 2.50 each issued in full and final settlement of interest payable, balance credited to Capital Reduction Account vide Board's Resolution dated….)		
8% Debentures A/c Dr.	80,000	
To 9 1/2% Debentures A/c		80,000
(8% Debentures converted into 9 1/2% Debentures vide Board's Resolution dated)		
Bank A/c Dr.	8,100	
Capital Reduction A/c Dr.	900	
To 9 !4% Debentures A/c		9,000
(₹ 9,000 Debentures issued at a discount of 10% for cash vide Board's Resolution dated)		
Loan from Directors A/c Dr.	16,000	
To Capital Reduction A/c		6,000
To Equity Share Capital A/c		2,500
To Securities Premium A/c		7,500
(₹ 6,000 of directors' loan credited to Capital Reduction A/c, 1,000 Equity Shares of ₹ 2.50 each issued in settlement of the balance due. ₹ 7,500 credited to share premium A/c videBoard's Resolution dated...)		
Bank A/c Dr.	60,000	
To Investment A/c		27,000
To Capital Reduction A/c		33,000
(Investment sold for ₹ 60,000, profit on sale credited to capital reduction A/c)		
Bank Overdraft (loan) A/c Dr.	36,713	
Trade payables A/c Dr.	46,000	
To Bank A/c		82,713
(Payment of Bank overdraft ₹36,713 and ₹ 46,000 paid to Trade payables)		
Building A/c Dr.	52,754	
To Capital Reduction A/c		52,754
(Appreciation in the value of the building under the scheme of reconstruction dated…..)		
Capital Reduction A/c Dr.	2,43,891	
To Goodwill		60,000
To Profit & Loss A/c		39,821
To Land		66,000
To Equipment		754
To Inventory		70,247
To Trade receivables		7,069
Amounts written off on various assets A/c and the amount of goodwill and debit balance of profit and loss account written off under scheme of reconstruction dated...)		

Working Note :

Capital Reduction Account

	₹		₹
To Goodwill	60,000	By Equity Share Capital A/c	1,50,000
To Profit & Loss A/c	39,821	By Debenture Interest	7,800
To Trade receivables	7,069	By Loan from Directors A/c	6,000
To Land	66,000	By Investment A/c	33,000
To Equipment	754	By Building	52,754
To Inventory	70,247		
To Debentures (Discount)	900		
To Capital Reserve	4,763		
	2,49,554		**2,49,554**

Balance Sheet of S.P. Construction Co. Ltd. (And reduced) as on............

Particulars	**Note No**	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,77,500
(b) Reserves and Surplus	2	22,263
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	89,000
(3) Current Liabilities		
(a) Trade payables		50,247
Total		**3,39,010**
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets	4	1,80,000
(b) Non-current investments	5	--
(2) Current assets		
(a) Inventories		50,000
(b) Trade receivables (? 7069 written off)		63,263
(c) Cash and cash equivalents	6	45,387
Total		**3,39,010**

Notes to Accounts

		₹
1. Share Capitals		
Equity Share Capital		
57,000 Equity shares of ? 2.50 each fully paid		
(17,000 shares issued on conversion and		
settlement claims against the company)		1,42,500
Preference Share Capital		
8% Cumulative Preference share capital		35,000
		1,77,500
2. Reserve and Surplus		
Securities Premium		17,500
Capital Reserve		4,763
		22,263
3. Long-term borrowings		
Secured Loans		
$9\frac{1}{2}$% Debentures		89,000
4. Fixed Assets		
(i) Tangible assets		
Land	1,56,000	
Less: written off under the scheme of reconstruction	(66,000)	90,000
Building	27,246	
Add: Appreciation under the scheme of reconstruction	52,754	80,000
Equipment	10,754	
Less: written off under the scheme of reconstruction	(754)	10,000
		1,80,000
(ii) Intangible assets		
Goodwill	60,000	
Less: written off under the scheme of reconstruction	(60,000)	
5. Non-current investments		
Investments	27,000	
Less: Sold during the year	(27,000)	
6. Cash and cash equivalents		
Cash at Bank		45,387

Ans. 6. **Journal of Bhanushali Ltd.**

8% Preference Share Capital A/c	Dr.	6,00,000	
To Cash / Bank A/c			4,20,000
To Capital Reduction A/c			1,80,000
Capital Reduction A/c	Dr.	33,600	
To Cash / Bank A/c			33,600
Outstanding Debentures Interest A/c	Dr.	1,08,000	
9% Debentures A/c	Dr.	6,00,000	
To Capital Reduction A/c			1,08,000
To 10% Debenture A/c			6,00,000
Loan from ICICI	Dr.	1,50,000	
Outstanding Interest	Dr.	15,000	
To Cash / Bank A/c			1,57,500
To Capital Reduction A/c			7,500
Sundry Creditors A/c	Dr.	69,000	
To Cash / Bank A/c			65,550
To Capital Reduction			3,450
Capital Reduction A/c	Dr.	5,38,000	
To Profit / Loss A/c			4,20,000
To Goodwill A/c			80,000
To Debtors			30,000
Capital Reduction A/c	Dr.	14,000	
To Fixed Assets			14,000
Capital Reduction A/c	Dr.	10,000	
To Investments A/c			10,000
Capital Reduction A/c	Dr.	3,350	
To Cash / Bank A/c			3,350
Cash / Bank A/c	Dr.	20,000	
To Equity Share Capital A/c			20,000

Bhansali Ltd. (And Reduced)

Balance - sheet As on 31.3.2011

		Note	C.Y.	P.Y
(I)	**Equity and Liabilities**			
	(1) Shareholders Funds			
	Share Capital	1	14,00,000	
	Reserves and Surplus		----	
	(2) Share application money pending allotment		----	
	(3) Non Current liabilities		2 6,00,000	
	(4) Current liabilities		----	
	Total		**20,00,000**	
(II)	**Assets**			
	(1) Non-Current Assets	3	11,61,000	
	(2) Current Assets	4	8,39,000	
	Total		**20,00,000**	

Notes to Accounts

		C.Y.	P.Y.
(1)	**Share Capital**		
	Authorised	?	
	Issued, subscribed & paid up		
	1,00,000 Equity shares of ₹ 20 each, ₹14 paid up	14,00,000	
		14,00,000	
(2)	**Non Current Liabilities**		
	10% Debentures	6,00,000	
		6,00,000	
(3)	**Non-Current Assets**		
	Fixed Assets	11,06,000	
	Investments	55,000	
		11,61,000	
(4)	**Current Assets**		
	Stock	6,80,000	
	Debtors	90,000	
	Bills Receivable	49,000	
	Cash / Bank Balance	20,000	
		8,39,000	

Notes:

(1) Reduction in Equity share capital is worked by preparing Capital Reduction A/c.

(2) Call on Equity share capital is worked out by preparing Cash / Bank A/c.

Ans. 7. **Delta Ltd.**

11.5% Preference Share Capital A/c	Dr.		1,50,000	
To 14% Preference Share Capital A/c				90,000
To Capital Reduction A/c				60,000
10% Preference Share Capital A/c	Dr.		65,000	
To 13% Preference Share Capital				39,000
To Capital Reduction A/c				26,000
Equity Share Capital A/c (20,000 x 10)	Dr.		2,00,000	
To Equity Share Capital A/c (20,000 x 5)				1,00,000
To Capital Reduction A/c				1,00,000
11% Debentures	Dr.		3,00,000	
To Equity Share Capital (50,000 x 5)				2,50,000
To Capital Reconstruction				50,000
Interest due on Debenture A/c	Dr.		19,500	
To Capital Reduction A/c				19,500
Creditors A/c	Dr.		45,000	
To Capital Reduction A/c				45,000
Cash / Bank A/c	Dr.		50,000	
To Capital Reduction A/c				50,000
Capital Reduction A/c	Dr.		2,250	
To Cash / Bank A/c				2,250
Capital Reduction A/c	Dr.		3,09,500	
To Goodwill				80,000
To Patents				54,000
To Profit & Loss A/c				1,75,500
Capital Reduction A/c	Dr.		70,000	
To Plant & Machinery				50,000
To Furniture				5,000
To Debtors				15,000
Land & Building A/c	Dr.		75,000	
Investments A/c	Dr.		15,000	
To Capital Reduction A/c				90,000
Capital Reduction	Dr.		1,12,750	
To Capital Res.				1,12,750

Note				C.Y.	P.Y.
I)	**Equity and liabilities**				
	1.	Share holder's fund			
		Share Capital	1	4,79,000	
		Reserve & Surplus	2	1,12,750	
	2.	Share app. Money pending allotment		-----	
	3.	Non-current Liabilities	3	1,50,000	
	4.	Current Liabilities	4	4,05,000	
		Total		**11,46,750**	
II)	**Assets**				
	1.	Non-current Assets	3	6,79,000	
	2.	Current Assets	4	4,67,750	
		Total		**11,46,750**	

Notes to A/c's		C.Y.	P.Y.
1.	**Share Capital**		
	Authorized		
	13,000 13% Preference Share of ₹ 10 each ₹ 3 paid up	39,000	
	15,000 11.5% Preference Share Capital of ₹ 10 each ₹ 6 paid up	90,000	
	70,000 Equity Share of ₹ 5 each fully paid	3,50,000	
		4,79,000	
	Note : Of the above 50,000 Equity Share are issued for consideration other than cash		
2.	**Reserve & Surplus**		
	Capital Reserve	1,12,750	
		1,12,750	
3.	**Current Liabilities**		
	Sundry Creditors	4,05,000	
		4,05,000	
4.	**Non-current Assets**		
	Patent	54,000	
	Land & Building	2,50,000	
	Plant and Machinery	2,75,000	
	Furniture	10,000	
	Investment	90,000	
		6,79,000	
5.	**Current Assets**		
	Debtors	3,00,000	
	Bank	67,750	
	Bill Receivable	1,00,000	
		4,67,750	

Ans. 8.

In the books of Maitri Ltd.

Journal Entries

				Dr.	Cr.
	2012			**₹**	**₹**
1.	March 31	Equity Share Capital A/c (? 10)	Dr.	3,00,000	
		To Capital Reduction A/c			90,000
		To Equity Share Capital A/c (? 7)			2,10,000
		(Being reduction of equity shares of ? 10 each to shares of f 7 each as per Reconstruction Scheme dated...)			
2.		8% Cum. Preference Share Capital A/c (? 10)	Dr.	4,00,000	
		To Capital Reduction A/c			2,00,000
		To Preference Share Capital A/c (? 5)			2,00,000
		(Being reduction of preference shares of ? 10 each to shares of ? 5 each as per reconstruction scheme)			
3.		Equity Share Capital A/c (30,000 x ? 7)	Dr.		
		Preference Share Capital A/c (40,000 x ? 5)	Dr.		
		To Equity Share Capital A/c (21,000 x? 10)			
		To Preference Share Capital A/c (20,000 x?10)		2,00,000	
.		(Being post reduction, both classes of shares reconsolidated into ? 10 each)			
4.		Cash Account	Dr.	64,000	
		To Trade Investments			64,000
		(Being trade investments liquidated in the open market)			
5.		Capital Reduction Account	Dr.	32,000	
		To Equity Share Capital tecount			32,000
		(Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of ? 10 each)			
6.		Capital Reduction Account	Dr.		10,000
		To Cash Account			10,000
		(Being expenses of reconstruction scheme paid in cash)			
7.		9% Debentures Account	Dr.	1,20,000	
		Accrued Interest Account	Dr.	5,400	
		To Debenture holders Account			1,25,400
		(Being amount due to debenture holders)			
8.		Debenture holders Account	Dr.	1,25,400	
		Cash Account (2,10,000 - 1,25,400)	Dr.	84,600	
		To Freehold Land			1,20,000
		To Capital Reduction Account (2,10,000-1,20,000)			90,000
		(Being Debenture holders took over freehold land at ₹ 2,10,000 and settled the balance)			

9.		Capital Reduction Account Dr.	54,000	
		To Cash Account		54,000
		(Being contingent liability of ₹ 54,000 paid)		12,500
10.		Cash Account Dr.	12,500	
		To Capital Reduction Account		12,500
		(Being pending insurance claim received)		
11.		Capital Reduction Account Dr.	1,68,100	
		To Trademarks and Patents		1,10,000
		To Goodwill		36,100
		To Raw materials & Packing materials		10,000
		To Trade receivables		12,000
		(Being intangible assets written off along with raw materials and packing materials worth ₹ 10,000 and 10% of trade receivables)		
12.		Cash Account Dr.	1,26,000	
		To Equity Share Capital Account		1,26,000
		(Being 12,600 shares issued to existing shareholders)		
13.		Bank Overdraft Account Dr.	2,23,100	
		To Cash Account		2,23,100
		(Being cash balance utilized to pay off bank overdraft)		
14.		Capital Reduction Account Dr.	1,28,400	
		To Capital reserve Account		1,28,400
		(Being balance of capital reduction account transferred to capital reserve account)		

Cash Account

Particulars	₹	Particulars	₹
To Investment	64,000	By Capital reduction (Contingent liability)	54,000
To 9% Debenture holders (2,10,000-1,25,400)	84,600	By Expenses	10,000
To Capital reduction (insurance claim)	12,500	By Temporary bank overdraft- From available cash (64,000+84,600+12,500-54,000-10,000) 97,100-	
To Equity share capital 12,600 shares @ ₹10 each	1,26,000	-From proceeds of equity sharecapital (2,23,100-97,100) 1,26,000	2,23,100
	2,87,100		**2,87,100**

CHAPTER-5 AMALGAMATION, ABSORPTION AND RECONSTRUCTION

Ans. 1.

		₹
Sundry assets		
$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$		15,12,000
$18,00,000 \times \frac{25}{100} \times \frac{92}{100} =$	4,14,000	19,26,000
Less: Liabilities:		
10% Debentures	2,00,000	
Trade payables	2,40,000	
Bank overdraft	50,000	
Unrecorded liability	25,000	(5,15,000)
Purchase consideration		14,11,000

Ans. 2.

PC

NP

(1)	9% Prof shares for 10% PSHS		1,10,000
(2)	Equity shares		4,20,000
	(No of Share = 40,000)	**PC**	**5,30,000**

NA

Good will		50,000
Bldg		1,50,000
Machinery		1,60,000
Stock		1,57,500
Debtors		1,00,000
Cash at Bank		20,000
Less : RDD		(7,500)
Less : Retirement Gratuity Fund		(20,000)
Less : Creditors		(80,000)
	NAs	**5,30,000**

Ans. 3. **PC**

NP

(1)	10% Preference Shares of ₹ 100 each	5,10,000
(2)	Equity Shares of ₹10 each (8 paid)	15,70,000
	(No. of shares = 1,96,250 **PC**	**20,80,000**

NA

Fixed Assets	12,80,000
Stock	7,70,000
BR	30,000
NAs	**20,80 000**

Ans. 4.

Calculation of Intrinsic value	**Small Ltd**	**Strong Ltd**
Revised values of all assets	2,32,000	3,47,000
Less : Revised values of all liab	52,000	47,000
Net worth	1,80,000	3,00,000
Less : Settlement value of PSHS	------	------
NAs for ESHs	1,80,000	3,00,000
÷ No of Equity Shares	12,000	15,000
VPS	15	20

$\boxed{\therefore \text{ Exchange Ratio} = 3 : 4}$

Ans. 5. **PC**

NP

(1) Cash (5000 X 30) 1,50,000

(2) Equity Shares $\begin{bmatrix} 4 & : & 5 \\ (?) & & 5000 \end{bmatrix}$ = 4000 Shares 4,00,000

PC 5,50,000

Note : Both the Balance Sheets are altered before Absorption

Varun Ltd				**Arun Ltd**			
P & L a/c	Dr	30,000		P & Q A/c	Dr	90,000	
To Cash / Bank A/c			30,000	To Cash / Bank A/c			90,000
(5,00,000X6%)				(15,00,000X6%)			

Journal of Varun Ltd.

2011				
April 1	Equity Share capital are Dr.		5,00,000	
	Capital Reserve A/c Dr.		50,000	
	Revenue Reserve Dr.		25,000	
	P & L A/c Dr.		5000	
	To Equity Shareholders A/c			5,80,000
	6% Debentures A/c Dr.		3,00,000	
	Sundry Creditors A/c Dr.		95,000	
	To Realisation A/c			3,95,000
	Realisation A/c Dr.		9,74,000	
	To Goodwill A/c			1,00,000
	To Plant & Machinery A/c			4,20,000
	To Furnutire A/c			5,000
	To Stock A/c			1,80,000
	To Debtors A/c			1,80,000
	To New Project Expenses A/c			75,000
	To Cash / Bank A/c			14,000
	Arun Ltd. A/c Dr.		5,50,000	
	To Realisation A/c			5,50,000
	Cash / Bank A/c Dr.		1,50,000	
	Equity Shares in Arun Ltd. A/c Dr.		4,00,000	
	To Arun Ltd. A/c			5,50,000
	Arun Ltd. A/c Dr.		5,000	
	Realisation A/c Dr.		1,000	
	To Cash / Bank A/c			6,000
	Cash / Bank A/c Dr.		5,000	
	To Arun Ltd. A/c			5,000
	Equity Share Holders A/c Dr.		30,000	
	To Realisation A/c			30,000
	Equity Share Holders A/c Dr.		5,50,000	
	To Cash / Bank A/c			1,50,000
	To Equity Share in Arun A/c			4,00,000

RW

1.	Business Purchase (PC)	Dr.		5,50,000	
	To Liquid of Varun				5,50,000
2.	Liquid of Varun	Dr.		5,50,000	
	To Cash / Bank				1,50,000
	To ESC (4000X100)				4,00,000
(3)	Plant & Machinery	Dr.		4,94,000	
	Furniture	Dr.		6,000	
	Stock	Dr.		1,60,000	
	Debtors	Dr.		1,71,000	
	New Project Expenses	Dr.		9,5000	
	Cash / Bank	Dr.		14,000	
	Goodwill	Dr.		23,000	
	To Creditors				95,000
	To 6% Debentures				3,18,000
	To Business Purchase (PC)				5,50,000
(4)	6% Debenture A/c	Dr.		3,18,000	
	To 5% Debenture A/c				3,00,000
	To Cash / Bank				18,000
(5)	Goodwill A/c	Dr.		5,000	
	To Cash / Bank				5,000

Arun Ltd. (After Absorption)

Balance Sheet As on 1st April, 2011

	Note	C.Y.	P.Y.
(I) EQUITY AND LIABILITIES			
(1) Shareholder's Funds			
Share Capital	1	1,90,000	
Reserve and Surplus	2	2,30,000	
(2) Share Application money pending allotment		----	
(3) Non Current Liabiliaties	3	3,00,000	
(4) Current Liabiliaties	4	3,35,000	
Total		**27,65,000**	
(II) ASSETS			
(1) Non Current Assets	5	17,83,000	
(2) Current Assets	6	9,82,000	
Total		**27,65,000**	

Notes to Accounts

1. **Share Capital**	
Authorised	
20,000 Equity Shares of ₹ 100 each	20,00,000
Issued, subscribed & paid up	
19,000 Equity Shares of ₹ 100 each, fully paid	19,00,000
(4,000 Equity shareof ₹ 100 each, fully paid)	----
	19,00,000
(2) **Reserve and Surplus**	
P & L a/c	30,000
General Reserve	2,00,000
	2,30,000
(3) **Non current Liabiaties**	
5% Debentures	3,00,000

	3,00,000
(4) **Current Liabiaties**	
Sundry Creditors	3,35,000

	3,35,000
(5) **Non Current Assets**	
Fixed Assets	
Good will	2,80,000
Building	6,00,000
Plant & Machinery	10,44,000
Furniture	16,000
New Project Expenses (Capital A/c)	95,000
	17,83,000
(6) **Current Assets**	
Stock	5,40,000
Debtors	4,01,000
Cash / Bank	41,000
	9,82,000

Ans.6. The purchase consideration will be

		₹	**Form**
Preference shareholders:	2,000 x 3/4 x 100	1,50,000	9% Pref. shares
Equity shareholders:	5,000 x 20	1,00,000	Cash
	5,000 x 6/5 x 125	7,50,000	Equity shares
		10,00,000	

According to AS 14, 'consideration' for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Therefore, debentures issued to the debenture holders will not be included in purchase consideration. Like trade payables, the liability respect of debentures of S. Ltd. will be taken by P Ltd., which will then be settled by issuing new 8 % debentures.

Ans. 7. **Computation of Purchase consideration**

	(₹ in 000)	Form
For Preference Shareholders of X. Ltd	3,000	30,000 15% Preference shares in Y Ltd.
For equity shareholders of X Ltd. (2/3 x 7,50,000) x ₹ 10 of ₹ 10 each	5,000	5,00,000 Equity shares of Y Ltd.
Total Purchase consideration	8,000	

Note : Consideration for debenture holders should not be included above. Such will be taken over by Y Ltd. and then discharged.

Ans. 8.(i) **Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.**

Profits of	**Neel** ₹	**Gagan** ₹
I year	2,62,800	2,75,125
II year	2,12,200	2,49,875
Total	4,75,000	5,25,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability

	Neel	**Gagan**
	24,000x475/1000	11,400 equity shares
	24,000 x 525/1000	12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

	Neel	Gagan
	₹	₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued	56,000 shares	
$\left[67,200 \times \frac{100}{12}\right]$ = 5,60,000 @ ₹ 10 each		
$\left[73,920 \times \frac{100}{12}\right]$ = 6,16,000 @ ₹10 each	61,000 shares	

(ii) Total Purchase Consideration

	Neel	Gagan
	₹	₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	5,60,000	6,16,000
Total	**8,45,000**	**9,31,000**

Working Note:

Calculation of Net assets as on 31.3.2015

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
Less: Current liabilities	(6,23,500)	(5,57,600)
	8,40,000	9,24,000

Ans.9.PC

		Batuk Ltd	Vaman Ltd
Eq Share of ₹ 10 each		73,150	33,550
	PC	**73,150**	**33,550**
NA			
Bldg		15,000	-----
Machinery		52,250	25,000
Stock		7,600	4,000
Debtors		6,650	5,000
Cash		1,500	500
Less : Creditors		(15,000)	(4,000)
Less : Employees PF		(1,500)	-----
	NA	66,500	30,500
		6,650	3,050
	PC	**73,150**	**33,550**

Journal of Batuk Ltd

2011				
April 1	Equity Share Capital a/c	Dr	50,000	
	General Reserve a/c	Dr	19,000	
	P & L a/c	Dr	1,000	
	To Equity Share holders a/c			16,500
	Realisation a/c	Dr	86,500	
	To Building a/c			15,000
	To Machinery a/c			55,000
	To Stock a/c			8,000
	To Debtors a/c			7,000
	To Cash a/c			1,500
	Vinat Ltd a/c	Dr	73,150	
	To Realisation a/c			73,150
	Equity Share in Vinat Ltd a/c	Dr	73,150	
	To Vinat Ltd a/c			73,150
	Realisation a/c	Dr	3,150	
	To Equity Share holders a/c			3,150
	Equity Share holders a/c	Dr	73,150	
	To Equity Share in Vinat Ltd. a/c			73,150

Vinat Ltd. (After Amalgamation)

Balance – Sheet As On 1st April , 2011

		Note	CY	PY
(I)	**EQUITY AND LIABILITIES**			
(1)	Share holders Funds			
	Share Capital	1	1,06,700	
	Reserves and Surplus		-----	
(2)	Share Appli money pending allotment		-----	
(3)	Non Current Liabilities		-----	
(4)	Current Liabilities	2	20,500	
	Total		**1,27,000**	
(II)	**ASSETS**			
(1)	Non Current Assets	3	1,01,950	
(2)	Current Liabilities	4	25,250	
	Total		**1,27,200**	

Notes to Accounts

(1)	Share Capital	
	Authorised	?
	Issued subscribed & paid up	
	10,670 Eq Shares of ₹ 10 each fully paid	1,06,700
	(All 10,670 Eq Shares of ₹ 10 each fully paid)	**1,06,700**
(2)	Current Liabilities	
	Creditors	19,000
	Employees PF	1,500
		20,500
(3)	Non Current Assets	
	Fixed Assets	
	Goodwill	9,700
	Building	15,000
	Machinery	77,250
		1,01,950
(4)	Current Assets	
	Stock	11,600
	Debtors	11,650
	Cash	2,000
		25,250

Ans.11. **PC**

28,000 Equity Shares of ₹ 10 each	2,80,000
	2,80,000

Journal of Y Ltd.

2011				
April 1	Equity Share Capital a/c	Dr	1,50,000	
	P & L a/c	Dr	50,000	
	General Reserves a/c	Dr	50,000	
	To Equity Share holders a/c			2,50,000
	Bills Payable a/c	Dr	20,000	
	Sundry Creditors a/c	Dr	40,000	
	To Realisation a/c			60,000
	Realisation a/c	Dr	3,10,000	
	To Fixed Assets a/c			1,00,000
	To Stock a/c			80,000
	To Debtors a/c			60,000
	To BR a/c			40,000
	To Cash & Bank a/c			30,000
	X Ltd a/c	Dr	2,80,000	
	To Realisation a/c			2,80,000
	Equity Share in X Ltd a/c	Dr	2,80,000	
	To X Ltd a/c			2,80,000
	Realisation a/c	Dr	30,000	
	To Equity Share holdersa/c			30,000
	Equity Share holders a/c	Dr	2,80,000	
	To Equity Share in X Ltd. a/c			2,80,000

Journal of X Ltd.

2011				
April 1	Business Purchase a/c	Dr	2,80,000	
	To liquid of Y Ld. a/c			2,80,000
	Liquid of Y Ltd. a/c	Dr	2,80,000	
	To Equity Share Capital (2800X10)			2,80,000
	Fixed Assets a/c	Dr	1,00,000	
	Stock a/c	Dr	80,000	
	Debtors a/c	Dr	60,000	
	BR a/c	Dr	40,000	
	Cash & Bank	Dr	30,000	
	Goodwill	Dr	30,000	
	To Bills Payable A/c			20,000
	To Creditors a/c			80,000
	To Bussiness Purchase (PC)			2,80,000
	Creditors a/c	Dr	30,000	
	To Debtors a/c			30,000
	Bills Payable a/c	Dr	12,000	
	To Bills Receivable a/c			12,000
	Goodwill A/c	Dr	7,200	
	To Stock A/c			7,200
	P = (20,000 X 1/5) + (16,000 X 1/5)			
	= 7,200			

Ans.11. Value of 3,000 shares ofX Ltd. @₹ 70 = ₹ 2,10,000

The purchase consideration will be:

= ₹ 2,10,000 for equity shares + ₹ 60,000 for Liability towards preference shareholders

= ₹ 2,70,000

₹ 60,000 out of the above will be in cash and ₹ 2,10,000 in the form of equity shares of Y Ltd., issued at ₹ 120 per share; the number of shares that will be issued = 2,10,000/120 = 1,750 equity shares.

Ans. 12. **LEDGER OF BETTER LIMITED**

Fixed Assets Account

	₹		₹
To Balance b/d	15,00,000	By Realisation A/c (transfer)	15,00,000

Current Assets Account

	₹		₹
To Balance b/d	5,00,000	By Realisation A/c (transfer)	5,00,000

Liabilities Account

To Realisation A/c	2,00,000	By Balance b/d	2,00,000

Realisation Account

	₹		₹
To Fixed Assets A/c	15,00,000	By Liabilities A/c	2,00,000
" Current Assets A/c	5,00,000	" Best Limited (Purchase Consideration)	15,00,000
		" Shareholders' A/c (Loss on Realisation)	3,00,000
	20,00,000		20,00,000

Share Capital Account

	₹		₹
To Sundry shareholders A/c - (transfer)	15,00,000	By Balance b/d	10,00,000
		" Reserves & Surplus A/c (Bonus issue)	5,00,000
	15,00,000		15,00.000

Reserves & Surplus Account

	₹		₹
To Share Capital (Bonus issue)	5,00,000	By Balance b/d	8,00,000
" Sundry Shareholders	3,00,000		
	8,00,000		8,00,000

Best Ltd.

	₹		₹
To Realisation A/c - Purchase Consideration	15,00,000	By Shares in Best Ltd	15,00,000
	15,00,000		15,00,000

Shares in Best Ltd.

	₹		₹
To Best Ltd.	15,00,000	By Sundry Shareholders A/c	15,00,000

Sundry Shareholders Account

	₹		₹
To Realisation A/c (Loss)	3,00,000	By Share Capital A/c	15,00,000
" Share in Best Ltd.		" Reserves & Surplus A/c 15,00,000	3,00,000
	18,00,000		18,00,000

Journal of Best Ltd.

2014		**Dr.** ₹	**Cr.** ₹
Apr. 1 Fixed Assets A/c	Dr.	15,00,000	
Current Assets A/c	Dr.	5,00,000	
To Liabilities A/c			2,00,000
To Liquidator of Better Ltd.			15,00,000
To Capital Reserve A/c			3,00,000
Assets & Liabilities of Better Ltd. taken over for an peed purchase consideration of ₹ 15,00,000 as per cement dated....)			
Liquidator of Better Ltd.	Dr	15,00,000	
To Share Capital A/c		10,00,000	
To Securities Premium A/c			5,00,000
(Discharge of Purchase consideration by the issue of equity shares of ₹ 10,00,000 at a premium of ₹ 50 per share as per agreement)			
Trade payables A/c	Dr.	1,00,000	
To Trade receivables A/c			1,00,000
(Amount duel from Better Ltd., and included in its taken over, cancelled against own Trade receivables)			
Capital Reserve A/c	Dr.	10,000	
To Current Asset (Stock) A/c			10,000
(Unrealized profit on stock included in current assets of Better Ltd. written off to Reserve Account)			

Working Note :

Calculation of Purchase consideration :

Issued Capital Better Ltd. (after bonus issue) at ₹ 100 per share ₹15,00,000

Purchase consideration has been discharged by Best Ltd. by the issue of shares for ₹10,00,00, a premium of 15,00,000. This gives the value of ₹ 150 per share.

Balance Sheet of Best Ltd. (After absorption)

Particulars			Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	17,90,000
2		**Current liabilities**		21,00,000
		Total		**68,90,000**
		Assets		
1		Non-current assets		
	a	Fixed assets		
		Tangible assets	3	40,00,000
	b	Non-current investments		5,00,000
2		**Current assets**		23,90,000
		Total		**68,90,000**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & Subscribed		
	30,000 shares of ₹ 100		
	(Of the above 10,000 shares have been issued for consideration other than cash)		30,00,000
	Total		**30,00,000**
2	**Reserves and Surplus**		
	Capital Reserve (3,00,000-10,000)		2,90,000
	Securities Premium		5,00,000
	Other reserves and surplus		10,00,000
	Total		**17,90,000**
3	**Tangible assets**		
	Fixed Assets	25,00,000	
	Acquired during the year	15,00,000	40,00,000
	Total		**40,00,000**

Ans. 13. **Calculation of purchase consideration**

One share of B Ltd. will be issued in exchange of every share of A Ltd. . 20,000 equity shares of B Ltd. will be issued against 20,000 equity res of A Ltd.)

Journal Entries in the books of B Ltd.

Date			(₹ in thousands)	
			Dr.	Cr.
March, 31	Loan from bank A/c	Dr.	60	
	To Capital reduction A/c			60
	(Being loan from bank waived off to the extent of ? 60 thousand)			
	Equity share capital A/c (? 100)	Dr.	1,000	
	To Equity share capital A/c (? 10)			100
	To Capital reduction A/c			900
	(Being equity shares of X 100 each reduced to ? 10 each)			
	Equity share capital A/c (? 10)	Dr.	100	
	To Equity share capital A/c (? 100 each)			100
	(Being 10 equity shares of ? 10 each consolidated to one share of ? 100 each)			
	Capital reduction A/c	Dr.	960	
	To Profit and loss A/c			800
	To Capital reserve A/c			160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)			
	Business purchase A/c	Dr.	2,000	
	To Liquidator of A Ltd.			2,000
	(Being purchase of business of A Ltd.)			
	Fixed asset A/c	Dr.	2,700	
	Investment A/c	Dr.	700	
	Trade receivables A/c	Dr.	400	
	Cash at bank A/c	Dr.	250	
	To Trade payables A/c			300
	To Proposed dividend A/c			200
	To Loans from bank A/c			250
	To 10% Debentures A/c			500
	To Business purchase A/c			2,500
	To Reserves A/c			800
	(Being assets, liabilities and reserves taken over under pooling of interest method)			
	Liquidator of A Ltd. A/c	Dr.	2,000	
	To Equity share capital A/c			2,000
	(Being payment made to liquidators of A Ltd. by allotment of 20,000 new equity shares)			
	Trade payables A/c	Dr.	100	
	To Trade receivables A/c			100
	(Being mutual owing cancelled)			
	Proposed dividend A/c	Dr.	200	
	To Bank A/c			200
	(Being dividend paid off)			

Balance Sheet of B Ltd. after merger as on 31.3.2014

		Particulars	Notes	₹ in '000
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	2,100
	b	Reserves and Surplus	2	960
2		**Non-current liabilities**		
	a	Long term borrowings	3	1,140
3		**Current liabilities**		
	a	Trade payables		500
	b	Short term borrowings	4	50
		Total		**4,750**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets		3,550
		b Non-current investments		700
2		**Current assets**		
	a	Trade receivables		750
	b	Cash and cash equivalents		50
		Total		**4,750**

Notes to accounts

			₹ in '000
1	**Share Capital**		
	21,000, Equity shares of ₹ 100 each fully paid		2,100
	(Out of the above, 20,000 shares have been issued for consideration other than cash)		
2	**Reserves and Surplus**		
	Capital reserve	160	
	General reserve	800	
	Total		**960**
3	**Long Term Borrowings**		
	10% Debentures	500	
	Loan from Bank (250+450-60)	640	1,140
4	**Short term borrowings**		
	Bank overdraft		50

Ans. 14. **Balance Sheet of M/s. Huge Ltd. after merger**

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	9,24,000
	b	Reserves and Surplus	2	14,80,960
2		**Non-current liabilities**		
	a	Long term borrowings	3	2,00,000
3		**Current liabilities**		
	a	Trade payables		85,000
	b	Short term provisions	4	1,60,000
		Total		**28,49,960**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets		13,50,000
		Intangible assets	5	3,80,000
	b	Non-current investments		2,50,000
	c	Other non-current assets	7	40,000
2		**Current assets**		
	a	Inventories		1,70,000
	b	Trade receivables		1,55,0000
	c	Cash and cash equivalents		4,04,960
	d	Short term loans and advances	6	1,00,000
		Total		**28,49,960**

Notes to accounts

		₹	
1	**Share Capital**		
	92,400 Equity shares of ? 10 each		9,24,000
	(of which 22,400 shares were issued for consideration other than cash)		
2	**Reserves and Surplus**		
	Securities premium		6,80,960
	General reserve		3,50,000
	Profit and loss A/c		2,00,000
	Add: Proposed dividend Cancelled	1,40,000	3,40,000
		1,10,000	
	Total		**14,80,960**

3	**Long Term Borrowings**	
	Secured	
	12% Debentures (1,00,000+1,00,000)	2,00,000
4	**Short term provisions**	
	Provision for tax (1,00,000+60,000)	1,60,000
5	**Intangible assets**	
	Goodwill (W.N.3C)	3,80,000
6	**Short term loans and advances**	
	Advance tax (80,000+20,000)	1,00,000
7	**Other non-current asset**	
	Amalgamation Adjustment A/c	40,000

Working Notes:

1. Calculation of purchase consideration:

Equity shares of Big Ltd.	25,000 shares
Intrinsic value per share of Big Ltd. (W.N.2)	₹ 36.2
Value of shares	₹ 9,05,000
Intrinsic value per share of Huge Ltd. (W.N.2)	₹ 40.4

No. of shares to be issued by Huge Ltd. ₹ 9,05,000/? 40.4 = 22,400.99 shares
i.e 22,400 shares and cash for fraction i.e. 0.99 x ? 40.4= ₹ 40

Purchase consideration

i.	22,400 shares @ ₹ 40.4		
	Capital [₹ 10 per Share]	2,24,000	
	Premium [₹ 30.4 per Share]	6,80,960	₹ 9,04,960
ii.	Cash for fraction		₹ 40
iii.	Total purchase consideration payable		₹ 9,05,000

2. Intrinsic value per share:

	Huge Ltd.		Big.Ltd	
	₹	₹	₹	₹
Assets				
i. Goodwill (W.N.3)	13,65,000		3,80,000	
ii. Sundry fixed assets	9,50,000		4,00,000	
iii. Investments	2,00,000		50,000	
iv. Inventory	1,20,000		50,000	
v. Trade receivables	75,000	80,000		
vi. Advance tax	80,000		20,000	
vii. Cash and bank balance	2,75,000	30,65,500	1,30,000	11,10,000
Liabilities				
i. 12% Debentures	1,00,000		1,00,000	
ii. Trade payables	40,000		45,000	
iii. Provision for tax	1,00,000	(2,40,000)	60,000	(2,05,000)
Net assets		28,25,000		9,05,000
No. of shares		70,000		25,000
Intrinsic value per share (upto one decimal)		40.4		36.2

3. **Valuation of goodwill**

A. Capital Employed

	Huge Ltd.		Big Ltd	
	₹	₹	₹	₹
Assets				
i. Sundry fixed assets	9,50,000		4,00,000	
ii. Investment (Non-trade)		--	--	
iii. Inventory		1,20,000		50,000
iv. Trade receivables		75,000		80,000
v. Advance tax		80,000		20,000
vi. Cash and bank balance	2,75,000	15,00,000	1,30,000	6,80,000
Liabilities:				
i. 12% Debentures	1,00,000		1,00,000	
ii. Trade payables	40,000		45,000	
iii. Provision for tax	1,00,000	(2,40,000)	60,000	(2,05,000)
Capital employed		**12,60,000**		**4,75,000**

B. Average pre-tax profit:

Particulars	Huge Ltd.	Big Ltd.
	₹	₹
2011	5,00,000	1,50,000
2012	6,50,000	2,10,000
2013	5,75,000	1,80,000
Total (a+b+c)	17,25,000	5,40,000
Simple Average [total ÷ 3]	5,75,000	1,80,000
Less: Non-trading income		
(2,00,000 @ 25%)	(50,000)	
(50,000 @ 18%)		(9,000)
Average profit	5,25,000	1,71,000

C. Computation of goodwill:

Particulars	Huge Ltd.	Big Ltd.
Capitalised value of average profits $\left[\frac{5,25,000}{.20} : \frac{1,71,000}{.20}\right]$	26,25,000	8,55,000
Capital employed	12,60,000	4,75,000
Goodwill	13,65,000	3,80,000

CHAPTER-6 PROFIT PRIOR TO INCORPORATION

Ans. 1.

Hina Ispat Ltd.

Profit & Loss A/c for the period ended 31.03.11

Particulars	Pre	Post	Particulars	Pre ₹	Post ₹
To Salaries	4,000	8,000	By Gross Profit b/d	3,50,000	49,000
To Rent & taxes	1,600	3,200			
To Director's fees	-----	3,000			
To Travel.com	1,000	1,400			
To Bad debt	200	300			
To Office exp.	4,000	8,000			
To Debentures Interest	-----	1,000			
To discount	1,500	2,100			
To audit fee	200	400			
To depreciation	600	1,200			
To Int. on P.C.	2,000	2,500			
To Formation exp.	-----	5,000			
To Carr. Outward	500	700			
To General exp.	700	1,400			
To advertising	750	1,050			
To Stat & Print	1,000	2,000			
To Capital Reserve	16,950	-----			
To Net Profit	-----	7,750			
	3,50,000	49,000		35,000	49,000

Working Note

Date of Takeover = 1.4.10, Date of Incorporation = 1.8.10

Date of Closing A/c's= 31.3.11, therefore Time Ratio = 4 : 8 i.e. 1 :2

Sales Ratio

K = thousand

A	M	J	J	A	S	O	N	D	J	F	M
30K	20K	40K	10K	20K	20K	10K	10K	20K	20K	20K	10K

100 : 140 → 5 : 7

Ans. 2.Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2014

Particulars	Pre - incorporation period ₹	Post - incorporation period ₹
Gross profit (1:3)	80,000	2,40,000
Less: Salaries (1:2)	16,000	32,000
stationery (1:2)	1,600	3,200
Advertisement (1:3)	4,000	12,000
Travelling expenses (W.N.3)	4,00	8,00
Sales promotion expenses (W.N.3)	1,200	3,600
Misc. trade expense (1:2)	12,600	25,200
Rent (office building) (W.N.2)	8,000	18,400
Elecricity Charges (1:2)	1,400	2,800
Director's fee	-	11,200
Bad debts (1:3)	800	2,400
Selling agents commission (1:3)	4,000	12,000
Audit fee	1,500	4,500
Debenture interest	-	3,000
Interst paid to vender (2:1) (W.N.4)	2,800	1,400
Selling expenses (1:3)	6,300	18,900
Depreciation on fixed assets (W.N.5)	3,000	6,600
Capital reserve (Bal. Fig.)	12,800	-
Net profit (Bal. Fig.)	-	74,000

Working Notes:

1. **Time ratio**

Pre incorporation period = 1st april, 2013 to 31st July, 2013

i.e. 4 months

Post incorporation period is 8 months

Time Ratio is 1:2

2. **Sales ratio**

Let the monthly sales for first 6 months (i.e. from 1.4.2013 to30.09.13) be = x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. form 1.10.13 to 31.3.2014) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3} \times 6 = 10x$

Total Sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = ₹ 19,20,000/16 = ₹ 1,20,000

Total sales for pre-incorporation period = ₹ 1,20,000 x 4 = ₹ 4,80,000

Total sales for post incorporation period = ₹ 19,20,000 - ₹ 4,80,000 = ₹ 14,40,000

Sales Ratio = 4,80,000 : 14,40,400 = 1:3

3. **Rent**

		`
Rent for pre-incorporation period (₹ 2,000 x 4)		8,000 (pre)
Rent for post incorporation period		
August, 2013 & september, 2013 (₹ 2,000 x 2)	4,000	
October, 2013 to March, 2014 (₹ 2,400x6)	14,400	18,000 (post)

4. **Travelling expenses and sales promotion expenses**

	Pre ₹	Post ₹
Traveling expenses ₹ 12,000 (i.e ₹ 16,000- ₹ 4,8000) distributed in 1:2 ratio	4,000	8,000
Sales promotion expenses 4,800 distributed in 1:3 ratio	1,200	3,600

5. **Interest paid to vener till 30th September, 2013**

	Pre ₹	**Post ₹**
Interest for pre-incorporation period $\frac{4200}{6} \times 4$	2,800	
Interest for post incorporation period i.e. for August, 2013 & september, 2013 = ₹ $\frac{4200}{6} \times 2$		1,400

6. **Depreciation**

		Pre ₹	**Post** ₹
Total depreciation		9,600	
Less: Depreciation exclusively for post incorporation period	600		600
	9,000		
Depreciation for pre-incorporation period $9000 \times \frac{4}{12}$		3,000	
Depreciation for post incorporation period $9,000 \times \frac{8}{12}$			6,000
		3,000	**6,600**

Ans. 3. **Veekay Pvt. Ltd.**

Profit & Loss A/c

For the year ended 31.03.11

Particulars	Pre	Post	Particulars	Pre	Post
To Salaries	10,000	20,000	By Gross Profit b/d	32,000	88,000
To Rent	2,000	7,000	By Profit on Sale	-----	2,000
To Office expenses	2,000	4,000	of investments		
To Sale Commis.	4,000	11,000	By Goodwill	1,000	-----
To Bad debt	5,000	-----			
To Director fee	-----	8,000			
To Depreciation	6,000	12,000			
To Deb. Interest	-----	8,000			
To Interest on P.C.	4,000	2,000			
To Capital Reserve	-----	------			
To Net Profit	-----	36,000			
	33,000	**90,000**		**33,000**	**90,000**

Working Note

Date of Turnover :- 01.04.10 Time Ratio :- 4 : 8

Date of Incorporation :- 01.08.10 = 1 : 2

Date of Closing A/c's :- 31.03.10

A	M	J	J	A	S	O	N	D	J	I	M

$\underbrace{\text{A M J J A S}}_{1,20,000}$ $\underbrace{\text{O N D J I M}}_{1,80,000}$

20K	20K	20K	20K	20K	20K	30K	30K	30K	30K	30K	30K

Sales Ratio 80 : 220 4 : 11

CHAPTER-7 AVERAGE DUE DATE AND ACCOUNT CURRENT

Ans. 1.

Due Date	Amount	No. of days	Product
1 April, 2010	2,000	0	0
1 April, 2010	5,000	0	0
16 May, 2010	10,000	45	4,50,000
9 June, 2010	3,000	69	2,07,000
	20,000		**6,57,000**

Let 1.4.2010 be the zero date.

Average Due Date = Zero Date + $\frac{\text{Product}}{\text{Amount}}$

= 1 April + $\frac{6,57,000}{20,000}$

= 1 April + 33

= 1 April + 33 days

= **4 May, 2010 (approx)**

Interest = 20,000 x $\frac{15}{100}$ x $\frac{57}{365}$

= **₹ 468.50**

Ans. 2.

Due Date	Amount	No. of days	Product
13 Nov. 2009	6,000	0	NIL
25 Dec.2009	5,000	42	2,10,000
7 Feb., 2010	4,000	86	3,44,000
18 March, 2010	2,000	125	2,50,000
11 May, 2010	3,000	179	5,37,000
	20,000		**13,41,000**

Let 13.11.2009 be the zero date.

Avg. Due Date = Zero Date + $\frac{\text{Product}}{\text{Amount}}$

= 13 Nov. + $\frac{13,41,000}{20,000}$

= 13 Nov. + 67.05 days

= **19 Jan. 2010 (approx)**

Ans. 3. **Drawings by A**

Date of Drawings	Amount	No. of days	Product
1.7	500	0	0
30.9	800	92	73,600
1.11	1,000	123	1,23,000
28.2	400	242	96,800
	2,700		**2,93,400**

Drawings by B

Date of Drawings	Amount	No. of days	Product
12.6	1,000	0	0
11.8	500	60	3,00,000
9.2	400	242	96,800
7.3	200	268	2,41,200
	2,800		**3,68,000**

Avg. Due Date = Zero Date + $\frac{\text{Product}}{\text{Amount}}$

For A = $1.7 + \frac{2,93,400}{2,700}$

= 1.7 + 109 days

= **17 Oct.**

Interest = $2,700 \times \frac{6}{100} \times \frac{165}{365}$

= **₹ 73.23 (approx)**

For B = $12.6 + \frac{3,68,000}{2,800}$

= **21 Oct.**

Interest = $2,800 \times \frac{6}{100} \times \frac{161}{365}$

= **₹ 74.1 (approx)**

Ans. 4.

Due Date	Years Left	Amt. due	Product
01.01.2011	5	5,000	25,000
01.01.2012	4	5,000	20,000
01.01.2013	3	5,000	15,000
01.01.2014	2	5,000	10,000
01.01.2015	1	5,000	5,000
	15	**25,000**	**75,000**

Let 1/1/10 date of bill be the zero date

Equated Period = $\frac{75,000}{25,000}$ = 3 years

Avg. Due date = 1/1/10 + 3 year

= **1/1/13**

Interest = 25,000 x 10% x 3

= **₹ 7,500**

Ans.5. **Sales by A**

Due Date	Amount	No. of days	Product
17 May	100	0	NIL
28 June	200	34	6,800
15 July	250	59	14,750
	550		**21,550**

Sale by B

Due Date	Amount	No. of Days	Product
25 May	150	8	1,200
28 June	100	34	3,400
	250		**4,600**

Let May 2017 be zero Date

Equated period = $\frac{\text{Difference in Product}}{\text{Different in Amount}}$

= $\frac{16,950}{300}$

= 57 days

Average Due Date = May 17 + 57 Days

= July 13

Ans.6. **SAME AS CLASSWORK Q. 8.**

Ans.7.

Due Date	Amount	No. of days	Product
Jan. 15	500	0	0
Feb. 20	800	36	28,800
Mar. 17	1,600	61	97,600
Apr. 25	900	100	90,000
May 12	2,400	117	2,80,800
Jun. 30	600	166	99,600
	6,800		**5,96,800**

$$\text{Avg. Due Date} = \text{Zero Date} + \frac{\text{Product}}{\text{Amount}}$$

$$= \text{Jan. 15} + \frac{5,96,800}{6,800}$$

$= \text{Jan. 15} + 88 \text{ days}$

$=$ **13 Apr.**

$$\text{Interest} = 6,800 \times \frac{10}{100} \times \frac{78}{365}$$

$=$ **₹ 145.31 (Approx)**

ACCOUNT CURRENT

Ans. 8.

B in A/c Current with A (15% p.a.)

Date	Particulars	Amt (₹)	Due Date	No. of days	Int (₹)	Date	Particulars	Amt (₹)	Due Date	No.of days	Int (₹)
2011						**2011**					
15.1	To Sales	20,000	15.1	75	616.44	15.2	By Cash	18,000	15.2	44	325.47
1.2	To Sales	10,000	1.2	58	238.35	10.3	By Cash	7,000	10.3	21	60.41
1.3	To Sales	25,000	1.3	30	308.22	28.3	By Cash	7,000	28.3	3	8.63
31.3	To interest A/c	768.50	----	----	----	31.3	By Net Int.	----	----	----	768.50
				31.3			By Bal c/d	23,768.50			
		55,768.50			**1,163.02**			**55,768.50**			**1,163.02**
1.4.	To Bal b/d	23,768.50									

Note : In absence of any information, the solution has been prepared by interest Method. Alternatively it can be prepared by product method.

Ans.9.

Mr. M in A/c Currrent with Mr. H (12% p.a.)

Date	Particulars	Amt. (₹)	Due Date	No.of days	Product (₹)	Date	Particulars	Amt (₹)	Due Date	No. of days	Product (₹)
2010						**2010**					
12.1	To Sales	25,000	12.1	78	19,50,000	1.1	By Bal b/d	20,000	1.1	90	18,00,000
31.1	To Sale	25,000	31.1	59	14,75,000	15.2	By Cash	35,000	15.2	44	15,40,000
31.3	Net Product				5,15,000	20.2	By Cash	5,000	20.2	39	1,95,000
						1.3	By S/R	5,000	31.3	59	2,95,000
						20.3	By Cash	10,000	20.3	11	1,10,000
31.3	To Bal c/d	25,169.32				31.3	By Interest	169.32			
		75,169.32			**39,40,000**			**75,169.32**			**39,40,000**
						1.4	By Bal. b/d	25,169.32			

Calculation of Interest $= 5{,}15{,}000 \times 12\% \times \frac{1}{365} = 169.32$

CHAPTER-8 SELF BALANCING LEDGERS

Ans. 1. **In General Ledger**

Debtors Ledger Adjustments Account

?	To Balance b/d		40,000	?	By Balance b/d		2,000
?	To GLA a/c			?	By GLA a/c		
	Credit Sales		2,00,000		Collection	1,60,000	
	BR Dishonoured	2,000	2,02,000		Discount	6,000	
					Sales Return	4,000	
					Bas Debts	3,000	
					BR Received	20,000	
					Set-off (Total)	2,200	1,95,200
?	To Balance c/d		6,000	?	By Balance c/d		50,800
			2,48,000				2,48,000

In Debtors ledger

General Ledger Adjustments Account

?	To Balance b/d		2,000	?	By Balance b/d		40,000
?	To PLA a/c			?	By DLA a/c		
	Collection	16,000			Credit sales	2,00,000	
	Discount	6,000			BR Dishonoured	2,000	2,02,000
	Sales Return	4,000					
	Bad Debts	3,000					
	set-off (total)	2,200	1,95,200				
?	To Balance c/d		50,800	?	By Balance c/d		6,000
			2,48,000				2,48,000

Ans. 2. **Working note (₹ in Crores)**

	Marine	Fire	Miscellaneous
(a) Premium on direct business	18	43	12
Add			
(b) Premium on RI accepted	7	5	4
Less			
(c) Premium on RI ceded	(6.70)	(4.30)	(7)
Net Premium	18.30	43.70	9
<u>Change in reserve for unexpired risk</u>			
Opening reserve (a)	15	20	5
Less			
Closing reserve for unexpired risk			
(2010 – 11) (b)			
100% of net premium of marine & 50%			
for fire & misc	18.30	21.85	4.50
Adjustment for	(3.30)	(1.85)	0.50
Change inreserve (a - b)			

Journal Entries **(₹ in Crores)**

Particulars		Dr.	Cr.
(1) Marine Revenue A/c	Dr.	3.30	
To Unexpired risk reserve			3.30
(Being Change in reserve provided)			
(2) Fire Revenue A/c	Dr.	1.85	
To Unexpired risk reserve			1.85
(Being Change in reserve provided)			
(3) Unexpired risk reserve	Dr.	0.50	
To miscellaneous Revenue			0.50
(Being change in reserve provided)			

Ans. 3. **Form B -RA**

Name of the Insurer : Krishna General Insurance Company

Registration no. and date of registration with IRDA : ....

Revenue Account for the year ended 31.3.2012

	Particulars	Schedule	Amount (₹)
1.	Premium earned (Net)	1	27,03,000
2.	Profit/Loss on sales/Redemption of investment	-	-
3.	Other	-	-
4.	Interest, divident 7 rent (Gross)	-	30,000
	Total (A)		27,33,000
1.	Claims incurred (Net)	2	19,44,000
2.	Commission	3	68,400
3.	Operating profit/Loss related to insurance business	4	1,20,000
	Total (B)		21,32,400
	Operating profit/Loss from insurance business (C) = (A-B)		6,00,600

Appropriation:

Transfer to Shareholders account	-
Transfer to Catastrophe Reserves	-
Transfer to other reserves	-
Total (D)	-

Schedule - 1 Premium Earned (Net)

Particulars	₹
Premium received from direct business (W.N.1)	30,60,000
Add: Premium on reinsurance accepted ₹ (2,40,000 + 36,000 - 24,000)	2,52,000
	33,12,000
Less: Premium on reinsurance ceded ₹ (3,60,000 + 42,000 - 30,000)	(3,72,000)
Net Premium	29,40,000
Adjustment for change in reserve for unexpired risk (W.N.2)	(2,37,000)
Total premium earned (Net)	27,03,000

Schedule - 2 Claims Incurred (Net)	
Particulars	**₹**
Claims Paid (Direct)	18,00,000
Add: Legal Expenses regarding claims	12,000
	18,12,000
Add: Reinsurance Accepted	1,80,000
	19,92,000
Less: Reinsurance ceded ₹ (1,20,000 + 12,000 - 18,000)	(1,14,000)
	18,78,000
Add: Claims outstanding at the end ₹ (1,20,000 + 18,000)	1,38,000
Less: Claims outstanding at the end ₹ (1,20,000 + 18,000)	(72,000)
Total claim incurred	19,44,000

Schedule - 3 Commission	
Particulars	**₹**
Commission paid Direct	72,000
Add: Re-insurance accepted	10,800
	82,800
Less: Re-insurance ceded	(14,400)
Net commission	68,400

Schedule - 4 Operating Expenses related to Insurance Business	
Particulars	**₹**
Expenses of management ₹ (1,32,000 - 12,000)	1,20,000

Working Notes:

1. **Calculation of premium received from direct business**

Premium on direct business	30,00,000
Add: Premium outstanding at the end	2,40,000
	32,40,000
Less: Premium outstanding at the beginning	(1,80,000)
	30,60,000

2. **Computation of change in reserve for unexoired risk**

		₹
Reserve for unexpired risk for the year 2011-12 (29,40,000 x 50%)		14,70,000
Add:	Additional reserve for unexpired risk for the year 2011-12 (29,00,000 x 5%)	1,47,000
	16,17,000	
Less:	Reserve for unexpired risk for the year 2010-11 (24,00,000 X 50%)	(12,00,000)
	Additional reserve for unexpired risk for the year (24,00,000 x 7.5%)	(18,00,000)
		2,37,000

Ans. 4. **Form B -RA**

Name of the Insurer :

Registration no. and date of registration with IRDA : ....

Fire Insurance Revenue Account for the year ended 31st March, 2013

	Particulars	Schedule	Amount (₹)
(1)	Premium earned	1	11,50,000
(2)	Other income		-
(3)	Interest, devidend and rent		-
	Total (A)		11,50,000
(4)	Claims incurred	2	5,30,000
(5)	Commission	3	3,00,000
(6)	Operating expenses related to Insurance business	4	2,00,000
	Total (B)		10,30,000
	Operating Profit (A)-(B)		1,20,000

Schedule 1 : Premium earned (net)	**₹**
Premium received	13,00,000
Less: Re-insurance premium	1,00,000
Net premium	12,00,000
Adjustment for change in reserve for unexpired risks (Refer W.N.)	(50,000)
	11,50,000
Schedule 2: Claims Incurred	**₹**
Claims paid including legal expenses (4,90,000 + 10,000)	5,00,000
Add: Claims outstanding at the end of the year	80,000
Less: Claims outstanding at the begining of the year	(50,000)
Total claims incurred	5,30,000
Schedule 3: Commission	**₹**
Commission Paid	3,00,000
	3,00,000
Schedule 4: Operating expenses	**₹**
Expenses of management	2,00,000
	2,00,000

Working Note:

Change in the provision for unexpired risk	₹
Unexpired risk reserve on 31st March, 2013 = 50% of net premium	
i.e. 50% of 12,00,000 (See Schedule 1)	6,00,000
Less: Unexpired risk reserve as on 1st April, 2012	5,50,000
Change in the provision for unexpired risk	50,000

CHAPTER-9

FINAL ACCOUNTS OF NOT FOR PROFIT ORGANISATIONS

Ans. 1.

Income & Expenditure A/c

Expenditure	₹	₹	Income	₹	₹
To Stationery consumed	----	2,050	By Subscription	----	39,400
To Salaries	----	16,200	By Income from Drama	----	6,000
To **Depreciation**			By Interest on Securities	----	1,000
Land & Building	3,000	----			
Furniture ‼	300	3,300			
To Insurance		300			
To Cost of staging drama	----	3,000			
To General Expenses	----	3,000			
To Excess of Income over Expenditure (Surplus)	----	18,550			
	----	**46,400**		**----**	**46,400**

Balance Sheet

As on 31st March 2011

Liabilities	₹	₹	Assets	₹	₹
Capital Fund			**O/s Subscription**		
Opening Balance	74,700	----	2009-10	200	----
Add : Entrance Fees	1,400	----	2010-11	3,000	3,200
Add : Surplus	18,550	94,650	Stock of Stationery	----	150
Subscribed received in advance	----	400	Land & Building	60,000	----
			Less : Depreciation @ 5%	3,000	57,000
Outstanding Salaries	----	1,000	Furniture	6,000	----
			Add : Additions	3,200	----
			Less : Sale of Furniture	300	----
			Less : Depreciation @ 5%	300	8,600
			Investment	10,000	----
			Add : Additions	8,000	18,000
			Cash in Hand	----	1,200
			Cash at bank	----	7,900
	----	**96,050**		**----**	**96,050**

Stock of Stationery

Opening Stock	500
Add : Purchases	1,700
Less : Closing Stock	150
Stationery Consumption	2,050

Income & Expense Schedule

Particulars	Subscription	Salaries
Amount Received / paid	37,600	15,200
Add : O/s at End	200+3,000	1,000
Less : O/s at Beginning	(1,000)	----
Less : PP at End	(400)	----
Add PP at Beginning	----	----
Income / Expenditure for C.Y.	39,400	16,200

Opening Balance Sheet

Particulars	₹	Particulars	₹
Bank O/d	6,000	O/s Subscription	1,000
Capital Funds		Cash in hand	3,200
(Balance Figures)	74,700	Stock of Stationery	500
		Land & Building	60,000
		Investments	10,000
		Furniture	6,000
	80,700		**80,700**

Ans.2.Receipts and Payments Account of Premium Sports Club for the year ended 31st March, 2012.

Receipts	₹	Payments	₹
To Cash at bank (opening)	8,300	By Salaries (W.N.6)	1,20,500
To Subscription (W.N.1)	4,27,000	ByRent(W.N.7)	2,22,000
To Entrance fee (W.N.2)	2,40,000	By Printing and stationary (W.N.8)	28,200
To Interest on 8% Government Bond (W.N.3)	6,000	By Postage and telephone	41,600
		By Membership fee (W.N.9)	12,800
To Sale of old Newspaper	11,600	By Electricity charges	38,500
To Sale of Sports Material (W.N.4)	22,480	By Garden upkeep	19,300
		By Payment to creditors for sports material (W.N.5)	71,200
		By Purchase of Fixed assets (W.N.10)	40,000
		By Repairs and Maintenance (W.N.11)	19,900
		By Misc. expenses	5,700
		By Fixed Deposit made	80,000
		By Cash at bank (closing) (bal.fig.)	15,680
	7,15.380		**7,15.380**

Balance Sheet of Premium Sports Club as on 31st March, 2012

Liabilities	₹	₹	Assets	₹	₹
Capital fund:			Fixed Assets	2,40,000	
Opening balance (W.N.12)	4,09,300		Add: Additions (W.N.10)	40,000	
Add: Surplus	3,500	4,12,800		2,80,000	
Entrance fee		1,20,000	Less: Depreciation	(13.000)	2,67,000
Subscription received in					
advance		4,900	Fixed Deposit Investments in 8%		80,000
Outstanding expenses:			Government Bonds		1,50,000
Salary	14,300		Stock of sports material		35,670
Rent	15.000	29,300	Subscription receivable		5,700
Creditors for purchase of					
sports material		4,200	Membership fee paid in advance		9,600
			Prepaid printing and stationary charges		1,550
			Outstanding interest on		
			8% Govt. Bond		6,000
			Cash at bank		15,680
		5,71,200			**5,71,200**

Working Notes:

1. **Subscription received during the year**

		₹
Subscription for the year ended 31st March, 2012		4,20,000
Less: Subscription receivable on 31.3.2012	5,700	
Less: Subscription received in advance on 1.4.2011	2,400	(8,100)
		4,11,900
Add: Subscription receivable on 1.4.2011	10,200	
Add: Subscription received in advance on 31.3.2012	4,900	15,100
		4,27.000

2. **Entrance Fee received during the year**

Entrance fee as per Income and Expenditure Account	₹ 1,20,000
Add: Capitalised entrance fee (50%)	₹ 1,20,000
	₹ 2,40,000

3. **Interest on 8% Government Bond**

Interest as per Income and Expenditure Account	12,000
Less: Outstanding interest for 2 quarters [12,000x (6/12)]	₹ (6,000)
	6,000

4. Sales price of Sports Material sold

	₹
Stock of Sports Material on 1.4.2011	43,450
Add: Purchase of Sports Material during the year	72,000
	1,15,450
Less: Stock of Sports Material on 31.3.2012	(35,670)
Cost of Sports Material consumed in the club and for sale	79,780
Less: Sports material consumed in the club	(62.800)
Cost of Sports material sold	16.980

Sales Price of sports material sold = ₹ 16,980 + ₹ 5,500 = ₹ 22,480

5. Payment to creditors for Sports Material

	₹
Purchase of Sports Material	72,000
Less : Closing creditors for purchase of sports Material on 31.3.2012	(4,200)
	67,800
Add : Opening creditors for purchase of Sports Material on1.4.2011	3,400
	71,200

6. Salaries paid during the year

	₹
Salary as per Income and Expenditure Account	1,18,800
Less : Outstanding balance as on 31.3.2012	(14,300)
	1,04,500
Add : Outstanding balance as on 1.4.2011	16,000
	1,20,500

7. Rent paid during the year

	₹
Rent as per Income and Expenditure Account	2,16,000
Less: Outstanding balance as on 31.3.2012	(15,000)
	2,01,000
Add: Outstanding balance as on 1.4.2011	21,000
	2,22,000

8. Printing and Stationary paid during the year

	₹
Printing and stationary as per Income and Expenditure Account	28,000
Less: Prepaid balance as on 1.4.2011	(1,350)
	26,650
Add: Prepaid balance as on 31.3.2012	1,550
	28,200

9. Membership fee paid during the year

	₹
Membership fee as per Income and Expenditure Account	3,200
Add: Prepaid balance as on 31.3.2012 [(3,200/3) x 9]	9,600
	12,800

10. Fixed Asset purchased during the year

	₹
Depreciation during the year	13,000
Less: Depreciation on Opening balance of fixed asset (5% of 2,40,000)	(12,000)
Depreciation on new purchase of fixed asset during the year	1,000
Cost of asset purchased during the year $1,000 \times \frac{12}{6} \times \frac{100}{5}$	40,000

11. Repairs and Maintenance paid during the year

	₹
Repairs and Maintenance as per Income and Expenditure Account	18,700
Add: Outstanding balance as on 1.4.2011	1,200
	19.900

12. Balance Sheet of Premium Sports Club as on 1st April, 2011

Liabilities	₹	Assets	₹
Capital fund (Bal.fig.)	4,09,300	Fixed Assets	2,40,000
Subscription received in advance	2,400	Investments in 8% Government Bonds	1,50,000
Outstanding expenses:		Stock of sports material	43,450
Salary	16,000	Subscription receivable	10,200
Rent	21,000	Prepaid printing and stationary charges	1,350
Repairs and maintenance	1,200	Bank	8,300
Creditors for purchase of sports material	3,400		
	4,53,300		4,53,300

Note: It is assumed that Premium Sports Club has purchased all the sports equipment on zredit basis only.

Ans. 3. **Receipts and Payments Account for the year ending 31st March, 2015**

Receipts	₹	Payments	₹
To Balance b/d (Balancing figure)	4,660	By Upkeep of Ground (10,000 + 600)	10,600
To Subcription	17,320	By Printing (1,000 + 240)	1,240
To Interest on Prize Fund Investments	1,000	By Salaries	11,000
To Lecture (fee)	1,500	By Rent	600
To Entrance Fee	2,600	By Prizes	2,000
To Sale Newapapers (old)	260	By Balance c/d	2,300
To Misc. Income	400		
	27,740		27,740

Working note : 600 paid for upkeep of ground for 2013-14 and 240 paid for printing have been added to the amount shown as expenditure for the year to arrive at total payment under these heads .

Subscription Account

2014		₹	2014		₹
April	To Subscription Outstanding (2011-12)	800	April 1	By Cash (Balancing figure)	17,320
	To Subcription In Advance	100		By Subscription Outstanding (2014-15)	700
				By Subscription In Advance (2013-14)	200
2015 March	To Income & Expenditure A/c	17,320			
		18,220			18,220

Ans.4.

Receipts	₹	Payments	₹
To Balance b/d	5,600	By Salaries	1,22,000
To Subscription	1,63,400	By Audit fees	2,000
To Entrance fees	4,000	By sports Equipment	18,000
To Contribution for dinner	36,000	By Printing & Stat	6,000
		By Postage	500
		By Telephone	1,500
		By Interest & Bank Charge	5,500
		By Annual dinner Exps	25,000
		By Balance c/d	28,500
	2,09,000		**2,09,000**

Balance Sheet

Liabilities		₹	Assets		₹
Capital Fund			O/s Subsription		18,000
Opening Balance	2,10,000		Cash		28,500
Add : Surplus	42,000	2,52,600	Building		1,90,000
			Sports Equip		
			Opening Balance	52,000	
			Add : Purchases	18,000	
			Less : Depreciation	(7,000)	63,000
Pre-received subscription		8,400			
O/s sal		6,000			
O/s Audit fees		2,500			
Bank Loan		30,000			
		2,99,500			**2,99,500**

Opening Balance Sheet

Pre-received subscription	13,000	Outstanding Subscription	16,000
O/s Salaries	8,000	Building	1,90,000
O/s Audit fees	2,000	Sports Equipments	52,000
Bank Loan	30,000	Cash / Bank	5,600
Capital Fund (Bal. Fig.)	2,10,000		
	2,63,600		**2,63,600**

Income / Expense Schedule

Particulars	Subscription	Salary	Audit Fees
Amt received / paid	1,63,400	1,22,000	2,000
Add : O/s at end	18,000	6,000	2,500
Less : O/s at beginning	(16,000)	(8,000)	(2,000)
Less : Prepaid at end	(8,400)	----	----
Add : Prepaid at beginning	13,000	----	---
Income / Expense for C.Y.	1,70,000	1,20,000	2,500

Ans. 5. **Income & Expenditure A/c for year ended on 31.3.2011**

Expenditure	₹	Income	₹
To Depreciation on Furniture	700	By Interest Received	1,400
To Cost on Literature	750	By Collection from litereture	1,250
To Salaries	10,000	By Subscription	7,500
To Rent	1,200	By Deficit	3,250
To Meetings	1,350		
To Stationery	1,500		
	15,500		**15,500**

Receipt & Payment A/c for the Year Ended 31.3.2011

Receitpts	₹	Payments	₹
To Cash & Bank Balance b/d	20,000	By Election Expenses	7,200
To Subscriptions	8,350	By Office (Land & Building)	10,000
To Donations	5,200	By Purchase of Furniture	1,700
To Election Fund	8,500	By Stationery	1,500
To Interest Received	1,400	By Literature	750
To Collection from Literature	1,250	By Salaries	10,500
		By Rent	1,700
		By Meeting & Propogande	1,650
		By Balance c/d	9,700
	44,700		**44,700**

Balance Sheet as at 31.3.2011

Liabilities		₹	Assets		₹
P/R Subscriptions		500	Cash & Bank Balance		9,700
Capital Fund	30,600		Investments		10,000
(+) Donation	5,200		Office Space		30,000
	35,800		Furniture	1,500	
(+) Deficit	5,250	30,550	(+) Purchase	1,700	
Election Fund	150			3,200	
(+) Donation	8,500			700	2,500
	8,650		Prepaid Meeting		300
(-) Expenses	7,200	1,450			
Loan for Office Space		20,000			
		52,500			**52,500**

Statement of Affairs as at 1.4.2010

Liabilities	₹	Assets	₹
Election Fund	150	Cash & Bank Balance	20,000
O/s Salaries	500	O/s Subscriptions	250
O/s Rent	500	Investments	10,000
Capital Fund	30,600	Office Furniture	1,500
(Balance Fig.)			
	31,750		**31,750**

	Subscription	Salary	Rent	MRP
Amount Received	8,350	10,500	1,700	1,650
(+) O/s at Beginning	(250)	(500)	(500)	----
(+) P / P / PR at Beginning	----	----	----	----
(+) O/s at End	----	----	----	----
(-) PP / PR at Ends	(500)	----	----	(300)
Total	**7,600**	**10,.000**	**1,300**	**1,350**

Ans. 6. **Sportswriters Club**

(a) Balance Sheet as on 31st March, 2014

Liabilities	₹	₹	Assets	₹
Outstanding expenses:			Furniture	9,600
Salaries	710		Library Books	5,000
Rent & Electricity	864		Sports Equipment	7,200
Magazines & Newspapers	226	1,800	Fixed Deposit	20,000
Capital Fund (Balancing figure)		47,000	Cash in hand & at Bank	4,820
			Prepaid Expenses	417
			Subscription receivable	1,263
			Interest accrued	500
		48,800		**48,800**

(b) Income and Expenditure Account for the year ending 31st March, 2015

Expenditure	₹	₹	Income	₹
To Salaries		11,460	By Subscription	28,912
To Rent & Electricity		7,329	By Interest	2,000
To Magazines & Newspapers		2,286	By Misc. Income	700
To Sundry Expenses		10,075	By Excess of expenditure	
To Depreciation:			over income	2,888
Furniture	960			
Sports Equipment	1,640			
Library Books	750	3,350		
		34,500		**34,500**

(c) Balance Sheet of Sports Writers Club as on 31st March, 2015

Liabilities	₹	₹	Assets	₹	₹
Outstanding Expenses:			Furniture		
Salaries	170		Cost	9,600	
Rent & Electricity	973		Less: Depreciation	(960)	8,640
Newspapers	340	1,483	Magazines &		
Capital Fund:			Sport Equipment:		
Opening balance	47,000		Opening balance	7,200	
Less: Excess of			Addition	1.000	
exp. over income	(2.888)	44,112		8,200	
			Less: Depreciation	(1,640)	6,560
			Library Books:		
			Opening Balance	5,000	
			Addition	1,000	
				6,000	
			Less: Depreciation	(750)	5,250
			Fixed Deposit	20,000	
			Cash in hand & at bank	2,450	
			Prepaid Expenses	620	
			Subscription Receivable	1,575	
			Interest accrued	500	
		45,595			**45,595**

Working Notes:

(i)	Expenses	Salaries	Rent & Electricity Papers	Magazines & News-	Sundry Expenses
		₹	₹	₹	₹
	Paid during the year	12,000	7,220	2,172	10,278
	Add: Outstanding on 31.3.2015	170	973	340	—
	Prepaid on 31.3.2014	—	—	—	417
		12,170	8,193	2,512	10,695
	Less; Outstanding on 31.3.2014	(710)	(864)	(226)	—
	Less /Prepaid on 31.3.2015	----	----	----	(620)
	Expenditure for the year	11,460	7,329	2,286	10,075
					₹
(ii)	Depreciation				
	(a) Furniture @10% on ? 9,600				960
	(b) Sports Equipment @ 20% on? 8,200				1,640
	(c) Library books-book value			6,000	
	Revalued at			(5,250)	750
(iii)	Subscription				
	Received in cash				28,600
	Add; Receivable on 31.3.2015				1,575
					30,175
	Less: Receivable on 31.3.2014				(1,263)
					28,912

Ans. 7. **Republic College**

Income and Expenditure Account for the year ending 31st March, 2015

	₹	₹		₹	₹
To Salaries:			By Tuitions & other fee		8,80,000
Teaching		8,50,000			
Research		1,20,000	By Govt. Grants		5,00,000
To Material & Supplies Consumed			By Income from Investments		1,85,000
Teaching		50,000	By Hostel room Rent		1,75,000
Research		1,50,000	By Mess Receipts		2,00,000
To Repairs & Maintenance		1,12,000	By profit-stores sales		75,000

To Sports & Games Expenses			By Seminar and Conferences		
Cash	50,000		Income	4,80,000	
Materials	25,000	75,000	Less : Expenses	(4,50,000)	30,000
To Students Welfare Expenses			By Consualtancy charges :		
Cash	38,000			Income	1,28,000
Materials	75,000	1,13,000	Less : Expenses	(28,000)	1,00,000
To Misc. Expenses		65,000	By Donations		50,000
To Scholarships		80,000			
To Depreciation					
Building		80,000			
Plant & Equipment		85,000			
Furniture		60,000			
Motor Vehicle		36,000			
To Excess of Income over Expenditure		3,19,000			
		21,95,000			21,95,000

Republic College Balance Sheet as on 31st March, 2015

Liabilities	₹	₹	Assets	₹	₹
			Fixed Assets:		
Capital Fund			Land		1,00,000
Opening balance	16,06,000		Building Cost	16,00,000	
Add: Excess of Income			Less: Dep.	(5,60,000)	10,40,000
over Expenditure	3,19,000	19,25,000	Equipment Cost	8,50,000	
Other Funds			Less: Dep.	(5,95,000)	2,55,000
Research Fund	8,00,000		Furniture &		
Building Fund		25,00,000	Fittings:		
			Cost	6,00,000	

Current Liabilities:			Less: Dep.	(3,96,000)	2,04,000
Outstanding Expenses		2,25,000	Motor Vehicles		
Provident Fund		5,10,000	Cost:	1,80,000	
Security Deposit		1,50,000	Less : Dep	(36,000)	1,44,000
			Library		3,60,000
			Investments :		
			Capital Fund		18,50,000
			Investments		
			Capital Fund		18,50,000
			Investments		
			Research Fund		8,00,000
			Investment		
			P.F. Investment		5,10,000
			Stock :		
			Material & Supplies		1,25,000
			Grants receivable		80,000
			Cash in hand & at Bank		6,42,000
		61,10,000			61,10,000

Working Notes :

(1)	Material & Supplies - Closing Stock			
	Opening Stock			3,00,000
	Purchases			8,00,000
				11,00,000
	Less : Cost of Sales		6,75,000	
	consumed		3,00,000	(9,75,000)
	Balance			1,25,000
(2)	Provisions for Depreciation			
		Building	Plant & Equipment	Furniture & Fitting
	Opening Balance	4,80,000	5,10,000	3,36,000
	Addition	80,000	85,000	60,000
	Closing Balance	5,60,000	5,95,000	3,96,000

Ans. 8. Income and Expenditure Account of Lion Club for the year ended 31st March, 2014

Expenditure	**₹**	**income**	**₹**
To Salaries	1,28,000	By Subscription	1,94,750
To Printing and stationary	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	
To Crockery and cutlery	14,000	over income transferred	
To Garden upkeep	8,000	to 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 Lion Club as on 31st March, 2014

Liabilities	**₹**	**Assets**	**₹**
Capital fund	10,89,600	Fixed assets	4,41,000
Gratuity fund	1,50,000	Stock	2,10,000
Sundry creditors	92,000	Investments	5,00,000
Subscription received in advance	18,000	Subscription outstanding	7,000
Entrance donation refundable	20,000	Interest accrued	2,000
Outstanding expenses	23,000	Bank	2,24,600
		Cash	8.000
	13,92,600		**13.92,600**

Working Notes:

1. Opening Balance Sheet

Balance Sheet of Lion Club as on 1st April, 2013

Liabilities	**₹**	**Assets**	**₹**
Sundry creditors	1,12,000	Fixed assets	5,00,000
Subscription received		Stock	3,80,000
in advance	15,000	Investments	5,00,000
Entrance donation received in		Subscription	
advance	1,00,000	outstanding	12,000
		Prepaid expenses	1,000
Gratuity fund	1,50,000	Cash	10,000
Capital fund (balance figure)	10,29,850	Bank	3,850
	14,06,850		**14,06,850**

2. **Subscription**

	₹
Subscription received during the year	2,02,750
Add: Outstanding subscription on 31.3.2014	7,000
	2,09,750
Add: Received in advance as on 1.4.2013	15,000
	2,24,750
Less: Outstanding subscription as on 1.4.2013	(12,000)
	2,12,750
Less: Received in advance as on 31.3.2014	(18,000)
	1,94,750

3. **Entrance donation**

	₹
Entrance donation received during the year	1,00,000
Add: Received in advance as on 1.4.2013	1,00,000
	2,00,000
Less: Entrance donation in respect of ineligible member	(20,000)
	1,80,000
Less: 50% capitalized	(90,000)
Taken to income and expenditure account	90,000

4. **Loss on sale of asset**

	₹
Cost of asset sold	10,000
Less: Sale proceeds	(8,000)
Loss on sale of asset	2,000

5. **Depreciation**

	₹
Fixed asset as per trial balance	5,00,000
Less: Cost of asset sold	(10,000)
	4,90,000
Depreciation on ₹ 4,90,000 @ 10%	49,000

6. **Salaries**

	₹
Salary paid during the year	1,20,000
Add: Outstanding as on 31.3.2014	8,000
	1,28,000

7. **Electricity charges**

	₹
Electricity charges paid during the year	28,000
Add: Outstanding as on 31.3.2014	15,000
	43,000

8. **Interest**

	₹
Interest on 12% Government security investment	
(? 5,00,000 @ 12 % p.a.)	60,000
Less: Interest received during the year	(58,000)
Interest accrued	2,000
Interest credited to Income and Expenditure Account	60,000

9. **Profit from operations:**

	₹
Cost of goods sold:	
Opening stock	3,80,000
Add: Purchases	15,00,000
	18,80,000
Less: Closing stock	(2,10,000)
Cost of goods sold (A)	16,70,000
Receipts from operations:	
Receipts from coffee room	10,70,000
Receipts from wines and spirits	5,10,000
Receipts from swimming pool	80,000
Receipts from tennis court	1.02.000
Total receipts (B)	17.62,000
Profits from operations (B-A)	92,000

10. **Insurance**

	₹
Insurance paid during the year	5,000
Add: Prepaid insurance as on 1.4.2013	1,000
	6,000

11. **Sundry creditors**

	₹
Opening balance as on 1.4.2013	1,12,000
Add: Purchases made during the year	15,00,000
Less: Payments made during the year	16,12,000
Closing balance as on 31.3.2014	(15,20,000)
	92,000

12. Outstanding expenses

	₹
Outstanding salaries	8,000
Outstanding electricity charges	15,000
Outstanding expenses	23,000

13. Fixed assets

	₹
Fixed assets as on 1.4.2013	5,00,000
Less: Cost of assets sold	(10.000)
	4,90,000
Less: Depreciation	(49.000)
Fixed assets as on 31.3.2014	4,41,000

14. Capital fund

	₹
Capital fund as on 1.4.2013	10,29,850
Add : Entrance donation capitaliased	90,000
	11,19,850
Less :Excess of expenditure over income	(30,250)
Balance as on 31.3.2014	10,89,600

Ans. 9.

Income and Expenditure Account of Diana Club for the year ended 30th September, 2011

Expenditure		Amount	Income		Amount
		₹			₹
To Honoraria to secretary		9,600	By Subscriptions (W.N.3)		20,980
To Misc. expenses		3,060	By Sale of old newspapers		4,800
To Rates and taxes		2,520	By Entertainment fees		8,540
To Groundman's wages		1,680	By Bank interest		460
To Printing and stationary		940	By Bar receipts		14,900
To Telephone expenses		4,780	By Profit on sale of car		
To Bar expenses			(W.N.5)		2,200
Opening bar stock	1,420				
Add. Purchases (W.N.2)	11,220				
	12,640				
Less: Closing bar stock	(1,740)	10,900			
To Repairs		640			
To Depreciation					
Club premises (W.N. 4)	1,020				
Car (W.N. 6)	4,680	5,700			
To Excess of income over expenditure transferred to capital fund		12,060			
		51,880			51,880

Balance Sheet of Diana Club as on 1st October, 2010

Liabilities		Amount ₹	Assets	Amount ₹
Capital fund (W.N. 1)	43,600		Club Premises	19,380
Add: Excess of income			Car	26,520
over expenditure	12,060	55,660	Bar stock	1,740
Outstanding liabilities for			Outstanding subscription	1,960
bar purchases		860	Cash and bank	6,920
		56,520		**56,520**

Working Notes :

1. **Balance Sheet of Diana Club as on 1st October, 2010**

Liabilities	Amount ₹	Assets		Amount ₹
Amount due for bar		Club premises	58,000	
purchases	1,180	Less: Depreciation	(37,600)	24,000
Capital fund on 1.10.2010	43,600	Car	24,380	
(balancing figure)		Less: Depreciation	(20,580)	3,800
		Bar stock		1,420
		Outstanding subscription		2,400
		Cash at bank		16,760
	44,780			**44,780**

2. **Calculation of bar purchases for the year:**

	₹
Bar payments as per receipts and payments account	11,540
Add: Amount due on 30.9.2011	860
	12,400
Less: Amount due on 1.10.2010	(1,180)
	11,220

3. **Calculation of subscriptions accrued during the year:**

	₹
Subscriptions received as per receipts and payments account	21,420
Add: Outstanding on 30.9.2011	1,960
	23,380
Less: Outstanding on 1.10.2010	(2.400)
	20.980

4. Depreciation on club premises and written down value on 30th September, 2011:

	₹
Written down value on 1.10.2010 (58,000-37,600)	20,400
Less: Depreciation for the year 2010-2011 @ 5% p.a.	(1,020)
	19,380

5. Calculation of profit on sale of car:

		₹
Sale proceeds of old car		6,000
Less: Written down value of old car:		
Cost of car on 1.10.2010	24,380	
Less: Depreciation upto 1.10.2010	(20,580)	(3,800)
		2,200

6. Depreciation on car and written down values on 30th September, 2011:

	₹
Cost of new car purchased (25,200 + 6,000)	31,200
Less: Depreciation for the year @ 15% p.a.	(4,680)
Written down value on 30.9.2011	26.520

Note: The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing.

Ans.10. In the books of South Asia Club Receipt and Payment Account for the year ended 31st March, 2012

Receipt	Amount ₹	Payment	Amount ₹
To Balance b/d (Bal.fig.)	12,300	By Salaries & Wages (W.N.2)	47,000
To Subscription (W.N.1)		By Miscellaneous Expenses	5,000
To Entrance fee71,700	2,500	By Audit fee	2,500
To Contribution for annual day	15,000	By Executive's honorarium	10,000
(? 7,500 + ? 7,500)		By Sports Day Expenses	5,000
		By Printing & Stationary	4,500
		By Expenses of Annual Day	7,500
		By Sports Equipment (W.N.3)	4,000
		By Balance c/d	16,000
	1,01,500		**1,01,500**

Working Notes:

(1) Subscription received during the year

		₹
Subscription credited to Income and Expenditure A/c		75,000
Add: Outstanding subscription at the beginning of the year		6,000
Advance subscription received at the end of the year		2,700
Less: Outstanding subscription at the end of the year		83,700
Advance subscription received at the beginning of the year		(7,500)
	(4,500)	(12,000)
Subscription received during the year		71,700

(2) Salaries & wages paid during the year

	₹
Salaries debited to Income and Expenditure Account	47,500
Add: Outstanding salaries at the beginning of the year	4,000
Less: Outstanding salaries at the end of the year	(4,500)
Salaries paid during the year	47,000

(3) Sports equipment purchased during the year

Sports Equipment A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	26,000	By Depreciation A/c	3,000
To Cash (Bal.fig.)	4,000	By Balance c/d	27,000
	30,000		30,000

Ans. 11.

Balance Sheet of Sport Club
As at 31st March 2013

Liabilities	₹	₹	Assets	₹	₹
			Fixed Assets:		
Capital Fund:			Club, Ground & Pavilion		4,40,000
Opening balance (W.N.)	7,83,000		Furniture & Fixtures	40,000	
Add: Surplus	1,38,000	9,21,000	Add: Additions	20,000	
Current Liabilities:				60,000	
Outstanding Salary		5,000	Less: Despreciation	(5,000)	55,000
(15,000-10,000)					
Outstanding Audit fees		5,000	Sports Equipments	2,50,000	
Creditors for Printing &			Less: Sepreciation	(90,000)	1,60,000
Stationary					
{22,000-(26,000-5,000)}		1,000			

Subscription received in advance	4,000	Investments:	
		Investment (at cost)	2,00,000
		Accured Interest [12,000- 6,000]	6,000
		Current Assets:	
		Accrued rent (28,000 - 24,000)	4,000
		Subscription receivable for 2011-12 (8,000 - 6,000)	2,000
		For 2012-13 {(1,56,000- (1,05,000 + 2,000)}	4,000
		Entrance Fees receivables (1,05,000 - 1,00,000)	5,000
		Prepaid Insurance (12,000 - 10,000)	2,000
		Cash And Bank	58,000
	9,36000		9,36,000

Working Note:

Calculation Of Capital Fund as on 1st April, 2012

Balance Sheet of Sport Club

As at 31st march 2012

Liabilities	₹	Assets	₹
Capital Fund (bal. fig.)	7,83,000	Fixed Assets:	
Current Liabilities:		Club, Ground & Pavilion	4,40,000
Subscription received in advance	2,000	Furniture & Fixtures	40,000
Creditors for Printing And stationary		Sports Equipments	2,50,000
	5,000	Current Assets:	
		Entrance Fees receivables	10,000
		Subscriptions receivables	8,000
		Cash and Bank	42,000
	7,90,000		**7,90,000**

CHAPTER-10 SINGLE ENTRY SYSTEM

Ans. 1. 1. Total Sales = Cash sales + Credit sales

= ₹ 1,68,500 + ₹ 2,25,000 (W.N.1)

= ₹ 3,93,500

2. Total Purchases = Cash Purchases + Credit Purchases

= ₹1,97,800 + ₹ 2,70,000 (W.N.2)

= ₹ 4,67,800

Working Notes:

1. Debtors Account

Particulars	₹	**Particulars**	₹
To Balance b/d	70,000	By Bills receivable	47,000
To Bills receivable dishonoured	5,000	By Cash	1,56,000
To Bills receivable dishonoured (endorsed)	3,000	By Discount allowed	9,000
To Bills receivable dishonoured (discounted)	2,000	By Sales return	11,000
To Credit sales (bal.fig.)	2,25,000	By Balance c/d	82,000
	3,05,000		**3,05,000**

Creditors Account

Particulars	₹	**Particulars**	₹
To Bills payable	53,000	By Balance b/d	81,000
To Cash	1,72,000	By Bills receivable dishonoured (endorsed)	3,000
To Discount received	7,000	By Credit purchases (bal.fig.)	2,70,000
To Bills receivable endorsed	27,000		
To Balance c/d	95,000		
	3,54,000		**3,54,000**

Note: It is assumed that sales return is out of credit sales only.

Ans. 2.

Statement of Affairs of Ramesh
As on 31st December, 2000

Particulars	**₹**	**Particulars**		**₹**
Sundry Creditors	6,000	Cash		430
Capital (Balance Figure)	27,550	Bank		5,070
		Book Debts		2,700
		Stock		14,400
		Investments		2,850
		Equipments	10,000	
		Less : Depreciation	1,900	8,100
	33,550			**33,550**

Statement of Affairs of Ramesh
as on 31st December,1999

Particulars	**₹**	**Particulars**		**₹**
Sundry Creditors	5,000	Cash		470
Capital (Bal. Fig.)	26,000	Bank		3,730
		Sundry Debtors		2,100
		Stock		12,000
		Investments		7,600
		Equipments	6,000	
		Less : Depreciation	900	5,100
	31,000			**31,000**

Statements of Profit & Loss for the year ended 31.12.2000

Capital as on 31st December, 2000	27,550
Add : Drawings including income tax	9,100
	36,650
Less : Capital as on 31.12.99	26,000
Profit for the year	**10,650**

Working Notes :

(i) Bank Balance: As per pass book is given, but bank balance as per cash book will be shown in balance sheet. Therefore , following adjustments will be required.

	31.12.1999	**31.12.2000**
	₹	₹
Balance as per Pass Book	6,230	8,170
Less : Unpresented cheques.	2,500	3,100
Adjusted Bank Balance.	**3,730**	**5,070**

Unpresented cheques as on 31.12.2000 for personal income tax of the proprietor, will be treated as drawings.

		₹
(ii)	Book Debts as on 31.12.1999	3,100
	Less : goods sent on sale or return basis	1,000
		2,100
	Book Debts as on 31.12.2000	2,900
	Add : Dishonoured cheque	500
		3,400
	Less : Direct deposit by customer.	700
		2,700
(iii)	Stock as on 31.12.1999	15,000
	Less : Profit $\left(\frac{25}{100} \times 15{,}000\right)$	3,750
		11,250
	Add : Stock with customer $\left(\frac{1{,}000 \times 75}{100}\right)$	750
		12,000
		₹
	Stock as on 31.12.2000	18,000
	Less : Profit $\frac{25}{125} \times 18{,}000$	3,600
		14,400

(iv) Investments :

		31.12.99	**31.12.2000**
		₹	₹
	Investments at face value	8,000	3,000
	Cost at the rate of 95	7,600	2,850
(v)	Equipment :		
	Cost	6,000	10,000
	Less : Depreciation	900	1,900
		5,100	**8,100**

Depreciation As on 31.12.99 will be – on ₹ 3,000 for 2 Years and on ₹ 3,000 for one year.

Depreciation As on 31.12.00 will be – on ₹ 3,000 for 3 yrs. on ₹ 3,000 for 2 years and on ₹ 4,000 for one year.

Ans. 3. Trading and Profit & Loss Account for the year Ended 31.3.2011

To opening stock		1,25,000	By Sales		
To Purchases		30,00,000	Cash	5,25,000	
(250 x 12 x 1000)			Credit	47,25,000	52,50,000
			By Goods damaged (5 x1000)		50,000
			By Goods withdrawn (1 x 1000)		1,000
To Gross Profit		22,50,000	By Closing Stock (119 x 1000)		1,19,000
		53,75,000			**53,75,000**
To Rent	79,000	75	By Gross Profit		22,50,000
(-) Outstanding (LY)	(6,000)		By Interest on FD		36,000
(+) Prepaid (LY)	12,0000		By Gain on damage		500
(-) Prepaid (CY)	(14,000)				
(+) Outstanding (CY)	7,000	78,000			
To Salaries	48,000				
(-) Outstanding (LY)	(4,000)	44,000			
To Interest on Security Deposits		6,000			
To office Expenses		12,000			
To Commission	20,000				
(-) Outstanding (LY)	(20,000)	----			
To loss in transit	(1,000 – 1,500)	----			
To Depreciation (Total)		10,200			
To Net Profit		21,36,300			
		22,86,500			**22,86,500**

Balance Sheet As on 31.3.2011

Liabilities		**₹**	**Assets**		**₹**
Capital	1,50,000		Furniture	27,000	
(-) Drawings (IT)	50,000		(-) Depreciation	2,700	24,300
(-)Goods withdrawn	1,000		Electricity Deposit		1,000
(+) Net Profit	21,36,300	22,35,300	Closing Stock (119 Tins)		1,19,000
			3 Wheeler Tempo	30,000	
			(-) Depreciation	75,000	22,500
Security Deposits	50,000		12% Fixed Deposits (1.,10.2010)		6,00,00
(+) Additional Received	10,000	60,000	Interest accrued on FD		36,000
Creditors		8,00,000	Insurance claim (Goods)		4,000
O/s Rent		7,000	Prepaid Rent		14,000
O/s Interest		6,000	Insurance claim (cash)		10,000
			Cash /Bank		66,000
			Debtors		22,11,500
		31,08,300			**31,08,300**

Cash /Bank a/c

To Balance b/d	75,000	By Rent	79,000
To Cash Sales	52,60,000	By Salaries	48,000
To Debtors	26,73,500	By Office Expenses	12,000
To Salvage	1,500	By Commission	20,000
		By Drawings	50,000
		By 12%, Fixed Deposit	6,00,000
		By Creditors	24,00,000
	32,75,000		**32,75,000**

Total Debtors a/c

To Balance b/d	1,60,000	By Cash/Bank	26,73,500
To Credit Sales	47,25,000		
		By Balance c/d	22,11,500
	48,85,000		**48,85,000**

Total Creditors a/c

To Cash /Bank	24,00,000	By Balance b/d	2,00,000
		By Purchases	30,00,000
To Balance c/d	8,00,000		
	32,00,000		**32,00,000**

Ans. 4. In the books of Shri Ramji Trading and Profit and Loss Account for the year ended 31st March, 2011

	₹	₹		₹	₹
To Opening stock		1,60,800	By Sales		
To Purchases".			By Cash	92,000	
Cash	20,600		By Credit	13,44,200	
Credit (W.N. 3)	11,60,000			14,36,200	
	11,80,600		Less: Returns	(29,000)	14,07,200
Less: Returns	(8,0000)	11,72,600			
To Gross Profit c/d		2,96,200	By Closing stock		2,22,400
		16,29,600			16,29,600
To Discount allowed		30,000	By Gross profit b/d		2,96,200
To Bad debts		8,400	By Discount		14,000
To General expenses (W.N. 5)		1,86,000			
To Depreciation (W.N. 4)		55,000			
To Net profit		30,800			
		3,10,200			**3,10,200**

Balance Sheet as at 31st March, 2011

Liabilities		₹	Assets		₹
Capital (W.N. 1)	5,35,400		Sundry Assets	2,32,200	
Add: Additional capital	1,70,000		Add: New machinery	63,600	
Net profit	30,800			2,95,800	
	7,36,200		Less: Depreciation	(55,000)	2,40,800
Less: Drawings	(8,600)	7,27,600	Stock in trade		2,22,400
Sundry creditors		2,48,000	Sundry debtors (W.N. 2)		3,57,400
Expenses outstanding		6,600	Cash in hand		24,000
			Cash in Bank		1.37,600
		9,82,200			**9,82,200**

Working Notes:

(1) Statement of Affairs as at 31st March, 2010

Liabilities	₹	Assets	₹
Sundry creditors	3,15,400	Sundry Assets	2,32,200
Outstanding expenses	12,000	Stock	1,60,800
Ramji's Capital		Debtors	3,30,600
(Balancing figure)	5,35,400	Cash in hand	59,200
		Cash at Bank	80,000
	8,62,800		8,62,800

(2) Sundry Debtors Account

To Balance b/d	3,30,600	By Cash	12,50,000
To Sales (14,36,200- 92,000)	13,44,200	By Discount	30,000
		By Returns (sales)	29,000
		By Bad debts	8,400
		By Balance c/d (Bal. fig.)	3,57,400
	16,74.800		**16,74,800**

(3) Sundry Creditors Account

	₹		₹
To Bank - Payments	12,05,400	By Balance b/d	3,15,400
To Discount	14,000	By Purchases credit	11,60,000
To Returns	8,000	(Balancing figure)	
To Balance c/d (closing balance)	2,48,000		
	14,75,400		**14,75,400**

(4)

Depreciation on Fixed Assets:	₹
Opening balance	2,32,000
Add: Additions	63,600
	2,95,800
Less: Closing balance Depreciation	(2,40,800)
Depreciation	55,000

(5) **Expenses to be shown in profit and loss account**

Expenses (in cash)	1,91,400
Add: Outstanding of 2011	6,600
	1,98,000
Less: Outstanding of 2010	12,000
	1,86,000

(6) **Cash and Bank Account**

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	59,200	80,000	ByPurchases	20,600	—
To Capital		1,70,000	By Expenses	1,91,400	
To Debtors		12,50,000	By Plant and Machinery		63,600
To Bank	1,84,800		By Drawings		8,600
To Cash		1,00,000	By Creditors		12,05,400
To Sales	92,000		By Cash Bank	1,00,000	1,84,800
			By Balance c/d	24,000	1,37,600
	3,36,000	**16,00,000**		**3,36.000**	**16,00,000**

Ans. 5. **Trading and Profit and Loss A/c for the year ended 31.3.2011**

		₹			₹
To Opening stock (W.N.3)		1,45,000	By Sales- Cash (W.N.1)	50,000	
To Purchases-Cash	65,000		Credit	4,50,000	5,00,000
Credit (W.N.2)	2,60,000	3,25,000	By Closing stock		70,000
To Gross profit c/d		1,00,000			
		5,70,000			5,70,000
To Loss on sale of equipment (20,000-15,000)		5,000	By Gross profit b/d		1,00,000
To Depreciation			By Discount received		4,800
Building	3,000				
Furniture	2,500				
Equipment (W.N.4)	24,600	30,100			
To Expenses paid	40,000				
Add: Outstanding expenses	3,000	43,000			
To Discount allowed		5,500			
To Net profit transferred to:	10,600				
A's capital A/c					
B's capital A/c	10,600	21,200			
		1,04,800			1,04,800

Balance Sheet as on 31-3-2011

Liabilities		₹	**Assets**		₹
A's capital (W.N.7)	2,80,250		Building	1,50,000	
Less: Drawings	(30,000)		Less: Depreciation	(3,000)	1,47,000
	2,50,250		Equipments	2,72,000	
Add: Net profit	10,600	2,60,850	Less: Depreciation	(24,600)	2,47,000
B's capital (W.N.7)	2,65,250		Furniture	25,000	
Add: Net profit	10,600	2,75,850	Less: Depreciation	(2,500)	22,500
Sundry creditors (W.N.5)		70,200	Debtors		1,00,000
Bank loan		35,000	Stock		70,000
Outstanding expenses		3,000	Cash balance (W.N.8)		58,000
		6,44,900			**6,44,900**

Working Notes:

1. Calculation of total sales and cost of goods sold

Cash sales = 10% of total sales

Credit sales = 90% of total sales = ₹ 4,50,000

Total sales = $\frac{4,50,000}{90}$ x 100 = 4,50,000

Cash sales = 10% of 5,00,000 = ₹ 50,000

2. Calculation of total purchases and credit purchases

Cash purchases = ₹ 65,000

Credit purchases = 80% of total purchases

Cash purchases = 20% of total purchases

Total purchases = $\frac{65,000}{20}$ x 100 = ₹ 3,25,000

Credit purchases = 3,25,000 - 65,000 = ₹ 2,60,000

3. Calculation of opening stock

Stock Account

	₹		₹
To Balance b/d (Bal. Fig.)	1,45,000	By Cost of goods sold $\frac{5,00,000}{125}$ x 100	4,00,000
To Total purchases (W.N.2)	3,25,000	By Balance c/d	70,000
	4,70,000		**4,70,000**

4. Purchase of equipment & depreciation on equipments

Equipment Account

	₹		₹
To Balance b/d	2,40,000	By Cash -equipment sold	15,000
To Cash-purchase (Bal. Fig.)	52,000	By Profit and Loss Accounts (Loss on sale)	5,000
		By Balance c/d	2,72,000
	2,92,000		**2,92,000**

Depreciation on equipment:

@ 10% p.a. on ? 2,20,000 (i.e. ? 2,40,000 -120,000)	=	22,000
@ 10% p.a. on ? 52,000 for 6 months (i.e. during the year)	=	2,600
		24,600

5. Calculation of closing balance of creditors

Creditors Account

	₹		₹
To Cash	2,50,000	By Balance b/d	65,000
To Discount received	4,800	By Credit purchases (W.N.2)	2,60,000
To Balance c/d (Bal. Fig.)	70,200		
	3,25,000		**3,25,000**

6. Calculation of opening balance of debtors

Debtors Account

	₹		₹
To Balance b/d (Bal. Fig.)	35,500	By Cash	3,80,000
To Sales (Credit)	4,50,000	By Discount allowed	5,500
		By Balance c/d	1,00,000
	4,85,500		**4,85,500**

7. Calculation of capital accounts of A & B as on 31.3.2010

Balance Sheet as on 31.3.2010

Liabilities	₹	**Assets**	₹
Combined Capital Accounts of A&B(Bai. Fig.)	5,45,500	Building	1,50,000
Creditors	65,000	Equipments	2,40,000
Bank Loan	45,000	Furniture	25,000
		Debtors (W.N.6)	35,500
		Stock (W.N.3)	1,45,000
		Cash balance	60,000
	6,55,500		**6,55,500**

	₹
Combined Capitals of A & B	5,45,500
Less: Difference in capitals of A and B	(15.000)
	5,30,500

A's Capital as on 31.3.2010 = $\frac{5,30,500}{2}$ = 2,65,250 + 15,000 = ₹ 2,80,250

B's Capital as on 31.3.2010 = $\frac{5,30,500}{2}$ = ₹ 2,65,250

8. Cash Account

	₹		₹
To Balance b/d	60,000	By Creditors	2,50,000
To Debtors	3,80,000	By Purchases	65,000
To Equipment (sales)	15,000	By Expenses	40,000
To Cash sales (W.N.1)	50,000	By As drawings	30,000
		By Bank loan paid (45,000-35,000)	10,000
		By Equipment purchased (W.N.4)	52,000
		By Balance c/d (Bal. Fig.)	58,000
	5,05,000		**5,05,000**

Ans. 6.Statement showing the amount of cash defalcated by the Cashier

	₹	₹
Cash balance as on 1.1.2011	2,000	
Add: Cash sales	1,16,250	1,18,250
Less: Salary to clerk (₹ 300 x 13)	3,900	
Sundry expenses (₹ 50 x 13)	650	
Drawings of Sri Srinivas (₹ 100 x13)	1,300	
Deposit into bank [₹1,25,000 - ₹ 30,000)	95,000	(1,00,850)
Cash balance as on 31.3.2011 (defalcated by cashier)		17,400

Trading and Profit and Loss Account of Sri Srinivas for the 13 week period ended 31st March, 2011

	₹		₹	₹
To Opening stock		By Sales:		
To Purchases	91,000	Cash	1,16,250	
To Gross Profit c/d	30,250	Credit	35,000	1,51,250
		By Closing stock		40,000
	1,91,250			1,91,250
To Salaries	3,900	By Gross profit b/d		30,250
To Rent (₹ 4,000 - ₹ 1,000)	3,000			
To Sundry Expenses	650			
To Loss of cash by theft	17,400			
To Net Profit	5,300			
	30,250			**30,250**

Balance Sheet of Sri Srinivas as on 31st March, 2011

Liabilities		₹	**Assets**	₹
Capital as on 1.1.2011	1,00,000		Furniture	10,000
Add .-Profit	5,300		Stock	40,000
	1,05,300		Debtors	30,000
Less: Drawings	(1,300)	1,04,000	Cash at bank	60,500
Liabilities for goods		36,500		
		1,40,500		**1,40,500**

Working Notes:

(1) Purchases

Creditors Account

	₹		₹
To Bank A/c	75,000	By Balance b/d	20,500
To Balance c/d	36,500	By Purchases A/c (Bal. fig.)	91,000
	1,11,500		**1,11,500**

(2) Total sales

	₹
Opening stock	70,000
Add; Purchases	91,000
Less: Closing stock	1,61,000
Cost of goods sold	(40,000)
Add: Gross profit @ 25% on cost	1,21,000
Total Sales	1,51,250

(3) Credit Sales

Debtors Account

	₹		₹
To Balance b/d	25,000	By Bank A/c	30,000
To Sales A/c (Bal. fig.)	35,000	By Balance c/d	30,000
	60,000		**60,000**

(4) Cash Sales

	₹
Total sales	1,51,250
Less: Credit Sales	(35,000)
Cash sales	1,16,250

(5) Bank balance as on 31.3.2011

	₹		₹
To Balance b/d	14,500	By Creditors A/c	75,000
To Debtors A/c	30,000	By Rent A/c	4,000
To Cash A/c	95,000	By Balance c/d	60,500
	1,39,500		**1,39,500**

Notes:

1. All purchases are taken on credit basis.
2. In the absence of information about the rate of depreciation, no depreciation has been charged on furniture. Alternatively, students may assume any appropriate rate of depreciation and account for the charge.
3. The amount defalcated by the cashier may be treated as recoverable from him. In that case, ₹ 17,400 may be shown as sundry advances on assets side in the Balance Sheet and net profit for the 13 week period ending 31st March, 2011 would amount ₹ 22,700.

Ans. 7. Trading and Profit and Loss Account for the year ended 31st March, 2011

	₹			₹
To Opening Stock	6,10,000	By Sales		
To Purchases (W.N. 3)	84,10,000	Cash	73,80,000	
To Gross profit c/d	9,30,000	Credit (W.N. 2)	19,20,000	93,00,000
(10% of 93,00,000)		By Closing stock		6,50,000
	99,50,000			99,50,000
To Sundry expenses (W.N. 6)	5,80,700	By Gross profit b/d		9,30,000
To Discount allowed	36,000	By Discount received		28,000
To Depreciation				
(15%? 1,00,000)	15,000			
To Net Profit	3,26,300			
	9,58,000			**9,58,000**

Balance Sheet as at 31st March, 2011

Liabilities		**Amount** ₹	**Assets**		**Amount** ₹
Capital			Furniture & Fittings	1,00,000	
Opening balance	2,50,000		Less: Depreciation	(15,000)	85,000
Less: Drawing	(2,40,000)		Stock		6,50,000
	10,000		Trade Debtors		1,52,000
Add: Net profit for the years	3,26,300	3,36,300	Bills receivable		75,000
Bills payable		1,40,000	Unexpired insurance		2,000
Trade creditors		6,10,000	Cash in hand & at bank		1,27,300
Outstanding expenses		5,000			
		10,91,300			**10,91,300**

Working Notes:

1. Bills Receivable Account

	₹		₹
To Balance b/d	60,000	By Cash	3,40,000
To Trade debtors	3,70,000	By Trade creditors	
		(Bills endorsed)	15,000
		By Balance c/d	75,000
	4,30,000		**4,30,000**

2. Trade Debtors Account

	₹		₹
Balance b/d	1,48,000	By Cash/Bank	15,10,000
To Credit sales	19,20,000	By Discount allowed	36,000
(BaL fig.)		By Bills receivable	3,70,000
		By Balance c/d	1,52,000
	20,68,000		**20,68,000**

3. **Memorandum Trading Account**

	₹		₹
To Opening stock	6,10,000	By Sales	
To Purchases (Balancing figure)	84,10,000	By Closing stock	9,30,000
To Gross Profit (10% on sales)	9,30,000		
	99,50,000		**99,50,000**

4. **Bills Payable Account**

	₹		₹
To Cash/Bank	8,15,000	By Balance b/d	1,25,000
To Balance c/d	1,40,000	By Creditors	
		(balancing figure)	8,30,000
	9,55,000		9,55,000

5. **Trade Creditors Account**

	₹		₹
To Cash /Bank	75,07,000	By Balance b/d	5,80,000
To Discount received	28,000	By Purchases (as calculated	84,10,000
To Bills receivable	15,000	in W.N. 3)	
To Bills payable	8,30,000		
To Balance c/d			
(balancing figure)	6,10,000		
	89,90,000		**89,90,000**

6. **Computation of sundry expenses to be charged to Profit & Loss A/c**

	₹
Sundry expenses paid (as per cash book)	6,20,700
Add: Prepaid expenses as on 31-3-2010	2,000
	6,22,700
Less: Outstanding expenses as on 31-3-2010	(45,000)
	5,77,700
Add: Outstanding expenses as on 31-3-2011	5,000
	5,82,700
Less: Prepaid expenses as on 31-3-2011(Insurance paid till July, 2011)	(2,000)
	5,80,700

CHAPTER-11 HIRE PURCHASE AND INSTALMENT SELLING

Ans. 1.

		Cash Value	Installment	
			Principal	Interest
		₹	₹	₹
		34,000		
Paid at Delivery		7,300	7,300	-----
	₹	26,700		
First Instalment	6,000			
Less : Int .:8% p.a. on ₹ 26,700 for 6 months	1,068			
Principal	4,932	4,932	4,932	1,068
		21,768		
Second Instalment	6,000			
Less : Int.: 8% p.a.on ₹ 21,768 for 6 months	871			
Principal	5,129	5,129	5,129	871
		16,639		
Third Instalment	6,000			
Less : Int.:8 p.a .on ₹ 16,369 for 6 months	666			
Principal	5,334	5,334	5,334	666
		11,305		
Fourth Instalment	6,000			
Less : Int.:8 p.a .on ₹ 11,305 for 6 months	452			
Principal	5,548	5,548	5,548	452
		5,757		
Fifth Final Instalment	6,000			
Less : Amount unpaid	5,757			
Interest	243	5,757	5,757	243
			34,000	3,300

Calculation of Depreciation :

First year – 10% depreciation on cash price ₹ 34,000 = ₹ 3,400

Second year – Written down value = 34,000 – 3,400 = ₹ 30,600.
10% depreciation on W.D.V. ₹ 30,600 = ₹ 3,060.

Third year – Written down value = ₹ 30,600 – 3,060 = ₹ 27,540
10% Depreciation on W.D.V. ₹ 27,540 = ₹ 2,754.

Ledger Machinery Account

Date	Particulars	₹	Date	Particulars	₹
2000			**2000**		
Jan.1	To Vendors	34,000	Dec.31	By Dep. (10% on ₹ 34,000)	3,400
				By Balance c/d	30,600
		34,000			**34,000**
2001			**2001**		
Jan.	To Balance b/d	30,600	Dec.31	By Dep.(10% on ₹ 30,600)	3,060
				By Balance c/d	27,540
		30,600			**30,600**
2002			**2002**		
Jan.1	To Balance b/d	27,540	Dec.31	By Dep.(10% on ₹ 27,540)	2,754
				By Balance c/d	24,786
		27,540			**27,540**

Vendor's Account

Date	Particulars	₹	Date	Particulars	₹
2000			**2000**		
Jan.1	To Bank A/c	7,300	Jan.1	By Machinery A/c	34,000
June 30	To Bank A/c	6,000	June 30	By Interest A/c	1,068
Dec.31	To Bank A/c	6,000		By Interest A/c	871
	To Balance c/d	16,639	Dec.31		
		35,939			**35,939**
2001			**2001**		
June 30	To Bank A/c	6,000	June 30	By Balance b/d	16,639
Dec.31	To Bank A/c	6,000		By Interest A/c	666
	To Balance c/d	5,757	Dec.31	By Interest A/c	452
		17,757			**17,757**
2002			**2002**		
June 30	To Bank A/c	6,000	June 30	By Balance b/d	5,757
				By Interest A/c	243
		6,000			**6,000**

Interest Account

Date	Particulars	₹	Date	Particulars	₹
2000			**2000**		
June 30	To Vendors	1,068	Dec.31	By P&L A/c	1,939
Dec.31	To Vendors	871			
		1,939			**1,939**
2001			**2001**		
June 30	To Vendor	666	Dec.31	By P & L A/c	1,118
Dec. 31	To Vendor	452			
		1,118			**1,118**
2002			**2002**		
June 30	To Vendors	243	Dec.31	By P & L A/c	243
		243			**243**

Ans. 2. Let Principal amount in each instalment = P

Let Interets in last instalment = x ------------------------ (i)

Interest in 3rd Instalments = 2x -------------------------(ii)

Interest in 2nd Instalments = 3x -----------------------(iii)

Interest in 1st Instalments = 4x -------------------------(iv)

By Comparing Equation (i) & (ii)

P + x = 1,74,350

P + 2x = 1,90,200

x = 15,850

∴ Cash Price in last instalment = 1,74,350 - 15,850 = 1,58,500

∴ Cash Price in 3rd Instalment = 1,90,200 - (15,850 x 2) = 1,58,500

∴ Cash Price in 2nd Instalment = 2,06,050 - (15,850 x 3) = 1,58,500

∴ Csh Price in 1st Instalment = 2,21,900 - (15,850 x 4) - 1,58,500

∴ Total Cash Price = 1,58,500 + (1,58,500 x) = 7,92,500

∴ Total Interest = 15,850 + (15,850 x 2) + (15,850 x 3) + (15,850 x 4)

= 1,58,500

Ans. 3. Calculation of interest – Total of all instalments 12,000 + (1920 x 12) = 35,040

Cash price	30,000
Interest	5,040

Total amount of interest will be divided in 12 instalments in the ratio of outstanding in instalments

	Outstanding instalments	**Interest**		**Outstanding instalments**	**Interest**
1st Quarter	12	775	7th Quarter	6	388
2nd Quarter	11	711	8th Quarter	5	323
3rd Quarter	10	646	9th Quarter	4	258
4th Quarter	9	582	10thQuarter	3	194
5th Quarter	8	517	11th Quarter	2	129
6th Quarter	7	452	12th Quarter	1	65
				78	**5,040**

The interest has been calculated as below

1st Quarter's interest 5040 x 12/78 = 775

2nd Quarter's interest 5040 x 11/78 = 711

Other instalments will be calculated on the same basis.

Truck Account

Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
2001			**2001**		
Jan. 1	To M. Lad.	30,000	June 30	By Dep. (20% on ₹ 30,000 for 6 months)	3,000
				By Balance c/d	27,000
		30,000			**30,000**
2001			**2002**		
July 1	To Balance b/d	27,000	June 30	By Dep. (20% on ₹ 30,000)	6,000
				By Balance c/d	21,000
		27,000			**27,000**
2002			**2002**		
July 1	To Balance b/d	21,000	Sep.30	By Cash (truck sold)	20,000
Sept.30	To P&L A/c	500		By Depreciation	1,500
		21,500			**21,500**

M. Limited's Account (Vendors)

Date	Particulars	₹	Date	Particulars	₹
2001			2001		
Jan.1	To Cash	12,000	Jan.1	By Truck A/c	30,000
Mar.31	To Cash	1,920	Mar.31	By Interest A/c	775
June 30	To Cash	1,920	June.30	By Interest A/c	711
	To Balance c/d	15,646			
		31,486			**31,486**
2001			**2001**		
Sept.30	To Cash	1,920	July 1	By Balance b/d	15,646
Dec. 30	To Cash	1,920	Sept.30	By Interest A/c	646
			Dec.31	By Interest A/c	582
2002			**2002**		
Mar.31	To Cash	1,920			
June 30	To Cash	1,920	Mar.31	By Interest A/c	517
June 30	To Balance c/d	10,163	June 30	By Interest A/c	452
		17,843			**17,843**
2002			**2002**		
Sept.30	To Cash	10,200	July. 1	By Balance b/d	10,163
	To P/L A/c.	351	Sep.30	By Interest A/c	388
		10,551			**10,551**

Interest Account

Date	Particulars	₹	Date	Particulars	₹
2001			**2001**		
Mar.31	To M.Ltd	775	June 30	By P&L A/c	1,486
June 30	To M. Ltd.	711			
		1,486			**1,486**
2001		**2002**			
Sept. 30	To M. Ltd	646	June 30	By P&L A/c	2,197
Dec. 31	To M. Ltd	582			
2002					
Mar. 31	To M. Ltd	517			
June 30	To M. Ltd	452			
		2,197			**2,197**
2002			**2002**		
Sept.30	To M. Ltd	388	June 30	By P&L A/c	388
		388			**388**

Ans. 4. **Machinery Account**

		₹			₹
I Yr.	To Hire Vendor A/c	15,533	I Yr.	By Depreciation A/c	1,553
				By Balance c/d	13,980
		15,533			15,533
II Yr.	To Balance b/d	13,980	II Yr.	By Depreciation A/c*	1,398
				By Balance c/d	12,582
		13,980			13,980
III Yr.	To Balance b/d	12,582	III Yr.	By Depreciation A/c*	12,582
				By Hire Vendor	11,000
				By Profit & Loss A/c (Loss on Surrender)	324
		12,582			12,582

*It has been assumed that depreciation has been written off on written down value method. Alternatively straight line method may be assumed.

Depreciation has been directly credited to the Machinery Account; it could have been accumulated in provision for depreciation account.

Hire Vendor Account

		₹			₹
IYr.	To Bank A/c	6,000	1 Yr.	By Machinery A/c	15,533
	To Balance c/d	12,639		By Interest A/c	3,106
		18,639			18,639
II Yr.	To Bank A/c	6,000	II Yr.	By Balance b/d	12,639
	To Balance c/d	9,167		By Interest A/c	2,528
		15,167			15,167
III Yr.	To Machinery A/c (transfer)	11,000	III Yr.	By Balance b/d	9,167
				By Interest A/c	1,833
		11,000			11,000

Note : Alternatively, total interest could have been debited to Interest Suspense A/c and credited to Hire Vendor A/c with consequential changes.

Working Notes:

		Instalment Amount	Interest	Principal
4th Instalment		6,000	₹	₹
Interest	$6,000 \times \frac{20}{120}$	1,000		
		5,000		
Add: 3rd Instalment		6,000		
		11,000		
Interest	$11,000 \times \frac{20}{120}$	1,833	1,833	4,167
		9,167		
Add: 2nd Instalment		6,000		
		15,167		
Interest	$15,167 \times \frac{20}{120}$	2,528	2,528	3,472
		12,639		
Add: 1st Instalment		6,000		
		18,639		
Interest	$18,639 \times \frac{20}{120}$	3,106	3,106	2,894
		15,533	**8,467**	**15,333**

CHAPTER-12 INVESTMENT ACCOUNTS

Ans. 1. **In the Books of Mr. X**

Investment Account of 6% Debentures in Y Ltd.

For the year ending 31st December, 2011

(Due Date for Interest 31st December)

Date	Particulars	W.N.	N.V. ₹	Income ₹	Capital ₹	Date	Particulars	W.N.	N.V. ₹	Income ₹	Capital ₹
1.1.03	To Balance b/d		20,000	----	18,200	1.9.03	By Bank	2	6,000	240	5,760
1.4.03	To Bank	1	4,000	60	3,860	1.12.03	By Bank	4	8,000	440	7,480
1.9.03	To P & L A/c	3	----	----	245	31.12.03	By Bank	6	10,000	600	8,900
	(Profit on Sale)					31.12.03	By P & L A/c	7	----	----	292
1.12.03	To P & L A/c	5	----	----	127		(Loss on Sale)				
	(Profit on Sale)										
31.12.03	To P & L A/c		----	1,220	----						
	(Interest tfd.)										
			24,000	1,280	22,432				24,000	1,280	22,432

Working Notes :

1. (a) Price paid = ₹ 98 x 40 = ₹ 3,920

   (b) Purchased after due date ; so Accrued Interest for 3 months (January - March)

   ₹ 4,000 x 6% x 3/12 = ₹ 60

   (c) Purchased cum - interest ; so Cost = ₹ 3,920 - ₹ 60 = ₹ 3,860

2. (a) Price received = ₹ 96 x 60 = ₹ 5,760

   (b) Sold after due date ; so Accrued Interest for 8 months (January - August)

   ₹ 6,000 x 6% x 8/12 = ₹ 240

   (c) Sold ex-interest so, Total Receipts = ₹ 5,760 + ₹ 240 = ₹ 6,000

3. Profit on Sale of Debentures on 1.9.2003

   Sale Proceeds = ₹ 5,760

   Less : Cost of Investments sold (Average Cost ; Vide AS 13) $\frac{₹\ 6,000}{₹\ 24,000}$ x ₹ 22,060 = ₹ 5,515

   Profit on Sale =₹ 245

   Total Cost of Investment = ₹ 18,200 + ₹ 3,860 = ₹ 22,060

4. (a) Price received = ₹ 99 x 80 = ₹ 7,920

(b) Sold after due date ; so, Interest due for 11 months (January - November)

₹ 8,000 x 6% x 11/12 = ₹ 440

(c) Sold cum - interest ; so, Capital = ₹ 7,920 - ₹ 440 = ₹ 7,480

5. Profit on Sale of Debentures on 1.12.2003

Sale Proceeds (excluding interest)	= ₹ 7,480
Less : Cost of Investments sold (Average Cost ; Vide AS 13) $\frac{₹ 8,000}{₹ 18,000}$ x ₹ 16,545	= ₹ 7,353
Profit on Sale	= ₹ 127

Total Cost of Investments = ₹ 22,060 - ₹ 5,515 = ₹ 16,545

6. (a) Price received = ₹ 95 x 100 = ₹ 9,500

(b) Sold on due date ; so, Interest due for full year

₹ 10,000 x 6% = ₹ 600

(c) Sold cum - interest ; so Capital = ₹ 9,500 - ₹ 600 = ₹ 8,900

7. Loss on Sale of Debentures

Sale Proceeds (excluding interest)	= ₹ 8,900
Less : Cost of Investments sold (Average Cost ; Vide AS 13) $\frac{₹ 10,000}{₹ 10,000}$ x ₹ 9,192	= ₹ 9,192
Loss on Sale	= ₹ 292

Ans. 2.

In the Books of Mr. MN

Investment Account of 6% Debentures in Y Ltd.

For the year ending 31st December, 2011

(Due Date for Interest 31st December)

Date	Particulars	W.N.	N.V. ₹	Income ₹	Capital ₹	Date	Particulars	W.N.	N.V. ₹	Income ₹	Capital ₹
1.1.03	To Balance	1	24,000	600	21,840	31.3.03	By Bank	2	----	720	----
15.6.03	To P & L A/c (Profit on Sale)	4	----	----	25	15.6.03	By Bank	3	10,000	125	9,125
						1.9.03	By Bank	6	4,000	100	3,720
1.8.03	To Bank	5	6,000	120	5,490	30.9.03	By Bank	8	----	480	----
1.9.03	To P & L A/c (Profit on Sale)	7	----	----	74	31.12.03	By Balance c/d	10	28,000	420	25.774 (Bal.fig.)
1.2.03	To Bank	9	12,000	120	11,190						
31.12.09	To P & L A/c (Interest tfd.)		----	1,005	----						
			42,000	**1,845**	**38,619**				**42,000**	**1,845**	**38,619**

Working Notes :

1. (a) Price paid = (₹ 90.875 x 240 units) + Brokerage (₹ 24,000 x 0.125%) = ₹ 3,920

   (b) Purchased after due date ; so Accrued Interest for 5 months (October to February)

   ₹ 24,000 x 6% x 5/12 = ₹ 600

   (c) Purchase ex - interest ; so Total Payment = ₹ 21,840 + ₹ 600 = ₹ 22,440

2. (a) Interest amount upto 31st March received = ₹ 24,000 x 6% x 61/2 = ₹ 720

3. (a) Profit received = (₹ 92,625 x 100 units) - Brokerage (10,000 x 0.125%) = ₹ 9,250

   (b) Sold after due date ; so, Interest due for $2^1/_2$ months (January to 15 June)

   ₹ 10,000 x 6% x 2.5/2 = ₹ 125

   (c) Sold cum - interest ; so, Cost = ₹ 9,250 - ₹ 125 = ₹ 9,125

4. Profit on Sale of Units

Sale Proceeds (excluding interest)	= ₹ 9,125
Less : Cost of Investments sold $\frac{₹\ 10,000}{₹\ 24,000}$ x ₹ 21,840	= ₹ 9,100
Profit on Sale	= ₹ 25

5. (a) Price paid = (₹ 91.375 x 60 units) + Brokerage (6,000 x 0.125%) = ₹ 5,490

   (b) Purchase after due date ; so Accrued Interest for 4 months (April to July)

   6,000 x 6% x 4/12 = ₹ 120

   (c) Purchase ex - interest ; so, Total Payment = ₹ 5,490 - ₹ 120 = ₹ 5,610

6. (a) Price received = (₹ 93,125 x 40 units) - Brokerage (4,000 x 0.125%) = ₹ 3,720

   (b) Sold after due date ; so, Interest due for 5 months (April to August)

   ₹ 4,000 x 6% x 5/12= ₹ 100

   (c) Sold ex - interest ; so Capital = ₹ 3,720 - ₹ 100 = ₹ 3,820

7. Profit on Sale of Units

Sale Proceeds (excluding interest)	= ₹ 3,720
Less : Cost of Investments sold $\frac{₹\ 4,000}{₹\ 20,000}$ x ₹ 18,230	=₹ 3,646
Profit on Sale	= ₹ 74

   Total Cost of units = (₹ 21,840 - ₹ 9,100 + ₹ 5,490) = ₹ 18,230

8. Interest amount upto 30th September received = ₹ 16,000 x 6% x 6/12 = ₹ 480

9. (a) Price paid = (₹ 94.125 x 120 units) + Brokerage (₹ 12,000 x 0.125%) = ₹ 11,310

   (b) Purchased after due date ; so Accrued Interest ₹ 12,000 x 6% x 2/12 = ₹ 120

   (c) Purchase ex - interest ; so Capital = ₹ 11,310 - ₹ 120 = ₹ 11,190

10. Accrued interest on Closing balance = ₹ 28,000 x 6% x 3/12 = ₹ 420

Ans .3 **In the book of Rajat**

Investment Accounts

(Equity shares in P ltd.)

Date	Particulars	No. of	Amounts shares	Date	Particulars	No. of	Amount shares
1.4.11	To Balance b/d	50,000	7,50,500	31.3.12	By Balance c/d (Bal. fig.)	90,000	12,10,000
30.6.11	To Bank A/c	10,000	1,60,000				
1.8.11	To Bonus issue (W.N.1)		10,000 -				
5.11.11	To Bank A/c (right shares) (W.N.4)	20,000	3,00,000				
		90,000	12,10,000			90,000	12,10,000

Working Notes:

(1) Bonus shares = $\frac{50,000 + 10,000}{6}$ = 10,000 shares

(2) Rights share = $\frac{50,000 + 10,000}{7}$ + 10,000 x 3 = 30,000 shares

(3) Sale of rights = 30,000 shares x $\frac{1}{3}$ x 2 = ₹ 20,000 to be credited to P & L A/c as per AS 13.

(4) Rights subscribed = 30,000 shares x $\frac{2}{3}$ x 1₹ 5 = ₹ 3,00,000

Ans 4. **In the book of T. Shekharan**

Investment Account

for the year ended 31st March, 2012

(Script: Equity Share of V Ltd.).

Date	Particulars	Nominal Value(₹)	Cost (₹)	Date	Particulars	Nominal Value(₹)	Cost (₹)
1.4.2011	To Bank A/c (W.N.1)	5,00,000	6,15,000	31.3.2012	By Bank A/c (W.N.2)	2,50,000	2,20,500
31.1.2012	To Bonus shares	2,50,000	___	31.3.2012	By Balance c/d (W.N.4)	5,00,000	4,10,000
31.3.2012	To Profit and Loss A/c (W.N.3)		15,500				
		7,50,000	**6,30,500**			**7,50,000**	**6,30,500**

Working Notes:

1. Cost of equity shares purchased on 1st April, 2011

= Cost + Brokerage + Cost of transfer stamps

= 5,000 x ₹ 120 + 2% of ₹ 6,00,000 + 1/2 % of ₹ 6,00,000

= ₹ 6,15,000

2. Sale proceeds of equity shares sold on 31st March, 2012

= Sale price - Brokerage

= 2,500 x ₹ 90 - 2% of ₹ 2,25,000

= ₹ 2,20,500

3. Profit on sale of bonus shares on 31st March, 2012

= Sales proceeds - Average cost

Sale proceeds = ₹ 2,20,500

Average cost = ₹ [6,15,000 x 2,50,000 / 7,50,000

= ₹ 2,05,000

Profit = ₹ 2,20,500 - ₹ 2,05,000 = ₹ 15,500

4. Valuation of equity shares on 31st March, 2012

Cost = ₹ [6,15,000 x 5,00,000/7,50,000] = ₹ 4,10,000 i.e ₹ 82 per share

Market value = 5,000 shares x ₹ 90 = ₹ 4,50,000

Closing stock of equity shares has been valued at ₹ 4,10,000 i.e cost being lower than the market value.

CHAPTER-13 FIRE INSURANCE CLAIMS

LOSS OF STOCK

Memorandum Trading A/c (1.4.2011 to 30.6.2011)

Ans.1.

To Opening Stock	24,000	By Sales	72,000
To Purchase	1,04,000	By Closing Stock	97,371
To Commission on Purchase (1,04,000 x 20%)	20,800		
To GP	20,571		
	1,69,371		**1,69,371**

W. N.

GP on cost = 40% , GP on Sale = ?

Let CP = 100

Add : GP = 40

SP **140**

$\therefore$ GP on such = $\frac{40}{140} \times 100 = 28.5714\%$

Statement of Claim

Stock on 30/6/11	97,371
Less : Salvage	16,544
Loss	**80,827**

Since policy (₹ 64,000) is Less than stock on date of fire (₹ 97,371) there is underinsurance & average clause applicable.

$$\text{Claim} = \text{Loss} \times \frac{\text{Policy}}{\text{Closing Stock}}$$

$$= 80,827 \times \frac{64,000}{97,371} = ₹\ 53,126$$

Ans. 2. **Trading a/c for ending 31st March 2011**

To Opening Stock $\left(\frac{30,600}{90}\right) \times 100$	34,000	By Sale	1,80,000
		By Closing Stock $\left(\frac{27,000}{90}\right) \times 100$	30,000
To Purchase	1,22,000		
To GP (30% of Sale)	54,000		
	2,10,000		**2,10,000**

Memorandum Trading (1/4/11 to 14/10/11)

To Opening Stock	30,000	By Sales	1,50,000
To Purchase	1,47,000	By Closing Stock	72,000
To GP	45,000		
(30% of sale)			
	2,22,000		**2,22,000**

Statement of Claim

Stock on 14/10/11	₹	72,000
Less : Salvage	₹	18,000
Loss		**54,000**

Since Policy (₹ 63,000) is Less than Stock on Date of fire (₹ 72,000) there is underinsurance & average clause applicable.

$$\text{Claim} = \text{Loss} \times \frac{\text{Policy}}{\text{Closing Stock}}$$

$$= 54{,}000 \times \frac{63{,}000}{72{,}000}$$

$$= ₹\ 47{,}250$$

Ans. 3. **Trading A/c for ending 31st March 2011**

To Opening Stock	19,288	By Sales	1,04,000
To Purchase	90,516	By Closing Sale	26,544
To GP (19.9423%)	20,740		
	26,544		**26,544**

Memorandum Trading A/c 1/4/11 to 31/8/11)

To Opening Stock	26,544	By Sale	98,340	
To Purchase	69,657	**Add :** Unrecorded	1,190	99,530
To GP (19.9423%)	19,849	cash sale		
		By Goods distributed		1,00,000
		(advertisement)		
		By Closing Stock		6,520
	1,16,050			**1,16,050**

<u>Stock of Claim</u>

Stock on date on fire	₹ 6,520
Less : Salvage	0
Loss / Claim	**₹ 6,520**

Ans. 4. **Memorandum Trading a/c 1/4/11 to 30/911)**

To Opening Stock $\left(\frac{34,017}{85}\right) \times 100$		40,020	By Sales	1,50,000
			By Closing Stock	13,449
To Purchase	80,000			
Less : Plant	8,000	72,000		
To Wages	30,500			
Less : Installation	500	30,000		
To GP (14.2857)%		21,429		
		1,63,449		**1,63,449**

Working Note

GP = 16 $^{2}/_{3}$% of cost (CP)

GP on Selling Price = ? (SP)

Let Cost Price	=	100
+ GP	=	16.67
SP		**116.67**

$\therefore$ GP on SP $= \frac{16.67}{116.67} \times 100 = 14.2857\%$

Statement of Claim

Stock on 30/9/11	=	₹ 13,449
Less : Salvage	=	₹ 10,000
Loss		**₹ 3,449**

Since Policy of ₹ 8,000 is Less than Stock on date of fire (₹ 13,449) there is under insurance & average clause is applicable.

$$\text{Claim} = \text{Loss} \times \frac{\text{Policy}}{\text{Closing Stock}}$$

$$= 3,449 \times \frac{8,000}{13,449} = ₹\ 2,052$$

Ans. 5. **Note :** In the Question Stock on 1/4/11 is by mistake given as 1/1/11 make necessary changes.

(A) Working Note

(1) Stock on 1/4/11 = Stock on 31/3/11

(2) Then is under valuation of this stock which will affect last years GP

(3) Stock on 31/3/11 = 2,70,000

correct Stock $= \frac{2,70,000}{90} \times 100 = 3,00,000$

(4) Stock rectification increased Stock by ₹ 30,000

$\therefore$ Last year GP has increased by ₹ 30,000

(B)

	2009-10	2010-11
GP	60,000	90,000 (60,000 + 30,000)
Sales	2,00,000	3,00,000
GP%	30%	30%

Memorandum Trading a/c (1/4/11 to 1/7/11)

To Opening Stock	3,00,000		By Sales	7,20,000	
Less : Abnormal	8,000	2,20,000	**Less :** Abnormal	20,000	7,00,000
(W. N.)			(80,000 x 50% x 50%)		
To Purchase		4,00,000	By Closing Stock		1,30,000
To GP (30%)		2,10,000			
		8,30,000			**8,30,000**

Calculation of Abnormal Stock (at Cost)

Cost	=	80,000
Less : Sold in 2011 (50%)	=	40,000
Balance at cost		40,000
Value at 40%		16,000 (Given)

<u>Statement of Claim</u>

<u>Stock on 1/7/11</u>

Normal (as per Memorandum Trading a/c)	₹ 1,30,000
Abnormal (as per above working)	₹ 16,000
Total Stock	₹ 1,46,000
Less : Salvage	0
Loss / Claim	₹ 1,46,000

Note : Since policy of ₹ 1,50,000 is more than total Stock of ₹ 1,46,000 no average clause applicable.

Ans. 6. **Dr.** **Creditor A/c** **Cr.**

To Bank	62,000	By Balance b/d	10,000
To Return outward	2,000	By Purchase (Balance Fig.)	62,000
To Balance c/d	8,000		
	72,000		**72,000**

Memorandum Trading a/c (1/4/11 to 13/7/11)

To Opening Stock		1,20,000	By Sales	11,000	
To Purchase	62,000		**Less :** Return inward	6,500	1,03,500
(Creditor a/c)					
Less : Return	2,000	60,000			
To Carriage inwards		9,000	By Closing Stock		1,20,000
To GP (33.33%)		34,500			
		2,23,500			**2,23,500**

Statement of Claim

Stock on 13/7/11	₹ 1,20,000
Less : Salvage	₹ 20,000
Loss	**₹ 1,00,000**

Since policy of (₹ 90,000) is Less than Stock on date of fire (₹ 1,20,000) there is Under insurance & average clause applicable.

$$\text{Claim} = \text{Loss} \times \frac{\text{Policy}}{\text{Closing Stock}}$$

$$= 1,00,000 \times \frac{90,000}{1,20,000}$$

$$= ₹\ \mathbf{75,000}$$

LOSS OF PROFIT

Ans.7.(I) (a) Dislocation Period (1/9/11 to 1/2/12) = 5 months

(b) Indemnity Period (as per policy) = 6 months

(c) Indemnity Period (for calculation) = 5 months

(II) Claim for loss of profit

(1) Adjusted Standard turnover = 75,000 + 20% = ₹ 90,000 (1/9/10 to 1/2/11)

(2) Actual Sales (1/9/11 to 1/2/12) = ₹ 22,500

(3) Short Sales (Adjusted Standard T/O – Actual Sales) = 90,000 - 22,500
= ₹ 67,500

(4) GP% of last financial year (F.Y.) = $\frac{\text{NP of last F.Y. + Insured Standing Charges}}{\text{Sales of last financial year}} \times 100$

$$= \frac{12{,}000 + 24{,}000}{2{,}00{,}000} \times 100 = 18\%$$

\+ % given

20%

(5) Loss of Profit = Short Sales x GP %

= 67,500 x 20%

= ₹ 13,500 ....**(1)**

(III) <u>Claim for additional expenses</u>

(1) <u>Calculation of GP on adjusted annual turnover (GPAATO)</u>

(a) Adjusted annual Turnover = ₹ 2,20,000 + 20%

= ₹ 2,64,400

(b) GPAATO = Adjusted annual T/O x GP%

= 2,64,000 x 20% = 52,800

(2) <u>Least of following allowed</u>

(i) Actual Additional expenses ₹ 4,000

(ii) Turnover due to additional expenses X GP% = (22,500 -12,500) X 20% = ₹ 2,000 i.e. (Actual T/o – 12,500) X 20% ....**(2)**

(3) Additional / Expenses x $\frac{\text{GPAATO}}{\text{GPAATO + Uninsurance standing charges}}$

$$4000 \times \frac{52{,}800}{52{,}800 + 2{,}000} = ₹\ 3{,}854$$

Statement of Claim

		₹
1)	Loss of Profit	13,500
2)	Additional expenses	2,000
		15,500
	Less : Saving in insured Std Charges Loss	1,500
	Loss	**14,000**

Since policy amt of ₹ 42,240 is less than GPAATO of ₹ 52,800 there is under insurance & average clause applicable.

$$\text{Claim} = \text{Loss} \times \frac{\text{Policy}}{\text{GPAATO}}$$

$$= 14,000 \times \frac{42,240}{52,800}$$

$= ₹\ 11,200$

$+\ 500$ Expenses to putt off fire

Total Claim = ₹ 11,700

Note : No average clause applied for expenses on putting off fire as it is reimbursed in full by Insurance company.

Ans.8. I

1. Dislocation Period - 1/3/11 to 31/8/11 - 6 months
2. Indemnity Period as per policy - 6 months
3. Indemnity Period for calculation - 6 months

II **Claim for Loss of Profit**

1. Adjusted Standard turnover = ₹ 2,40,000 + 10%
   (01/03/10 to 31/08/10) = ₹ 2,64,000
2. Actual Sales (1/3/11 to 31/8/11) = ₹ 80,000
3. Short Sales = Adjusted Standard turnover – Actual Sales
   = 2,64,000 – 80,000
   = ₹ 1,84,000
4. GP% of last financial year $= \dfrac{\text{NP of last F. Y.} + \text{Insured Std. Charges}}{\text{Sales of last F.Y.}} \times 100$

$$= \frac{90,000 + 60,000}{5,00,000} \times 100 = 30\%$$

(5) Loss of Profit = Short Sales x GP %

= 1,84,000 x 30% = ₹ 55,200 ....**(1)**

(III) <u>Claim for additional expenses</u>

(1) **<u>Calculation of GP on adjustal annual turnover (GPAATO)</u>**

(a) Adjusted annual Turnover = ₹ 6,00,000 + 10%

= ₹ 6,60,000

(b) GPAATO = Adjusted annual T/O X GP%

= 6,60,000 X 30% = ₹ 1,98,000

(2) **<u>Least of following allowed</u>**

i) Actual Additional expenses = ₹ 9,300

ii) Turnover due to additional expenses X GP%

= (Actual T/O – 55,000) X GP%

= (80,000 - 55,000) x 30%

= ₹ 7,500 ....**(2)**

(3) $$\text{Additional / Expenses} \times \frac{\text{GPAATO}}{\text{GPAATO + Uninsurance standing charges}}$$

$$9{,}300 \times \frac{1{,}98{,}000}{1{,}98{,}000 + 5{,}000} = 9{,}071$$

<u>Statement of Claim₹</u>

(1)	Loss of Profit	55,200
(2)	Additional expenses	7,500
		62,700
	Less : Saving in insured	
	Standard Charges	2,700
	Loss	**60,000**

Since policy amount of ₹ 1,65,000 is less than GPAATO of ₹ 1,98,000 then is under insurance & average clause applicable.

$$\therefore \quad \text{Claim} = \text{Loss} \times \frac{\text{Policy}}{\text{GPAATO}}$$

$$= 60{,}000 \times \frac{1{,}65{,}000}{1{,}98{,}000}$$

= ₹ 50,000

Ans.9. 1. Short Sales

Period	Adjusted Standered Turnover ₹	Actual Turnover ₹	Shortage ₹
January	1,00,000	-	1,00,000
Feb. To October	9,60,000	8,00,000	1,60,000
	10,60,000	8,00,000	2,60,000

2. Gross profit ratio for the purpose of insurance claim on loss of profit

Gross profit - Insured Standing Charges - Uninsured standing charged = Net Profit

Or

Gross profit - Uninsured standing charges = Net profit + Insured Standing Charges

= 4,06,400 - 20,000 = 3,86,400

₹ 3,86,400 x 20,000 = 3,86,400

₹ 12,70,000

3. Amount alloable in respect of additional expenses

Least of the following:

(i) Actual expenses = 1,80,000

(ii) Gross profit on sales during 10 Months period = 8,00,000 x 30.425% = 2,43,400

(iii) $\frac{\text{Gross Profit on annual Adjustment Turnover} \times \text{Additional expenses}}{\text{Gross Profit on Adjusted Turnover + Uninsured standing charges}}$

$\frac{3,86,4000 \times 1,80,000}{3,86,400 + 20,000}$ = 1,71,142 (approx.)

Least i.e. = ₹ 1,71,142 is admissible.

4. Amount of Claim

	₹	₹
Gross Profit on short sales = ₹ 2,60,000 x $\frac{30,425}{100}$	79,105	
Add: Amount Allowable in respect of additional expense	1,71,142	2,50,247
Less: Saving in insured Standing charges (28,000)		2,22,247

On the amount of final claim, the average clause will not apply since the amount of the policy ₹ 4,00,000 is higher than gross profit on annual adjusted turnover ₹ 3,86,400.therfor, insurance claim will be ₹ 2,22,247.

Ans. 10. **Calculation of loss of stock:**

Sony Ltd.

Trading A/c for the period 1.1.2014 to 31.3.2014

	₹		₹
To Opening stock	90,000	By Sales	2,50,000
To Purcheses	3,00,000	By Closing stock	2,60,000
To Manufacturing expenses	70,000	(balancing figure)	
To Gross profit (20%* of ₹ 2,50,000)	50,000		
	5,10,000		**5,10,000**

	₹
Stock destroyed by fire	2,60,000
Amount of fire policy	3,00,000

As the value of stock destroyed by fire is less than the policy value, the entire claim will be admitted.

Calculation of loss of profit:

Computation of short sales:

	₹	
Average sales for the period 1.4.2013 to 30.6.2013 (W.N.1) (₹ 7,82,610/3)	2,60,870	
Add: Increasing trend of sales (15%)	39,130	(Approx.)
	3,00,000	
Less: Sales during the period 1.4.2014 to 30.6.2014	87,500	
Short sales	2,12,500	

Computation of G.P. ratio:

$$\text{Gross profit ratio} = \frac{\text{net profit + insured standing charges}}{\text{Sales}} \times 100$$

$$= \frac{₹50{,}000 + ₹50{,}000}{₹10{,}00{,}000} \times 100 = 10\%$$

Less: Decreasing trend in G.P. 5%

5%

Loss of profit = 5% of ₹ 2,12,500 = ₹ 10,625

Amount allowable in respect of additional expenses:

Least of the following:-

(i) Actual expenditure ₹ 66,000

(ii) G.P. on sale generatd by additional expenses 5% of ₹ 87,500 ₹ 4,375

(assumed that entire sales distrurbed period is due to additional expenses)

*G.P of 2013	25%	
Less: Decrease in trend	5%	20%

(iii) Additional expenses x $\frac{\text{G.P. on annual turnover}}{\text{G.P. on annual turnover + Uninsured standing charges}}$

$₹ 60,000 \times \frac{₹\ 57,500}{57,500 + 1,30,000} = ₹\ 18,400$ (approx.)

least i.e. ₹ 4,375 is admissible.

G.P. on annual turnover:

Adjusted turnover:

	₹
Average turover for the period 1.4.2013 to 31.15.2013 (W.N.1)	7,82,610
Turnover for the period 1.1.2014 to 31.3.2014	2,50,000
	10,32,610
Add: Increase in trend (15% of 7,82,610) W.N.2)	1,17,390
	11,50,000
Gross profit on annual turnover (5% of 11,50,000)	57,500

As the gross profit on annual turnover (₹ 57,000) is less than policy value (₹ 1,00,000) average clause is not applicable.

Insurance claim to be submitted:

	₹
Loss of stock	2,60,000
Loss of profit	10,625
Additional expenses	4,375
	2,75,000

Note: Accourding to the given information standing charges include administrative expenses (₹ 80,000) and finance charges (₹ 1,00,000). Insured standing charges being ₹ 50,000, uninsured standing charges would be ₹ 1,30,000.

Working Note:

1. **Break up of sales for the year 2013:**

Sales of the first quarter of 2013 (₹ 2,50,000 x 100/115)	2,17,390* (approx..)
Sales for the remaining three quarters of 2013 ₹ (10,00,000 - 2,17,390)	7,82,610

* Sales for the first quarter of 2013 is computed on the basis of sales of the first quarter of 2014.

2. The increase in trend of sales has been applied to the sales of 2013 only, as the sales figure of the first quarter of 2014 was already trend adjusted.

CHAPTER-14 PARTNERSHIP ACCOUNT

Ans. 1.

Journal

Date	Particulars		Dr. (₹)	Cr. (₹)
2005	Cash Account	Dr.	15,000	
July 1	To Dass's Capital Account			15,000
	(Being amount brought in by Dass as his share of capital)			
July1	Goodwill Account	Dr.	20,000	
	To Arun's Capital Account			10,000
	To Chandra's Capital Accounts			10,000
	(Being full value of goodswill (5,000X4) raised on the admission of Dass)			
July 1	Arun's Capital Account	Dr.	7,500	
	Chandra's Capital Accounts	Dr.	7,500	
	Dass's Capital Accounts	Dr.	5,000	
	To Goodwill Accounts			20,000
	(Being Goodwill Account written off to capital accounts of all partners in the new profit sharing ratio)			
July 1	Reserve Accounts	Dr.	5,000	
	To Arun's Capital Account			2,500
	To Chandra's Capital Accounts			2,500
	(Being transfer of reserve to capital accounts of old partners in the old ratio)			
July 1	Memorandum Revaluation A/c	Dr.	2,600	
	To Arun's Capital A/c			1,300
	To Chandra's Capital A/c			1,300
	(Being profit revaluation credited to the old partners in the old ratio)			
July 1	Arun's Capital Account	Dr.	975	
	Chandra's Capital Account	Dr.	975	
	Dass's Capital Account	Dr.	650	
	To Memorandum Revaluation A/c			2,600
	(Being Memorandum Revaluation Account closed by debiting all the partners in the new sharing ratio)			

Memorandum Revaluation Account

Particulars		₹	Particulars		₹
To Provision for Doubtful Debts		500	By Buildings		4,000
To Stock		1,200	By Sundry Creditors		1,000
To Furniture		200			
To Provision for Bills Discounted		500			
To Profit transferred to					
Arun ½	1,300				
Chandra ½	1,300	2,600			
		5,000			**5,000**
To Buildings		4,000	By Provision for Doubtful Debts		500
To Sundry Creditors		1,000	By Stock		1,200
			By Furniture		200
			By Provision for Bill Discounted		500
			By Loss transferred to		
			Arun 3/8	975	
			Chandra 3/8	975	
			Dass 2/8	650	2,600
		5,000			**5,000**

Balance Sheet of Arun, Chandra and Dass as on 1st July, 2005

Liabilities		₹	Assets	₹
Sundry Creditors		9,000	Cash	16,000
Capital Accounts			Debtors	10,000
Arun	20,325		Stock	12,000
Chandra	17,325		Furniture	2,000
Dass	9,350	47,000	Building	16,000
		56,000		**56,000**

Ans. 2. **Partner's Capital Accounts**

	E	F	G	H		E	F	G	H
To E's capital	----	10,000	15,000	----	By Balance b/d	50,000	40,000	28,000	----
To Cash /Bank	45,000	----	----	----	By Revaluation	3,750	2,250		1,500

To E's loan	33,750	----	----	----	By F's capital	10,000	----	----	----
To F's capital	----	----	----	6,250	By G's capital	15,000	----	----	----
To G's capital	---	----	----	6,250	By Cash/Bank	----	10,000	35,000	----
					By E's loan	---	---	----	33,750
					By H's capital	---	6,250	6,250	----
To Balance c/d	----	48,500	55,750	21,250					
	78,750	**58,500**	**70,750**	**33,750**		**78,750**	**58,500**	**70,750**	**33,750**

Journal Entries

31.3.11	Building a/c	Dr.	11,000	
	To Revaluation a/c			11,000
31.3.11	Revaluation a/c	Dr.	3,500	
	To Furniture a/c			2,500
	To RDD a/c			1,000
31.3.11	Revaluation a/c	Dr.	7,500	
	To E's capital a/c			3,750
	To F's capital a/c			2,250
	To G's capital a/c			1,500
31.3.11	F's capital a/c	Dr.	10,000	
	G's capital a/c	Dr.	15,000	
	To E's capital a/c			25,000
31.3.11	Cash /Bank a/c	Dr.	45,000	
	To F's capital a/c			10,000
	To G's capital a/c			35,000
31.3.11	E's capital a/c	Dr.	78,750	
	To Cash /Bank a/c			45,000
	To E's loan a/c			33,750
30.4.11	E's loan a/c	Dr.	33,750	
	To H's capital a/c			33,750
30.4.11	H's capital a/c	Dr.	12,500	
	To F's capital a/c			6,250
'	To G's capital a/c			6,250

Ans. 3.

Date 1996	Particulars		Dr. ₹	Cr. ₹
March 31	Goodwill	Dr.	50,000	
	To A's Capital Accounts			18,000
	To B's Capital Accounts			27,000
	To C's Capital Account			5,000
	(Goodwill raised on D's amount up to ₹ 30,0000 credited to A, B & C, the excess credited only to A and B in their mutual ratio)			
March 31	Motor Car Account	Dr	5,000	
	Furniture Account	Dr	8,000	
	Sundry Debtors Accounts	Dr	11,000	
	To Revaluation Account			24,000
	(Appreciation in the value of Motor Car & Furniture brought into the books as per Agreement on D's admission; fees billed but unrealized debited to Sundry Debtors A/c.)			
March 31	Revaluation Account	Dr	3,000	
	To Sundry Outstanding Expenses A/c			3,000
	(Expenses incurred earlier now provided for)			
March 31	Revaluation A/c	Dr.	21,000	
	To A's Capital Account			7,000
	To B's Capital Account			10,500
	To C's Capital Account			3,5000
	(Profit on revaluation transferred to the exiting partner's Capital accounts in the profit sharing ratio)			
March 31	Bank A/c	Dr.	20,000	
	Good will A/c	Dr.	20,000	
	To D's Capital A/c			40,000
	(Cash brought in by D and goodwill of his connection credited to his Capital Account)			
March 31	B's Capital Account	Dr.	25,000	
	To Motor Car Account			25,000
	(Motor Car taken over by B at the agreed value of ₹ 25,000)			
	A's Capital A/c	Dr.	13,214	
	B's Capital A/c	Dr.	19,822	
	C's Capital A/c	Dr.	3,750	
	D's Capital A/c	Dr	13,214	
	To Goodwill A/c			50,000
	(Being Goodwill Account written off in new ratio as per AS- 26)			

Balance Sheet of M/s A, B, and D (after D's Admission as on 31st March, 1996)

Liabilities	₹	Assets	₹
Capital Account		Good will	20,000
A	2,786	Furniture	18,000
B	27,678	Sundry Debtor	11,000
C	26,750	Cash at Bank	38,000
D	26,786		
Outstanding Liabilities	3,000		
	87,000		**87,000**

Working Note :

(i) Amount of goodwill credited to partner in old ratio:

Value of Goodwill	A ₹	B ₹	C ₹
₹ 30,000 (2:3:1)	10,000	15,000	5,000
₹ 20,000 (2:3)	8,000	12,000	-----
	18,000	**27,000**	**5,000**

(ii) Amount of goodwill written as required under AS-26 in New Ratio :

Value of Goodwill	A ₹	B ₹	C ₹	D ₹
₹ 30,000 (2 : 3 : 1 : 2)				
(A, B, C, D)	7,500	11,250	3,750	7,500
₹ 20,000 (2 : 3 : 2)				
(A, B, C, D)	5,714	8,572	-----	5,714
₹ 50,000	**13,241**	**19,822**	**3,750**	**13,214**

(iii) Balance of Capital Accounts :

	A ₹	B ₹	C ₹	D ₹
Opening Balance	Dr. (9,000)	35,000	22,000	-----
Good will (Cr.)	18,000	27,000	5,000	-----
Revaluation (Cr.)	7,000	10,500	3,5000	-----
Motor Car taken by B (Dr.)	-----	Dr. (25,000)	-----	-----
Cash and Goodwill brought by D (Cr.)	-----	-----	-----	40,000
Goodwill Written off (Dr.)	(13,214)	(19,822)	(3,750)	(13,214)
Balance	**2,786**	**27,678**	**26750**	**26,786**

(iv) Personal Goodwill brought by new partner has been maintained in the books.

Ans. 4. **Balance Sheet of M/s. A, B & C as on Jan. 1st , 1996**

Liabilities	₹	Assets	₹
Sundry Creditors	24,000	Goodwill	11,250
Capitals		Plant & Machinery	33,856
A	75,288	Design & Patterns	11,744
B	50,192	Stock	28,000
C	31,370	Book debts	52,000
		Cash at Bank	44,000
	1,80,850		**180,850**

Working Notes :

(1) Adjustment of profits for valuing goodwill

	1992	1993	1994	1995	Total
	₹	₹	₹	₹	₹
Profit as stated	19,600	24,000	20,480	21,264	85,344
Overhead expenditure capitalized	-----	12,000	-----	-----	12,000
Depreciation on above.	-----	2,400	1,920	1,536	5,856
	19,600	**14,400**	**22,400**	**22,800**	**79,200**

(2) Average profit 79,200 ÷ 4 19,800

Goodwill at three years purchase 59,400

	A	B
	₹	₹
Capitals as stated	64,000	52,000
Goodwill	35,640	23,760
Appreciation in the value of Design & Patterns	2,246	1,498
	1,01,886	77,258
Less : Amount to be written off, wrongly capitalized expenditure(12,000-5,856)	3,686	2,458
	98,200	**74,800**

(3) Capitals on admission of C

Total : 1,73,000

In the proportion of 3:2	1,03,800	69,200
Cash to be paid (or withdraw)	5,600	(5,600)

(4) C's Capital

C's share 1/5 of total ¼ of combined capital of the other parntners. Hence his capital with be ₹ 43,250. He brings in ₹ 32,000 therefore the goodwill of his talent is ₹ 11,250.

Total Goodwill will be ₹ 70,650 i.e ₹ 59,400 [as per (2)] and ₹ 11,250.

(5) Balance of Capital Accounts :

	A	B	C
	(₹)	(₹)	(₹)
	1,03,800	69,200	43,250
Less : Goodwill of the firm w/o (As per AS-26) in New Ratio ₹ 59,400 (12 : 8 : 5)	(28,512)	(19,008)	(11,880)
	75,288	**50,192**	**31,370**

(6) Personal goodwill of C brought in new firm has been treated as acquired goodwill for firm Therefore, this has not been written off.

Ans. 5.

Revaluation Account

Particulars	₹	**Particulars**	₹
To Machinery	12,000	By Land& Building	50,000
To Provision for Repairs	15,000	By Unexpired Insurance	10,000
To Provision for Doubtful Debts	3,000		
To New Profit transferred to Partners Capital Account –			
A 15,000			
B 10,000			
C 5,000	30,000		
	60,000		**60,000**

Partners Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To B's Capital A/c (Good will)	45,000	-----	15,000	By Balance b/d	4,50,000	3,00,000	1,50,000
To Bank		50,000		By Revaluation A/c	15,000	10,000	5,000
To Loan		3,20,000		By A's Capital A/c		45,000	
To Balance c/d	4,20,000		1,40,000	By C's Capital A/c		15,000	
	4,65,000	**3,70,000**	**1,55,000**		**4,65,000**	**3,70,000**	**1,55,000**

Balance Sheet of M/s A & C (after B's retirement)

As on 31st Dec. 2002

Liabilities		₹	**Assets**		₹
Sundry Creditors		1,08,000	Cash at Bank		30,000
Provision for Repairs		15,000	Debtors	1,00,000	
B's Loan A/c		3,20,000	**Less :** Provision	5,000	95,000
Capital A/cs A	4,20,000		Prepaid insurance		10,000
C	1,40,000	5,60,000	Stocks		90,000
			Machinery		2,28,000
			Land & Building		5,50,000
		10,03,000			**10,03,000**

Ans. 6. **C's capital a/c**

To Drawings (624 x 3)	1,872	By Balance b/d	12,000
		By General Reserve	4,000
		By Goodwill	15,750
		By Revaluation	500
		By P & L a/c suspense a/c	3,456
To Balance c/d	33,834		
	35,706		**35,706**

WN1 : Goodwill

$$= \frac{28,600 + 27,400 + 20,000 + 17,000 + 12,000}{5} \times 3 = 63,000$$

∴ C's Share = 15,750

WN 2 : Revaluation a/c

	300	4,100
	18,000	
Profit	2,000	
	4,100	4,100

∴ C's share = 500

WN 3 : Adjustments upto the date of death

Salary (750 x 3)	2,250
Interest on capital (12,000 x 10% x 3 1/2	300
Share in profit (14,500 x 3 /12 x 4/16)	906
	3,456

Ans. 7.

Vimal & Co.

Profit and Loss Account for the period ended 31st March , 2005

Particulars	₹	Particulars	₹
To Salaries	15,000	By Gross Profit B/d	33,600
To Rent, Rate & Taxes	4,000	By Discount Received	400
To Other overheads	4,000		
To Net Profit c/d	11,000		
	34,000		**34,000**

To Interest on Capital :		By Net Profit b/d	11,000
Mr. Anil 's Capital A/c	575		
Mr. Vimal 's Capital A/c	325		
To Net Profit :			
Mr. Anil's Capital A/c (1/2)	5,050		
Mr. Vimal's Capital A/c (1/2)	5,050		
	11,000		**11,000**

Mr. Anil 's Executors Accounts

Particulars	₹	Particulars	₹
To Drawings	9,000	By Mr. Anil's Capital A/c	46,000
To Balance c/d	80,125	By Interest on Capital	575
		By Share of Profit	5,050
		By Vimal's Capital A/c (Share of Goodwill)	37,500
	89,125		**89,125**

Working Notes

(1) Mr. Anil's Share of Goodwill :

Year	Profit
₹	
2002	30,000
2003	25,000
2004	35,000
Total profit for Three years	90,000
Average Profit = 90,000/3 =	30,000

Goodwill – 2/1/2 years, purchase of the average profit of three years

Goodwill = 5/2 X 30,000 = 75,000

Mr. Anil's Share of Goodwill = 75,000 X ½ = 37,500

(2) Anil's share of Goodwill has been adjusted by debiting Vimal's Capital A/c.

Ans. 8. **Profit and Loss Appropriation Account**

	₹	₹		₹
To Commission			By Net Profit	7,00,000
Y	39,375			
Z	39,375	78,750		
To Interest				
X	45,000			
Y	45,000			
Z	45,000	1,35,000		
To Rent-X		24,000		
To Current A/cs				
X	1,37,550			
Y	1,62,350			
Z	1,62,350	4,62,250		
		7,00,000		**7,00,000**

Working Notes

(1)	**Interest**	**Jan-Sept. 2014 %8% @8 %** ₹	**Oct-Dec. 2014 @ 12%** ₹	**Total** ₹
	X	30,000	15,000	45,000
	Y	30,000	15,000	45,000
	Z	30,000	15,000	45,000
		90,000	45,000	1,35,000

(2) Commission

% of (15% on ₹ 7,00,000) = ₹ 78,750

(3)	Share of Profit	Jan-Sept. 2014 ₹	Oct-Dec. 2014 ₹	Total ₹
	Profit for the period	5,25,000	1,75,000	7,00,000
	Less: Commission	(78,750)	-	(78,750)
	Less: Interest	(90,000)	(45,000)	(1,35,000)
	Less: Rent	(18,000)	(6,000)	(24,000)
	Profit available for distribution in the profit sharing ratio	3,38,250	1,24,000	4.62.250
	X	1,12,750	24,800	1,37,550
	Y	1,12,750	49,600	1,62,350
	Z	1,12,750	49,600	1,62,350

Ans. 9.(a) Journal Entries in Partnership Firm

31.3.2011	P & L a/c	Dr.	78,000	
	To Provision for tax a/c			78,000
31.3.2011	P & L Appropriation a/c	Dr.	90,000	
	To Mr. X's capital a/c			90,000
31.3.2011	P & L Appropriation a/c	Dr.	3,90,000	
	To Mr. X's CApital a/c			60,000
	To Y Ltd's capital a/c			1,50,000
	To Z Ltd's capital a/c			1,80,000
31.3.2011	P & L Appropriation a/c	Dr.	1,32,000	
	To Mr. X's Ltd's capital a/c			26,400
	To Y Ltd's capital a/c			52,800
	To Z Ltd's capital a/c			52,800

(b) Journal Entries in Y Ltd

31.3.2011	Investment in Partnership a/c	Dr.	2,02,800	
	To P & L a/c			2,02,800

(c) Extract of financial in Y Ltd.

(1) P & L a/c Credit side

Interest as capital in Firm	1,80,000
Share in profit in Firm	52,800

(2) Balance -sheet Assets side

Investment in FIrm	14,32,800
(12,00,000 + 1,80,000 + 52,800)	

(d) P & L Appropriation a/c

To Remuneration to X		90,000	By Net Profit	6,12,000
$\left(6,90,000 \times \frac{15}{115}\right)$			(6,90,000 - 78,000)	
To Interest Capital				
Mr X		60,000		
Y Ltd		1,50,000		
Z Ltd.	1,80,000	3,90,000		
To Divisiblem Profits				
Mr. X	26,400			
Y Ltd	52,800	1,32,000		
Z Ltd	52,800	6,12,000		6,12,000

Ans. 10.

Revaluation Account

2015			₹	2015		₹
April 1	To Provision for bad and doubtful debts		550	April 1	By Inventory	2,500
"	To Furniture and fittings		650	"	By Land and Building	5,000
	To Capital A/cs					
"	Profit on revaluation transferred					
	Dalal	2,520				
	Banerji	2,520				
	Mallick	1,260	6,300			
			7,500			**7,500**

Capital Accounts of Partners

Particulars	Dalal	Banerji	Mallick	Mistri	Particulars	Dalal	Banerji	Mallick	Mistri
	₹	₹	₹	₹		₹	₹	₹	₹
To Dalal & Banerji	—	—	—	2,000	By Balance b/d	12,000	12,000	5,000	—
To Balance c/d	19,120	18,120	7,560	3,000	By General Reserve	2,600	2,600	1,300	—
					By Cash	—	—	—	5,000
					By Mistri*	1,000	1,000	—	—
					By Out-standing Liabilities	1,000	—	—	—
					By Revaluation A/c	2,520	2,520	1,260	—
	19,120	**18,120**	**7,560**	**5,000**		**19,120**	**18,120**	**7,560**	**5,000**

Balance Sheet of M/s Dalai, Banerji, Mallick and Mistri as on 1-4-2015

Liabilities		₹	Assets		₹
Trade payables		12,850	Land and Buildings		30,000
Outstanding Liabilities			500Furniture		5,850
Capital Accounts of **partners:**			Inventory		14,250
Mr. Dalai	19,120		Trade Receivables	5,500	
Mr. Banerji	18,120		Less: Provision	550	4,950
Mr. Mallick	7,560		Cash in hand		140
Mr. Mistri	3,000	47,800	Cash at Bank		5,960
		61,150			**61,150**

CHAPTER - 1 ACCOUNTING STANDARDS

AS 1 : DISCLOSURE OF ACCOUNTING POLICIES

Ans. 1. The present event does not related to conditions existing at the balance sheet date. Hence, no specific adjustment is required in the financial statements for the year ending on 31.12.2012. But if the event occurring after balance sheet date gives an indication that the enterprise may cease to be a going concern, then the assets and liabilities are required to be adjusted for the financial year ended 31st March, 2012. AS 4 (Revised) requires disclosure in respect of events occurring after the balance sheet date representing unusual changes affecting the existence or substratum of the enterprise after the date of the Balance Sheet. In the present event, the loss of assets in a factory can be considered to be an event affecting the substratum of the enterprise. Hence, an appropriate disclosure should be made in the report of the approving authority.

Ans. 2. As per AS 4 'Contingencies and Events occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet Date.

In the given case, bankruptcy of the debtor in April, 2012 and consequent non - recovery of debt is an event occurring after the balance sheet date which materially affects the determination of profits for the year ended 31.3.2012. Therefore, the company should be advised to provide for the entire amount of ₹ 10 lakhs according to para 8 of AS 4.

AS 5 : NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS & CHANGE IN ACCOUNTING POLICIES

Ans. 3. The preparation of financial statements involve making estimates which are based on the circumstances existing at the time when the financial statements are prepared. It may be necessary to revise an estimate in a subsequent period if there is a change in the circumstances on which the estimate was based. Revision of an estimate, by its nature, does not bring the adjustment within the definitions of a prior item or an extraordinary item [para 21 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies].

In the given case, a limited company created 2.5% provision for doubtful debts for the year 2011-2012. Subsequently in 2012 they revised the estimates based on the changed circumstances and wants to create 8% provision. As per AS - 5 (Revised), this change in estimate is neither a prior period item nor an extraordinary item.

However, as per para 27 of AS 5 (Revised), a change in accounting estimate which has material effect in the current period, should be disclosed and quantified. Any change in the accounting estimate which is expected to have a material effect in later periods should also be disclosed.

AS 16 : BORROWING COSTS

Ans. 4. Capitalisation of borrowing cost should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete.

When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

Ans. 5. According to para 3 of AS 16 "Borrowing costs', qualifying asset is an asset that necessarily takes substantial period of time to get ready for its intended use.

As per para 6 of the standard, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset Other borrowing costs should be recognised as an expense in the period in which they are incurred.

The treatment of interest by Amazing Construction Ltd. can be shown as :

	Qualifying Asset	Interest to be capitalized	Interest to be charged to Profit & Loss A/c	
Construction of sea - link	Yes	62,50,000		(80,00,000* (25/32)
Purchase of equipments and machineries	No		7,50,000	(80,00,000* (3/32)
Working capital	No		5,00,000	(80,00,000* (2/32)
Purchase of Vehicles	No		1,25,000	(80,00,000* (5/32)
Advance for tools, cranes, etc.	No		1,25,000	(80,00,000* (5/32)
Purchase of technical know - how	No		2,50,000	(80,00,000* (1/32)
Total		**62,50,000**	**17,50,000**	

AS 19 : LEASES

Ans. 6. Accounting Standard 19 had divided the lease into two types viz. (i) Finance Lease and (ii) Operating Lease.

(i) **Finance Lease :** A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership, title may or may not eventually be transferred. At the inception of a finance lease, the lessee should recognise the lease as an asset and a liability. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of the lease. However, if the fair value of the leased asset exceeds the present value of the minimum lease payments from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of the minimum lease payments from the standpoint of the lessee.

(ii) **Operating Lease :** A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incident to ownership. Lease payments under an operating lease should be recognised as an expense in the statement of profit and loss on a straight line basis over the lease term unless systematic basis is more representative of the time pattern of the user's benefit.

AS 20 : EARNING PER SHARE(EXTRACT)

Ans. 7. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted number of shares outstanding during the period should be adjusted for the effects of all dilutive potential equity shares.

The amount of net profit or loss for the period to equity shareholders should be adjusted, after taking into account any attributable change in tax expense for the period.

The number of equity shares should be the aggregate of the weighted average number of equity shares (as per paragraphs 15 and 22 of AS 20) and the weighted average number of equity shares which would be issued on the conversion of all the dilutive potential equity shares into equal shares. Dilutive potential equity shares should be deemed to have been converted into equity shares at the beginning of the period or, if issued later, the date of the issue of the potential equity shares.

An enterprise should assume the exercise of dilutive options and other dilutive potential equity shares of the enterprise. The assumed proceeds from these issues should be considered to have been received from the issue of shares at fair value. The difference between the number of shares issuable and the number of shares that would have been issued at fair value should be as an issue of equity shares for no consideration.

Ans. 8. **Computation of earnings per share**

	Earnings ₹	No. of Shares	Earnings per share
Net profit for the year 2011-12	30,00,000	—	—
Weighted average number of shares outstanding during year 2011-12	—	12,00,000	—
Basic earnings per share [30,00,000 ÷ 12,00,000]	—	—	₹ 2.50
No. of shares under option	—	2,00,000	—
No. of shares that would have been issued at fair value : $\left(2,00,000 \times \frac{15.00}{25.00}\right)$	—	(1,20,000)	—
No. of shares for which no consideration will be received [2,00,000 - 1,20,000]	—	*80,000	—
Diluted EPS	30,00,000	12,80,000	₹ 2.34 (approx.) [30,00,000 ÷ 12,80,000]

* The earnings have not been increased as the total number of shares has been increased only by the number of shares (80,000) deemed for the purpose of the computation to have been issued for no consideration.

AS 26 : INTANGIBLE ASSETS

Ans. 9. (i) Based on sales, research and development cost to be allocated as follows :

Year	Research and Development cost allocation (₹ in lakhs)
I	$\frac{400}{1,000} \times 150 = 60$
II	$\frac{300}{1,000} \times 150 = 45$
III	$\frac{200}{1,000} \times 150 = 30$
IV	$\frac{100}{1,000} \times 150 = 15$

(ii) If at the end of the III year, the circumstances do not justify that further benefit will accrue in IV year, then the company has to charge the unamortised amount i.e. remaining ₹ 45 lakhs [150 - (60 + 45)] as an expense immediately.

Note : As per para 41 of AS 26 on Intangible Assets, expenditure on research (or on the research phase of an internal project) should be recognised as an expense when it is incurred. It has been assumed in the above solution that the entire cost of ₹ 150 lakhs is development cost. Therefore, the expenditure has been deferred to the subsequent years on the basis on presumption that the company can demonstrate all the conditions specified in para 44 of AS 26. An intangible assets should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Hence the remaining unamortised amount of ₹ 45,00,000 has been written off as an expense at the end of third year.

Ans. 10. As per Para 41 of AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Therefore, the manager cannot defer the expenditure write off to future years.

Hence, the expenses amounting ₹ 20 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2012.

CHAPTER - 2 PARTNERSHIP ACCOUNTS

Ans. 1. **Realisation Account**

	₹			₹
To Premises	50,000	By Sundry Creditors		84,650
To Plant	1,25,000	By Bank:		
To Fixtures	32,500	Premises	60,000	
To Stock	43,200	Plant	1,07,500	
To Debtors	54,780	Fixtures	20,000	
To Bank (Creditors)	84,650	Stock	41,040	
To Bank (Expenses)	4,500	Debtors	45,900	2,74,440
		By Loss on Realisation transferred to Partners' Current A/cs		
		Thin	14,216	
		Short	14,216	
		Fat	7,108	35,540
	3,94,630			**3,94,630**

Partners' Current Accounts

	Thin ₹	Short ₹	Fat ₹		Thin ₹	Short ₹	Fat ₹
To Balance b/d	----	----	14,500	By Balance b/d	29,700	11,300	----
To Realisation	14,216	14,216	7,108	By Capital A/c			
To Capital A/c				Transfer	----	2,916	21,608
transfer	15,484	----	----				
	29,700	**14,216**	**21,608**		**29,700**	**14,216**	**21,608**

Partners' Capital Accounts

	Thin	Short	Fat		Thin	Short	Fat
	₹	₹	₹		₹	₹	₹
To Current A/c	----	2,916	21,608	By Balance b/d	80,000	50,000	20,000
To Fat's Capital A/c Deficiency in the ratio of 8:5	990	618	----	By Current A/c (transfer)	15,484	----	----
				By Bank (Realisation loss)	14,216	14,216	
To Bank	1,08,710	60,682	----	By Thin & Short Capital A/cs			1,608
	1,09,700	**64,216**	**21,608**		**1,09,700**	**64,216**	**21,608**

Working Notes:

(i) Bank Account

	₹		₹
To Realisation A/c	2,74,440	By Balance b/d	44,330
To Thin's Capital A/c	14,216	By Realisation A/c (Creditors)	84,650
To Short's Capital A/c	14,216	By Realisation A/c (Expenses)	4,500
		By Thin's Capital A/c	1,08,710
		By Short's Capital A/c	60,682
	3,02,872		**3,02,872**

(i) Fat's deficiency has been by borne Thin & Short in the ratio of their fixed capitals i.e., 8:5 following the rule in Garner vs. Murray.

Ans. 2. **PC**

NP

(1)	Equity shares of ₹ 10 each	6,00,000
	PC	**6,00,000**
	NA	
	Goodwill	88,000
	Machinery	1,25,000
	Land	1,74,000
	Furniture	13,000
	Stock	2,00,000
		6,00,000

Books of the Firm

Realisation A/c

To **Sundry Assets**			By **Sundry Liabilities**		
Machinery	1,20,000		Creditors		70,000
Land	1,74,000		By AB Pvt. Ltd. (PC)		6,00,000
Motor Cycle	30,000		By A's Capital (Motor Car)		3,000
Furniture	11,000		By B's Capital (Motor Car)		6,000
Stock	2,35,000		By Cash / Bank (Motor Car)		13,000
Debtors	43,000	6,13,000	By C's Capital		
To Cash / Bank (Creditors)		70,000	Furniture	2,000	
To Partners Capital (Capital)			Debtors	40,000	42,000
A	85,000				
B	17,000				
C	25,500	51,000			
		7,34,000			**7,34,000**

Partner's Capital A/c (1 : 2 : 3)

	A	B	C		A	B	C
To C's Current A/c	----	----	1,00,000	By Balance b/d	1,00,000	2,00,000	3,00,000
To Realisation	3,000	6,000	----	By Partners Current	39,420	60,580	----
To Realisation	----	----	4,20,000	By A's Loan	30,000	----	----
To Equity Share in AB Ltd.	3,00,000	3,00,000	----	By Partners Capital	85,000	17,000	25,500
To Cash / Bank	----	----	1,83,500	By Cash / Bank	1,25,080	28,420	----
	3,03,000	**3,06,000**	**3,25,500**		**3,03,000**	**3,06,000**	**3,25,500**

Cash / Bank A/c

To Balance b/d	87,000	By Realisation	70,000
To Realisation	13,000	By C's Capital	1,83,500
To A's Capital	1,25,080		
To B's Capital	28,420		
	2,53,500		**2,53,500**

(2) **AB Pvt. Ltd**

Balance - sheet as on 1st April, 2011

	Note	C.Y.	P.Y.
(I) EQUITY AND LIABILITIES			
1. Shareholders Funds			
Share Capital	1	6,00,000	
Reserves and Surplus		----	
2. Share application money pending allotment		----	
3. Non - current liabilities		----	
4. Current liabilities		----	
Total		**6,00,000**	
(II) ASSETS			
1. Non - current Assets	2	4,00,000	
2. Current Assets	3	2,00,000	
Total		**6,00,000**	

Notes to Accounts		**C.Y.**	**P.Y.**
1. **Share Capital**			
Authorised			
12,000 Equity shares of 100 each		12,00,000	
Issued, Subscribed & Paid up			
6,000 Equity shares of 100 each fully paid		6,00,000	
		6,00,000	
2. **Non - current Assets**			
Goodwill		88,000	
Machinery		1,25,000	
Land		1,74,000	
Furniture		13,000	
		4,00,000	
3. Current Assets			
Stock		2,00,000	
		2,00,000	

Ans. 3.

Partner's Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To Realisation A/c	3,000	6,000	6,000	By Balance b/d	10,000	10,000	2,000
To C's Capital	2,000	2,000	-----	By A & B Capital A/c	-----	-----	4,000
To Bank	5,000	2,000	-----				
	10,000	**10,000**	**6,000**		**10,000**	**10,000**	**6,000**

W.N. 1 :

Distribution of Realisation Loss

A B C

1 : 2 : 2

Realisation Loss = 15,000

W.N. 2 :

Accounting for Garner v/s Marray

Deficit of insolvent partner suffered by solvent partner in proportion of their opening capital.

Particulars	A	B
Opening Balance	10,000	10,000
	1 : 1	

A's Capital A/c Dr. 2,000

B's Capital A/c Dr. 2,000

To O's Capital A/c 4,000

Deficiency of C's Capital A/c ₹ 4,000, to be borne by A & B equally in their capital proportion as per Garner v/s Murray rule.

Closing Capital Balance of A → ₹ 5,000

B → ₹ 2,000

Ans. 4.

Realisation A/c

Particulars		Amount	Particulars		Amount
To **Sundry assets**			By Provided for D.D.		2,000
Stock	12,000		By **Sundry liabilities**		
Furniture	8,000		Creditors	76,000	
Plant	56,000		Loan from Lalita	20,000	96,000
Investment	20,000				
Debtors	38,000	1,36,000	By S's Capital A/c		16,000
To S's Capital A/c		20,000	By Bank A/c		1,06,000
To Bank A/c (Expenses)		2,200	By Loss transfer to		
To Bank (Creditors)		74,100	S	7,380	
			R	4,920	12,300
		2,32,300			**2,32,300**

Partner R's Loan A/c

To Bank A/c	30,000	By Balance b/d	30,000
	----		----
	30,000		**30,000**

Partners Capital A/c's

Particulars	S	R	Particulars	S	R
To Profit / Loss A/c	9,000	6,000	By Balance b/d	20,000	16,000
To Realisation A/c	16,000	-----	By Reserve	6,000	4,000
To Realisation Loss A/c	7,380	4,920	By Realisation A/c	20,000	-----
To Bank A/c	13,620	9,080			
	46,000	**20,000**		**46,000**	**20,000**

Cash / Bank A/c

Particulars	Amount	Particulars	Amount
To Bal b/d	23,000	By Realisation A/c	2,200
To Realisation A/c	1,06,000	By Creditors	74,100
		By Partner R's Loan	30,000
		By S's Capital A/c	13,620
		By R's Capital A/c	9,080
	1,29,000		**1,29,000**

Ans. 5.

Realisation A/c

Particulars		Amount	Particulars		Amount
To Sundry Assets			By R.D.D.		1,200
Assets	17,000		By Creditor		6,000
Debtors	24,200		By Loan		1,500
Stock	7,800		By A's Capital A/c		18,000
Fixture	1,000	50,000	By B's Capital A/c		14,200
To A's Capital A/c		6,000	By C's Capital A/c		8,000
To C's Capital A/c		1,530	By Bank A/c		2,100
To Bank (Exp.)		270	By Loss transfer to		
			A	4,080	
			B	1,360	
			C	1,360	6,800
		57,800			**57,800**

Partner's Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To Realisation A/c	18,000	14,200	8,000	By Balance b/d	27,500	10,000	7,000
To Realisation A/c	4,080	1,360	1,360	By Realisation A/c	6,000	-----	1,530
To Bank A/c	11,420	-----	-----	By Bank A/c	-----	5,560	830
	33,500	**15,560**	**9,360**		**33,500**	**15,560**	**9,360**

Cash A/c

Particulars	Amount	Particulars	Amount
To Balance c/d	3,200	By Realisation A/c	270
To Realisation A/c	2,100	By A's Capital A/c	11,420
To B's Capital A/c	5,560		
To C'S Capital A/c	830		
	11,690		**11,690**

Ans. 6.

Realisation A/c

Particulars		Amount	Particulars		Amount
To **Sundry Assets**			By Loan from X		30,000
Land & Building A/c	50,000		By Sundry Creditors		45,000
Plant & Machinery	40,000		By **A & B's Personal A/c**		
Furniture	10,000		Land & Building	60,000	
Stock	35,000		Plant & Machinery	30,000	
Debtor	25,000	1,60,000	Furniture	6,000	96,000
To Bank A/c		34,000	By Bank A/c		20,000
			By **Loss transfer to Capital A/c**		
			A	1,000	
			B	1,000	
			C	1,000	3,000
		1,94,000			**1,94,000**

Partners Capital A/c

Particulars	A	B	C	Particulars	A	B	C
To Realisation (Loss)	1,000	1,000	1,000	By Balance b/d	40,000	10,000	50,000
To A & B's Personal A/c	39,000	9,000	----	By Cash / Bank	----	----	----
To Cash / Bank	----	----	49,000				
	40,000	**10,000**	**----**		**40,000**	**10,000**	**----**

Bank A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	15,000	By Realisation A/c	34,000
To Realisation A/c	20,000	By C's Capital A/c	49,000
To A & B's Personal A/c	48,000		
	83,000		**83,000**

Balance Sheet (A & B)

As on 31.3.2011

Particulars		Amount	Particulars	Amount
Capital			Land & Building	60,000
X	75,000		Plant & Building	30,000
Y	25,000	1,00,000	Furniture	6,000
			Cash	4,000
		1,00,000		**1,00,000**

A & B's Personal A/c

Particulars	Amount	Particulars	Amount
To Realisation A/c	96,000	By A's Capital A/c	39,000
		By B's Capital A/c	9,000
		By Cash / Bank A/c	48,000
	96,000		**96,000**

Ans. 7.In the Books of M/s LMS Statement of Piecemeal Distribution (Under Higher Relative Capital method)

Particulars	Amount Available	Creditors	Bank Loan	L's loan	Capital A/cs		
					L	M	S
	₹	₹	₹	₹	₹	₹	₹
Balance due		2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000
1st Instalment (including cash and bank balances)	5,00,000						
Less: Liquidator's Expenses and fee	(1,00,000)						
	4,00,000						
Less: Payment to Creditors and repayment of Bank Loan in the ratio of 2:5	(4,00,000)	(1,14,286)	(2,85,714)	----	----	----	----
Balance Due	----	85,714	2,14,286	10,00,000	15,00,000	10,00,000	5,00,000
2nd Instalment	15,00,000						
Less: Payment to Creditors and repayment of bank loan in full settlement	(3,00,000)	(85,714)	(2,14,286)	----	----	----	----
Balance Due	12,00,000	Nil	Nil	10,00,000	15,00,000	10,00,000	5,00,000
Less: Repayment of L's Loan	(10,00,000)			(10,00,000)	----	----	----
Balance Due	2,00,000			-	15,00,000	10,00,000	5,00,000
Less: Payment to Mr.L towards relative higher capital (W.N. 1)	(2,00,000)				(2,00,000)	—	----
Balance Due	Nil			Nil	13,00,000	10,00,000	5,00,000
3rd Instalment	15,00,000						
Less:Payment to Mr.L towards higher relative capital (W.N. 2)	(3,00,000)				(3,00,000)	----	----
Balance Due	12,00,000				10,00,000	10,00,000	5,00,000
Less: Payment to Mr.L & Mr. M towards excess capital (W.N. 1&2)	(10,00,000)				(5,00,000)	(5,00,000)	----

Balance Due	2,00,000				5,00,000	5,00,000	5,00,000
Less: Payment to all the partners equally	(2,00,000)				(66,667)	(66,667)	(66,666)
Balance due	Nil				4,33,333	4,33,333	4,33,334
4th Instalment	30,00,000						
Less: Payment to all the partners equally	(30,00,000)				(10,00,000)	(10,00,000)	(10,00.000)
Realisation profit credited to Partners					5,66,667	5,66,667	5,66,666
5th Instalment	30,00,000						
Less: payment to all partners equally	(30,00,000)				10,00,000	10,00,000	10,00,000
Realisation profit credited to partners					15,66,667	15,66,667	15,66,666

Working Notes:

(i) Scheme of payment of surplus amount of ₹ 2,00,000 out of second Instalment:

	Capital A/cs		
	L ₹	M ₹	S ₹
Balance (i)	15,00,000	10,00,000	5,00,000
Profit sharing ratio (ii)	1	1	1
Capital taking S's Capital (iii)	5,00,000	5,00,000	5,00,000
Excess Capital (iv) = (i) - (iii)	10,00,000	10,00,000	10,00,000
Profit Sharing Ratio	1	1	
Excess capital taking M's Excess Capital as base (v)	5,00,000	5,00,000	
Higher Relative Excess (iv) - (iv)		5,00,000	

So, Mr. L should get ₹ 5,00,000 first which will bring down his capital account balance from ₹ 15,00,000 to ₹ 10,00,000. Accordingly, surplus amounting to ₹ 2,00,000 will be paid to Mr. L towards higher relative capital.

(ii) Scheme of payment of ₹15,00,000 realised in 3rd Instalment:

- Payment of ₹ 3,00,000 will be made to Mr. L to discharge higher relative capital. This makes the higher capital of both Mr. L and Mr. M ₹ 5,00,000 as compared to capital of Mr. S.
- Payment of ₹ 5,00,000 each of Mr. L & Mr. M to discharge the higher capital.
- Balance ₹ 2,00,000 equally to L, M and S, i.e., ₹ 66,667 ₹ 66,667 and ₹ 66,666 respectively.

Ans.8. **BANK A/C**

PIECEMEAL DISTRIBUTION BY SURPLUS CAPITAL METHOD

	Particulars	Cash	Creditors	Ram'sLoan	Ram	Shyam	Mahesh
	Adjusted Balance		40,000	10,000	50,000	15,000	45,000
May 1	1st Realisation	30,000					
	(-) paid to Creditor	(30,000)	(30,000)				
	Balance	NIL	10,000				
July 1	2nd Realisation	73,000					
	(-) Paid to Creditor	(10,000)	(10,000)				
	Balance	63,000	NIL				
	(-) paid to Ram	(10,000)		(10,000)			
	Balance	53,000		NIL			
	(-) Paid to Partners	(53,000)			(20,395)		(32,605)
	(Step 1)	NIL			29,605	15,000	12,395
Aug 1	3rd Real	47,000					
	(-) Paid to Partners	(47,000)			(24,605)	(12,000)	(10,395)
	Realisation Loss	NIL			**5,000**	**3,000**	**2,000**

Working Note :

Particulars		Ram	Shyam	Mahesh
Capital	1,10,000	50,000	15,000	45,000
(-) Cash available	(53,000)			
	57,000	(28,500)	(17,100)	(11,400)
		21,500	(2,100)	33,600
2,100 to R & M in 10 : 9		(1,105)	-----	(995)
		20,395	-----	32,605
Capitals	57,000	29,602	15,000	12,395
(-) Cash available	(47,000)			
	10,000			
10,000 to all in PSR		(5,000)	(3,000)	(2,000)
Pay		**24,605**	**12,000**	**10,395**

PIECEMEAL DISTRIBUTION BY MAXIMUM LOSS METHOD

M/s Ram, Shyam & Mahesh

Date	Particulars	Cash	Total liabilities	Creditors	Ram's Loan	Capital Ram	Capital Shyam	Capital Mahesh
31.3.2011	Balance as per B/S	—	1,60,000	40,000	10,000	50,000	15,000	45,000
1.5.2011	**1st Realisation**	30,000						
	(-) Paid to Creditors	(30,000)	(30,000)	(30,000)	—	—	—	—
		—	1,30,000	10,000	10,000	50,000	15,000	45,000
1.6.2011	**2nd Realisation**	73,000						
	(-) Paid to Creditors	(10,000)	(10,000)	(10,000)	—	—	—	—
		63,000	1,20,000	—	10,000	50,000	15,000	45,000
	(-) Paid Ram's Loan	(10,000)	(10,000)	—	(10,000)	—	—	—
		53,000	1,10,000	—	—	50,000	15,000	45,000
	Maximum Loss =					(28,500)	(17,100)	(11,400)
	1,10,000 - 53,000	—	—	—	—	21,500	(2,100)	33,600
	= 57,000					(1,105)	2,100	(995)
		—	—	—	—	20,395	—	32,605
	(-) Paid to Partners	(53,000)	(53,000)	—	—	20,395	—	(32,605)
		—	57,000	—	—	29,605	15,000	12,395
1.7.2011	**3rd Realisation**	47,000						
	Maximum Loss =							
	57,000 - 47,000	—	—	—	—	(5,000)	(3,000)	(2,000)
	= 10,000	—	—	—	—	24,605	12,000	10,395
	(-) Paid to Partners	(47,000)	(47,000)	—	—	(24,605)	(12,000)	(10,395)
	Balance unpaid being Realisation loss	—	10,000	—	—	5,000	3,000	2,000

Ans. 9. **Books of M/s A & B**

REVALUATION A/C

To Stock		4,000	By Premises		10,000
To R.D.D.		750			
To **Partners' Capital A/c**					
A (1/2)	2,625				
B (1/2)	2,625	5,250			
		10,000			**10,000**

Cash / Bank A/c

To Balance b/d	5,600	By Mrs. A's Loan	5,000
		By M/s A, B, X & Y	600
	5,600		**5,600**

PARTNERS' CAPITAL A/C

	A	B		A	B
To M/s A, B, X & Y	46,625	26,625	By Balance b/d	40,000	20,000
			By Goodwill	4,000	4,000
			By Revaluation A/c (Profit)	2,625	2,625
	46,625	**26,625**		**46,625**	**26,625**

M/s A, B, X & Y A/c

To Stock	16,400	By Sundry Creditors	20,000
To Debtors	15,000	By R.D.D.	750
To Office Furniture	4,000	By A's Capital A/c	46,625
To Premises	50,000	By B's Capital A/c	26,625
To Goodwill	8,000		
To Cash / Bank	600		
	94,000		**94,000**

In Books of M/s X & Y

Revaluation A/c

To Stock A/c	2,000	By Capital A/c		
To R.D.D.	1,000	X	1,500	
		Y	1,500	3,000
	3,000			**3,000**

Cash / Bank A/c

To Balance b/d	6,700	By M/s A, B, X & Y	21,700
To Investments	15,000		
	21,700		**21,700**

PARTNERS' CAPITAL A/C

	X	Y		X	Y
To Revaluation A/c (Loss)	1,500	1,500	By Balance b/d	24,000	16,000
To M/s A, B, X & Y	27,500	19,500	By Goodwill	5,000	5,000
	29,000	**21,000**		**29,000**	**21,000**

M/s A, B, X & Y A/c

To Stock	16,300	By Creditors	25,000
To Sundry Debtors	20,000	By R.D.D.	1,000
To Office Furniture	5,000	By X's Capital A/c	27,500
To Cash / Bank	21,700	By Y's Capital A/c	19,500
To Goodwill	10,000		
	73,000		**73,000**

Note :

1. In Absence of any information in the sum, it is assumed that profit sharing ratio of M/s A & B and M/s X & Y is equal.
2. It is assumed that investments of M/s X & Y are sold by firm for 2,15,000 only i.e. at book value.

Date	JOURNAL OF M/S A, B, X & Y			
1.4.11	Stock A/c	Dr.	16,400	
	Debtors A/c	Dr.	15,000	
	Office Furniture A/c	Dr.	4,000	
	Premises A/c	Dr.	50,000	
	Goodwill A/c	Dr.	8,000	
	Cash / Bank A/c	Dr.	600	
	To Sundry Creditors A/c			20,000
	To R.D.D. A/c			750
	To A's Capital A/c			46,625
	To B's Capital A/c			26,625
	(Being assets & liabilities taken over from M/s A & B)			

1.4.11	Stock A/c Dr.	16,300	
	Sundry Debtors A/c Dr.	20,000	
	Office Furniture A/c Dr.	5,000	
	Cash / Bank A/c Dr.	21,700	
	Goodwill A/c Dr.	10,000	
	To Creditors A/c		25,000
	To R.D.D. A/c		1,000
	To X's Capital A/c		27,500
	To Y's Capital A/c		19,500
	(Being Assets & Liabilities taken over from M/s X & Y)		
1.4.11	A's Capital A/c Dr.	5,400	
	B's Capital A/c Dr.	3,600	
	X's Capital A/c Dr.	5,400	
	Y's Capital A/c Dr.	3,600	
	To Goodwill A/c		18,000
	(Being of Goodwill written off)		
1.4.11	A's Capital A/c Dr.	17,225	
	B's Capital A/c Dr.	7,025	
	To A's Current A/c		17,225
	To B's Current A/c		7,025
	(Being Balance of Capital A/c transformed to Current A/c)		
1.4.11	X's Current A/c Dr.	1,900	
	Y's Current A/c Dr.	100	
	To X's Capital A/c		1,900
	To Y's Capital A/c		100
	(Being balance of Capital A/c transferred to Current A/c)		

IN BOOKS OF M/S A, B, X, Y

PARTNERS' CAPITAL A/C

	A	B	X	Y		A	B	X	Y
To Goodwill A/c	5,400	3,600	5,400	3,600	By M/s A & B	46,625	26,625	—	—
To Current A/c	17,225	7,025	—	—	By M/s X & Y	—	—	27,500	19,500
To Balance c/d	24,000	16,000	24,000	16,000	By Current A/c	—	—	1,900	100
	46,625	**26,625**	**29,400**	**19,600**		**46,625**	**26,625**	**29,400**	**19,600**

M/s A, B, X, Y

BALANCE SHEET AS ON 1.4.2011

Liabilities	**₹**	**₹**	**Assets**	**₹**	**₹**
Capital A/c			**Current A/c**		
A	24,000		X		1,900
B	16,000		Y		100
X	24,000		Stock		32,700
Y	16,000	80,000	Debtors	35,000	
Current A/c			**Less :** R.D.D.	(1,750)	33,250
A		17,225	Office Furniture		9,000
B		7,025	Premises		50,000
Sundry Creditors		45,000	Cash / Bank		22,300
		1,49,250			**1,49,250**

CHAPTER - 3 COMPANY ACCOUNT

Ans. 1. **Journal of Extra Ltd.** **(₹ in lakhs)**

Date	Particulars		Debit	Credit
01.04.2012	9% Redeemable preference share capital A/c	Dr.	20.00	
	Premium on redemption of preference shares A/c	Dr.	2.00	
	To Preference shareholders A/c			22.00
	(Being preference share capital transferred to shareholders account)			
01.04.2012	Preference shareholders A/c	Dr.	22.00	
	To Bank A/c			22.00
	(Being payment made to shareholders)			
01.04.2012	Equity shares buy back A/c	Dr.	90.00	
	To Bank A/c			90.00
	(Being 3 lakhs equity shares of ₹ 10 each bought back @ ₹ 30 per share)			
01.04.2012	Equity share capital A/c	Dr.	30.00	
	Securities premium A/c	Dr.	60.00	
	To Equity Shares buy back A/c			90.00
	(Being cancellation of shares bought back)			
01.04.2012	Revenue reserve A/c	Dr.	50.00	
	To Capital redemption reserve A/c			50.00
	(Being creation of capital redemption reserve account to the extent of the face value of preference shares redeemed and equity shares bought back as per the law)			
01.04.2012	10% Debentures A/c	Dr.	2.20	
	To Investment (own debentures) A/c			2.00
	To Profit on cancellation of own debentures A/c			0.20
	(Being cancellation of own debentures costing ₹ 2 lakhs, face value being ₹ 2.20 lakhs and the balance being profit on cancellation of debentures)			
1.04.2012	Profit on cancellation of debentures A/c	Dr.	0.20	
	To Capital reserve A/c			0.20
	(Being profit on cancellation of debentures transferred to capital reserve account)			

01.04.2012	Bank A/c Dr.	10.00	
	Employees stock option outstanding		
	(Current liabilities) A/c Dr.	5.00	
	To Equity share capital A/c		5.00
	To Securities premium A/c		10.00
	Being the allotment to employees, of 50,000 shares of ₹ 10 each at a premium of 20 per share in exercise of stock options by employees)		
01.04.2012	Securities premium A/c Dr.	2.00	
	To Premium on redemption of preference		2.00
	(Being premium on redemption of preference shares adjusted through securities premium)		

Balance Sheet of Extra Ltd. as on 01.04.2012

Particulars	Note No	(₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	75.00
(b) Reserves and Surplus	2	66.20
(2) Non-current Liabilities		
(a) Long term borrowings	3	1.80
(3) Current Liabilities		65.00
Total		**208.00**
II. Assets		
(1) Non-current assets		
(a) Fixed assets		50.00
(b) Non-current investments at cost		118.00
(2) Current assets		40.00
Total		**208.00**

Notes to Accounts

			₹ in lakhs
1	**Share Capital**		
	Equity share capital		
	Opening balance	100.00	
	Less: Cancellation of bought back shares	(30.00)	
	Add: Shares issued against ESOP	5.00	75.00

2	**Reserves and Surplus**		
	Capital Reserve		
	Opening balance	8.00	
	Add: Profit on cancellation of debentures	0.20	8.20
	Revenue reserves		
	Opening balance	50.00	
	Less: Creation of Capital Redemption Reserve	(50.00)	----
	Securities Premium		
	Opening balance	60.00	
	Less: Adjustment for cancellation of equity shares	(60.00)	
	Less: Adjustment for premium on redemption of preference shares	(2.00)	
	Add: Shares issued against ESOP at premium	10.00	8.00
	Capital Redemption Reserve		50.00
			66.20
3	**Long term borrowings**		
	Secured		
	10% Debentures (4-2.20)		1.80

Working Notes:

		(₹ in lakhs)
1.	**10% Debentures**	
	Opening balance	4.00
	Less: Cancellation of own debentures	(2.20)
		1.80
2.	**Current liabilities**	
	Opening balance	70.00
	Less: Adjustment for ESOP outstanding	(5.00)
		65.00
3.	**Investments at cost**	
	Opening balance	120.00
	Less: Investment in own debentures	(2.00)
		118.00
4.	Current assets	
	Opening balance	142.00
	Less: Payment to preference shareholders	(22.00)
	Less : Payment to equity shareholders	(90.00)
	Add: Share price received against ESOP	10.00
		40.00

Ans. 2. Calculation of Max Buy back

Provision I Max nominal value of Buyback

= 25% of Paid up Equity Share Capital

= 50,00,00 X 25% = 12,50,000

= 12,500 Shares of 100 each.

Provision II Max Expenditure on Buyback

= 25% of Equity Base

= 1,25,00,000 X 25% = 31,25,000

= 20,833 Share of 100 @ 150 each.

Provision III Max Debt Equity Ratio after Buyback = 2 : 1

Total Equity base before Buyback	1,25,00,000
Less : Minimum Required (50% of Debt)	57,50,000
Maximum Expenditure Permissible	67,50,000

i.e. 45,000 Shares of 100 @ 150 each.

Conclusion : The director's decision to buyback 10,000 Shares @ 150 Satisfies all the 3 Conditions.

Ans. 3. Journal of Dee Ltd.

2011				
April 1	Cash / Bank a/c	Dr.	22,00,000	
	P & L A/c (loss)	Dr.	8,00,000	
	To Investment A/c			30,00,000
April 1	Equity Share Capital A/c (50,000 x 10)	Dr.	5,00,000	
	Premium on Buyback A/c (50,000 x 40)	Dr.	20,00,000	
	To Cash / Bank A/c			25,00,000
April 1	Securities Premium A/c	Dr.	20,00,000	
	To Premium on Buyback A/c			20,00,000
April 1	Securities Premium A/c	Dr.	2,00,000	
	Revenue Reserve A/c	Dr.	1,00,000	
	To CRR A/c			3,00,000

Dee Ltd. (After buyback)

Balance-Sheet As on 1st April 2011 **('000s)**

	Note	C. Y.	P. Y.
(I) EQUITY AND FUNDS			
(1) Shareholders Funds			
Share Capital	1	2,200	
Reserves & Surplus	2	6,900	
(2) Share Application money pending allotment		-----	
(3) Non Current Liabilities		-----	
(4) Current Liabilities		1,400	
		10,500	
(II) ASSETS			
(1) Non Current Assets (FAs)		9,300	
(2) Current Assets (15L + 22L - 25L)		1,200	
		10,500	

Notes to Accounts

(1) Share Capital

Authorized	3,000
Issued Subscribed & paid up	
2,000 10% Preference Shares of 100 each, fully paid	200
2,00,000 Equity Shares of 10 each fully paid	2,000
	2,200

(2) Reserve & Surplus

Capital Reserve	1,000
Revenue Reserve	2,900
P & L A/c	2,700
CRR	300
	6,900

CHAPTER - 4 UNDERWRITERS LIABILITIES

Ans. 1. **XYZ Ltd.**

Calculation of Underwriters Liabilities

	A	B	C	D
Gross Liabilities	37,500	31,250	31,250	25,000
Less : Firm underwriting	(4,000)	(6,000)	-----	(15,000)
	33,500	25,250	31,250	10,000
Less : Marked Applications	(24,000)	(20,000)	(12,000)	(24,000)
	9,500	5,250	19,250	(14,000)
Less : Unmarked Application (10,000 in 6 : 5 : 5 : 4)	(3,000)	(2,500)	(2,500)	(2,000)
	6,500	2,750	16,750	16,000
Less : Surplus of D (16,000 in 6 : 5 : 5)	(6,000)	(5,000)	(5,000)	16,000
	500	(2,250)	11,750	-----
Less : Surplus of B (2,250 in 6 : 5)	(1,227)	(2,250)	(1,023)	-----
	(727)	-----	10,728	-----
Less : Surplus of A	727		(727)	
Net liability as guaranters	------	-----	10,000	-----
Add : Firm liability as Investors	4,000	6,000	-----	15,000
Final Liabilities	**4,000**	**6,000**	**10,000**	**15,000**

Ans. 2. **Apple Ltd.**

Calculation of Unerwriters Liabilities

	A	B	C
Gross Liabilities (50,000 in 3 : 1 : 1)	6,30,000	2,10,000	2,10,000
Less : Firm Underwriting	(30,000)	(20,000)	(10,000)
	6,00,000	1,90,000	2,00,000
Less : Marked Application	(5,50,000)	(2,00,000)	(1,50,000)
	50,000	(10,000)	(50,000)
Less : Unmarked Application (50,000 in 3 : 1 : 1)	(30,000)	(10,000)	(10,000)
	20,000	(20,000)	40,000
Less : Surplus of B (20,000 in 3 : 1)	(15,000)	20,000	(5,000)
Net Liabilities as guaranters	5,000	-----	35,000
Add : Firm Liabilities as investors	30,000	20,000	10,000
Final Liabilities	**35,000**	**20,000**	**45,000**

Journal of Apple Ltd.

	A a/c (35,000 X 2.50) Dr.			87,500	
	B a/c (20,000 X 2.50) Dr.			50,000	
	C a/c (4,5000 X 2.50) Dr.			1,25,000	
	To Equity Share Capital a/c				2,50,000
	U/W Commission a/c Dr.			2,62,500	
	To A a/c (6,30,000X10% X 2.5%)				1,57,500
	To B a/c (2,10,000 X 10% X 2.5%)				52,500
	To C a/c (2,10,000 X 10% X 2.5%)				52,500
	Bank a/c Dr.			60,000	
	To C a/c (1,12,500 – 52,500)				60,000
	A a/c (1,57,500 – 87,500) Dr.			70,000	
	B a/c (52,500 – 50,000) Dr.			2,500	
	To Cash / Bank a/c				72,500

Ans. 3.

Noman Ltd.

Calculation of Underwriters Liabilities

	A	B	C
Gross Liabilities	48,000	20,000	12,000
(Ratio = 12 : 5 : 3)			
Less : Firm Underwriting	(6,400)	(8,000)	(2,400)
	41,600	12,000	9,600
Less : Marked Applications	(8,000)	(10,000)	(4,000)
	33,600	2,000	5,600
Less : Unmarked Applications			
(18,000 in 12 : 5 : 3)	(10,800)	(4,500)	(2,700)
	22,800	2,500	2,900
Less : Surplus of B (2,500 in 12 : 3)	(2,000)	2,500	(500)
Net Liability as guaranters	20,800	-----	2,400
Add : Firm Liability as Investors	6,400	8,000	2,400
Final Liabilities	**27,200**	**8,000**	**4,800**

CHAPTER - 5 REDEMPTION OF DEBENTURES

Ans. 1. **ABC Ltd.**

(i)	Bank A/c	Dr.	9,5000	
	Discount on issue of Debentures A/c	Dr.	5,000	
	To 11% Debentures A/c (FV)			1,00,000
(ii)	Bank a/c	Dr.	95,000	
	Discount on issue of Debentures A/c	Dr.	5,000	
	Loss on Issue of Debentures A/c	Dr.	2,000	
	To 11% Debentures A/c (Fair Value)			1,00,000
	To Premium Payable on Redemption A/c			2,000
(iii)	Bank A/c	Dr.	9,5000	
	Discount on issue of Debentures A/c	Dr.	5,000	
	To 11% Debentures A/c (Fair Value)			1,00,000

Note : Discount on Redemption will be credited to capital Reserves a/c at the time of Redemption in future.

Ans. 2. **In the book of Libra Ltd.**

Journal Entries

Date	Particulars		Amount Dr.	Amount Cr.
			₹	₹
1.5.2012	Bank A/c	Dr.	1,50,00,000	
	To Debunture Application A/c			1,50,00,000
	(Application money received on 1,50,000 debentures @ ₹ 100 each)			
1.6.2012	Debenture Application A/c	Dr.	1,50,00,000	
	Underwriters A/c	Dr.	50,00,000	
	To 15% Debunture A/c			
	(Allotment of 1,50,000 debenture to Applicants and 50,000 debenture to underwriters)			

	Underwriter Commission Dr.	4,00,000	
	To Underwriters A/c		4,00,000
	(Commission payble to underwriters @ 2% on ₹ 2,00,00,000		
	Bank A/c Dr.	46,00,000	
	To Underwriters A/c		46,00,000
	(Amount received from underwriters in settlement of account)		
30.9.2012	Debenture Interest A/c Dr.	10,00,000	
	To Bank A/c		10,00,000
	(Interest paid on debenture for 4 months @ 15% on ₹ 2,00,00,000)		
30.10.2012	15% Debenture A/c Dr.	1,20,00,000	
	To Equity Share Capital A/c		20,00,000
	To Securities Premium A/c		1,00,00,000
	(Conversion Of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10		
31.3.2013	Debenture Interest A/c Dr.	7,50,000	
	To bank A/c		7,50,000
	(Interest paid on debentures for the half year)		

Working Note:

Calculation of Debenture Interest for the half year ended 31st March, 2013

On ₹ 80,00,000 for 6 months @ 15%	= ₹ 6,00,000
On ₹ 1,20,00,000 for 1 months @ 15%	= ₹ 1,50,000
	= ₹ 7,50,000

Ans. 3.

Journal of Videocon Ltd.

2008-09				
April 1	Bank a/c	Dr	1,00,000	
	To 12% Depreciation a/c			1,00,000
July 1	Investment in own Debenture a/c (100 x 98)	Dr	9,800	
	Investment on own Debenture a/c (10,000 x 12% x 3/12)	Dr	300	
	To Bank a/c			10,100
Sep. 30	Interest on Debenture a/c	Dr	6,000	
	To Bank a/c			5,400
	To Interest on Own Debenture a/c			600
Mar 31	Interest on Debenture a/c	Dr	6,000	
	To Bank a/c			5,400
	To Interest on Own Debenture a/c			600
Mar 31	P & L a/c	Dr	12,000	
	To Interest on Debenture a/c			12,000
Mar 31	Interest on own Debenture a/c	Dr	900	
	To P & L a/c			900
2009-10				
Sep. 30	Interest on Debenture a/c	Dr	6,000	
	To Bank a/c			5,400
	To Interest on own Debenture a/c			600
Mar 31	Interest on Depreciation A/c	Dr	6,000	
	To Bank a/c			5,400
	To Interest on own Debenture a/c			600
Mar 31	P & L a/c	Dr	12,000	
	To Interest on Debenture a/c			12,000
Mar 31	Interest on own Debenture a/c	Dr	1,200	
	To P & L A/c			1,200
2010 -11				
Sep. 30	Interest on Debenture a/c	Dr	6,000	
	To Bank a/c			5,400
	To Interest on own Debenture a/c			600
Jan. 1	Investment in own Debenture a/c	Dr	9,500	
	Investment on own Debenture a/c (10,000 x 12% x 3/12)	Dr	300	
	To Bank a/c (100 x 98)			9,800
Mar 31	Interest on Debenture a/c	Dr	6,000	
	To Bank a/c			4,800
	To Interest on own Debenture a/c			1,200
Mar 31	12% Debenture a/c (FV)	Dr	10,000	
	To Investment in own Debenture (Cost)			9,800
	To Capital Reserves (Profit)			200
Mar 31	P & L a/c	Dr	12,000	
	To Interest on Debenture a/c			12,000
Mar 31	Interest on own Debenture a/c	Dr	1,500	
	To P & L a/c			1,500

Ans. 5.

Books of Progressive Ltd.

6% Debentures a/c

2008-09

Dec 31	To Deb Redemption (Cost)	1,15,800	Apr 1	By Balance c/d	9,00,000
Dec 31	To Capital Reserve (Profit)	4,200			
Mar 31	To Balance a/c	7,80,000			
		9,00,000			**9,00,000**

2009-10

Aug 31	To Deb Redemption (Cost)	71,250	Apr 1	By Balance c/d	7,80,000
Aug 31	To Capital Reserve (Profit)	3,750			
Mar 31	To Cash / Bank (Trutees)	25,000			
Mar 31	To Balance c/d	6,80,000			
		7,80,000			**7,80,000**

2010-11

Oct 31	To Deb Redemption (Cost)	1,05,225	Apr 1	By Balance c/d	6,80,000
Oct 31	To Capital Reserve (Profit)	9,775			
Mar 31	To Balance c/d	5,65,000			
		6,80,000			**6,80,000**

Debenture Redemption a/c

2008-09

Dec 31	To Bank	1,15,800	Dec 31	By 6% Debentures	1,15,800
		—			—
		1,15,800			**1,15,800**

2009-10

Aug 31	To Bank (750 X 95)	71,250	Aug 31	By 6% Debentures	71,250
		—			—
		71,250			**71,250**

2010-11

Oct 31	To Bank	1,05,225	Oct 31	By 6% Debentures	1,05,225
		—			—
		1,05,225			**1,05,225**

Interest on Debentures a/c

2008 - 09

Sep. 30	To Bank	27,000	Mar. 31	By P & L	44,175
Dec 31	To Bank	1,800			
May 31	To Bank	23,400			
		44,175			**44,175**

2009 - 10

Aug. 30	To Bank	1,875	May 31	By P & L	44,375
Sep. 30	To Bank	21,250			
May 31	To Bank	21,250			
		44,375			**44,375**

2010-11

Sep 30	To Bank	20,400	Mar 31	By P & L	37,925
Oct 31	To Bank	575			
May 31	To Bank	16,950			
		37,925			**37,925**

WN 1	Half yearly Interest on 9,00,000	=	27,000
WN 2	Cum Interest Price = 1,200 x 98	=	1,71,600
	Less : Interest on 1,20,000 for 3 months	=	1,800
	Cost		**1,15,800**
WN 3	Hallf Yearly Interest on 7,80,000	=	23,400
WN 4	Interest on 7,5000 for 5 months	=	1,875
WN 5	Half Yearly Interest on 7,05,000	=	21,150
WN 6	Half Yearly Interest on 7,05,000	=	21,150
WN 7	Half Yearly Interest on 6,80,000	=	20,400
WN 8	Cum Interest Price (1,150 x 92)	=	1,05,800
	Less : Interest on 1,15,000 for 1 months	=	575
	Cost		**1,05,225**
WN 9	Half Yearly Interest on 5,65,000	=	16,950

Ans. 6. **Books of Irfan Ltd.**

12% Debentures a/c

2008-09

Mar 31	To Balance c/d	20,00,000	Apr.1	By Bank	20,00,000
		----			----
		20,00,000			**20,00,000**

2009-10

June 1	To Deb. Redemption(Cost)	1,94,000	Apr.1	By Balance b/d	20,00,000
1	To Capital Reserve(Profit)	6,000			
Mar 31	To Balance c/d	18,00,000			
		20,00,000			**20,00,000**

2010-11

Dec 1	To Deb Redemption(Cost)	2,85,000	Apr.1	By Balance b/d	18,00,000
1	To Capital Reserve (Profit)	15,000			
31	To Equity Share Capital	8,00,000			
31	To Securities Premium	4,00,000			
Mar 31	To Balance c/d	3,00,000			
		18,00,000			**18,00,000**

Interest on Debentures a/c

2008 – 09

June 30	To Bank	60,000	Mar31	By P & L a/c	2,40,000
Dec 31	To Bank	1,20,000			
Mar 31	To O/s Interest c/d	60,000			
		2,40,000			**2,40,000**

2009-10

June 1	To Bank	4,000	Apr 1	By O/s Interest a/c	60,000
30	To Bank	1,08,000	Mar31	By P & L a/c	2,14,000
Dec 31	To Bank	1,08,000			
Mar 31	To O/s Interest a/c	54,000			
		2,74,000			**2,74,000**

2010-11

June 30	To Bank	1,08,000	Apr 1	By O/s Interest a/c	54,000
Dec 1	To Bank	15,000	Mar 31	By P & L a/c	1,68,000
Dec 31	To Bank	90,000			
Dec 31	To O/s Interest a/c	9,000			
		2,22,000			**2,22,000**

W. N.

(1) Interest on 20,00,000 for 3 months = 60,000

(2) Half Yearly Interest on 20,00,000 = 1,20,000

(3) Interest on 20,00,000 for 3 months = 60,000

(4) Cum Interest price (2,000 x 99) = 1,98,000

Less : Interest on 2,00,000 for 2 months = 4,000

1,94,000

(5) Half Yearly Interest on 18,00,000 = 1,08,000

(6) Half Yearly Interest on 18,00,000 = 1,08,000

(7) Interest on 18,00,000 for 3 months = 54,000

(8) Half Yearly Interest on 18,00,000 = 1,08,000

(9) Interest on 3,00,000 for 5 months = 15,000

(10) Half Yearly Interest on 15,00,000 = 90,000

(11) Conversion of Debentures into Shares

No. of Equity Shares = $\frac{12,00,000}{150}$ = 8,000 shares

Entry :

12% Debenture a/c	Dr.	12,00,000	
To Equity Share Capital a/c			8,00,000
To Securities Premium a/c			4,00,000

(12) Interest on 3,00,000 for 3 months = 9,000

Ans. 7. **Books of PQ Ltd.**

9% Debentures A/c

31.3.2011

To SF Investment (Own Debenture)	1,98,000	By Balance b/d	9,50,000
To Capital Reserve (Profit)	2,000		
To Debenture holders / Cash / Bank	7,50,000		
	9,50,000		**9,50,000**

Sinking Fund a/c

31.3.2011

To General Reserve	10,58,900	By Balance b/d	9,37,000
		By Interest on SF Investment	45,000
		By Interest on own Debentures	3,000
		By SF Investment (Profit)	73,900
	10,58,900		**10,58,900**

Discount on Issue of Debentures a/c

31.3.2011

To Balance b/d	26,000	By P & L a/c	26,000
	----		----
	26,000		**26,000**

Sinking Funds Investments a/c

2010-11

To Balance b/d	9,37,000	By 9% Debentures	1,98,000
		(own Deb cancelled)	
		By Cash / Bank	8,12,900
To Sinking Fund (Profit)	73,900	(7,39,000 + 10% Profit)	
	10,10,900		**10,10,900**

W. N. Interest on own Debentures

Interest paid on purchase of own Debentures	=	1,500
(2,00,00 x 9% x 1/12)		
Less : Interest booked on own Debentures on 31.3.2011		
(2,00,000 x 9% x 3/12)	=	4,500
Net Credit Balance in Interest on own Debenture a/c		**3,000**

Ans. 8. **WN :** Pay –off Plan

6% Debentures

4,00,000

17,000 opted for option (a)	1,44,000 opted for option (b)	85,000 opted for option (c)
↓	↓	↓
Amount	Amount	Amount
= 1,710 X 102	= 1,440 X 102	= 850X102
= 1,74,420	= 1,46,880	= 86,700
↓	↓	↓
No. of Preference Share = 1,74,720 / 2,250	No. of Debenture = 1,46,880 / 96	Cash
= 7,752	= 1,530	

Journal of B Ltd.

?	6% Debentures a/c	Dr	4,00,000	
	Premium on Redemption a/c	Dr	8,000	
	To Debentures Holders a/c			4,08,000
	Divisible Profits a/c	Dr	8,000	
	To Premium on Redemption a/c			8,000
	Debentures Holders a/c	Dr	4,08,000	
	Discount on issue of 6% Debentures a/c (1,530 x 4)	Dr	6,120	
	To Equity Share Capital (7,752 x 20)			1,55,040
	To Securities Premium (7,752 x 2.50)			19,380
	To 6% Debentures (1,530 x 100)			1,53,000
	To Cash / Bank a/c			86,700

Ans. 9. **Book of Bright Ltd.**

Debentures a/c

2010-11

Oct 1	To Debentures redemption	26,664	Apr. 1	By Balance b/d	4,50,000
Oct 1	To Capital Reserve	3,336			
Mar 31	To Debentures Holders	420,000			
		4,50,000			**4,50,000**

Sinking Fund a/c

2010-11

Oct 1	To SF Investment (loss)	900	Apr. 1	By Bal Ltd	4,43,250
Mar 31	To Premium on Redm	8,400	Oct 1	By Bank	22,200
	(4,20,000 x 2%)		Mar 29	By SF inv (Profit)	14,550
Mar 31	To General Reserve	4,70,700			
		4,80,000			**4,80,000**

Sinking Fund Investments a/c

2010 – 11

Apr 1	To Balance b/d	4,43,250	Oct 1	By Bank	3,39,000
Mar 29	To Sinking Fund (profit)	14,550	Oct 1	By Sinking Fund (Loss)	900
			Mar 29	By Bank	4,23,000
		4,57,800			**4,57,800**

Debenture Redemption a/c

2010-11

Oct 1	To Bank	26,664	Oct 1	By Debentures	26,664
		----			----
		26,664			**26,664**

CHAPTER - 7 LIQUIDATION OF COMPANIES

Ans. 1.

Liquidators Final Statement of Accounts

Cash / Bank	---	Legal Expenses :		---
Assets Realised		Liquidatior's Remuneration		91,500
Land & Buillding	9,84,000	Liquidation Expenses		54,000
Plant & Machinery	1,63,000	Liability with Floating Charge :		
Stock	7,12,000	Debentures	4,00,000	
Book Debts	11,91,000	Interest	----	4,00,000
Surplus from Securities	-----	Creditors		
		Preferential	1,49,500	
		Others	10,45,000	11,94,500
Calls - in - Arrears		Preference Share Holders		
		10,000 shares @ 124/-		12,40,000
Calls From Contributories		Equity Share Holders		
		On 5,000 Shares @ 12/-	60,000	30,000
		On 5,000 Shares @ 2/-	10,000	
	30,50,000			**30,50,000**

Workings :

Cash / Bank	----			13,10,000
Assets Realised :		**Less :** Interest on Debentures		
Land & Buillding	9,84,000	(4,00,000 x 15%)		---
Plant & Machinery	1,63,000			13,10,000
Stock	7,12,000	**Less :** Preference Share Holders		
Book Debts	11,91,000	Preference Capital	10,00,000	
	30,50,000	Arrears of Dividend	2,40,000	12,40,000
Less : Legal Expenses	----			70,000
		Add : Notional Call		
Less : Liquidation Return		5,000 x 40 =	2,00,000	
3% of 30,50,000	91,500	5,000 x 50 =	2,50,000	4,50,000
Less : Liquidation Expenses	54,000			5,20,000
	29,04,500	Notional Refund = ₹ 52		
Less : Secured Creditors	----	Actual Refund / Call		
	29,04,500	Group I : Refund @ ₹ 12		
Less : Preference Creditors		Group II : Refund @ ₹ 2		
(1,05,000 + 44,500)	1,49,500			
	27,55,000			
Less : Liabilities with float charges	4,00,000	It is assumed Preference Creditors does not include		
15% Debenture	23,55,000	Income - tax payable.		
Less : Unsecured Creditors				
(3,03,000 + 7,42,000)	10,45,000			
	13,10,000			

Ans. 2. **Sudden Death Ltd. (in liquadation)**

Liquidator's statement of Affairs as on 31.3.2011

	Estimated Realisable values
List A Assets not specifically pledged	600
Calls in Arrears	3,200
Investments	60,000
Land & Building	80,000
Billls Receivable	2,000
Debtors	84,000
Stock	38,000

List B Assets specifically pledged

Assets	**Estimated Realisable values (a)**	**Secured liabilities (b)**	**Deficiency (c)**	**Surplus (d)**	
Plant & Machinery	80,000	60,000	----	20,000	
	80,000	60,000	----	20,000	20,000

Estimated Amount available for all liabilites		**2,87,800**
Summary of Gross Assets		
(a) Estimated of Gross Assets assets Realisable values of	80,000	
(b) other assets	2,67,200	
GROSS ASSETS	3,47,200	

Gross liabilities			
60,000	Secured Creditors (As per list B)		---
	Estimated Amount available for preferential Creditors,		2,87,800
	Liabilities with floating change and other unsecured Creditors		9,000
9,000	**List C Preferential Creditors**		
	o/s wages & salaries (3,000+2,000)	5,000	
	Accured Taxes	4,000	9,000
	Estimated Amount available for liab. with floating charge and other undesured Creditors		2,78,800

3,00,000	**List D Liabilites with floating charge**		
	15 % Debentures	2,00,000	
	Bank Overdraft	1,00,000	3,00,000
	Estimated amount available for other unsecured Creditors		
96,000	**List E other Unsecured Creditors**		
	o/s Rent	4,000	
	Bills payable	24,000	
	Sundry Creditors	60,000	
	Bills Discounted (Expected Dishonour)	8,000	(96,000)
	Estimated amount available for Equity Shareholders		1,17,200
			(2,00,000)
2,00,000	**List F Preference Shareholders**		
	Estimated Amount available for Equity Shareholders		(3,17,200)
1,59,600	**List C Equity Shareholders** (1,60,000 - 40)		(1,59,600)
	Estimated Deficiency for members (List H)		4,76,800

Ans. 3. **UNFORTUNATE LTD. :**

Calculation of Liability of Past Contributories as per List B

Date of Transfer	Liability to be Allocated	B	C	D	E	Ratio
		25	10	40	5	
14.8.2010	8,000	2,500	1,000	4,000	500	5 : 2 : 8 : 1
01.10.2010	2,750	----	500	2,000	250	2 : 8 : 1
01.12.2010	2,250	----	----	2,000	250	8 : 1
01.04.2011	2,000	----	----	----	2,000	Only E
Allocated Liabilities		**2,500**	**1,500**	**8,000**	**3,000**	
Max. (Unpaid Calls)		6,250	2,500	10,000	1,250	
Actual Liability		2,500	1,500	8,000	1,250	

Note: Since A has transfered his shares 12 months before at of liquidation he shall not be liable to contribute towards cash defeciency.

Ans. 4. **C Ltd.**

Calculation of Liability of Past Contributories as per List B :

Date of Transfer	Liability to Be allocated	B 1,800	C 1,200	D 1,000	E 500	Ratio
20.09.09	12,000	4,800	3,200	2,667	1,333	18 : 12 : 10 : 5
15.11.09	5,400	----	2,400	2,000	1,000	12 : 10 : 5
02.04.10	1,200	----	----	800	400	10 : 5
10.07.10	3,400	----	----	----	3,400	Only E
Allocated Liabilities		**4,800**	**5,600**	**5,467**	**6,133**	
Liability		9,000	6,000	5,000	2,500	
Actual Liability		4,800	5,600	5,000	2,500	

Note : Since A has transfered his shares 12 months before the date of liquidation, he shall not be liable to contribute towards cash defeciency.

Ans. 5. **D LIMITED**

Liquidators Statement of Accounts

Cash / Bank		2,25,000	**Legal Expenses**		----
Assets Realised :			Liquidation Remuneration		1,10,250
Land & Building	9,00,000		Liquidation Expenses		27,250
Machinary & Plant	15,00,000		**Liabilities with Float Charges :**		
Patents	2,25,000		Principal	7,50,000	
Stock	4,50,000		Interest (1,12,500 + 56,250)	1,68,750	9,18,750
Debtors	6,00,000	36,75,000	**Creditors**		
Surplus from Securities			Prefrential	38,000	
			Others	9,18,250	9,56,250
Calls - in - Arrears			Preferance shareholders		
			On 15,000 share @ 120/-		18,00,000
Calls From Contributories			**Equity Shareholder :**		
(On 22,500 X 0.8333)		18,750	(On 7,500 X 14.1666)		1,06,250
		39,18,750			**39,18,750**

Workings :

Cash / Bank			2,25,000
Add :	Assets Realised		
	Land & Building	9,00,000	
	Machinery & Plant	15,00,000	
	Patents	2,25,000	
	Stock	4,50,000	
	Sundry Debtors	6,00,000	36,75,000
Less :	Legeal Expenses		39,00,000
Less :	Liquidation Revenue		
	3% of 36,75,000		(1,10,250)
Less :	Liquidation Expenses		(27,250)
			37,62,500
Less :	Secured Creditors		-----
			37,62,500
Less :	Preference Creditors		38,000
			37,24,500
Less :	Liability with float Charges		
	Debenture	7,50,000	
	Outstanding Interest	1,12,500	8,62,500
			28,62,000
Less :	Unsecured Creditors (9,56,250 - 38,000)		9,18,250
			19,43,750
Less :	Interest on Debentures		
	(7,50,000 x 15% x 6/12)		56,250
			18,87,500
Less :	Preferance Shareholder		
	Capital	15,00,000	
	Arrears of Dividend (2 Year)	3,00,000	18,00,000
			87,500
Add :	Notional Call :		
	Group I (7,500 X 25) =	1,87,500	
	Group II (22,500 X 40) =	9,00,000	10,87,500
			11,75,000

Notional Refund = $\frac{11,75,000}{30,000}$ = 39,1666.......

Actual Refund / Call

Group I : Refund @ 14.16666......

Group II : Call @ 0.83333......

Ans.6.(a) (i) Liquidator,s Statement of Account

	₹			₹
To Assets Realised	20,00,000	By Liquidator's remuneration		
To Receipt of call money		2.5% on 23,20,000*	58,000	
on 29,000 equity		2% on 50,000	1,000	
shares @ 2 per share	58,000	2% on 13,12,745 (W.N.3)	26,255	85,255
		By Liquidation Expenses		10,000
		By Debenture holders having a floating charge on all assets		6,00,000
		By Preferential creditors		50,000
		By Unsecured creditors		13,12,745
	20,58,000			**20,58,000**

(ii) Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{13,12,745}{18,30,000} \times 100 = 71.73\%$$

Working Notes:

1. Unsecured portion in partly secured creditors = ₹ 3,50,000 - ₹ 3,20,000 = ₹ 30,000
2. total unsecured creditors = 18,00,000 + 30,000 (W.N.1) = ₹ 18,30,000
3. Liquidator's remuneration on payments to unsecured creditors

Cash available for unseured creditors after all payments including payments to preferential creditors & liquidator's remuneration on it = ₹ 13,39,000

Liquidator's remuneration on unsecured creditors = $\frac{2}{102}$ x 13,39,000 = ₹ 26,255

or on ₹ 13,12,754 x 2/100 = ₹ 26,255

Ans. 7.(a) Calculation of liquidator's remuneration:

Liquidator's remuneration on assets realised (₹ 10,00,000 x 2 /100)

Liquidator's remuneration on payment to unsecured creditors

(₹ 4,12,000x3/103)

Total liquidator's remuneration

(b) Calculation of Total Remuneration payable to Liquidator

		Amount in ₹
2% on Assets realised	25,00,000 x 2%	50,000
3% on payment made to Preferential creditors	75,000 x 3%	2,250
3% on payment made to Unsecured creditors (Refer W.N)		39,255
Total Remuneration payable to Liquidator		91505

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

= ₹ 25,00,000 - ₹ 25,000 - ₹ 10,00,000 - ₹ 75,000 - ₹ 50,000 - ₹ 2,250 = ₹ 13,47,750.

Liquidator's remuneration on payment to unsecured creditors = 3/103 x ₹ 13,47,750= ₹ 39,255

CHAPTER - 8 FINANCIAL STATEMENTS OF INSURANCE COMPANIES

Ans. 1. **Extract of Revenue A/c of Domestic Assurance Co. Ltd.**

Paticulars	Schedule	₹
Premium earned (net)		
(a) Premium earned	1	7,10,000
(b) Reinsurance ceded		(70,000)
(c) Reinsurance accepted		90,000
		7,30,000
Schedule 1		
1st Year Premium		5,90,000
Renewal Premium		1,20,000
Single Premium		----
		7,10,000

Ans. 2. **Working note (₹ in Crores)**

	Marine	Fire	Miscellaneous
(a) Premium on direct business	18	43	12
Add			
(b) Premium on RI accepted	7	5	4
Less			
(c) Premium on RI ceded	(6.70)	(4.30)	(7)
Net Premium	18.30	43.70	9
Change in reserve for unexpired risk			
Opening reserve (a)	15	20	5
Less			
Closing reserve for unexpired risk			
(2010 – 11) (b)			
100% of net premium of marine & 50%			
for fire & misc	18.30	21.85	4.50
Adjustment for	(3.30)	(1.85)	0.50
Change inreserve (a - b)			

Journal Entries **(₹ in Crores)**

Particulars		Dr.	Cr.
(1) Marine Revenue A/c	Dr.	3.30	
To Unexpired risk reserve			3.30
(Being Change in reserve provided)			
(2) Fire Revenue A/c	Dr.	1.85	
To Unexpired risk reserve			1.85
(Being Change in reserve provided)			
(3) Unexpired risk reserve	Dr.	0.50	
To miscellaneous Revenue			0.50
(Being change in reserve provided)			

Ans. 3. **Form B -RA**

Name of the Insurer : Goma General Insurance Company

Registration no. and date of registration with IRDA : ....

Revenue Account for the year ended 31.3.2012

	Particulars	Schedule	Amount (₹)
1.	Premium earned (Net)	1	27,03,000
2.	Profit/Loss on sales/Redemption of investment	-	-
3.	Other	-	-
4.	Interest, divident 7 rent (Gross)	-	30,000
	Total (A)		27,33,000
1.	Claims incurred (Net)	2	19,44,000
2.	Commission	3	68,400
3.	Operating profit/Loss related to insurance business	4	1,20,000
	Total (B)		21,32,400
	Operating profit/Loss from insurance business (C) = (A-B)		6,00,600

Appropriation:

Transfer to Shareholders account	-
Transfer to Catastrophe Reserves	-
Transfer to other reserves	-
Total (D)	**-**

Schedule - 1 Premium Earned (Net)

Particulars	**₹**
Premium received from direct business (W.N.1)	30,60,000
Add: Premium on reinsurance accepted ₹ (2,40,000 + 36,000 - 24,000)	2,52,000
	33,12,000
Less: Premium on reinsurance ceded ₹ (3,60,000 + 42,000 - 30,000)	(3,72,000)
Net Premium	29,40,000
Adjustment for change in reserve for unexpired risk (W.N.2)	(2,37,000)
Total premium earned (Net)	27,03,000

Schedule - 2 Claims Incurred (Net)

Particulars	**₹**
Claims Paid (Direct)	18,00,000
Add: Legal Expenses regarding claims	12,000
	18,12,000
Add: Reinsurance Accepted	1,80,000
	19,92,000
Less: Reinsurance ceded ₹ (1,20,000 + 12,000 - 18,000)	(1,14,000)
	18,78,000
Add: Claims outstanding at the end ₹ (1,20,000 + 18,000)	1,38,000
Less: Claims outstanding at the end ₹ (1,20,000 + 18,000)	(72,000)
Total claim incurred	19,44,000

Schedule - 3 Commission

Particulars	**₹**
Commission paid Direct	72,000
Add: Re-insurance accepted	10,800
	82,800
Less: Re-insurance ceded	(14,400)
Net commission	68,400

Schedule - 4 Operating Expenses related to Insurance Business

Particulars	**₹**
Expenses of management ₹ (1,32,000 - 12,000)	1,20,000

Working Notes:

1. Calculation of premium received from direct business

Premium on direct business	30,00,000
Add: Premium outstanding at the end	2,40,000
	32,40,000
Less: Premium outstanding at the beginning	(1,80,000)
	30,60,000

2. Computation of change in reserve for unexoired risk

		₹
Reserve for unexpired risk for the year 2011-12 (29,40,000 x 50%)		4,70,000
Add:	Additional reserve for unexpired risk for the year 2011-12 (29,00,000 x 5%)	1,47,000
	16,17,000	
Less:	Reserve for unexpired risk for the year 2010-11 (24,00,000 X 50%)	(12,00,000)
	Additional reserve for unexpired risk for the year (24,00,000 x 7.5%)	(18,00,000)
		2,37,000

Ans. 9.

Form B -RA

Name of the Insurer :

Registration no. and date of registration with IRDA : ....

Fire Insurance Revenue Account for the year ended 31st March, 2013

	Particulars	Schedule	Amount (₹)
(1)	Premium earned	1	11,50,000
(2)	Other income		-
(3)	Interest, devidend and rent		-
	Total (A)		11,50,000
(4)	Claims incurred	2	5,30,000
(5)	Commission	3	3,00,000
(6)	Operating expenses related to Insurance business	4	2,00,000
	Total (B)		10,30,000
	Operating Profit (A)-(B)		1,20,000

Schedule 1 : Premium earned (net)	₹
Premium received	13,00,000
Less: Re-insurance premium	1,00,000
Net premium	12,00,000
Adjustment for change in reserve for unexpired risks (Refer W.N.)	(50,000)
	11,50,000

Schedule 2: Claims Incurred	₹
Claims paid including legal expenses (4,90,000 + 10,000)	5,00,000
Add: Claims outstanding at the end of the year	80,000
Less: Claims outstanding at the begining of the year	(50,000)
Total claims incurred	5,30,000

Schedule 3: Commission	₹
Commission Paid	3,00,000
	3,00,000
Schedule 4: Operating expenses	₹
Expenses of management	2,00,000
	2,00,000

Working Note:

Change in the provision for unexpired risk	₹
Unexpired risk reserve on 31st March, 2013 = 50% of net premium	
i.e. 50% of 12,00,000 (See Schedule 1)	6,00,000
Less: Unexpired risk reserve as on 1st April, 2012	5,50,000
Change in the provision for unexpired risk	50,000

CHAPTER - 9 FINANCIAL STATEMENT OF BANKING COMPANIES

Ans. 1.

	Term loan ₹ in lakhs	Export credit ₹ in lakhs
Balance outstanding on 31.3.2012	35.0	30.0
Less: Realisable value of Securities	(10.0)	(8.0)
	25.0	22.0
Less: DICGC cover @ 40%	910.0)	
ECGC cover @ 50%	----	(11.0)
Unsecured balance	15.0	11.0
Required Provision:		
100% for unsecured portion	15.0	11.0
100% for secured portion	10.0	8.0
Total provision required	25.0	19.0

Note: Since no interest has been paid since 2006, the entire balance as on 31st March 2012 can be categorized as doubtful. Hence, provision has to be made at 100% of both the secured and the unsecured component.

Ans. 2. ZED Bank Ltd. Profit and Loss Account for the year ended 31st March, 2013

	Particulars	**Schedule No.**	**Year ended on 31st March, 2013**
I.	Income		
	Interest earned (W.N. 1)	13	8,830
	Other income	14	220
	Total		9,050
II.	Expenditure		
	Interest expended	15	2,720
	Operating expenses	16	2,830
	Provisions and contingencies (W.N. 4)		2,513.95
	Total		8,063.95
III.	Profit/Loss		
	Net profit/floss) for the year		986.05
	Profit/(loss) brought forward		Nil
	Total		986.05
IV.	Appropriations		
	Transfer to statutory reserve @ 25%		246.51
	Balance carried to balance sheet		739.54
	Total		986.05

Working Notes:

1. Schedule 13 - Interest Earned

			(₹ '000s)
(i)	Interest and discount	8,860	
	Less: Rebate on bills discounted not provided	(30)	
	Interest accrued on investments	(10)	8,820
	Interest accrued on investments		10
			8,830

Note: Interest accrued on investments to be shown separately under Interest Earned.

2. Calculation of Provisions and Contingencies

Assets	Amount	% of Provision	Provision
	(₹ in '000s)		(₹ in '000s)
Standard assets	4,000	0.40	16
Sub-standard assets*	2,240	15	336
Doubtful assets (unsecured)	390	100	390
Doubtful assets - covered by security			
Less than 1 year	100	25	25
More than 1 year but less than 3 years	600	40	240
More than 3 years	600	100	600
Loss assets	376	100	376
Total provision	8,306		1,983

***Note:** It is assumed that sub-standard assets are fully secured.

3. Calculation of provision on tax = 35% (Total income - Total expenditure)

= 35% of ₹ [(9,050 - (2,720 + 2,830 + 1,983)]

= 35% of ₹ 1,517

= ₹ 530.95

4. Total provisions and contingencies = ₹ 1,983 + ₹ 530.95 = ₹ 2,513.95.

Ans. 3. **(₹ in lacs)**

Risk Weighted Asset Ratio = $\frac{\text{Capital Fund}}{\text{Risk weighted assets}} \times 100$

Capital Fund = Tier I Capital + Tier II Capital

= 76,930 + 126 = ₹ 77056

Risk Weighted Asset Ratio = $\frac{77056}{\mathbf{1007890}} \times 100$ = 7.65%

Expected ratio = 9%

Bank is not satisfying Capital adequacy norms.

Working Note 1

Capital fund (Tier I)	**₹**	**Capital fund (Tier II)**		**₹**
Equity Share Capital	4,800	Revaluation reserve	280	
Statutory reserves	28,000	Less : 55%	154	126
Capital reserve	930			126
(1210- 280)				
	76930			

Working Note 2 Risk weighted assets

Assets	**₹ in lacs**	**X**	**Risk wt%**	=	**Risk weighted assets**
Cash with RBI	480	X	0	=	0
Balance with bank	1,250	X	20	=	250
CD with bank	2850	X	20	=	570
Other Investments	78250	X	100	=	78250
Loan & Advances					
Guarantee by Government	12820	X	0	=	0
Guarantee public sector	70210	X	0	=	0
Other assets	520250	X	100	=	520250
Premises	18200	X	100	=	18200
Other assets	20120	X	100	=	20120
Off Balance Sheet Items	370250	X	100	=	370250
					1007890

Ans. 4. Income to be recongnised in P/L **(₹ in lacs)**

Asset	**Performing (Interest earned)**	**Nonperforming (Interest received)**	**Total**
Term loan	120	5	125
CC & OD	750	12	762
Bill purchased	150	20	170
			1057 lacs

Note : In Q. 1st & 3rd Column is Interest earned & 2nd & 4th column is Interest received Kindly make necessary change in Q.

Ans. 5. **New Generation Bank Limited**

Profit and Loss Account for the year ended 31st March, 2013

		Schedule	Year ended 31.03. 2013 (₹ in '000s)
I.	**Income**		
	Interest earned	13	3,701.74
	Other income	14	455.00
	Total		4,156.74
II.	**Expenditure**		
	Interest expended	15	2,037.45
	Operating expenses	16	480.29
	Provisions and contingencies (500 +150 + 650)		1,300.00
	Total		3,817.74
III.	**Profits/Losses**		
	Net profit for the year		339.00
	Profit brought forward		Nil
			339.00
IV.	**Appropriations**		
	Transfer to statutory reserve (25%)		84.75
	Proposed dividend		100.00
	Balance carried over to balance sheet		154.25
			339.00

The Profit & Loss Account balance of fi 54.25 thousand will appear in the Balance Sheet under the head 'Reserves and Surplus' in Schedule 2.

		Year ended 31.3. 2013 (₹ in '000s)
	Schedule 13 - Interest Earned	
I.	Interest/discount on advances/bills (Refer W.N.)	3.701.74
		3.701.74
	Schedule 14 - Other Income	
I.	Commission, exchange and brokerage	190.00
II.	Profit on sale of investments	200.00
III.	Rent received	65.00
		455.00

	Schedule 15 - Interest Expended	
I.	Interests paid on deposits	2,037.45
		2,037.45
	Schedule 16- Operating Expenses	
I.	Payment to and provisions for employees	200.00
II.	Rent, taxes and lighting	90.00
III.	Depreciation on bank's properties	30.00
IV.	Director's fee, allowances and expenses	30.00
V.	Auditors' fee	5.00
VI.	Law (statutory) charges	40.00
VII.	Postage and telegrams	60.29
VIII.	Preliminary expenses	25.00*
		480.29

"It is assumed that preliminary expenses have been fully written off during the year.

Working Note :

	(₹ in '000s)
Interest /discount (net of rebate on bills discounted)	3,705.74
Add : Rebate on bills discounted on 31.3.2012	12.00
Less : Rebate on bills discounted on 31.3.2013	(16.00)
	3701.74

Ans. 6. Relevant Schedules (forming part of the Balance sheet) of DVD Bank

Schedule 3: Deposits

		₹ in lakhs
A	Demand deposits (700 - 250)	450
B	Saving bank deposits	500
C	Term deposits (Fixed Deposits)	700
		1,650

Schedule 9: Advances

		₹ in lakhs
A	(i) Bills discounted and purchased	800
	(ii) Cash credits and overdrafts (600 + 250)	850
	(iii) Term loans	500
		2,150

B.	(i) Secured by tangible assets (bal. fig.)	1,730
	(ii) Secured by Bank/Government guarantees (500 x 60%)	300
	(iii) Unsecured (600 x 12%)	2,150

Schedule 5: Other Liabilities & Provisions

	₹ in lakhs
Others (Provision for doubtful debts)	10

Profit and Loss Account (an extract)

	₹ in lakhs
Less : Provision for doubtful debts*	10

Note : The overdrawn extent in Current Accounts will be shown as Overdrafts.

***Note :** It is assumed that the cash credit has been in 'doubtful' category for more than three years, hence provision made at 100%.

Ans. 7. Calculation of Provisions and Contingencies

(i) Provision on Non-Performing Assets

			₹ in lacs
Particulars	**Amount**	**%of Provision**	**Provision**
Standard Assets	2,500	0.4	10
Sub-standard Assets	560	15	84
Doubtful Assets not covered by security	255	100	255
Doubtful Assets covered by security:			
For 1 Year	25	25	6.25
For 2 Years	50	40	20
For 3 Years	100	40	40
For 4 Years	75	100	75
Loss Assets	100	100	100
	3,665		**590.25**

Note: It is assumed that all sub standards assets are fully secured.

(ii) Calculation of Provision for tax = 35% of [Total Income - Total Expenditure (excluding tax)]

= 35% of [(4,425+125) - (1,360+1,331+590.25)] = ₹ 444.06 lakhs

Total Provisions and contingencies = Provisions on NPAs + Provisions for tax

= 590.25 + 444.06 = ₹1,034.31 lakhs

Hamara Bank Limited

Profit and Loss Account for the year ended 31st March, 2013

	Particulars	**Schedule No.**	**₹ in lakhs**
I	Income		
	Interest	13	4,425 Earned
	Other Income		125
			4,550
I	Expenditures		
	Interest Expended		1,360
	Operating Expenses		1,331
	Provisions & Contingencies		1,034.31
			3,725.31
III	Profit/Loss		
	Net Profit/Loss for the year		824.69
	Profit/Loss brought forward		40
			864.69
IV	Appropriations		
	Transfer to Statutory Reserve @ 25% of 824.69		206.17
	Transfer to Other Reserves		----
	Balance carried over to Balance Sheet		658.52
			864.69
	Schedule 13 - Interest earned		
I	Interest & Discount (4,430 - 15)		4,415
I	Income on Investments		10
			4,425

Ans. 8. **Acceptances, Endorsement & other Obligation Account**

2012-13		**₹**	**2012**		**₹**
	To Constituents' Liability for Acceptance, Endorsement, etc.	25,00,000	Apr. 1	By Balance b/d	14,50,000
	To Constituents' Liability for Acceptances, Endorsement etc.	10,00,000	2012-13	By Constituents, Liabilities for Acceptances, Endorsements, etc	44,00,000
	To Constituents' Liability for Acceptances, Endorsements, etc. (amount paid on failure of clients)	1,00,000			
Mar. 31	To Balance c/d	22,50,000			
		58,50,000			**58,50,000**

Ans. 9. **Rebate on Bills Discounted Account**

		₹			₹
2012-13	To Interest and Discount A/c	6,000	2012 Apr. 1	By Balance b/d	20,000
2013 Mar. 31	To Balance c/d				
		20,000			**20,000**

Interest & Discount Account

2013		₹	2012		₹
Mar. 31	To Profit & Loss A/c	98,06,000	Apr. 1	By Balance b/d	98,06,000
			2012-13	By Rebate on Bills discounted A/c	6,000
		98,00,000			**98,06,000**

Ans. 10. **Form 'B'**

Zee Bank Ltd.

Profit & Loss Account for the year ended 31st March, 2013

	Particulars	**Schedule No.**	**Year ended 31st March, 2013**
I.	**Income:**		
	Interest Earned	13	44,15,000
	Other Income	14	1,25,000
	Total		45,40,000
II.	**Expenditure**		
	Interest Expended	15	13,60,000
	Operating Expense	16	13,31,000
	Provisions and Contingencies (W.N.3)		10,30,813
	Total		37,21,813
III.	**Profit/Loss**		
	Net profit for the year		8,18,187
	Profit brought forward		40,000
	Tota		8,58.187
IV.	**Appropriations:**		
	Transfer to Statutory Reserve @ 25% on e 8,18,187		2,04,547
	Balance carried forward to Balance Sheet		6,53,640
	Total		8,58,187

Schedule 13: Interest Earned

Particulars	₹
Interest and discount	44,00,000
Income on Investments	5,000
Interest on balance with RBI	25,000
Total	44,30,000
Less: Rebate on bills discount	(15,000)
	44,15,000

Working Notes:

1. Provisions for NPA

Particulars	Amount	% of Provisions	Provision
Standard Assets	25,00,000	0.40	10,000
Sub-Standard Assets*	5,60,000	15	84,000
Doubtful assets not covered by security	2,55,000	100	2,55,000
Doubtful Assets covered by security			
For 1 year	25,000	25	6,250
For 2 years	50,000	40	20,000
For 3 years	1,00,000	40	40,000
For 4 years	75,000	100	75,000
Loss Assets	1,00,000	100	1,00,000
			5,90,250

2. Calculation of Tax

Tax = 35% of [Total income - Total expenditure (excluding tax)].

Tax = 35% of [44,15,000 + 1,25,000 - (13,60,000 + 13,31,000 + 5,90,250)]

Tax = ₹ 4,40,563

3. Total amount of provisions and contingencies

=Provision for NPA + Provision for Tax + Rebate on bils dishonoured

= 5,90,250 + 4,40,563 = ₹ 10,30,813

CHAPTER - 11 DEPARTMENTAL ACCOUNT

Ans. 1. **Calculation of Departmental Results (Actual Gross Profit)**

	A (₹)	B (₹)	C (₹)
Actual Sales	1,72,500	1,59,400	74,600
Add back: Discount (Refer W.N.)	2,500	600	400
Normal sale	1,75,000	1,60,000	75,000
Gross profit % on normal sales	20%	25%	33.33%
Normal gross profit	35,000	40,000	25,000
Less: Discount	(2,500)	(600)	(400)
Actual gross profit	32,500	39,400	24,600

Computation of value of stock as on 31st Dec. 2012

Departments	A	B	C
	₹	₹	₹
Stock (on 1.1. 2012)	24,000	36,000	12,000
Add: Purchases	1,46,000	1,24,000	48,000
	1,70,000	1,60,000	60,000
Add: Actual gross profit	32,500	39,400	24,600
	2,02,500	1,99,400	84,600
Less: Actual Sales	(1,72.500)	(1.59,400)	(74.600)
Closing stock as on 31.12.2012 (bal.fig.)	30,000	40,000	10,000

Working Note:

Calculation of discount on sales:

Departments	A	B	C
	₹	₹	₹
Sales at normal price	10,000	3,000	1,000
Less: Sales at actual price	(7,500)	(2,400)	(600)
	2,500	600	400

Ans. 2. **Calculation of unrealized profit of each department and total unrealized profit**

	Dept. A	Dept. B	Dept. C	Total
	₹	₹	₹	₹
Unrealized Profit of:				
Department A		45,000 x 50/150 = 15,000	42,000 x 20/120 = 7,000	22,000
Department B	40,000 x 2.5 = 10,000		72,000 x 15 10,800	20,800
Department C	39,000 x 30/130 = 9,000	42,000 x 40/140 = 12,000		21,000
				63,800

Ans. 3. Departmental Trading Account for the year ended on 31st March, 2011

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To Opening Stock	11,520	8,640	12,240	By Sales	2,44,800	5,18,400	7,48,800
To Purchases	96,000	2,16,000	2,88,000	By Closing Stock	9,600	17,280	720
To Gross Profit	1,46,880	3,11,040	4,49,280				
	2,54,400	**5,35,680**	**7,49,520**		**2,54,400**	**5,35,680**	**7,49,520**

Working Notes:

(1)

Profit Margin Ratio	
Selling price of unit purchased:	₹
Department A 6,000 x 40	2,40,000
DepartmentB 12,000 x 45	5,40,000
Department C 14,400 x 50	7,20,000
Total Selling Price	15,00,000
Less: Purchase (Cost) Value	(6,00,000)
Gross Profit	9,00,000
Profit Margin Ratio = $\frac{9,00,000}{15,00,000} \times 100 = 60\%$	

(2) Statement showing department-wise per unit Cost and Purchase Cost

	A	B	C
	₹	₹	₹
Selling Price (Per unit) (₹)	40	45	50
Less: Profit Margin @ 60% (₹) Profit	(24)	(27)	(30)
Margin is uniform for all depts at 60%			
Purchase price per unit (₹)	16	18	20
Number of units purchased	6,000	12,000	14,400
(Purchase cost per unit x Units purchased)	96,000	2,16,000	2,88,000

(3) Statement showing calculation of department-wise Opening Stock (in Units)

	A	B	C
Sales (Units)	6,120	11,520	14,976
Add: Closing Stock (Units)	600	960	36
	6,720	12,480	15,012
Less: Purchases (units)	(6,000)	(12,000)	(14,400)
Opening Stock (Units)	720	480	612

(4) Statement showing department-wise cost of Opening Stock and Closing Stock

		A	B	C
Cost of Opening Stock (₹)		720 x16	480 x 18	612 x 20
	₹	11,520	8,640	12,240
Cost of Closing Stock		600 x16	960 x 18	36 x 20
	₹	9,600	17,280	720

Ans. 4. **FGH Ltd.**

Departmental Trading and Profit and Loss Account for the year ended 31st March, 2012

	I	J	K	Total		I	J	K	Total
	₹	₹	₹	₹		₹	₹	₹	₹
To Opening stock	5,000	8,000	19,000	32,000	By Sales			80,000	80,000
To Material consumed	16,000	20,000		36,000	By Inter-departmental transfer	30,000	60,000		90,000
To Direct labour	9,000	10,000		19,000	By Closing stock	5,000	20,000	5,000	30,000
To Inter-departmental transfer		30,000	60,000	90,000					
To Gross profit	5,000	12,000	85,000	2,00,000					
	35,000	80,000	85,000	2,00,000		35,000	80,000	85,000	2,00,000
To Salaries and staff welfare	9,000	6,000	3,000	18,000	By Gross profit b/d	5,000	12,000	6,000	23,000
					By Net loss	7,000			7,000
To Rent	3,000	1,800	1,200	6,000					
To Net profit		4,200	1,800	6,000					
	12,000	12,000	6,000	30,000		12,000	12,000	6,000	30,000
To Net loss (I)				7,000	By Stock reserve b/d (J + K)				5,000
To Stock reserve (Refer W.N.)				3,000	By Net profit (J + K)				6,000
To Balance transferred to profit and loss account				1,000					
				11,000					11,000

Working Note: Calculation of Inter Department Transfer

A. From Dept I to Dept J

Op Stock + Material Cons + Dir Labour Cost - Cl Stock = 25,000/-

Profit on transfer is 20% of Cost = ₹ 5,000/-. Hence transfer = 30,000/-

B. From Dept J to Dept K

Op Stock + Material Consumed + Direct Labour + Inward Transfer - Cl Stock = ₹ 48,000/-

Profit on transfer = 20% of sale value i.e. 25% of cost price = ₹ 12,000/-

Hence, stock transferred to K at a value of ₹ 60,000/-

Working Note:

Calculation of unrealized profit on closing stock

	₹
Stock reserve of J department	
Cost - Material consumed + Direct labour cost	30,000
Transfer from I department	30,000
	60,000
Closing Stock of J department	20,000

Proportion of stock of I department = $₹\ 20,000 \times \frac{₹\ 30,000}{₹\ 60,000} = ₹10,000$

Stock reserve = $₹\ 10,000 \times \frac{20}{120} = ₹\ 1,667$ (approx.)

Stock reserve of K department

	₹
Closing Stock (being stock transferred from J department)	5,000
Less: Profit (stock reserve) 5,000 x 20%	(1,000)
Cost to J department	4,000

Proportion of stock of I department = $₹4,000 \times \frac{₹\ 30,000}{₹\ 60,000} = ₹\ 2,000$

Stock reserve = $2,000 \times \frac{20}{120} = ₹333$ (approx)

Total stock reserve = ₹ 1,000 + ₹ 333 = ₹ 1,333

CHAPTER - 12 BRANCH ACCOUNTS

Ans. 1.

Outlet Stock Account

	₹		₹
To Balance b/d	30,000	By Sales (Working Note 1)	3,60,000
To Goods sent to outlet	3,24,000	By Goods lost by fire	18,000
To Gross Profit c/d	60,000	By Balance c/d	36,000
	4,14,000		**4,14,000**

Outlet Profit & Loss Account

	₹		₹
To Expenses	20,000	By Gross Profit b/d	60,000
To Goods lost by fire (W.N. 2)	18,000		
To Profit transferred	22,000		
	60,000		**60,000**

Stock Reserve Account

	₹		₹
To HO P&LA/c-Transfer	6,000	By Balance b/d	6,000
To Balance c/d (Stock Res. required)	7,200	By HO P&LA/c (W.N. 3)	7,200
	13,200		**13,200**

Working Notes:

₹

(1) Wholesale Price 100+25 = 125

Retail Price 125 + 20% = 150

Gross Profit at the outlet

Wholesale Price - Retail Price (150 -125)

Retail sales value = $60,000 \times \frac{150}{25}$ = ₹ 3,60,000

(2) Goods lost by fire

Opening Stock + Goods Sent + Gross Profit - Sales - Closing Stock

30,000 + 3,24,000 + 60,000 - 3,60,000 - 36,000 = ₹ 18,000

(3) Stock Reserve

Opening Stock = $30,000 \times \frac{25}{125}$ = 6,000

Closing Stock = $36,000 \times \frac{25}{125}$ = 7,200

Ans. 2. **In the Books of head Office**

Kanpur Branch Accounts

Particulars		₹	Particulars		₹
To Opening balances as on			By Cash :		
1.4.2010 :			Cash Sales	60,000	
Stock	30,000		From Debtors	30,000	90,000
Debtors	15,000		By Goods Sent to branch		1,500
Petty Cash	150	45,150	(returned from branch)		
To Goods sent to branch		1,05,000	By Closing Balances as		
To Cash :			on 31.3.2011 :		
Rent	1,500		Stock	18,000	
Salaries	2,250		Debtors	60,000	
Other Expenses	2,250	6,000	Petty Cash	105	78,105
To Profit & Loss Account		13,455			
		1,69,605			**1,69,605**

Note : Goods returned by Branch Debtors will not be shown in Branch Account.

Ans. 3. **Memorandum Trading and Profit and Loss Account of the Branches for the year ended 31st March, 2011**

Particulars		₹	Particulars		₹
To Opening Stock		10,000	By Sales		
To Goods Transferred from			Cash	25,000	
Head Office		45,000	Credit	45,000	70,000
To Gross Profit c/b		19,000	By Closing Stock		4,000
		74,000			**74,000**
To Expenses :			By Gross Profit b/d		19,000
Petty Exp.	3,000				
Others	8,000				
Outstanding at end	900				
	11,900				
Less : Outstanding					
in the beginning	1,000	10,900			
To Discounts		1,000			
To Bad Debts		1,500			
To Depreciation on furniture		1,000			
To Net Profit Transferred to					
Head Office		4,600			
		19,000			**19,000**

Dr. **Branch Account** Cr.

Date	Particulars	₹	Date	Particulars		₹
2010 - 11						
Mar.31	To Balance b/d	20,500	Mar.31	By Balanced c/d		
	Profit and Loss A/c	4,600		Cash	5,000	
	(Net Profit)			Debtors	8,000	
	To Balance c/d	900		Furniture	9,000	
	(outstanding Expenses)			Stock	4,000	26,000
		26,000				**26,000**

Ans. 4.

In the Books of head Office

Journal

	Particulars		Dr. (₹)	Cr. (₹)
1.	Branch Stock A/c	Dr.	35,500	
	To Goods sent to Branch A/c			35,500
	(Being Goods sent to Kanpur Branch)			
2.	Cash A/c	Dr.	16,750	
	To Branch Stock A/c			16,750
	(Being Cash Sales at Kanpur Branch)			
3.	Branch Debtors A/c	Dr.	30,010	
	To Branch Stock A/c			30,010
	(Being Credit Sales at Kanpur Branch)			
4.	Cash A/c	Dr.	24,600	
	To Branch Debtors A/c			24,600
	(Being Cash received from Kanpur Branch Customers)			
5.	Branch Stock A/c	Dr.	300	
	To Branch Debtors A/c			300
	(Being Goods returned by Kanpur Branch Customers)			
6.	Branch Discount and Commission A/c	Dr.	1,360	
	Bad Debts A/c	Dr.	300	
	To Branch Debtors A/c			1,660
	(Being Discount and Commission allowed to Debtors and Bad Debts written off)			
7.	Branch Expenses A/c	Dr.	1,660	
	To Discount and Commission			1,360
	To Bad Debts			300
	(Being Discount and Commission and Bad dets transferred to Branch Expenses A/c)			
8.	Branch Expenses A/c	Dr.	4,550	
	To Cash A/c			4,550
	(Being Branch Expenses viz: Rent rates,taxes ₹ 900, Salaries and wages etc. ₹ 3,650 paid to Kanpur Branch)			

9.	Branch Stock A/c Dr. To Branch P & L A/c (Being Gross Profit transferred to Branch P & L A/c)	10,700	10,700
10.	Branch P & L A/c Dr. To Branch Expenses A/c (Being Branch Expenses A/c transferred to P& L A/c)	6,210	6,210
11.	Goods sent to Branch A/c Dr. To Trading A/c (Being balance of goods sent to Kanpur Branch Transferred to Trading A/c)	35,150	35,150
12.	Branch P & L A/c Dr. To General P & L A/c (Being net Profit transferred to General P & L A/c)	4,490	4,490

Dr. Branch Stock Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	7,560	By Cash (Cash sales)	16,750
To Goods sent to Branch A/c	35,500	By Branch Debtors	30,010
To Branch Debtors A/c (Sales Return)	300	(Credit Sales)	350
		By Goods sent to Branch A/c (Return from Branch)	
To Gross Profit transferred to P & L A/c	10,700	By Balance c/d	6,950
	54,060		**54,060**

Dr. Branch Debtors Accounts Cr.

Particulars	₹	Particulars	₹
To Balance b/d	13,000	By Cash	24,600
To Branch Stock A/c (Credit Sales)	30,010	By Branch Stock A/c (Sales Return)	300
		By Discount and Commission	1,360
		By Bad Debts	300
		By Balance c/d	16,450
	43,010		**43,010**

Dr. Branch Expenses Account Cr.

Particulars	₹	Particulars	₹
To Bad Debts A/c	300		
To Discount and Commission A/c	1,360		
To Cash A/c :			
Rent Rates and taxes	900		
Salaries and wages	3,650	By Branch Profit & Loss A/c	6,210
	6,210		**6,210**

Dr. **Branch Profit and Loss Accounts** Cr.

Particulars	₹	Particulars	₹
To Branch Expenses A/c	6,210	By Gross Profit transferred	
To Net Profit transferred to		from Stock A/c	10,700
General Profit and Loss A/c	4,490		
	10,700		**10,700**

Dr. **Good Sent to Branch Account** Cr.

Particulars	₹	Particulars	₹
To Branch Stock A/c	350	By Branch Stock A/c	35,500
To Trading A/c	35,150		
	35,500		**35,500**

Ans. 5. **Book of Hindustan Industries, Bombay**

Dr. **Branch Stock Account** Cr.

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Bank debtors (Credit sales)	2,00,000
To Goods sent to Branch	6,00,000	By Branch Debtors (Credit sales)	3,60,000
To Branch Debtors (sales ret.)	8,000	By Goods sent Branch	12,000
To Branch Stock Adjustment A/c	24,000	(Ret to H.O.)	
		By Balance c/d	1,20,000
	6,92,000		**6,92,000**

Dr. **Branch Stock Adjustment Account** Cr.

Particulars	₹	Particulars	₹
To Goods Sent to branch A/c		By Stock Reserve	
(on returns)	2,400	(1/5 of 60,000)	12,000
To Branch P&L A/c		By Goods sent to Branch	
(Gross Profit)	1,29,600	(1/5 of 6,00,000)	1,20,000
To Stock Reserve		By Branch Stock A/c	24,000
(1/5 of 1,20,000)	24,000		
	1,56,000		**1,56,000**

Dr. **Goods Sent to Branch Account** Cr.

Particulars	₹	Particulars	₹
To Cochin Branch Adjustment A/c	1,20,000	By Cochin Branch Stock A/c	6,00,000
To Cochin Branch Stock A/c (Ret)	12,000	By Cochin Branch stock Adj. A/c	2,400
To Trading A/c	4,70,400		
	6,20,400		**6,02,400**

Dr. **Branch Debtors Account** Cr.

Particulars	₹	Particulars	₹
To Balance b/d	72,000	By Bank	3,20,000
To Branch Stock A/c	3,60,000	By Discount	6,000
(Credit Sales)		By Bad Debts	4,000
		By Branch Stock A/c (Sales Ret.)	8,000
		By Balance c/d	94,000
	4,32,000		**4,32,000**

Dr. **Branch Expenses Account** Cr.

Particulars	₹	Particulars	₹
To Bank A/c (Rent Rates & Tax)	18,000		
To Bank A/c (Salaries wages)	60,000	By Branch Profit & Loss A/c	84,000
To Bank A/c (Office Exp)	6,000	(transfer)	
	84,000		**84,000**

Dr. **Branch Profit & Loss Account** Cr.

Particulars	₹	Particulars	₹
To Branch Expenses a/c	84,000	By Branch Stock Adj.A/c	1,29,600
To Discount	6,000		
To Bad Debts	4,000		
To Net Profit to Profit & Loss A/c	35,600		
	1,29,600		**1,29,000**

Note: Invoice price and sales price are different. Therefore, balance of Branch Stock A/c (₹ 24,000) represents excess of sales over invoice price and transferred to Branch Stock Adjustment A/c.

Ans. 6. Dr. **Branch trading and profit & Loss Accounts for the year ended……Cr.**

Particulars	₹	Particulars	₹
To Opening Stock	20,000	By Sales	1,60,000
To Goods from H.O	1,60,000	By Loss of Stock	2,000
To Gross profit c/d	32,000	By Closing-stock	50,000
	2,12,000		**2,12,000**
To Expenses	12,000	By Gross Profit	32,000
To Loss of Stock	2,000		
To Net Profit transferred to H.O. P/L A/c	18,000		
	32,000		**32,000**

Dr. **Head Office Trading and Profit & Loss Accounts for the year ended...** Cr.

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	3,40,000
To Purchases	4,00,000	By Goods Sent to Branch	1,60,000
To Gross Profit c/d	2,30,000	By Closing Stock	1,70,000
	6,70,000		**6,70,000**
To Expenses	60,000	By Gross profit b/f	2,30,000
To Stock Reserve		By Net Profit from Branch P/L A/c	18,000
(On Closing Stock)	18,750	By Stock Reserve	
To Net Profit	1,76,750	(On Opening stock)	7,500
	2,55,500		**2,55,500**

Working Notes:

1. Calculation of Branch closing stock

	₹	₹
Opening Stock		20,000
Add : Goods from Head Office		1,60,000
		1,80,000
Less : Loss of stock	2,000	
Invoice value of Sales (1,60,000 X 160/200)	1,28,000	1,30,000
Stock at invoice price		**50,000**

2. Calculation of Head Office Closing Stock

		₹
Opening Stock		40,000
Add : Purchase		4,00,000
		4,40,000
Less : Cost of sales (3,40,000X 100/200)	1,70,000	
Cost of Goods sent to Branch (160,000 X 100/160)	1,00,000	2,70,000
Closing stock at cost		**1,70,000**

3. Stock reserve on closing stock: (50,000X60/160) = 18,750
4. Stock reserve on opening stock (20,000 X 60,160) = 7,500.

Ans. 7. **Head Office Journal**

	Particulars	Dr. (₹)	Cr. (₹)
(1)	Agra Branch Account Dr.	3,000	
	To Kanpur Branch A/c		3,000
	(Being goods transferred from Kanpur Branch to Agra Branch)		
(2)	Agra Branch A/c Dr.	1,000	
	To Sundry Debtors A/c		1,000
	(Being goods purchased and paid by Kanpur Branch)		
(3)	Purchase A/c Dr.	2,000	
	To Kanpur Branch A/c		2,000
	(Being goods purchased paid by Kanpur Branch)		

(4)	Cash-in-transit A/c Dr.	1,000	
	To Kanpur Branch A/c		1,000
	(Being cash-in-transit sent by Kanpur branch)		
(5)	Agra Branch A/c Dr.	500	
	To Agra Branch Fixed Assets A/c		500
	(Being depreciation written off on branch fixed assets)		
(6)	Goods-in-transit account Dr.	2,500	
	To Agra Branch A/c		2,500
	(Being goods-in-transit Agra branch)		

Note: Entry for cash-in-transit from Kanpur Branch has been made in H.O. books because as per question all adjustment for reconciliation of Branch Accounts are made in the Head Office Books.

Ans. 8.

Silk Stock Account

2012		₹	2012	₹
To Balance b/d			By Sales A/c	1,25,000
To Cost	18,600		By Mark-up A/c	2,000
Mark-up	9,300	27,900	By Balance c/d	51,350
To Purchases	93,400			
Mark-up	46,700	1,40,100		
To Khadi A/c	6,900			
Mark-up	3,450	10,350		
		1,78,350		**1,78,350**

Silk Mark-up Account

2012	₹	2012	₹
To Stock & Loss A/c	2,000	By Balance b/d	9,300
To Profit & Loss A/c	41,000	By Stock A/c	46,700
To Balance c/d [(1/3 of 52,350) - 1,000)	16,450	By Stock A/c	
	3,450		
	59,450		**59,450**

Working Notes:

Verification of Profit	₹
Sales	1,25,000
Add: mark down in goods sold	1,000
	1,26,000
Gross Profit 1/3	42,000
Less: Mark down	(1,000)
Gross profit as per books	41,000

Khadi Stock Account

2012		₹	₹	2012	₹	₹
	To Balance b/d			By Sales		95,600
	(10,000+2,240)		12,740	Silk Deptt.	6,900	
	To Purchases	75,300		Mark-up A/c	2,300	9,200
	Markup	25,300	1,01,200	By Loss of	390	
				stock A/c		
				Mark-up A/c	130	520
				By Mark-up A/c		360
				By balance c/d		8,250
			1,13,940			**1,13,940**

Khadi Mark-up Account

2012	₹	2012	₹
To Stock A/c (transfer)	2,300	By balance b/d	
To Stock A/c (re-sale)	130	(3,500-1,260)	2,240
To Stock A/c (mark down)	360	By Stock A/c	25,300
To Profit & Loss A/c	22,685		
To balance (1/4 of ₹ 8,260)	2,065		
	27,540		**27,540**

Working Note:

Verification of Profit	₹
Sales as per books	95,600
Add: Mark-down (1,260 + 360)	1,620
	97,220
Gross Profit on fixed selling price @ 25% on ₹ 97,220	24,305
Less: Mark down	(1,620)
	22,685

Ans. 9.

Delhi Branch Trading and Profit & Loss Account for the year ended 31st Dec, 2012

		₹			₹
To Opening Stock:			By Sales		1,00,000
Head office Goods	3,200		By Goods from Branch		3,000
Others	500	3,700	By Closing Stock:		
To Goods To Branch		40,000	Head Office goods	2,400	
To Purchases		20,000	Others	1,000	3,400
To Gross Profit c/d		42,700			
		1,06,400			1,06,400
To Salaries		7,000	By Gross profit b/d		42,700
To Rent		3,000			
To Office Expenses		2,000			
To Dep. on furniture @ 10%		500			
To Net profit		30,200			
		42,700			**42,700**

Branch (Fixed) Assets Account (In Head Office Books)

2012		₹	2012		₹
Jan. 1	To Balance b/d	5,000	Dec. 31	By Delhi Branch A/c (Depreciation)	500
				By Balance c/d	4,500
		5,000			5,000
2013					
Jan 1	To Balance b/d	4,500			

Working Notes:

Cash/Bank Account (Branch Books)

	₹	₹		₹
To Balance b/d		1,000	By Salaries	7,000
To Sales Proceeds			By Rent	3,000
Sales	1,00,000		By Office Exp.	2,000
Opening balance			By Creditors*	47,000
of Debtors	9,500		By Head Office	
			(Balancing fig.)	32,000
	1,09,500		By Cash Balance	500
Less: Closinq balance	(15,000)		By Bank Balance	4,000
To Cash Received	94,500	94,500		
		95,500		**95,500**

*Opening Balance + Purchases - Closing balance = Payment

₹ 30,000 + ₹ 20,000 - ₹ 3,000 = ₹ 47,000.

Trial Balance of Delhi Branch as on 1-1-2012

			Dr.	Cr.
			₹	₹
Debtors			9,500	
Cash			1,000	
Stock	H.O. Goods	4,000		
	Others	500	4,500	
Creditors				30,000
Head Office Account			15,000	
			30,000	**30,000**

Head Office Account

	₹		₹
To Balance (transfer)	15,000	By Goods from Head Office	50,000
To Cash	32,000		
To Goods sent	3,000		
	50,000		**50,000**

Credit balance in Head Office Account before this transfer will be f 15,000 credit.
Note : Furniture A/c is maintained in Head office books; it is not a part of either opening or closing balance.

Ans. 10. **(i)** **Department Trading Account**
For the year ending on 31.03.2013
In the books of Head Office

Particulars	₹	**Particulars**	₹
To Opening Stock	65,000	By Sales	3,00,000
To Purchases	2,00,000	By Shortage	1,000
To Gross Profit c/d	58,880	By Closing Stock	22,880
	3,23,880		**3,23,880**

(ii) Memorandum stock account (for Department A) (at selling price)

Particulars	₹	**Particulars**	₹
To Balance b/d (₹ 65,000+25% of ₹ 65,000)	81,250	By Profit & Loss A/c (Cost of Shortage)	1,000
To Purchases	2,50,000	By Memorandum Departmental Mark up A/c (Load on Shortage) (₹ 1,000x25%)	250
		By Memorandum Departmental Mark-up A/c (Mark-down on Current Purchases)	1,200
		By Debtors A/c (Sales)	3,00,000
		By Memorandum Departmental Mark-up A/c (Mark Down on Opening Stock)	600
		By Balance c/d	28,200
	3,31,250		**3,31,250**

Memorandum Departmental Mark-up Account

Particulars	₹	Particulars	₹
To Memorandum Departmental Stock A/c (₹ 1,000 x 25/100)	250	By Balance b/d (₹ 81,250 x 25/125)	16,250
To Memorandum Departmental Stock A/c	1,200	By Memorandum Departmental Stock A/c (2,50,000 x 25/125)	50,000
To Memorandum Departmental Stock A/c	600		
To Gross Profit transferred to Profit & Loss A/c	58,880		
To Balance c/d [(₹ 28,200 + 400*) x 25/125 - ₹ 400]	5,320		
	66,250		66,250

* [₹1,200*5,000/15,000] = ₹ 400

Working Notes:

(i) Calculation of Cost of Sales

		₹
A	Sales as per Books	3,00,000
B	Add'. Mark-down in opening stock (given)	600
C	Add: mark-down in sales out of current Purchases (₹1,200 x10,000/15,000)	800
D	Value of sales if there was no mark-down (A+B+C)	3,01,400
E	Less: Gross Profit (25/125 of ₹ 3,01,400) subject to Mark Down (₹ 600 + ₹800)	(60,280)
F	Cost of sales (D-E)	2,41,120

(ii) Calculation of Closing Stock

		₹
A	Opening Stock	65,000
B	Add: Purchases	2,00,000
C	Less: Cost of Sales	(2,41,120)
D	Less: Shortage	(1,000)
E	Closing Stock (A+B-C-D)	22,880