SOLUTION

APPLICABILITY OF ACCOUNTING STANDARDS

Ans.1

Accounting Standards deal with the issues of

(i) Recognition of events and transactions in the financial statements,
(ii) Measurement of these transactions and events,
(iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and
(iv) Disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

Ans.2

Non-corporate entities which fall in any one or more of the following categories, at the end of the relevant accounting period, are classified as Level I entities:

(i) Entities whose equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.
(ii) Banks (including co-operative banks), financial institutions or entities carrying on insurance business.
(iii) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees fifty crore in the immediately preceding accounting year.
(iv) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year.
(v) Holding and subsidiary entities of any one of the above.

Ans.3

Non-corporate entities which are not level I entities but fall in any one or more of the following categories are classified as level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.
(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.
(iii) Holding and subsidiary entities of any one of the above.

AS 1 “DISCLOSURE OF ACCOUNTING POLICIES

Ans.4

Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

(i) Going Concern: The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.
(ii) Consistency: The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the change is required (i) by a statute, (ii) by an accounting standard or (iii) for more appropriate presentation of financial statements.
(iii) Accrual basis of accounting: Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

Ans.5

Following are the examples of the areas in which different accounting policies may be adopted by different enterprises:

(i) Methods of depreciation, depletion and amortisation.
(ii) Valuation of inventories.
(iii) Methods of valuing goodwill.
(iv) Valuation of investments.

AS 2 "VALUATION OF INVENTORIES

Ans.6

As per para 5 of AS 2 on „Valuation of Inventories", inventories should be valued at the lower of cost and net realizable value. Inventories should be written down to net realizable value on an item-by-item basis in the given case.

Items	Historical Cost (₹ in lakhs)	Net Realisable Value (₹ in lakhs)	Valuation of closing stock (₹ in lakhs)
A	40	28	28
B	32	32	32
C	16	24	16
	88	84	76

Hence, closing stock will be valued at ₹ 76 lakhs.

Ans.7

As per para 13 of AS 2 (Revised) „Valuation of Inventories", abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

Amount of Abnormal Loss:

Material used	12,000 MT @ ₹ 150 = ₹ 18, 00, 000
Normal Loss (4% of 12,000 MT)	480 MT
Net quantity of material	11,520 MT
Abnormal Loss in quantity	150 MT
Abnormal Loss	₹ 23,437.50

[150 units @ ₹ 156.25 (₹ 18, 00, 000 / 11,520)]

Amount ₹ 23,437.50 will be charged to the Profit and Loss statement.

Ans.8

As per 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 be incorporated are expected to be sold at cost 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 realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value. In the given case, selling price of product X is ₹ 300 and total cost per unit for production is ₹ 320.

Hence the valuation will be done as under:

(i) 600 units of raw material will be written down to replacement cost as market value of finished product is less than its cost, hence valued at ₹ 90 per unit.
(ii) 500 units of partly finished goods will be valued at 240 per unit i.e. lower of cost ₹ 320 (₹ 260 + additional cost ₹ 60) or Net estimated selling price ₹ 240 (Estimated selling price ₹ 300 per unit less additional cost of ₹ 60).
(iii) 1,500 units of finished product X will be valued at NRV of ₹ 300 per unit since it is lower than cost ₹ 320 of product X.

Valuation of Total Inventory as on 31.03.2015:

	Units	Cost (₹)	NRV/Replacement cost	Value – units x cost or NRV whichever is less (₹)
Raw material A	600	120	90	54,000
Partly finished goods	500	260	240	1,20,000
Finished goods X	1,500	320	300	4,50,000
Value of Inventory				6,24,000

Ans.9

As per para 8 of AS 4 'Contingencies and Events Occurring After the Balance Sheet Date', adjustment 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.

A debtor for ₹ 3,00,000 suffered heavy loss due to earthquake in the first week of March, 2010 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in April, 2010 (after the balance sheet date) is only an additional information related to the existing condition on the balance sheet date.

Accordingly, full provision for bad debts amounting ₹ 3,00,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2010.

Ans.10

As per AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", events occurring after the balance sheet date which do not affect the figures stated in the financial statements would not normally require disclosure in the financial statements although they may be of such significance that they may require a disclosure in the report of the approving authority to enable users of financial statements to make proper evaluations and decisions.

The investment of ₹ 50 lakhs in April 2010 for acquisition of another company is under negotiation stage, and has not been finalized yet. On the other hand it is also not affecting the figures stated in the financial statements of 2009-10, hence the details regarding such negotiation and investment planning of ₹ 50 lakhs in April, 2010 in the acquisition of another company should be disclosed in the Directors' Report* to enable users of financial statements to make proper evaluations and decision.

Ans.11

As per para 13 of AS 4, assets and liabilities should be adjusted for events occurring after the balance sheet date that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

Though the theft, by the cashier ₹ 6,00,000, was detected after the balance sheet date (before approval of financial statements) but it is an additional information materially affecting the determination of the cash amount relating to conditions existing at the balance sheet date.

Therefore, it is necessary to make the necessary adjustments in the financial statements of the company for the year ended 31st March, 2012 for recognition of the loss amounting ₹ 6,00,000. If embezzlement of cash comes to the notice of company management only after approval of financial statements by board of directors of the company, then the treatment will be done as per the provisions of AS 5. This being extra-ordinary item should be disclosed in the statement of profit and loss as a part of loss for the year ending March, 2013. The nature and the amount of prior period items should be separately disclosed on the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

Ans.12 (i) Cheques collected by the marketing personnel of the company is an adjusting event as the marketing personnels are employees of the company and therefore, are representatives of the company. Handing over of cheques by the stockist to the marketing employees discharges the liability of the stockist. Therefore, cheques collected by the marketing personnel of the company on or before 31st March, 2013 require adjustment from the stockists' accounts i.e. from 'Trade Receivables A/c' even though these cheques (dated on or before 31st March, 2013) are presented in the bank in the month of April, 2013 in the normal course. Hence, collection of cheques by the marketing personnel is an adjusting event as per AS 4 'Contingencies and Events Occurring after the Balance Sheet Date'.

Such 'cheques in hand' will be shown in the Balance Sheet as 'Cash and Cash equivalents' with a disclosure in the Notes to accounts about the accounting policy followed by the company for such cheques.

(ii) Even if the cheques bear the date 31st March or before and are sent by the stockists through courier on or before 31st March, 2013, it is presumed that the cheques will be received after 31st March. Collection of cheques after 31st March, 2013 does not represent any condition existing on the balance sheet date i.e. 31st March. Thus, the collection of cheques after balance sheet date is not an adjusting event. Cheques that are received after the balance sheet date should be accounted for in the period in which they are received even though the same may be dated 31st March or before as per AS 4.

Moreover, the collection of cheques after balance sheet date does not represent any material change affecting financial position of the enterprise, so no disclosure in the Director's Report is necessary.

Ans.13 (i) According to AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", assets and liabilities should be adjusted for events occurring after the balance sheet ate that provide additional evidence to assist the estimation of amounts relating to conditions existing at the balance sheet date.

In the given case, sale of immovable property was carried out before the closure of the books of accounts. This is clearly an event occurring after the balance sheet date but agreement to sell was effected on 1st March, 2013 i.e. before the balance sheet date.

Registration of the sale deed on 15th April, 2013, simply provides additional information relating to the conditions existing at the balance sheet date. Therefore, adjustment to assets for sale of land is necessary in the financial statements of Pradeep Ltd. for the year ended 31st March, 2013.

(ii) AS 4 (Revised) defines "Events occurring after the balance sheet date" as those significant events, both favorable and unfavorable, that occur between the balance sheet date and the date on which the financial statements are approved by the Board of Directors in the case of a company. Accordingly, the acquisition of another company is an event occurring after the balance sheet date. However, no adjustment to assets and liabilities is required as the event does not affect the determination and the condition of the amounts stated in the financial statements for the year ended 31st March, 2013.

Applying provisions of the standard which clearly state that/disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹40 lakhs in April, 2013 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

Ans.14

According to para 8.2 of Accounting Standard 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, though the debtor became insolvent after balance sheet date, yet he had suffered heavy loss (not covered by the insurance), before the balance sheet date and this loss was the cause of the insolvency of the debtor. Therefore the company must make full provision for bad debts amounting ₹ 5 lakhs in its final accounts for the year ended 31st March, 2014.

AS 5 "NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES"

Ans.15

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 and disclose the effect of change on financial statement items like assets, liabilities, profit / loss.

Ans.16

(a) As per Para 30 of AS 10 "Accounting for Fixed Assets", an increase in net book value arising on revaluation of fixed assets should be credited to owner's interests under the head of „revaluation reserve, except that, to the extent that such increase is related to and not greater than a decrease arising on revaluation previously recorded as a charge to the profit and loss statement, it may be credited to the profit and loss statement. A decrease in net book value arising on revaluation of fixed assets is charged directly to profit and loss statement except that to the extent such a decrease is related to an increase which was previously recorded as a credit to revaluation reserve and which has not been subsequently reversed or utilized , it may be charged directly to that account.

(b) 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 acquisition; and
   3. Revalued amounts substituted for historical costs of fixed assets, the method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.

Ans.17

As per para 11 of AS 10 "Accounting for Fixed Assets", fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident. Since, in the given situation, the market value of the shares exchanged for the asset is more clearly evident, the company should record the value of machinery at ₹ 7,12,500 (i.e., 7,500 shares x ₹ 95 per share) being the market price of the shares issued in exchange.

Ans.18

Calculation of cost of fixed asset

	₹
Materials	16,00,000
Direct expenses	3,00,000
Direct labour (1/15th of ₹ 6,00,000)	40,000
Office and administrative expenses (4% ₹ 9,00,000)	36,000
Depreciation on assets	15,000
Cost of fixed asset	19,91,000

AS 11 "THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES"

Ans.19

As per para 39 of AS 11 'Changes in Foreign Exchange Rates", in recording a forward exchange contract intended for trading or speculation purpose, the premium or discount on the contract is ignored and at each balance sheet date, the value of contract is marked to its current market value and the gain or loss on the contract is recognised. Since the forward contract was for speculation purposes the premium on forward contract i.e. the difference between the spot rate and the forward contract rate will not be recorded in the books. Only when the forward contract is sold the difference between the forward contract rate and sale rate will be recorded in the Profit & Loss Account.

	₹
Sale rate	44.30
Less: Contract rate	(44.10)
Profit on sale of contract per US$	00.20

Contract Amount US $ 2,00,000

Total profit (2,00,000 x 0.20) ₹ 40,000

Ans.20

Calculation of Profit or Loss on forward contract to be recognised in the book of Stem Ltd.

Forward contract rate	₹ 62.15 per dollar
Less: Spot Rate	₹ 60.75 per dollar
Loss	₹ 1.40 per dollar
Forward Contract Amount	US$ 30000
Total Loss on entering into forward contract	= US$ 30,000 x ₹ 1.40
	= ₹ 42,000
Contract Period	6 Months

Out of total contract period of 6 months, 4 months are falling in the financial year 2013-14.

Loss for the period from 1st Dec.2013 to 31st March, 2014= (₹ 42,000/6) x 4 = ₹ 28,000.

Thus the loss amounting to ₹ 28,000 for the period is to be recognised in the year ended 31st March, 2014.

Ans.21

As per AS 11 "The Effects of Changes in Foreign Exchange Rates", exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or as expenses in the period in which they arise.

However, at the option of an entity, exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a non-depreciable capital asset can be accumulated in a "Foreign Currency Monetary Item Translation Difference Account" in the enterprise's financial statements and amortized over the balance period of such long-term asset/ liability, by recognition as income or expense in each of such periods.

Debtors	Foreign Currency Rate	₹
Initial recognition US $8,547 (5,00,000/58.50) Rate on Balance sheet date Exchange Difference Gain US $ 8,547 X (61.20-58.50) Treatment: Credit Profit and Loss A/c by ₹ 23,077 Long term Loan Initial recognition US $ 1,07,913.67 (60,00,000/55.60) Rate on Balance sheet date Exchange Difference Loss US $ 1,07,913.67 X (61.20 – 55.60) Treatment: Credit Loan A/c And Debit FCMITD A/C or Profit and Loss A/c by ₹ 6,04,317	1 US $ = ₹ 58.50 1 US $ = ₹ 61.20 1 US $ = ₹ 55.60 1 US $ = ₹ 61.20	5,00,000 23,077 60,00,000 6,04,317

Thus Exchange Difference on Long term loan amounting ₹ 6,04,317 may either be charged to Profit and Loss A/c or to Foreign Currency Monetary Item Translation Difference Account but exchange difference on debtors amounting ₹ 23,077 is required to be transferred to Profit and Loss A/c.

AS 12 "ACCOUNTING FOR GOVERNMENT GRANTS"

Ans.22

As per para 21 of AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

(i) In this case the grant refunded is ₹ 30 lakhs and balance in deferred income is ₹ 21 lakhs, ₹ 9 lakhs shall be charged to the profit and loss account for the year 2010-11.
There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

(ii) If the grant was deducted from the cost of the plant in the year 2007-08 then, para 21 of AS-12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by ₹ 30 lakhs. The increased cost of ₹ 30 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2010-11 shall be (84 + 30)/7 years = ₹ 16.286 lakhs presuming the depreciation is charged on SLM.

Ans. 23

As per para 10 of AS 12 "Accounting for Govt. Grants", Where the government grants are of the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve.

Subsidy received by A Ltd. is in the nature of promoter's contribution, since this grant is given with reference to the total investment in an undertaking and by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof. Therefore, this grant should be treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

AS 13 "Accounting for Investments"

Ans.24

The disclosure requirements as per para 35 of AS 13 are as follows:

(i) Accounting policies followed for valuation of investments.

(ii) Classification of investment into current and long term in addition to classification as per Schedule VI of Companies Act in case of company.

(iii) The amount included in profit and loss statements for
   (a) Interest, dividends and rentals for long term and current investments, disclosing therein gross income and tax deducted at source thereon;
   (b) Profits and losses on disposal of current investment and changes in carrying amount of such investments;
   (c) Profits and losses and disposal of long term investments and changes in carrying amount of investments.

(iv) Aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;

(v) Any significant restrictions on investments like minimum holding period for sale/disposal, utilisation of sale proceeds or non-remittance of sale proceeds of investment held outside India.

(vi) Other disclosures required by the relevant statute governing the enterprises.

Ans.25

As per AS 13 „Accounting for Investments", where long-term investments are reclassified as current investments, transfers are made at the lower of cost and carrying amount at the date of transfer.

And where investments are reclassified from current to long term, transfers are made at lower of cost and fair value on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 6.5 lakhs in the books.

(ii) The carrying / book value of the long term investment is same as cost i.e. ₹ 7 lakhs. Hence this long term investment will be reclassified as current investment at book value of ₹ 7 lakhs only.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 10 lakhs as cost is less than its market value of ₹ 12 lakhs.

(iv) In this case, market value is ₹ 14 lakhs which is lower than the cost of ₹ 15 lakhs. The reclassification of current investment as long-term investments will be made at ₹ 14 lakhs.

AS 16 "BORROWING COSTS"

Ans.26

According to para 6 of AS 16 "Borrowing Costs", 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. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Also para 10 of AS 16 "Borrowing Costs" states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= ₹ 11,00,000 – ₹ 2,00,000

= ₹ 9,00,000

Sr. No.	Particulars	Nature of assets	Interest to be Capitalized (₹)	Interest to be charged to Profit Loss Account (₹)
(i)	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = ₹ 3,60,000	NIL
(ii)	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = ₹ 3,15,000
(iii)	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = ₹ 2,25,000
	Total		₹ 3,60,000	₹ 5,40,000

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Ans.27

(i) Computation of average accumulated expenses

		₹
₹ 3,00,000 x 12 / 12	=	3,00,000
₹ 3,50,000 x 9 / 12	=	2,62,500
₹ 5,50,000 x 6 / 12	=	2,75,000
₹ 1,50,000 x 1 / 12	=	12,500
13,50,000		8,50,000

(ii) Calculation of average interest rate other than for specific borrowings

Amount of loan (₹)	Rate of Interest		Amount of Interest (₹)
6,00,000	11%	=	66,000
11,00,000	13%	=	1,43,000
17,00,000			2,09,000
Weighted average rate of interest $\left(\frac{2,09,000}{17,00,000}\ x\ 100\right)$		=	12.29%

(iii) Interest amount to be capitalized

		₹
Specific borrowings (₹ 3,00,000 x 12%)	=	36,000
Non-specific borrowings [₹ 5,50,000(₹ 8,50,000 – ₹ 3,00,000) x 12.29%]	=	67,595
Amount of interest to be capitalized	=	1,03,595

(iv) Journal Entry

Date	Particulars	Dr. (₹)	Cr. (₹)
31.12.2014	Building account (13,50,000+1,03,595) Dr. To Bank account (Being amount of cost of building and borrowing cost thereon capitalized)	14,53,595	14,53,595

Ans.28

(i) Interest for the period 2014-15
= US $ 10 lakhs x 4% × ₹ 62 per US $ = ₹ 24.80 lakhs

(ii) Increase in the liability towards the principal amount
= US $ 10 lakhs × ₹ (62 - 56) = ₹ 60 lakhs

(iii) Interest that would have resulted if the loan was taken in Indian currency
= US $ 10 lakhs × ₹ 56 x 10.5% = ₹ 58.80 lakhs

(iv) Difference between interest on local currency borrowing and foreign currency borrowing

= ₹ 58.80 lakhs - ₹ 24.80 lakhs = ₹ 34 lakhs.

Therefore, out of ₹ 60 lakhs increase in the liability towards principal amount, only ₹ 34 lakhs will be considered as the borrowing cost. Thus, total borrowing cost would be ₹ 58.80 lakhs being the aggregate of interest of ₹ 24.80 lakhs on foreign currency borrowings plus the exchange difference to the extent of difference between interest on local currency borrowing and interest on foreign currency borrowing of ₹ 34 lakhs.

Hence, ₹ 58.80 lakhs would be considered as the borrowing cost to be accounted for as per AS 16 "Borrowing Costs" and the remaining ₹ 26 lakhs (60 - 34) would be considered as the exchange difference to be accounted for as per AS 11 "The Effects of Changes in Foreign Exchange Rates".

AS 17 "SEGMENT REPORTING"

Ans.29

AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if, followed consistently.

Ans.30

According to AS 17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are ₹ 8.8 crores [₹ 10 crores – (₹ 0.5 + ₹ 0.4 + ₹ 0.3)]. Segment X holds total assets of ₹ 1.5 crores (₹ 2 crores – ₹ 0.5 crores); Segment Y holds ₹ 2.6 crores (₹ 3 crores – ₹ 0.4 crores); and Segment Z holds ₹ 4.7 crores (₹ 5 crores – ₹ 0.3 crores). Thus all the three segments hold more than 10% of the total assets, all segments are reportable segments.

REDEMPTION OF PREFERENCE SHARES

CHAPTER-2

Q.1. Journal of Bhauna Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 1.4	Bank A/c Dr.		27,000	
	P&L A/c Dr.		1,000	
	To investments A/c (cost)			28,000
	Bank A/c Dr.		12,000	(b)
	To equity share capital A/c			10,000
	To securities premium reserve			2,000
	11% Preference Share capital A/c Dr.		(a) 50,000	
	Premium on Redemption A/c Dr.		2,500	
	To preference shareholders' A/c			52,500
	General Reserve A/c Dr.		2,500	
	To premium on redemption A/c			2,500
	General Reserve A/c Dr.		17,500	
	Profit and Loss A/c Dr.		22,500	
	To CRR A/c (a-b)			40,000
	Preference Shareholders' A/c Dr.		52,500	
	To Bank A/c			52,500

Bhavna Ltd. (After Redemption)

Balance Sheet as on 01:04.2017

Particulars	Note	CY	PY
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	1,00,000	
(b) Reserves and surplus	2	53,500	
2. Share application money pending allotment.		-	
3. Non-current liabilities	3	-	
4. Current liabilities	4	30,000	
Total		1,83,500	
II. ASSETS			
1. Non-Current assets	5	1,32,000	
2. Current assets	6	51,500	
Total		1,83,500	

Notes to Accounts

	CY	PY
1) Share Capital		
Authorised	?	
Issued subscribed and paid up		
10,000 equity shares @ ₹10 each, fully paid up	100000	
2) Reserves and Surplus		
Securities Premium	12,000	
Profit & Loss A/c	1,500	
Capital Redemption Reserve	40,000	
	53,500	

(3) Non-current liabilities	–
(4) Current liabilities	30,000
(5) Non-current assets	
Land and Building	1,00,000
Plant	30,000
Furniture	2,000
	1,32,000
(6) Current liabilities	
Stock	30,000
Debtors	15,000
Bank	6,500
	51,500

Q.5.

Preference Shareholders'
(1000)

Defaulters
50
(-) 40 Paid
10
↓
Forfeited & Reissued before redemption

Fully Paid
950
(+) 40
990
(+) 10
1000
↓
Redeemed

Journal of Redeemable Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
?	Bank A/c Dr.		800	
	To calls in arrears A/c (40x20)			800
	10% preference share capital A/c Dr.		1,000	
	To calls in arrears A/c			200
	To share forfeiture A/c			800
	Bank A/c Dr.		500	
	Share forfeiture A/c Dr.		500	
	To 10% preference share capital A/c			1,000
dden ustm ent	Share forfeiture A/c Dr.		300	
	To capital reserve A/c			300
	Bank A/c Dr.		49,500	(b)
	To equity share capital A/c			45,000
	To Securities premium			4,500
	10% preference share capital A/c Dr.		(a) 1,00000	
	Premium on redemption A/c Dr.		10,000	
	To preference shareholders' A/c			1,10000
	Securities Premium A/c Dr.		4,500	
	General Reserve A/c Dr.		5,500	
	To ~~preference~~ premium on redemption A/c			10000

General Reserve A/C Dr.		55000	
To CRR A/C (a-b)			55,000
Preference shareholders' A/C Dr.		1,10,000	
To Bank A/C			1,10,000

Redeemable Ltd.

Balance Sheet as on ------

Particulars	Note	CY	PY
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share capital	1	545000	
(b) Reserves and Surplus	2	1,44,800	
2. Share application money pending allotment		-	
3. Non-current liabilities	3	-	
4. Current liabilities	4	1,51,000	
Total		8,40,800	
II. ASSETS			
1. Non-Current Assets	5	-	
2. Current Assets	6	8,40,800	
Total		8,40,800	

Notes to Accounts

	CY	PY
1. Share Capital	?	
Authorised		
Issued, subscribed and paid up		
54,500 equity shares @ ₹10 each, fully paid	5,45,000	
2. Reserves and Surplus		
General Reserve	39,500	
Development Rebate Reserve	50,000	
Capital Reserve	300	
Capital Redemption Reserve	55,000	
	1,44,800	
3. Non current liabilities	–	
4. Current liabilities		
Other liabilities	1,51,000	
5. Non current Assets	–	
6. Current Assets		
Bank	30,800	
Other current assets	8,10,000	
	8,40,800	

Q.7. In this question the fresh issue is not given and it is decided to finance redemption by making a fresh issue and having closing bank balance.

Bank A/C

To balance b/d	67,500	By payment to preference shareholders	6,98,75
To sale of investments	2,60,000	By balance c/d (desired)	10,50
To fresh issue	3,81,750		
	7,09,250		7,09,25

Number of equity shares to be issued $= \frac{381750}{6} = 63{,}625$ shares

• Journal of M Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 01.04	Bank A/c Dr.		2,60,000	
	P&L A/c Dr.		15,000	
	To investments A/c			2,75,00
	Bank A/c Dr.		3,81,750	(b)
	To equity share capital A/c			3,18,12
	To securities premium A/c			63,62
			(a)	
	9% Preference share capital A/c Dr.		6,50,000	
	Premium on redemption A/c Dr.		48,750	
	To preference shareholders' A/c			6,98,750

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Securities premium A/c Dr.		48,750	
To premium on redemption A/c			48,750
General Reserve A/c Dr.		86,875	
P&L A/c Dr.		2,45,000	
To CRR A/c (a-b)			3,31,875
Preference Shareholders' A/c Dr.		6,98,750	
To Bank A/c			6,98,750

Balance Sheet of M Ltd.
as on 01.04.2017

Particulars	Note	CY	PY
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share capital	1	5,43,125	
(b) Reserves and Surplus	2		
2. Share application money pending allotment.			
3. Non current liabilities	3		
4. Current liabilities	4		
Total			
II. ASSETS			
1. Non-current assets.	5		
2. Current assets	6		
Total			

Notes To Accounts

Particulars	CY	PY
1. Share Capital		
Authorised	?	
Issued, subscribed and paid up		
1,08,625 equity shares @ ₹5 each, fully paid	543,125	
2. Reserves and Surplus		
General Reserve	13,125	
CRR	3,31,875	
Securities Premium	14,875	
	3,59,875	
3. Non Current Liabilities	-	
4. Current Liabilities		
Creditors	57,500	
5. Non-current assets		
Fixed Assets	9,50,000	
6. Current Assets		
Cash/ Bank	10,500	

Q.4. WN -

(1) In this question, it is specifically mentioned to redeem partly paid shares also. Hence, they are made fully paid up by making a call before redemption (Hidden Adjustment).

(2) The redemption can be made either out of divisible profit or fresh issue. Here, the amount of redemption is ₹8,00,000 but divisible profits are ₹2,00,000 only (2,40000 - 40,000 used for writing off premium on redemption). Therefore, fresh issue needed is ₹6,00,000.

Journal of Kamini Ltd.

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2018 01.04	Bank A/c Dr.		50,000	
	To 7% preference share capital			50,000.
	Bank A/c Dr.		6,00,000	(b)
	To equity share capital A/c			6,00,000
	7% preference share capital A/c Dr.		2,00,000	(a)
	6% preference share capital A/c Dr.		6,00,000	
	Premium on redemption A/c Dr.		40,000	
	To preference shareholders' A/c			8,40,000
	Profit and Loss A/c Dr.		40,000	
	To premium on redemption			40,000

Profit and loss A/c Dr.		2,00,000	
To CRR A/c (a-b)			2,00,000
Preference Shareholders' A/c Dr.		8,40,000	
To Bank A/c			8,40,000

Kamini Ltd. (After Redemption)
Balance Sheet as on 1.04.18

Particulars	Note	CY	PY
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	16,00,000	
(b) Reserves and Surplus	2	3,00,000	
2. Share application money pending allotment.		-	
3. Non-current liabilities	3	-	
4. Current liabilities	4	5,10,000	
Total		24,10,000	
II. ASSETS			
1. Non-current assets	5	17,00,000	
2. Current assets	6	7,10,000	
Total		24,10,000	

Notes To Accounts Particulars	CY	PY
(1) Share Capital	?	
Authorised		
Issued, subscribed and fully paid		
160000 equity shares of ₹10 each, fully paid	16,00,000	
(2) Reserves and Surplus		
Securities Premium	1,00,000	
CRR	2,00,000	
	3,00,000	
(3) Non-current liabilities	-	
(4) Current liabilities		
Creditors	5,10,000	
(5) Non current assets		
Fixed Assets	17,00,000	
(6) Current Assets		
Cash / Bank balance	7,10,000	

Issue of Bonus Shares

Bonus

- Conversion of partly paid shares in fully paid by way of bonus
  - Always out of divisible profits.
- Issue of fully paid bonus shares
  - Use the reserves in the following order:
    - → CRR
    - → Capital Reserve (excluding revaluation reserve)
    - → Securities Premium (earned in cash)
    - → Divisible profit (if required).

Refer Notes - Page No. 42

[NOTES]

Q.2.

WN - 1

(1) Reserves Utilisation for Bonus

Before issue of fully paid bonus shares, existing partly paid shares are converted into fully paid up by way of bonus. (Hidden Adjustment)

Bonus Amount = 80000 × 2.5
= ₹ 2,00,000

↓

Out of general reserve

(2) Issue of Fully paid bonus shares

Ratio = $\left\{ \begin{matrix} 1 & : & 2 \\ ? & : & 80,000 \end{matrix} \right\}$

= 40,000 shares
= ₹ 4,00,000

CRR	CR (excluding RR)	SP (earned in cash)	Divisible Profits (if required)
1,50,000	Nil	1,50,000	1,00,000

Journal of A Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
2015 01.04	Share final call A/c Dr.		2,00,000	
	To equity share capital A/c			2,00,000
	General Reserve A/c Dr.		2,00,000	
	To bonus to shareholders' A/c			2,00,000
	Bonus to shareholders' A/c Dr.		2,00,000	
	To share final call A/c			2,00,000
	CRR A/c Dr.		1,50,000	
	Securities Premium A/c Dr.		1,50,000	
	General Reserve A/c Dr.		1,00,000	
	To bonus to shareholders' A/c			4,00,000
	Bonus to shareholders' A/c Dr.		4,00,000	
	To equity share capital A/c			4,00,00

P.3. Journal of SK Ltd.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.		3,80,000	
	To investments A/c				3,00,000
	To P&L A/c (profit)				80,000
	Bank A/c	Dr.		55,000	
	To equity share capital A/c				50,000
	To securities premium				5,000
	8% preference share capital A/c	Dr.		1,00,000	
	Premium on Redemption A/c	Dr.		10,000	
	To preference shareholders' A/c				1,10,000
	General Reserves A/c	Dr.		10,000	
	To premium on redemption				10,000
	General Reserves A/c	Dr.		50,000	
	To CRR				50,000
	Preference Shareholders' A/c	Dr.		1,04,500	
	To Bank A/c				1,04,500
	(950 × 110)				
	∵ holders of 50 shares could not be traced.				

CRR A/c Dr.			
Securities Premium A/c Dr.			
Profit & Loss A/c Dr.			
To bonus to shareholders' A/c			
Bonus to shareholders' A/c Dr.			
To equity share capital A/c			

WN - 1

Ratio = 2 : 3

? : 15000

= 10,000 shares

= ₹1,00,000

CRR	CR	SP	DP
50,000	Nil	8,000	42,000 (P&L A/c)

Q.6.

Journal of Bharat Aluminium Co. Ltd.

Date	Particulars	LF	Dr. (₹)	Cr. (₹)
2017 01.04	Bank A/c Dr.		7,50,000	
	To 7.5% preference share capital			6,00,000
	To securities premium			1,50,000
	8% Preference share capital A/c Dr.		12,00,000	
	Premium on redemption A/c Dr.		1,20,000	
	To preference shareholders' A/c			13,20,000
	Securities premium A/c Dr.		1,20,000	
	To premium on redemption			1,20,000
	General Reserve A/c Dr.		6,00,000	
	To CRR A/c			6,00,000
	Preference Shareholders' A/c Dr.		13,20,000	
	To Bank A/c			13,20,000
	Share final call A/c Dr.		8,00,000	
	To equity share capital A/c			8,00,000
	General Reserve A/c Dr.		8,00,000	
	To bonus to shareholders' A/c			8,00,00
	Bonus to ~~equity~~ shareholders' A/c Dr.		8,00,000	
	To share final call A/c			8,00,0

~~CRR A/c~~			
~~Securities Premium A/c~~	~~Dr.~~	~~600,000~~	
~~Profit and loss A/c~~	~~Dr.~~	~~8,000~~	
	~~Dr.~~	~~42,000~~	
~~To bonus to shareholders' A/c~~			~~1,00,000~~
~~Bonus to shareholders' A/c~~	~~Dr.~~	~~1,00,000~~	
~~To equity share capital A/c~~			~~1,00,000~~

CRR A/c	Dr.	6,00,000	
CR A/c	Dr.	1,70,000	
Securities Premium A/c	Dr.	30,000	
General Reserve A/c	Dr.	2,00,000	
To bonus to shareholders' A/c			10,00,000
Bonus to shareholders' A/c	Dr.	10,00,000	
To equity share capital A/c			10,00,000

WN-1- Bonus

Ratio = 1 : 4

? 40000

= 10000

= ₹10,00000

CRR	CR	SP	DP
6,00000	1,70000	30,000	2,00000

Q.8.

The redemption is taking place one year after the balance sheet date and cash needed after redemption is given and it is specifically stated that a portion of investments is to be sold which is worked out by preparing Cash / Bank A/c.

Cash / Bank A/c

Particulars	₹	Particulars	₹
To balance b/d	50,000	By preference dividend	10,000
To cash profit (2011-12)		By payment to PSHs	
NP 35,000		(100000 + 10% Premium)	1,10,000
+) Non cash exp. 20,000	55,000	By balance c/d	
To sale of Investments	45,000	(31.3.2012)	30,000
	1,50,000	{Required after redemption}	1,50,000

∴ Cost of investments sold

$$\left\{ \begin{array}{l} 90 \longrightarrow 45{,}000 \\ 100 \longrightarrow (?) \end{array} \right\}$$

= 50,000.

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Journal of Trinity Ltd. [Redemption and bonus Entries only]

Date	Particulars		L.F.	Dr. (₹).	Cr. (₹)
2012 March 31	10% Preference share capital A/c	Dr.		1,00,000	
	Premium on Redemption A/c	Dr.		10,000	
	To preference shareholders' A/c				1,10,000
	General Reserve A/c	Dr.		10,000	
	To premium on redemption A/c				10,000
	General Reserve A/c	Dr.		1,00,000	
	To CRR A/c				1,00,000
	Preference shareholders' A/c	Dr.		1,10,000	
	To Bank A/c				1,10,000
	CRR A/c	Dr.		1,00,000	
	To bonus to shareholders' A/c				1,00,00
	Bonus to Shareholders' A/c	Dr.		1,00,000	
	To equity share capital A/c				1,00,0

WN-1- Bonus

Ratio = 1 : 1

{ ? : 10,000 }

= 10,000 shares

= ₹ 1,00,000

↓

CRR

Trinity Ltd.

Balance Sheet as on 01.04.12

	Note	CY	PY
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share capital	1	2,00,000	
(b) Reserves and Surplus	2	1,18,500	
2. Share Application money pending allotment.			
3. Non-current liabilities	3	-	
4. Current liabilities	4	11,500	
Total		3,30,000	
II. ASSETS			
1. Non-current assets.	5	2,30,000	
2. Current Assets	6	1,00,000	
Total		3,30000	

Notes to Accounts

(1) Share Capital	PY	CY
Authorised		
10,000, 10% preference shares of ₹10 each	1,00,000	
90,000 equity shares of ₹10 each	9,00,000	
	10,00,000	
Issued, subscribed and paid up		
20,000 equity shares of ₹10 each, fully paid	2,00,000	
(Of the above, 10,000 shares are issued as bonus shares).		

(2) Reserves and Surplus		
General Reserve		10,000
P&L A/C (18,500 + 35,000*** − 10,000***** − 5000)		
31-3-11 NP ↓ Loss on Investments		38,500
Dividend		
Securities Premium		70,000
		1,18,500
(3) Non-current liabilities		–
(4) Current liabilities		11,500
(5) Non-current Assets		
O.C. (Gross Block)	3,00,000	
(−) Provision for depreciation (1,00,000 + 20,000)	(1,20,000)	1,80,000
Investments		50,000
		2,30,000
(6) Current Assets		
Inventory		45,000
Trade Receivables		25,000
Cash/ Bank balance		30,000
		1,00,000

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REDEMPTION OF DEBENTURES

Question 1

Books of Rama Ltd.

6% Debentures a/c

1.1	To Bank a/c	4850	1.1	By Balance b/d	50000
1.1	To profit on cancellation (5000–4850)	150			
1.8	To Bank a/c	9975			
1.8	To Profit on cancellation (10000–9975)	25			
15.12	To Bank a/c (25 × 98.50)	2463			
15.12	To profit on cancellation (2500–2463)	37			
31.12	To Balance c/d	32500			
		50000			50000

Interest on Debentures a/c

1.1	To Bank a/c	50			
30.6	To Bank (on 45000)	1350			
1.8	To Bank a/c	50			
15.12	To Bank (on 2500 for 5½ months)	69			
31.12	To Bank (on 32500)	975	3.12	By POL a/c	2494
		2494			2494

Profit on cancellation a/c

			1.1	By 6% Debentures a/c	150
			1.8	By 6% Debentures a/c	25
31.12	To capital reserves	212	15.12	By 6% Debentures a/c	37
		212			212

1.	Cum int price (50 × 98)	4900
	(–) Int on 5000 for 1 mts	50
		———
	cost	4850
		====
2.	Cum int price (100 × 100.25)	10025
	(–) int on 10,000 for 1 mth	50
		———
	cost	9975
		=====

Books of Sencom Ltd.

Question 2

5% Debentures a/c

2011

31.12	To Balance c/d	150000	1.1	By Balance b/d	150000
		150000			150000

2012

31.3	To int. in own deb	44433	1.1	By Balance b/d	150000
31.3	To capital (resources) (45000–44433)	567			
31.3	To Balance c/d	105000			
		150000			150000

Interest on Debentures a/c

2011

31.3	To Bank (on 125000)	3125	1.1	By Balance b/d (o/s int. of LY)	1875
31.3	To Int. on own Deb (on 25000)	625			
30.9	To Bank (on 105000)	2625			
30.9	To Int. on own Deb. (on 45000)	1125			
31.12	To o/s Interest (on 105000)	1313			
31.12	To Int. on own Deb (on 45000) outstanding	562	31.12	By P & L a/c	7500
		9375			9375

2012

31.3	To Bank (on 105000)	2625	1.1	By Balance b/d (1313+562) (o/s Int. of LY)	1875
31.3	To int. on own deb (on 45000)	1125	31.3	By P & L a/c	1875
		3750			3750

Investment in own Debentures

2011

1.3	To Bank a/c	25000	521	24725	31.3	By Int. on Deb	–	625	–
1.9	To Bank a/c	20000	417	19708	30.9	By Int. on Deb	–	1125	–
					31.12	By Int. on Deb	–	562	–
31.12	To P & L a/c		1374		31.12	By Balance c/d	45000	–	44433
		45000	2312	44433			45000	2312	44433

2012

1.1	To Bal b/d	45000	562	44433	31.3	By Int. on Deb	–	1125	–
31.3	To P & L a/c		563		31.3	By 5% Deb a/c	45000	–	44433
		45000	1125	44433			45000	1125	44433

Question 3

Journal of Libra Ltd.

2011-12

1.5	Bank a/c To Deb. Application a/c (1,500,000 × 100)	1,50,000	 1,50,000
1.6	Deb. Application a/c To 15% Debentures a/c	1,50,000	 1,50,000
1.6	Underwriters a/c To 15% Debentures a/c (50,000 × 100)	50,00,000	 50,00,000
1.6	u/w commission a/c To underwriters a/c (2,00,00,000 × 2%)	4,00,000	 4,00,000
1.6	Bank a/c To underwrites a/c (50,00,000 – 4,00,000)	46,00,000	 46,00,000
3.9	Interest on Deb a/c To Bank a/c (2,00,00,000 × 15% × 4/12)	10,00,000	 10,00,000
3.11	Interest on Deb a/c To Bank a/c (2,00,00,000 × 60% × 15% × 2/12)	3,00,000	 3,00,000
3.11	15% Deb.a/c To Eq. Share capital a/c To securities premium a/c	1,20,00,000	 20,00,000 1,00,00,000
31.3	Interest on Deb. a/c To Bank a/c (2,00,00,000 × 40% × 15% × 6/12)	6,00,000	 6,00,000
31.3	P & L a/c To Interest on Debentures a/c	19,00,000	 19,00,000

Question 4

Books of Progressive Ltd.

6% Debentures a/c

2010

30.9	To Deb. Redemption	115800	1.1	By Bal b/d	1000000
30.9	To Capital Reserve	4200			
31.12	To Bal c/d	880000			
		1000000			1000000

2011

31.5	To Deb. Redemption	71250	1.1	By Bal b/d	880000
31.5	To Capital Reserve	3750			
31.12	To Deb holders	25000			
31.12	To Bal c/d	780000			
		880000			880000

2012

31.7	To Deb. Redemption	105225	1.1	By Bal b/d	780000
31.7	To Capital Reserve	9775			
31.12	To Bal c/d	665000			
		780000			780000

Debenture Redemption a/c

2010

30.9	To Bank	115800	30.9	By 6% Deb. a/c	115800

2011

31.5	To Bank (750 × 45)	71250	31.5	By 6% Deb. a/c	71250

2012

31.7	To Bank	105225	31.7	By 6% Deb a/c	105225

Debenture Redemption a/c

2010

30.6	To Bank (on 10,00,000)	30000			
30.9	To Bank	1800			
31.12	To Bank (on 880000)	26400	31.12	By P & L a/c	58200
		58200			58200

2011

31.5	To Bank	1875			
30.6	To Bank (on 805000)	24150			
31.12	To Bank (on 805000)	24150	31.12	By P & L a/c	50175
		50175			50175

2012

30.6	To Bank (on 780000)	23400			
31.7	To Bank	575			
31.12	To Bank (on 665000)	19950	31.12	By P & L a/c	43925
		43925			43925

WN1	Buyback on 30.9.2010	
	cum int. price (1200 × 98)	117600
	(–) int. on 120000 for 3 mths	1800
		————
	cost	115800
		======
WN2.	Int. on 75000 for 5 mths	1875
		======
WN3	Cum Int. price (1150 × 92)	105800
	(–) Int. on 115000 for 1 mth.	575
		———-
	cost	105225
		======

Question 5

Books of Paradise Ltd.

12% Debentures a/c

2011-12

31.3	To Deb. holders	750000	1.4	By Balance b/d	750000
		750000			750000

DRR a/c

2011-12

31.3	To DRR Investment (loss)	600000	1.4	By Balance b/d	600000
31.3	To Pem. on Redemption	750000	31.3	By P & L appro.	120000
31.3	To General Reserve	650000	31.3	By Int. on DRR Inv. (650000 × 10%)	65000
		785000			785000

DRR Investments a/c

2011-12

1.4	To Balance b/d (FV = 6,50,000)	600000	31.3 31.3	By Bank (6,00,000 × 90%) By DRR a/c (loss)	540000 60000
		60000			60000

Bank a/c

2011-12

31.3	To Balance b/d	300000	31.3	By Delta holders	825000
31.3	To Int. on own deb.	65000		(750000 + 10% Prem)	
31.3	To DRR inv. (sold)	540000	31.3	By Balance c/d	80000
		905000			905000

Debenture holders a/c

2011-12

			31.3	By 12% Deb.	750000
31.3	To Bank a/c	825000	31.3	By Prem. on Redemption	75000
		825000			825000

Question 6

Journal of Himalya Ltd.

2012-13

1.7	Deb. Redemption a/c (cost) Int. on Deb. a/c (3 months) To Bank a/c (1000 × 97)	95000 2000	 97000
1.7	8% Deb. a/c (FV) To Deb. Redemption a/c (cost) To Capital Reserve (Profit)	100000	 95000 5000
30.9	Int. on Deb. a/c To Bank a/c (½ yearly Int. on 900000)	36000	 36000
29.2	Deb. Redemption a/c (1800 × 99) Interest on Deb. a/c (5 months) To Bank a/c (Total)	178200 6000	 184200
29.2	8% Deb a/c (FV) To Deb. Redemption (Cost) To Capital Reserves (Profit)	180000	 178200 1800
31.3	Int. on Deb. a/c To Bank a/c (½ Yearly interest on 720000)	28800	 28800
31.3	P & L a/c To Interest on Deb a/c (2000 + 36000 + 6000 + 28800)	72800	 72800

COMPANY FINAL ACCOUNTS

Solution to Q.1 page no. 75

Journal Entries

		₹	₹
Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to profit and loss account)	Dr.	1,50,000	 1,50,000
Profit and Loss A/c To Provision for Taxation A/c (Being provision for tax made @30% on ₹10,00,000 i.e. ₹1,50,000)	Dr.	3,00,000	 3,00,000
Profit and Loss A/c To General Reserve A/c (Being creation of general reserve @5% of net profit (i.e. ₹7,00,000))	Dr.	35,000	 35,000
Profit and Loss A/c To preference share dividend A/c (Being preference share dividend payable @15% on ₹10,00,000)	Dr.	1,50,000	 1,50,000
Profit and Loss A/c To provision for corporate dividend tax A/c (Being provision made for corporate dividend tax @17.304% on total dividend of ₹2,40,000 (W.N.))	Dr.	41,530	 41,530

Balance Sheet (Extracts) as on 31st March, 2014

		₹
Equity and Liability		
Share holders' funds		
(a) Share capital	1	14,00,000
(b) Reserves and Surplus	2	11,61,330
Non-current liabilities		
(a) Long term borrowings	3	10,00,000
Current liabilities		
Short term provisions	4	5,45,530

Notes to accounts

				₹
1.	Share Capital			
	Equity share capital			
	Issued, subscribed and called up		10,00,000	
	13½% Preference share capital		4,00,000	14,00,000
2.	Reserves and Surplus			
	Securities Premium		7,00,000	
	General Reserve		35,000	
	Surplus (Profit & Loss A/c)		4,26,330	11,61,330
3.	Long-term borrowings			
	Secured			
	15% Debentures			10,00,000

4.	Short term provisions			
	Corporate Income-tax		3,00,000	
	Dividend payable			
	Preference (4L × 13.5%)	54,000		
	Equity (10L × 15%)	1,50,000	2,04,000	
	Corporate Dividend Tax {[36K + 12% surcharge] + 3% cess}		41,530	5,45,530

Working Note :

204K → 85

? 15

? 100

DDT = 15% of gross dividend + 12% surcharge + 3% cess

= [36,000 + 12% of 36,000] + 3% cess

= 40320 + 3% of 40320 = ₹41530

Calculation of grossing-up of dividend

Particular	₹
Dividend distribute by Xansa Ltd.	2,04,000
Add : Increase for the purpose of grossing-up of dividend $\left[\frac{15}{100-15} \times 2,04,000\right]$	36,000
Gross dividend	2,40,000

Solution to Q.2 page no. 75

Ring Ltd.

Profit and Loss statement for the year ended 31st March, 20X2

	Particulars	Note No.	(₹ in lacs)
I	Revenue from operations		10,40,000
II	Other income (interest on investment)		24,000
III	Total Revenue [I + II]		10,64,000
IV	Expenses :		
	Cost of purchase [4,20,000 + 1,60,000] Adjusted from Total per		5,80,000
	Hence, added back		
	Changes in inventories [20,000 – 1,80,000]		(1,60,000)
	Employee Benefits Expense		1,20,000
	Finance Costs (debenture interest)		56,000
	Depreciation and Amortisation Expenses		40,000
	Other Expenses	8	1,24,000
	Total Expenses		7,60,000
V	Profit before Tax (III–IV)		3,04,000
VI	Tax Expenses @30%		(91,200)
VII	Profit for the period		2,12,800

Balance sheet of Ring Ltd. as at 31st March, 20X2

	Particulars	Note No.	₹
I	**Equity and liabilities**		
	(1) Shareholder's Funds	1	4,00,000
	(a) Share Capital	2	2,22,442
	(b) Reserves and Surplus		
	(2) Non-Current Liabilities		
	(a) Long-term Borrowings (14% debentures)		4,00,000
	(3) Current Liabilities		
	(a) Trade Payable (Sundry Creditors)		1,84,000
	(b) Other Current Liabilities	3	1,62,358
	(c) Short-Term Provisions	4	91,200
	Total		14,60,000
II	**Assets**		
	(1) Non-current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	5	5,70,000
	(b) Non-current Investments		2,40,000
	(2) Current Assets		
	(a) Inventories	6	2,26,000
	(b) Trade Receivables	7	2,40,000
	(c) Cash and bank balances		60,000
	(d) Short Term Loans and Advances (Advance Payment of Tax)		1,20,000
	(e) Other Current Assets		4,000
	(Interest accrued on investments)		
	Total		14,60,000

Contingent Liability

Note : There is a Contingent Liability forbills discounted but not yet matured amounting ₹20,000.

Notes to Accounts :

1.	Share Capital		
	Authorised Capital		10,00,000
	10,000 Equity Shares of ₹100 each		
	Issued Capital		4,00,000
	4,000 Equity Shares of ₹100 each		
	Subscribed Capital and fully paid		4,00,000
	4,000 Equity Shares of ₹100 each		4,00,000

2.	Reserve and Surplus		
	General Reserve [₹80,000 + ₹21,280]		1,01,280
	Balance of statement of profit & loss account		
	Opening Balance	50,000	
	Add : Profit for the period	2,12,800	
		2,62,800	
	Appropriations		
	Transfer to General Reserve @10%	(21,280)	
	Equity Divided payable[25% of ₹4,00,000]	(1,00,000)	
	Dividend Distribution Tax (W.N.1)	(20,358)	1,21,162
			2,22,442
3.	Other Current Liabilities		
	Unclaimed Dividend		10,000
	Outstanding Expenses		4,000
	Interest accrued on Debentures		28,000
	Equity Dividend payable	1,00,000	
	Divided Distribution Tax	20358	1,20,358
			1,62,358
4.	Short-Term Provision		
	Provision for Tax		91,200
5.	Tangible Assets		
	Buildings	5,80,000	
	Less : Provision for Depreciation	1,00,000	4,80,000
	Plant and Equipment	2,00,000	
	Less : Provision for Depreciation	1,10,000	90,000
			5,70,000
6.	Inventories		
	Closing Stock of Finished Goods	1,80,000	
	Loose Tools	46,000	2,26,000
7.	Trade Receivables		
	Sundry Debtors	2,50,000	
	Less : Provision for Doubtful Debts 2nd Effect of PFDD	(10,000)	2,40,000
8.	Other Expenses		
	Rent		52,000
	Director's Fees		20,000
	Alternative Treatment		12,000
	Bad Debts – can be first adjusted to op. Bal of provision 6,000 [12K – 6K] 10,000 [4% of 250K]		4,000
	Provision for Doubtful Debts (4% of ₹2,50,000 less ₹6,000)		
	Additional provision will be 10,000		36,000
	Sundry Expenses		1,24,000

Working Note.

Calculation of Dividend distribution tax

	Particulars	₹
(i)	**Grossing-up of dividend**	
	Dividend distributed by Ring Ltd. 25% of 4,00,000	1,00,000
	Add : Increase for the purpose of grossing up of dividend [1,00,000 × (15/(100 – 15)]	17,647
	Gross dividend	1,17,647
(ii)	Dividend distribution tax @17.304% of ₹1,17,647	20,358

or

DDT = 15% of gross dividend + 12% surcharge + 3% cess

= 15% of 117647 + 12% + 3%

= (17647 + 12% of 17647) + 3%

= 19,765 + 3% of 19,765

= ₹20,358

Solution to Q.3 page 76

Calculation of effective capital and maximum amount of monthly remuneration

	(₹ in lakhs)
Paid up equity share capital	120
Paid up Preference share capital	20
Reserve excluding Revaluation reserve (150–10)	140
Securities premium	40
Long term loans	40
Deposits repayable after one year	20
	380
Less : Accumulated loses not written off investments	(20)
	(180)
Effective capital for the purpose of managerial remuneration	180

Since Kumar Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @₹60,00,000 per annum.

Note : Revaluation reserve, and application money pending allotment are not included while computing effective capital of Kumar Ltd.

Solution to Q.4 pg 76

Haria Chemicals Ltd.

Balance Sheet as at 31st March, 20X1

		Schedule (1)	Rupees as at the No. end of 31st March 20X1 (2)
	Equity and Liabilities		
1.	Shareholder's funds :		
	(a) Share capital	1	25,00,000
	(b) Reserves and Surplus	2	7,40,000
2.	Non Current Liabilities		
	(a) Long term borrowings	3	11,45,000
3.	Current Liabilities		
	(a) Trade payables		2,81,000
	Total		46,66,000
	Assets		
1.	Non current assets		
	Fixed Assets :		
	(a) Tangible assets	4	30,05,000
	(b) Intangible assets (goodwill)		2,65,000
2.	Current assets		
	(a) Inventories		8,23,000
	(b) Trade receivables		4,40,000
	(c) Cash and bank balances	5	53,000
	(d) Short term loans and advances	6	80,000
	Total		46,66,000

Haria Chemicals Ltd.

Statement of Profit and Loss for the year ended 31st March 20X1

		Schedule	Figures	
Revenue from operations			42,68,000	
Other Income	(A)	7	56,000	
			43,24,000	
Expenses				
Cost of materials consumed		8	23,19,000	
Change in inventory of finished goods		9	(1,43,000)	
Employee benefit expenses		10	9,00,000	
Finance cost		11	1,71,000	
Other expenses	(B)	12	4,76,000	
			37,23,000	
Profit before tax (A – B)				6,01,000
Provision for tax				–
Profit for the period				6,01,000

Notes to Accounts

1.	Share Capital	₹
	Authorised :	
	Equity share capital of ₹10 each issued and subscribed :	25,00,000
	Issued and Subscribed : Equity share capital of ₹10 each	25,00,000
2.	Reserves and surplus	
	Balance as per last balance sheet	1,39,000
	Balance in profit and loss account	6,01,000
		7,40,000
3.	Long term Borrowings	
	11% Debentures	5,00,000
	Bank loans (assumed long–term)*	6,45,000

4. Tangible Assets

	Gross block	Depreciation	Net Block
Freehold land	15,46,000		15,46,000
Furniture	2,00,000		2,00,000
Fixtures	3,00,000		3,00,000
Plant & Machinery	8,60,000	1,46,000	7,14,000
Tools & Equipment	2,45,000		2,45,000
Total	31,51,000	1,46,000	30,05,000

5.	Cash and bank balances	
	Cash and cash equivalences	
	Current account balance	45,000
	Cash	8,000
	Other bank balances	Nil
		53,000
6.	Short–term loans and advances	
	Loan to directors	80,000
7.	Other Income	
	Rent received	46,000
	Transfer fees	10,000
		56,000
8.	Cost of materials consumed	
	Purchases	23,19,000

9.	Changes in inventory of finished goods, WIP & Stock in trade		
	Opening inventory	6,80,000	
	Closing inventory	8,23,000	(1,43,000)
10.	Employee benefit expense		
	Wages		9,00,000
11.	Finance cost		
	Interest on bank loans		1,16,000
	Debenture interest		55,000
			1,71,000
12.	Other expenses		
	Consumables		84,000
	Preliminary expenses		10,000
	Bad debts		35,000
	Discount		40,000
	Rentals		25,000
	Commission		1,20,000
	Advertisement		20,000
	Dealer's aids**		21,000
	Transit insurance		30,000
	Trade expenses		37,000
	Distribution freight		54,000
			4,76,000

CASH FLOW STATEMENT

Q. 1 Cash how statement of MNT ltd for year ended 31.03.2015

Particulars	Rs.	Rs.
Cash flow from operating activities		
Cash sales 382500 × 100/30	12,75,000	
Less paid to creditors	(4,60,000)	
Less operating expenses (492500 + 75000)	(5,67,500)	
Cash generated from Operations		2,47,500
Taxes paid		(65,000)
Net cash generated from operating activities (A)		1,82,500
Cash flow from investing activities		
Sale of investments		7,20,000
Purchase of plant & machinery		(2,50,000)
Net cash generated from investing activities (B)		4,70,000
Cash flow from financing activities		
Bank loan repaid – principal		(2,00,000)
Interest		(15,000)
Dividend paid		(30,000)
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash & cash equivalents during the year A + B + C		4,07,500
Cash & Cash equivalents at beginning of year end of year		2,00,000
		6,07,500

Q. 2 Direct Method

Calculation of cash from operating activities of ABC Ltd. for year ended 31.03.11

Particulars	Rs.	Rs.
Cash- sales	NIL	
Collection from Debtors	4,000	
Cash purchase	NIL	
Payment to creditors	(2,380)	
Payment for operating expenses	(978)	642
Taxes paid		(195)
		447

W.N.1 Debtors a/c

To bal b/d	250	By cash/bank a/c	4,000
To sales	4150	By balance c/d	400
	4400		4400

W.N.2 Creditors a/c

To cash bank a/c	2380	By bal. b/d	230
To bal. c/d	250	By purchases a/c	2400
	2630		2630

W.N.3

Operating expenses as per P & L a/c	1000
(+) o/s at beginning	50
(–) o/s at end	(72)
	978

Indirect Method

Calculation of cash from operating activities of ABC ltd fro year ended 31.03.11

N.P.B.T.	710	
Adjustments for		
Depreciation	100	
Interest expenses	60	
Interest & dividend income	(100)	
Operating profit before WC changes	770	
Less : Increase in Trade records	(150)	
Less : Increase in inventory	(20)	
Add : Increase in Trade payable	20	
Add : Increases in o/s wages	12	
Add : Increase in o/s expenses	10	
Cash generated from operations		642
Tax paid		(195)
		447

Q.3 Direct Method

Cash flow statement of gamma ltd for year ended 31.03.2017

Particulars	₹	₹
Cash flow from operating activities		
Cash sales	81	
Coll from Debtors	49	
Cash purchases	(11)	
Cash paid to creditors	(42)	
Cash paid for operating expenses	(40)	
Cash generated from operations		37
Tax paid		(8)

Net cash generated from operating activities (A)		29
Cash flow from investing activities		
Sale of investment		14.40
Purchase of new plant		(11)
Net cash generated from investing activities (B)		3.40
Cash flow from Financing Activities		
Redemption of Debentures		(7)
Interest paid		(1.5)
Dividend paid		(11.7)
Net cash used in financing activities (C)		(20.2)
Net increase in cash & cash equivalents during the year A + B + C		12.20
Cash & cash equivalents at the beginning of year end of year		6.00
		18.20

W.N.1 Debtors a/c

To bal b/d	45	By cash/bank a/c	49
To cr. sales	54	By balance c/d	50
	99		99

W.N.2 Creditors a/c

To cash bank a/c	42	By bal. b/d	21
To bal. c/d	23	By cr. purchases a/c	44
	65		65

W.N.3

Administrative expenses	18
Salary	22
	40

Q.4 Soln. from S.M.

Q.5 Cash from operating activities

Particulars	₹	₹
N.P.B.T.	22,200	
Adjustment for		
Depreciation	7,450	
Patent amortization	900	
Interest expense	10,650	
Other income	(6000)	
Operating profit before WC changes	35,200	
Add : Decrease in Trade receivable	7,150	

Less : Decrease in allowance B.D.	(1900)	
Less : Increase in Inventory	(2700)	
Less : Increase in P.P. Insurance	(700)	
Add : Increase in Trade payable	5650	
Less : Decrease in salaries payable	(2050)	
Cash generated from operations		40,650
Taxes paid		(6600)
Cash generated from operating activities		34,050

Q.6 Cash flow from investing activities particulars.

Particulars	**₹**
Unsecured loan given to subsidiaries	(4,85,000)
Interest received on loan	82,500
Pre-acquisition dividend received	62,400
Interest received on investment	68,000
Sale of plant	74,400
Claim received for loss of plant	49,600
	(1,48,100)

It is assumed that the interest received on investment figure is net of TDS.

Profit Prior to Incorporation

Q.1 Fellow Travellers Ltd.

Statement showing calculation of profit / losses for pre & post incorporation periods.

Particulars	Ratio	Pre	Post
Gross Profit (Sales Ratio)	1 : 2	20,000	40,000
Less : Expenses			
→ Salaries & Wages (Time Ratio)	5 : 7	4,167	5,833
→ Debenture Interest (1,50,000 × 7% × 6/12)	Post		5,250
→ Depreciation (Time Ratio)	5 : 7	417	583
→ Interest on purchase consideration (WN3)	5 : 1		1,500
→ Selling comm. (Sales Ratio)	1 : 2	7,500	6,000
→ Director's fee	Post	3,000	600
→ Preliminary Expenses	Post	–	6,000
→ Provision for taxes	Post		900
Capital reserve Net p/f		4,917	13,333

WN1 Calculation of time ratio :

DOA DOI DOFA

1/1/11 31/5/11 31/12/11

(5) (7)

∴ TR = 5 : 7

WN2 Calculation of sales ratio :

Sales from Jan to May = 60,000 & June to Dec = 1,20,000

∴ SR = 1 : 2

WN3 Bifurcation of Int on purchase consideration

DOA DOI Dare of Settlement

1/1/11 31/5/11 30/06/11

(5) (1)

∴ Int = 9,000

Pre 5 : 1 Post

7,5001,500

Fellow Travellers Ltd.

Extract of Balance Sheet as on 31st December 11

	Particulars	Notes	Amount (₹)
I.	Equity & Liabilities		
1.	Share holders funds		
	(a) Share capital	1	2,00,000
	(b) Reserves & surplus	2	33,250
2.	Non-current liabilities		
	(a) Long term borrowings	3	1,50,000
3.	Current liability		
	(a) Short term provisions	4	900
		Total	3,84,150

Notes to Accounts

1.	Share capital		
	Authorised share capital		?
	Issued subscribed & paid up		
	20,000 equity shares of ₹10 each.		2,00,000
	(All of the above shares are issued for consideration other than cash)		
2.	Reserves & surplus		
	Capital Reserve		4,917
	Securities premium		20,000
	Profit & Loss	13,333	
	(–) Dividend	(5,000)	8,333
			33,250
3.	Long term borrowings		
	7% Debentures		1,50,000
4.	Short term provisions		
	Provision for taxes		900

Q.2 In the books of SALE Ltd., Statement showing calculation of profits for pre-incorporation & post incorporation periods.

Particulars	Ratio	PRE	Post	Total
Gross profit (WN3)	1 : 3	1,50,000	4,50,000	6,00,000
Less : Expenses				
→ Salaries (Time Ratio)	1 : 2	40,000	80,000	1,20,000
→ Rent, Rate & Taxes (TR)	1 : 2	26,667	53,333	80,000
→ Common sales (sales ratio)	2 : 5	6,000	15,000	21,000
→ Depreciation (Time ratio)	1 : 2	8,333	16,667	25,000
→ Directors fees	Post	–	12,000	12,000
→ Advertisement	Post	–	36,000	36,000
→ Interest on debenture	Post	–	32,000	32,000
Capital Reserve P/L a/c		69,000	2,05,000	2,74,000

WN1 Calculation of Time Ratio

DOA	DOI	DOFA
01/04/11	01/08/11	31/03/12

∴ TR = 1 : 2

WN2 Calculation of sales ratio

Let PRE period per month sales be ₹x

∴ Post period per month sales = ₹1.25x

PRE	POST
4 months	8 months
× x	× 1.25 x
4x	10x

∴ Sales Ratio = 4 : 10

i.e. 2 : 5

WN3 Bifurcation of gross profit :

	PRE	POST
Sales	4x	10x
GP %	25%	30%
∴ Gross p/f ratio	1x	3x = 1 : 3

Total gross profit = 6,00,000

PRE 1 : 3 POST

1,50,000 4,50,000

Q.3 In the books of Rama Udyog Ltd. Statement showing calculation of pre & post incorporation profit.

Particulars	Ratio	PRE	Post	Total
Gross profit (WN3)	2 : 7	1,20,000	4,20,000	5,40,0000
Less : Expenses				
→ Depreciation (TR)	1 : 2	41,000	82,000	1,23,000
→ Director's fees	Post	–	50,000	50,000
→ Preliminary expenses	Post	–	12,000	12,000
→ Office expenses (TR)	1 : 2	26,000	52,000	78,000
→ Selling expenses (SR)	2 : 7	16,000	56,000	72,000
→ Interest to venders (WN4)	Actual	4,000	1,000	5,000
Capital Reserve P/L a/c		33,000	1,67,000	2,00,000

WN1 Calculation of time ratio :

DOA — DOI — DOFA

01/04/11 — 01/08/11 — 31/03/12

(4) (8)

∴ Time Ratio = 1 : 2

WN2 Calculation of sales ratio

Let sales in first half be x

∴ Sales in second half = ₹2x

PRE		POST	
May	x	Aug	x
June	x	Sep	x
July	x	Oct	2x
		Nov	2x
		Dec	2x
		Jan	2x
		Feb	2x
		Mar	2x
	4x		14x

∴ Sales Ratio = 4 : 14

i.e. 2 : 7

WN3 Calculation & bifurcation of gross profit

Gross profit = Net profit + All expenses

= 2,00,000 + (1,23,000 = 50,000 + 12,000 + 78,000 + 72,000 + 5,000)

= 2,00,000 + 3,40,000

∴ GP = 5,40,000

GP to be bifurcated in sales ratio.

WN4 Bifurcation of Int. to vendors

DOA	DOI	DOS
01/04/11	01/08/11	31/08/11

(4) (1)

∴ Int = 5,000

PRE 4 : 1 POST

4,000 1,000

Q.4 In the books of Glorious Ltd. Statement showing calculation of pre & post incorporation period profits.

(₹ in lakhs)

Particulars	Ratio	PRE	Post	Total
Gross profit (WN3)	1 : 3	100	300	400
Less : Expenses				
→ Salaries (TR)	1 : 2	23	46	69
→ Rent, Rates & Insurance (TR)	1 : 2	8	16	24
→ Sundry off. exps (TR)	1 : 2	22	44	66
→ Traveller's comm.. (SR)	1 : 3	4	12	16
→ Discount Allowed (SR)	1 : 3	3	9	12
→ Bad debts (SR)	1 : 3	1	3	4
→ Director's Fee	Post	–	25	25
→ Tax Audit Fee (SR)	1 : 3	2.25	6.75	9
→ Depreciation (TR)	1 : 2	4	8	12
→ Debenture Int.	Post	–	11	11
Capital Reserve P/L a/c		32.75	119.25	152

WN1 Calculation of time ratio :

DOA	DOI	DOFA
01/04/11	01/08/11	31/03/12

(4) (8)

∴ Time Ratio = 1 : 2

WN2 Calculation of sales ratio

DOA | DOI | DOFA

01/04/11 | 01/08/11 | 31/03/12

₹400 ₹12,000

∴ Sales = 400 : 1200

∴ Sales Ratio = 1 : 3

WN3 Calculation of gross profit

GP = 25% × 1,600 lakhs

= ₹400 laks

Q.5 In the books of ABC Ltd. Statement showing calculation of PRE & POST incorporate period profits.

Particulars	**Ratio**	**PRE**	**POST**	**Total**
Gross profit (SR)	1 : 3	80,000	2,40,000	3,20,000
Less : Expenses				
→ Salaries (TR)	1 : 2	16,000	32,000	48,000
→ Stationary (TR)	1 : 2	1,600	3,200	4,800
→ Travelling expenses	WN4	5,200	11,600	16,800
→ Advertisement (SR)	1 : 3	4,000	12,000	16,000
→ Misc. Trade exps. (TR)	1 : 2	12,600	25,200	37,800
→ Rent	WN3	8,000	18,400	26,400
→ Electricity charges (TR)	1 : 2	1,400	2,800	4,200
→ Directors Fee	POST	–	11,200	11,200
→ Bad debts (SR)	1 : 3	800	2,400	3,200
→ Commission to selling agents (SR)	1 : 3	4,000	12,000	16,000
→ Tax audit fee (SR)	1 : 3	1,500	4,500	6,000
→ Debenture Interest	POST	–	3,000	3,000
→ Interest paid to vendors	WN6	2,800	1,400	4,200
→ Selling expenses (SR)	1 : 3	6,300	18,900	25,200
→ Depreciation	WN5	3,000	6,600	9,600
Capital Reserve P/L a/c		12,800	74,800	87,600

WN1 Calculation of time ratio :

DOA | DOI | DOFA

01/04/11 | 01/08/11 | 31/03/12

(4) (8)

∴ Time Ratio = 1 : 2

WN2 Calculation of sales ratio

Total sales = 19,20,000

Let sales from 1/4/11 to 30/9/11 be ₹x per months

$\therefore$ Sales from 1/10/11 to 31/3/12 = ₹$\left(x + \frac{2x}{3}\right)$ per month.

$\frac{5}{3}x$

	PRE		POST
April	x	Aug	x
May	x	Sept	x
June	x	Oct	5/3 x
July	x	Nov	5/3 x
		Dec	5/3 x
		Jan	5/3 x
		Feb	5/3 x
		Mar	5/3 x
	4x		12x

$\therefore$ Sales ratio = 1 : 3

WN3 Bifurcation of Rent of office building

	PRE		POST
April	2,000	Aug	2,000
May	2,000	Sept	2,000
June	2,000	Oct	(2,000 + 400) × 6 months
July	2,000	Nov	= 2,400 × 6 months
		Dec	
		Jan	
		Feb	
		Mar	
	8,000		18,400

WN4 Bifurcation of Travelling Expenses

Total expenses = 16,800

Towards sales promotion (SR)			Balance (TR)		
	4,800			12,000	
PRE	1 : 3	POST	PRE	1 : 2	POST
1,200		3,600	4,000		8,000

∴ Total PRE = 1,200 + 4,000 = 5,200

∴ Total POST = 3,600 + 8,000 = 11,600

WN5 Bifurcation of Depreciation :

Depreciation = 9,600

Depreciation on asset in post period = 600		Balance (TR) = 9,000	
POST		PRE	POST
		3,000	6,000

Total PRE = 3,000

Total POST = 6,600

WN6 Bifurcation of Interest paid to vendors

DOA	DOI	DOFA
01/04/11	01/08/11	30/09/11

(4) (2)

∴ Ratio = 2 : 1

Total interest paid to vendor = 4,200

2 : 1

PRE	POST
2,800	1,400

INVESTMENT ACCOUNTS

Q.1 In the books of Mr. Rajat.

Investment in Equity Shares of P Ltd. for the year ending 31st March

Date	Particulars	No. of shares	Dividend	Cost
01.04.2011	To Bal b/d	50,000	–	7,50,000
20.06.2011	To Bank a/c	10,000	–	1,60,000
01.08.2011	To Bonus Shares (WN1)	10,000	–	–
31.10.2011	To Bank a/c (WN2)	20,000	–	3,00,000
		90,000	–	12,10,000
31.03.2012	By balance c/d (Bal fig.)	90,000	–	12,10,000
		90,000	–	12,10,000

WN1 Calculation of no. of bonus shares

Bonus ratio = 1 shr : 6 shs held

10,000 shs : 60,000 shs

WN2 Calculation of no. of right shares & cost of right shares

Ratio = 3 shs : 7 shs field

30,000 = 70,000 shs

Company offered = 30,000 shs

shs subscribed	shs renounced
(2/3)	(1/3)
= 20,000 shs	= 10,000 shs
cost = 20,000 × 15	10,000 × 2 = 20,000
= ₹3,00,000	To be Cr. to P/L A/c.

Q.2 In the book of A Limited.

Investment in Equity Shares for the year ending 31st March 12

Date	Particulars	No. of shares	Dividend	Cost
01.04.2011	To Bank b/d	5,000	–	5,35,000
30.06.2011	To Bonus shs (WN3)	1,000	–	–
01.10.2011	To Bank A/c (WN4)	250	–	11,250
31.10.2011	To Profit / Loss A/c (WN6)	–	–	21,660
31.03.2012	To Profit / Loss A/c (Bal fig.)	–	6,000	–
		6,250	6,000	5,68,410

15.05.2011	By Bank A/c (WN2)	–	–	10,000
30.11.2011	By Bank A/c (WN5)	–	6,000	–
31.12.2011	By Bank A/c (WN6)	3,000	–	2,79,300
31.03.2012	By balance c/d (Bal. fig.)	3,250	–	2,79,116
		6,250	6,000	

WN1 Calculation of cost of purchase on 1st April, 2011

cost = 5,000 shs × ₹ 105 = 5,25,000

(+) Brokerage (2%) = 10,500

∴ Total cost = 5,35,500

WN2 Calculation of dividend received on 15th May 2011

Dividend = 5,000 shs × ₹ 100 × 2% = ₹ 10,000

WN3 Calculation of No. of Bonus shares

Bonus Ratio = 1 sh : 5 held

1,000 shs : 5,000 shs

WN4 Calculation of no. of right shs & cost of right shs

Right ratio = 1 sh : 12 shs field

500 shs : 6,000 shs

Company offered = 500 shs

Subscribed	Renounced
(1/2)	(1/2)
= 250 shs	= 250 shs
Cost = 250 × 45 = ₹ 11,250	= 250 × 50 = 12,500
	Trf to P/L

WN5 Calculation of Interim dividend

Interim dividend = 1% (Purchase + Bonus) × FV

= 1% (5000 hrs + 1000 hrs) × 100

= ₹ 6,000

WN6 Calculation of profit/loss on sale of shs on 31/12/

Selling price = 3000 shs × ₹ 95	= 2,85,000
(–) Brokerage (2%)	= (5,700)
Net selling price	= 2,79,300

Weighted average cost of invst.

FV	cost
5,000	5,35,500
1,000	–
250	11,250
–	(10,000)
6,250	5,36,750
3,000	2,57,640

SP	2,79,300
– cost =	(2,57,640)
Profit/(Loss)	21,660

Q.3 In the book of Mr. Purohit.

Investment in 8% Debentures of P Ltd. for the year ending 31st March 2012

Date	Particulars	FV	Int.	Cost
01.04.2011	To Balance b/d	1,20,000		1,18,000
01.07.2011	To Bank A/c (WN1)	10,000	200	9,898
01.10.2011	To Profit / Loss A/c (WN6)	–	–	133
01.01.2012	To Bank A/c (WN4)	5,000	100	4,849
31.03.2012	To Profit / Loss A/c (Bal fig.)		9,233	
30.09.2011	By Bank A/c (WN2)	–	5,200	–
01.10.2011	By Bank A/c (WN3)	20,000	–	19,800
01.02.2012	By Bank A/c (WN5)	20,000	533	19,602
01.02.2012	By Profit / Loss a/c (WN5)	–	–	64
31.03.2012	By Bank A/c (WN6)	–	3,800	–
31.03.2012	By balance c/d (Bal. fig.)	95,000		93,414

WN1 Calculation of cost & interest on 1.7.11

cost = 100 × 98	= 9,800
(+) Brokerage (1%)	= 98
∴ Total cost	= 9,898

Interest = $100 \times 100 \times \frac{8}{100} \times \frac{3}{12}$ = ₹ 200

WN2 Calculation of Interest to be received on 30.09.11

$$\text{Interest} = 1,30,000 \times \frac{8}{100} \times \frac{6}{12} = 5,200$$

WN3 Calculation of Profit / Loss on sale on 1.10.11

Selling price = 200 × 100		= 20,000
(–) Brokerage (1%)		= (200)
		19,800
Cost :	FV	Cost
	1,20,000	1,18,000
	20,000	19,667
SP	= 19,800	
– cost	= (19,667)	
Profit	= 133	

WN4 Calculation of cost & Interest on 1.1.2012

Cash outflow = 50 × 98	= 4,900
(+) Brokerage	= 49
	= 4,949

cost (bal fig)	Int.
(₹ 4,849)	$= 50 \times 100 \times \frac{8}{100} \times \frac{3}{12}$
	= ₹ 100

WN5 Calculation of profit or loss on 1.2.2012

Selling price = 200 × 99	= 19,800
(–) Brokerage (1%)	= (198)
∴ Net selling price	= 19,602

$$\text{Interest} = 200 \times 100 \times \frac{8}{100} \times \frac{4}{12} = ₹\ 533$$

Cost =	FV	Cost
	1,20,000	1,18,000
	20,000	19,667
∴ Net selling price		= 19,602
(–) cost		= (19,666)
Profit / (Loss)		(64)

WN6 Calculation of interest to be received on 31.3.12

Interest = $950 \times 100 \times \frac{8}{100} \times \frac{6}{12}$

= ₹ 3,800

Q.4 In the books of Mr. Krisha Murty

Investment in Equity shs of TELCO Ltd. for the year 11–12

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int	Cost
01.04.11	To Bank A/c (WN1)	1,000	–	1,23,000	31.3.12	By Bank a/c (WN2)	500	–	44,100
31.01.12	To Ban shs	500	–	–	31.3.12	By bal c/d (WN3)	1,000	–	82,000
31.03.12	To P/L A/c (WN2)	–	–	3,100					
		1,500		1,26,100			1,500		1,26,100

Working Notes :

WN1 Calculation of cost of shares purchased on 1.4.2011

Cost = (1,000 × ₹120) + Brokerage (2% × 1,20,000) +

Stamp chg (1/2% × 1,20,000) = ₹ 1,23,000

WN2 Calculation of profit or loss on 31.03.12

Selling price = 500 × 90 = 45,000

– Brokerage (2%) = (800)

44,100

Weighted avg. cost =	FV	Cost	SP	= 44,100
	1,500	1,23,000	(–) cost	= (41,000)
∴	500	41,000	Profit	= 3,100

WN3 Valuation of equity shs on 31.03.2012 [cost o mv, whichever is lower]

cost (1,23,000 + 3,100 – 44,100) = 82,000

mv (1,000 shs × ₹ 90) = 90,000

∴ valuation will be on cost of ₹ 82,000

Q.5 In the books of Nidhi

Investment in 8% bonds for the year ending 31st March 2012

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int	Cost
01.04.11	To Bank A/c (WN1)	12,00,000	40,000	9,26,000	01.05.11	By Bank A/c (WN2)	–	48,000	–
01.10.11	To P/L A/c (WN5)	–	–	11,500	01.10.11	By Bank A/d (WN5)	3,00,000	–	2,43,000
11.03.12	To P/L A/c (Bal fig.)		84,000		01.11.11	By Bank A/c (WN6)	–	36,000	–
					31.03.12	By Bal c/d (Bal fig)	9,00,000		6,94,500
		12,00,000	1,24,000	9,37,500			12,00,000	1,24,000	9,37,500

Investment in equity shares of X Ltd. for the year ending 31st March 2012

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int	Cost
12.04.11	To Bank A/c	1,00,000	–	40,00,000	15.05.11	By Bank A/c (WN4)	1,25,000	–	25,00,000
15.05.11	To Bon Issue (WN3)	1,50,000	–	–	01.12.11	By Bank A/d (WN7)	–	2,25,000	–
15.05.11	To P/L A/c (WN4)	–	–	5,00,000	31.03.12	By Bal c/d	1,25,000	–	20,00,000
31.03.12	To P/L A/c (Bal fig.)		2,25,000						
		2,50,000	2,25,000	45,00,000			2,50,000	2,25,000	45,00,000

WN1 Calculation of cost of purchase of bonds on 1.4.11

Total cash outflow = 12,000 × 80.5 = 9,66,000

Cost (Bal. fig.) Interest (Nov'10 – Mar' 11)

9,26,000 = $12,00,000 \times \frac{8}{100} \times \frac{5}{12}$

= 40,000

WN2 Calculation of int. to be received on 1.5.11 on bonds

$= 12,00,000 \times \frac{8}{100} \times \frac{6}{12} = 48,000$

WN3 Calculation of bonds shs to be received

Bonus ratio = 3 hs : 2 held

1,50,000 1,00,000 shs

WN4 Calculation of profit on sale of bonus shs

Selling price = 1,25,000 × 20 = 25,00,000

Weighted avg cost = No. of shs cost

2,50,000 4,00,000

∴ 1,25,000 2,00,000

∴ SP = 25,00,000

Cost = (20,00,000)

Profit = 5,00,000

WN5 Calculation of profit or loss on sale of bonds.

Selling price = 3,000 × 81 = 2,43,000

	FV	cost
Weighted avg cost =	12,00,000	9,26,000
$\therefore$	3,00,000	2,31,500

$\therefore$ SP = 2,43,000

Cost = (2,31,500)

$\therefore$ Profit = 11,500

WN6 Calculation of int. to be recd on 1.11.11

Interest = 9,00,000 × $\frac{8}{100} \times \frac{6}{12}$

= ₹ 36,000

WN7 Calculation of 18% dividend recd from X Ltd.

Total shs as on 1/12/11 = 1,25,000 shs

Dividend = 1,25,000 shs × ₹ 10 × 18%

= ₹ 2,25,000

Solution to → Fire Insurance Claims

Pg 119 Q 1

Pur. = 280,000 + 40,000

1/4/2011 — Sales = 620,000 − 80,000 — 20/10/11

Op. Stock = 216000 — Cl. Stock = ?

Cost − 10%

Step 1 Calculation of STOCK as on 20/10/11

Memorandom Trading a/c

(1/4/11 - 20/10/11)

To opening Stock [90% → 216000 100% → ?]	240,000	By Sales	540,000
To Purchases	320,000		
To Gross profit (25% of 540000)	135,000	By closing stock	155,000
	695000		695000

Step 2 Calculation of Loss as on 20/10/11

Loss as on 20/10/11 − Stock as on 20/10/11 − Goods Saved

= 155,000 − 31,000

= $\boxed{\text{£ } 124{,}000}$

Step 3 Calculation of Claim

Stock as on Date of Fire > Policy Amt.

155,000 > 100,000

↓

Under Insurance

↓

$$\text{Claim} = \frac{\text{Loss as on DOF}}{\text{Stock as on DOF}} \times \text{Policy amt.}$$

$$= \frac{124,000}{155,000} \times 100,000$$

$$= \boxed{₹\,80,000}$$

Pg 119 Q2

Indemnity period = 6m Actual Dislocation = 6m.

1/3/11	£600,000	1/3/12	£80K.	31/8/12

1/3/11	£240K + 10%	31/8/11

Step1 Indemnity Period t/o = £80,000

Step2 Adjusted Std. t/o = £240,000 + 10%

= $\boxed{\cancel{£288{,}000}}$

$\boxed{£264{,}000}$

Step3 Short Sales = £264,000 − 80,000

= $\boxed{\cancel{£208{,}000}}$ $\boxed{£184{,}000}$

Step4 GP Ratio = $\dfrac{\text{NP of last yr} + \text{Insured Standing charges of last year}}{\text{Sales of last year}} \times 100$

$= \dfrac{90{,}000 + 60{,}000}{500{,}000} \times 100$

$= \boxed{\cancel{30.33\%}}$ $\boxed{30\%}$

Step5 Loss of profit = Short Sales × GP Ratio

= 184,000 × 30%

= $\boxed{£55{,}200}$

Step6 Adjusted Annual Ho = ₹ 600,000 +10%

= ₹ 660,000.

GP on AAT = 660,000 × 30%

= $\boxed{₹ 198000}$

Step7 Additional Exp

Actual Add. Exp. ₹ 9300

Add. Exp = Additional Sales × GP

= ₹ 25000 × 30% ₹ 7500

(~~80K × 2~~

(80K − 55K)

• Add. Exp = Actual Add. Exp. × $\frac{\text{GP on AAT}}{\text{GP on AAT} + \text{Uninsured SC}}$

= 9300 × $\frac{198000}{198000 + 5000}$ ₹ 9071

∴ whichever is lower i.e. $\boxed{\cancel{₹ 9071}}$ $\boxed{₹ 7500}$

Step8 Calⁿ of loss

Loss of profit (step5)	₹ 55,200
+ Add. Exp. (step7)	₹ 7500
	62700
− Savings	(2700)
	60,000

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Step 9 GP on AAT Policy Amt.

198,000 > 165,000

↓

Under Insurance

↓

$$\text{Claim} = \frac{\text{Loss}}{\text{GP on AAT}} \times \cancel{\text{Stock}}\ \text{Policy}$$

$$= \frac{60,000}{198,000} \times 165,000$$

$$= \boxed{₹ 50,000}$$

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Pg 120 Q3

1/4/11	Pur = 56,79,600	31/3/12
Op. stock = 710,500	Sales = 80,00,000	Cl. stock = 790,100

1/4/12	Pur = 33,10,700	29/8/2012
Op. Stock = 790,100	Sample = 41000 (cost)	
	Drawings = 2000 (cost)	Cl. stock = ?
	Sales = 45,36,000	

Step 1 Calcn of ~~loss~~ stock as on 29/8/2012

Memorandom Trading a/c
(1/4/12 - 29/8/2012)

To opening stock	7,90,100	By Sales	45,36,000
To Purchases	33,10,700	By Samples	41,000
To GP (30% of 45,36,000)	13,60,800	By Drawings	2,000
		By Cl. stock	882600
	5461600		54,61,600

WN1

Memorandom Trading a/c
(1/4/11 – 31/3/12)

To Op. Stock	710,500	By Sales	80,00,000
To Purchases	56,79,600	By Closing stock	7,90,100
To GP	24,00,000		
	87,90,100		87,90,100

$\left[\frac{24L}{80L} \times 100 = 30\% \text{ on Sales}\right]$

Step2 Cal^n of Loss = Stock as on 29/8/12 − Goods Saved

= 8,82,600 − 108,000

= $\boxed{£\ 6,74,600}$

Step3 Stock as on 29/8/12 ~~>~~ < Insurance Policy

882,600 < 900000

↓

Full Inscurance

∴ Claim = Loss as on 29/8/12 + Fire fighting Exp.

= 674,600 + 4700

= $\boxed{£679,300}$

Pg 120 Q4

16/6/11	560,000	15/6/12	£70K	15/12/12
		15/6/11	£240K	15/12/11

Step 1 Indemnity Period T/O = $\boxed{£70K}$

Step 2 Adjusted Std. T/O = £240,000 + 25%
= $\boxed{£300,000}$

Step 3 Short Sales = £300,000 − £70,000 = $\boxed{£230,000}$

Step 4 GP Ratio = $\dfrac{\text{NP of last yr + Insured SC of last yr}}{\text{Sales of last yr}} \times 100$

= $\dfrac{80,000 + 70,000}{600,000} \times 100 = \boxed{25\%}$

Step 5 Loss of Profits = Short Sales × GP Ratio
= 230,000 × 25% = $\boxed{£57,500}$

Step 6 Adjusted Annual T/O = 560,000 + 25%
= $\boxed{£700,000}$

GP on AAT = 7L × 25% = $\boxed{£175,000}$

Step 7 Actual Add Exp £12,000

Add. Exp. = Add. Sales × GP Ratio

= 70,000 × 25% £17,500

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• Add. Exp = $\frac{\text{Actual Add Exp.} \times \text{GP on AAT}}{\text{GP on AAT} + \text{Uninsured SC}}$

$= £12{,}000 \times \frac{175{,}000}{175{,}000 + 50{,}000} = £9333$

whichever is lower i.e. £9,333

Step 8 Calⁿ of Loss

Loss of profit	£57,500
+ Add. Exp	£9,333
	£66,833
- Savings	(2000)
	£64,833

Step 9 GP on AAT > Policy amt
175,000 > 140,000
↓
Under Insurance

Claim = $\frac{\text{loss}}{\text{GP on AAT}} \times \text{Policy amt}$

$= \frac{64{,}833 \ \cancel{57500}}{175{,}000} \times 140000$

$= \boxed{\cancel{£46{,}000}}$

$= \boxed{£51{,}866}$

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H.W. Solutions
Hire Purchase

Q:1 Om ltd

Cash Price = 80,000

HP Price = 21622 + (15400 x 5) = 98622

∴ total Interest = 98622 − 80000 = 18622

Calculation of Interest for each Year

Cash Price	80000
(−) Down payment	21622
	58378
(+) Interest (10%)	5838
(−) 1st Instalment	(15400)
Balance for 2nd Year	48815
(+) Interest (10%)	4882
(−) 2nd Instalment	(15400)
Balance for 3rd Year	38297
(+) Interest (10%)	3830
(−) 3rd Instalment	(15400)
Balance for 4th Year	26727
(+) Interest (10%)	2673
(−) 4th Instalment	(15400)
Balance for 5th Year	14000
(+) Interest (10%)	1400
(−) last Instalment	(15400)
Balance	NIL

Q:2 Happy Valley Florist ltd

Cash Price = 150,000

HP Price = 180,000

∴ Total Interest = 30000

(To be allocated in the ratio of outstanding ~~Credit~~ Credit)

Years	:	I	II	III	IV	~~V~~
O/s Credit	:	150,000	100,000	50,000	20,000	

∴ Ratio = 15 : 10 : 5 : 2

∴ Interest allocation:

Year I = 14,062.50

Year II = 9375

Year III = 4687.50

Year IV = 1,875

Q:3 Lucky

(1) Calculation of cash Price

Cash Price (Bal Fig)	11,50,000	
(-) Down payment	500,000	
	650,000	⇒ 100
(+) Interest @ 10%	65000	⇒ 10
	715000	⇒ 110
(-) 1st Instalment	265000	
Balance for 2nd Year	450,000	⇒ 100
(+) Interest @ 10%	45,000	⇒ 10
	495000	⇒ 110
(-) 2nd Instalment	245,000	
Balance for 3rd Year	250,000	⇒ 100
(+) Interest @ 10%	25000	⇒ 10
	275000	⇒ 110
(-) 3rd Instalment (last)	275,000	
Balance	NIL	

(2) Calculation of Loss on Repossession:

Book value of 1 Tractor (575000 − Dep @ 20% for 3 Years) = 294400

(-) Agreed value of 1 Tractor (575000 − Dep @ 30% for 3 Years) = 197,225

loss = 97175

Books of Lucky

Tractor a/c

2011-12

Date	Particulars	Amount	Date	Particulars	Amount
1.10	To Happy's a/c	1150,000	30.9	By Depreciation (20%)	230,000
			30.9	By Balance c/d	920,000
		1150,000			1150,000

2012-13

Date	Particulars	Amount	Date	Particulars	Amount
1.10	To Bal b/d	920,000	30.9	By Depreciation (20%)	184000
			30.9	By Balance c/d	736,000
		920000			920000

2013-14

Date	Particulars	Amount	Date	Particulars	Amount
1.10	To Bal b/d	736,000	30.9	By Depreciation (20%)	147,200
			30.9	By Happy a/c (WN 2)	197225
			30.9	By P&L a/c (loss)	97175
			30.9	By Balance c/d	294400
		736000			736,000

Happy a/c

2011-12

Date	Particulars	Amount	Date	Particulars	Amount
1.10	To Bank a/c	500,000	1.10	By Tractor a/c	1150,000
30.9	To Bank a/c	265000	30.9	By Interest a/c	65000
30.9	To Balance c/d	450 000			
		1215000			1215000.

2012-13

Date	Particulars	Amount	Date	Particulars	Amount
30.9	To Bank a/c	245000	1.10	By Bal b/d	450000
30.9	To Bal c/d	250,000	30.9	By Interest a/c	45000
		495000			495000

2013-14

Date	Particulars	Amount	Date	Particulars	Amount
30.9	To Tractor a/c	197225	1.10	By Bal b/d	250,000
30.9	To Bal c/d	77775	30.9	By Interest a/c	25000
		275000			275000

2014-15

Date	Particulars	Amount	Date	Particulars	Amount
31.12	To Bank (settlement)	81275	1.10	By Bal b/d	77775
			31.12	By Interest (18% p.a. for 3 mths)	3,500
		81275			81275

1.4 X ltd

Interest Calculation

Cash Price (75000x3)	225000
(-) Down payment	45000
	180000
(+) Interest (9%)	16200
	196200
(-) 1st Inst (60000 + 16200)	76200
	120,000
(+) Interest (9%)	10,800
	130,800
(-) 2nd Inst (60000+10,800)	unpaid

WN2 Loss on Repossession (2 vans)

Book value (150000 - Dep @ 20% for 2 Years)	96000
(-) Agreed value (150000 - Dep @ 30% for 2 Years)	73500
loss	22500

Journal of X ltd

Year 1	1.4	Milk van a/c Dr	225000	
		To HP vendor a/c		225000
	1.4	HP vendor a/c Dr	45000	
		To Bank a/c		45000
	31.3	Interest a/c Dr	16200	
		To HP vendor a/c		16200
	31.3	HP vendor a/c Dr	76200	
		To Bank a/c		76200
	31.3	Depreciation a/c Dr	45000	
		To Milk van a/c		45000
	31.3	P&L a/c Dr	61200	
		To Interest a/c		16200
		To Depreciation a/c		45000

Year 2

31.3	Interest a/c	Dr 10,800	
	To HP vendor a/c		10800
31.3	Depreciation a/c	Dr 36,000	
	To Milk Van a/c		36,000
31.3	HP vendor a/c	Dr 73,500	
	P&L a/c	Dr 22500	
	To Milk Van a/c		96,000
31.3	P&L a/c	Dr 46,800	
	To Interest a/c		10800
	To Depreciation a/c		36,000

Year 3

30.6	Interest a/c	Dr 1289	
	To HP vendor a/c		1289
	(57,300 x 9% x 3/12)		
30.6	HP vendor a/c	Dr 58589	
	To Bank a/c		58,589
	(Settlement)		

DEPARTMENTAL ACCOUNTS

Q.1. Departmental a/c's

M/s ….

Departmental trading and profit and loss account for the year ended 31.03.2011

To opening stock	5400	4900	By sales (5:4)	16900	135200
To purchases (4:3)	9800	7350	By closing stock	2478	2401
To wages	1340	240	By transfer A to B	1200	–
To Rent (WN1)	600	300			
To Lighting and Heating (WN2)	240	120			
To arriage inwards (4:3)	268	201			
To transfer A to B		1200			
To cross profit c/d	2930	1610			
	20578	15921		20578	15921
To rent (WN1)	400	200	By cross profit b/d	2430	1610
To salaries (2:1)	880	440	By discount received (4:3)	76	57
Lighting and heating	160	80			
To discount allowed (5:4)	245	196			
To advertising (5:4)	410	328			
To depreciation (2:1)	40	20			
Net profit ltd.	871	403			
	3006	1667		3006	1667

General profit and loss account

To net profit c/d (overall)		1274	By department profit b/d		
			dept A	871	
			dept B	403	1274
		1274			1274

M/s ….

Balance sheet as on 31.03.2011

Capital	9530		Prepaid rent		370
(–) drawings	900		Furniture and fittings (600–10%)		540
	8630		Plant and Machinery		4200
(+) net profit	1274	9904	Sundry debtors		1820
Sundry creditors		3737	Cash in hand		32
Outstanding			Cash at bank		1980
Lighting and Heating		180	Closing stock		
			Dept A	2478	
			Dept B	2401	4879
		13821			13821

WN1 Rent = 1870 – 370 = 1500

Factory 900 → A 600, B 300

Office 600 → A 400, B 200

WN2 Heating = 420 + 180 = 600

Factory 360 → 240, 120

Office 240 → 160, 80

Q.2. Departmental trading a/c of X ltd for the year ended 31.12.2011

	A	B		A	B
To opening (cost) stock	20000	12000	By sales	140000	112000
To purchases	92000	68000	By closing stock		
To wages	12000	8000	Purchased goods	4500	6000
To carriage	2000	2000	Finished goods	24000	14000
To transfer of purchased goods			By transfer of purchased goods		
B to A	10000	–	B to A	–	10000
A to B	–	8000	A to B	8000	–
To net transfer of finished goods			By net transfer of finished goods		
B to A (40 K – 10 K)	30000	–	B to A (40K – 10K)	–	30000
A to B (35 K – 7 K)	–	28000	A to B (35K – 7K)	28000	–
To gross profit c/d	38500	46000			
	204500	172000		204500	172000

Consolidated trading a/c

To opening stock		320000	By sales		252000
To purchase		160000	By closing stock		
To wages		20000	Purchased goods	10500	
To carriage		4000	Finished goods (38000 – 2196)	35804	46304
To cross profit c/d		82304			
		298304			298304

dept B (14000) → 2800, 11200

2800 × 22.91% = 641

38500 × 100 = 22.91%

140000 + 28000

dept A (24000) → 4800, 19200

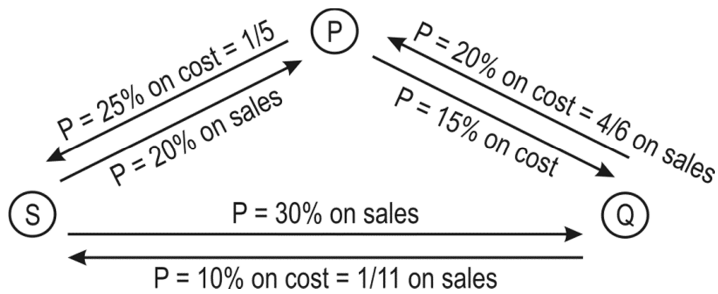
4800 × 32.39% = 1555

46000 × 100 = 32.39

112000 + 30000

∴ Total stock = 641 + 1555 = 2146

Q.3



	P	S	Q
Net profit (after commission)	90000	60000	45000
(+) wrong commission add back	10000	6667	5000
Net profit before commission	100000	66667	50000
(–) Unrealised profit (stock reserve)			
(1) In using stock of dept. P			
profits of S(48000 × 1/5)	–	(9600)	–
profits of Q(12000 × 1/6)	–	–	(2000)
(2) In closing stock of dept. S			
profits of P(18000 × 1/5)	(3600)	–	–
profits of Q(8000 × 1/11)	–	–	(727)
(3) In closing stock of dept Q			
profits of P(14000 × 13.04%)	(1826)	–	–
profits of S(38000 × 30%)	–	(11400)	–
Net profit after unrealized profits	94574	45667	47273
(–) 10% commission	9457	4567	4727
Correct net profit after commission	85117	41100	42546

Q.4 M/s. Suman Enterprises

Department trading and profit and loss a/c for the year end 31.03.13

	F	S		F	S
To opening stock	3020000	430000	By sales	18000000	4520000
To purchases	15000000	260000	By transfer to S	3000000	–
To transfer from F	–	3000000	By closing stock	1220000	500000
To manufacturing exp.	–	500000			
To gross profit c/d	4200000	830000			
	22220000	5020000		22220000	5020000
To selling expenses	150000	60000	By cross profit b/d	4200000	830000
To rent and warehousing	500000	300000			
To net profit c/d	3550000	470000			
	4200000	830000		4200000	830000

General Profit an Loss a/c

To general expenses		850000	By opening stock reserve		48375
To closing stock reserve		75000	By net profit b/d		
To net profit c/d			F	3550000	
(overall)			S	470000	4020000
		4068375			4068375

WN1 Closing stock of shoes dept.

500000

25% (others) 75% (dep F)

125000 375000

↓

G.P. Ratio of F = $\frac{4200000}{2100000} \times 100 = 20\%$

WN2 Opening stock reserve

Opening stock of shoes dept.

430000

25% (others) 75% (dep F)

107500 322500

↓

Includes profit of dept F = 322500 × 15% = 483875

Departmental Accounts FGH Ltd.

Q.5 Departmental Trading and profit and loss account.

	I	J	K		I	J	K
To opening stock	5000	8000	19000	By using stock	5000	20000	5000
To mat consumed	16000	20000	–	By sales	–	–	80000
To direct labour	9000	10000	–	By transfer			
To transfer				I to J	30000	–	–
I to J	–	30000	–	J to K	–	60000	–
J to K	–	–	60000				
To GP c/d	5000	12000	6000				
	35000	80000	85000		35000	80000	35000
To salaries	9000	6000	3000	By GP b/d	5000	12000	6000
To Rent	3000	1800	1200				
To Net profit c/d	–	4200	1800	By net loss c/d	7000		
	12000	12000	6000		12000	12000	6000

General Profit and Loss Account

To closing stock reserve		8000	By opening stock reserve		5000
To net profit (overall)		1000	By net profit b/d		
			I	4200	
			J	1800	
			K	7000	(1000)
		4000			4000

WN1 (1) Transfer from I to J 25000

(9000 + 16000 + 5000 – 5000)

(+) profit (20% on cost) 5000

Transfer 30000

(2) Transfer from J to K

(8000 + 20000 + 10000 + 30000 – 20000) 43000

(+) profit (25% on cost) 12000

Transfer 60000

WN2 Closing stock reserve

(1) In the stock of dept (J) – Profit of dep I

20000

dept I Goods others

60000 $\rightarrow$ 30000 10000

20000 $\rightarrow$?

10000 includes profit of I = 10000 × 1/6 = 1667

(2) In closing stock of dept K

(a) Profit of dept J.

5000

$\therefore$ Total using stock reserve = 3000

dept I Goods others

60000 $\rightarrow$ 60000 10000

5000 $\rightarrow$?

5000 includes profit of J = 5000 × 1/5 = 1000

(b) Profit of dept I

Stock = 5000 – 1000 = 4000

dept I goods others

(60000 $\rightarrow$ 30K

4K $\rightarrow$?

2000 2000

Profit = 2000 × 1/6 = 333

Q.6 Sona Ltd.

Department trading and profit and loss a/c for the year end 31.12.14

	P	**Q**	**R**		**P**	**Q**	**R**
To opening stock To purchases To cross profit (WN1)	30000 160000 44000	45000 130000 54000	15000 60000 36000	By sales By closing stock	188000 46000	166000 63000	93000 18000
	234000	234000	111000		234000	234000	111000
net profit c/d	44000	54000	36000	By crossing profit b/d	44000	54000	36000
	44000	54000	36000		44000	54000	36000

General Profit and Loss Account

To net profit overall		34000	By net profit b/d		
			P	44000	
			Q	54000	
			R	36000	134000
		134000			134000

Gross profit

Dept P

Sales at normal price (18800 + 4000) 192000

∴ Normal GP @ 25% 48000

∴ Actual GP (48000 – 4000) 44000

Dept Q

Sales at normal price (166000 + 2000) 168000

∴ Normal GP @ 33 1/3 % 56000

∴ Actual GP (56000 – 2000) 54000

Dept R

Sales at Normal price (93000 + 2000) 95000

∴ Normal GP @ 40% 38000

∴ Actual GP (38000 – 2000) 36000

Q.3 (pg. 12.9) – pg. 55

Q.7 Department trading a/c for the year ended 31.03.2011 of Brahma Ltd.

Particulars	Dept A		Dept B		Dept C		Particulars	Dept A		Dept B		Dept C	
	Qty	Amt.	Qty	Amt.	Qty	Amt.		Qty	Amt.	Qty	Amt.	Qty	Amt.
To opening stock	600	14400	400	10800	100	30000	By sales	5200	208000	9800	441000	15300	765000
To purchases	5000	120000	10000	270000	50000	150000	By closing stock	400	9600	600	16200	700	21000
(Total = 840000)													
To gross profit c/d		83200		176400		306000							
	5600	217600	10400	457200	16K	786000		5600	217600	10400	457200	16K	786000

WN1 Qty purchased = Qty sold → Assumption → CUP each dept → opening stock purchases using stock × CPU → then tally to find GP

Tally to find units

A (5000 × 40)	200000
B (10000 × 45)	450000
C (150000 × 50)	<u>6750000</u>
	1400000
(–) purchase price	<u>840000</u>
	60000

Overall GPR = $\frac{60000}{1400000} \times 100 = 40\%$

A = 40 – 40% = 24

B = 45 – 40% = 27

C = 50 – 40% = 30

BRANCH ACCOUNTS

Q.1

Books of Bunkingham Bros. (HO)

Branch a/c

To Balance b/d			By cash b/c (Remettance)		
Imprest cash	2000		Cash sales	45000	
Debtors	25000		Collection from Debtors	125000	170000
Stock (HO goods)	24000		(incl. transit)		
Stock (Others)	16000	67000	By Balance c/d		
To GSTB a/c (sent)		60000	Stock (HO goods)	15000	
To cash / bank (sent)			Stock (others)	10000	
Direct purchases	45000		Debtors (WN2)	24000	
Expendses	30000		Petty cash (WN1)	2000	51000
Sent for petty cash	4000	79000			
To P & L a/c (profit)		15000			
		221000			221000

WN1 Petty cash

Branch petty cash a/c

Op. bal	2000	Spent	4000
sent	4000	c/b	2000
	6000		6000

WN2 Debtors

Branch debtors a/c

Op. bal	25000	Sales ret	3000
Cr. sales	130000	Discount	2000
		Bad debts	1000
		Collection	125000
		Cl. Bal	24000
	155000		155000

Ans. 2 :

Books of Harrison Branch Stock Account

	₹		₹
To Balance b/d	30000	By branch debtors	165000
To Goods sent to branch a/c	240000	By branch bank	59000
To Branch Adjustment a/c	2000	By balance c/d	
(Excess of sale over invoice price)		Goods in Transit	
		(₹240000–₹220000)	20000
		Stock at branch	28000
	272000		272000

Branch Debtors Account

	₹		₹
To balance b/d	35750	By bad debts written off	750
To balance stock	165000	By branch cash–collection (bal.fig)	174000
		By balance c/f	26000
	197750		197750

Branch Cash Account

	₹		₹
To balance b/d	50000	By bank remit to HO	222500
To branch stock	59000	By branch profit & loss a/c (exp. paid by HO)	12000
To branch debtors	174000	By branch profit & loss a/c [Bal. fig.(exp. paid by branch)]	13000
		By balance c/d	2500
	250000		250000

Branch Adjustment Account

	₹		₹
To stock reserve (closure)	8000	By stock reserve opening (25000 × 20%)	5000
To gross profit c/d	39000	By goods sent to Branch a/c	40000
		By branch stock a/c	2000
	47000		47000

Branch Profit and Loss Account

	₹		₹
To Branch Expenses		By Gross profit b/d	39000
(paid by H.O.: ₹12,000 and			
paid by Branch ₹13000)	25000		
To Branch Debtors – Bad debts	750		
To Net Profit	13250		
	39000		39000

Ans. 3 :

Books of Hindustan Industries, Mumbai

Cochin Branch Stock Account

	₹		₹
To Balance b/d	60000	By Bank A/c (Cash sales)	200000
To Goods sent to Branch a/c	600000	By Branch Debtors (Cr. sales)	360000
To Branch Debtors a/c		By Goods sent to Branch	
(sales return)	8000	(Return to H.O)	12000
To Abnormal Gain		By Balance c/d (closing stock)	120000
(Excess of SP over IP)	24000		
	692000		692000

Cochin Branch Stock Adjustment Account

	₹		₹
To Goods sent to Branch A/c		By Balance b/d	12000
(1/5 of ₹12,000) (no returns)	2400	(1/5 of ₹60,000)	
To Branch P & L a/c	129600	By Goods sent to Branch a/c	120000
(Profit on sale at invoice price)		(1/5 of ₹600000)	
To Balance c/d (1/5 of ₹120000)	24000	By Abnormal Gain	24000
	156000		156000

Goods Sent to Branch Account

	₹		₹
To Cochin Branch		By Cochin Branch stock a/c	600000
Stock Adjustment a/c	120000	By Cochin Branch stock adj. a/c	2400
To Cochin Branch Stock a/c (Ret.)	12000		
To Trading a/c	470400		
	602400		602400

Branch Debtors Account

	₹			₹
To Balance b/d	72000	By Bank (collection)		320000
To Branch stock a/c	360000	By Branch P & L a/c		
		Discount	6000	
		Bad Debts	4000	10000
		By Branch Stock (Sales Returns)		8000
		By Balance c/d		94000
	432000			432000

Branch Profit & Loss Account for the year ending 31st December 20X1

	₹		₹
To Branch Expenses a/c (60000 + 6000 + 18000)	84000	By Branch Stock adj. a/c (GP)	129600
To Discount	6000		
To Bad Debts	4000		
To Gen P & L a/c (NP)	35600		
	129600		129600

Ans. 4

(a) Journal Entry in the Books of Head Office

Date	Particulars	Dr.	Cr.
2011			
30th April	Mumbai Branch Account	3000	
	Chennai Branch Account	70000	
	To Delhi Branch Account		15000
	To Kolkata Branch Account		58000
	(Being adjustment entry passed by head office in respect of inter branch transactions for the month of April, 20X1)		

Working Note :

Inter – Branch Transactions

		Delhi	Mumbai	Chennai	Kolkata
		₹	₹	₹	₹
(A)	Delhi Branch				
(1)	Received goods	50000 (Dr.)	35000 (Cr)		15000 (Cr)
(2)	Sent goods	45000 (Cr.)		25000 (Dr)	20000 (Dr)
(3)	Received Bills receivable	20000 (Dr.)		20000 (Cr)	
(4)	Sent acceptance	35000 (Cr.)	25000 (Dr)		10000 (Dr)
(B)	Mumbai Branch				
(5)	Received goods	20000 (Cr.)	35000 (Dr)		15000 (Cr)
(6)	Sent cash	15000 (Dr.)	22000 (Cr)		7000 (Dr)
(C)	Chennai Branch				
(7)	Received goods			30000 (Dr)	30000 (Cr)
(8)	Sent cash and acceptances			30000 (Cr)	30000 (Dr)
(D)	Kolkata Branch				
(9)	Sent goods			35000 (Dr)	35000 (Cr)
(10)	Sent cash			15000 (Dr)	15000 (Cr)
(11)	Sent acceptances			15000 (Dr)	15000 (Cr)
		15000 (Cr)	3000 (Dr)	70000 (Dr)	58000 (Cr)

Ans. 5

Sydney Branch Trial Balancee (in Rupees) As on 31st March 2012

Conversion	Rate per A$	Dr.	Cr.
Plant & Machinery (cost)	₹18	36,00	
Plant & Machinery Dep. Reserve	₹18		23,40
Debtors / Creditors	₹24	14,00	7,20
Stock (1.4.20 × 1)	₹20	4,00	
Cash & Bank Balances	₹24	2,40	
Purchase / Sales	₹22	4,40	27,60
Goods received from H.O.	–	1,00	
Wages & Salaries	₹22	9,90	22,00
Rent	₹22	2,64	1,20
Office expenses	₹22	3,96	80,86
Commission Receipts	₹22		
H.O. Current A/c			
		78,70 2,18	80,86
Exchange loss (balancing figure)		80,86	80,86

Ans. 6

(i) Calculation of profit earned by the branch in the books of Jammu Branch

Trading Account and Profit and Loss Account

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	220000	By Sales	1200000
To Goods received by Head Office	1100000	By Closing stock (Refer W.N.)	360000
To Expenses	45000		
To Net Profit	195000		
	1560000		1560000

(ii) Stock reserve in respect of unrealized profit = ₹360000 × (20/120) = ₹60000

Working Note :

	₹	
Calculation of closing stock at invoice price		
Opening stock at invoice price	220000	
Goods received during the year at invoice price	1100000	
	1320000	
Less : IP of goods sold	(960000)	[1200000 × (120 / 150)]
{150 $\rightarrow$ 1200000}		
{120 $\rightarrow$ 0}		
Closing stock	360000	

Ans. 7

(a) Debtors Method

Delhi Branch Account

20X1		₹	₹	20X1		₹	₹
Jan 1	To Balance b/d			Dec 31	By Bank		
	Stock	7000			Cash sales	17600	
	Debtors	12600			Cash from Debtors	28500	46000
	Petty cash	200	19800				
Dec 31	To Goods sent to Branch a/c				By Goods sent to Branch a/c		
	To Bank				Returns to HO		1000
	Salaries & Wages	6200			By Balance c/d stock	6500	
	Rent & Rates	1200			Debtors	9800	
	Sundry Exp.	800	8200		Petty cash	100	16400
	To Balance being Profit carried to (HO) P & L a/c	.	9400				63400
			63400				63400

(b) Stock and Debtors Method

Branch Stock Account

	₹		₹	
To Bal b/d	7000	By Sales		
To Goods Sent to Branch a/c	26000	Cash	17500	
To Branch Debts	500	Credit	28400	45900
To Branch P & L (GP)	19900	By Goods sent to Branch a/c return		1000
		By balance c/d (stock)		6500
	53400			53400

Delhi Branch Debtors Account

	₹		₹
To Balance b/d	12600	By Cash	28500
To Sales	28400	By Returns	500
		By Allowance	200
		By Discounts	1400
		By Bad Debts	600
		By Balance c/d	9800
	41000		41000

Delhi Branch Expenses Account

	₹		₹
To Salaries & Wages	6200	By Brach P &L L a/c	10500
To Rent & Rates	1200		
To Sundry Expenses	800		
To Petty Cash Expenses (200–100)	100		
To Allowance to customers	200		
To Discounts	1400		
To Bad Debts	600		
	10500		10500

Delhi Branch Profit & Loss Account

	₹		₹
To Branch exp. a/c	10500	By Cross profit b/d	19900
To Net profit to General P & L a/c	9400		
	19900		19900

(c) Branch Trading and Profit and Loss Account

		₹		₹		₹
To stock		7000	By Sales :			
To Goods sent from HO	26000		Cash		17500	
Less : Returns to HO	(1000)	25000	Credit	28400		
To Gross profit c/d		19900	Less : Returns	(500)	27900	45400
		51900	By Closing stock			6500
To Salaries & Wages		6200				51900
To Rent & Rates		1200	By Gross Profit b/d			19900
To Sundry Exp.		800				
To Petty Cash exp.		100				
To Allowance to Customers		200				
To Discounts		1400				
To Bad Debts		600				
To Net Profit		9400				
		19900				19900

Ans. 8

In the books of Head Office – XYZ

Kolkata Branch Account (at invoice)

		₹			₹
To Balance b/d			By Stock reserve (opening)		6000
Stock		30000	By Remittances :		
Debtors		18000	Cash sales	100000	
Cash in Hand		800	Cash from Debtors	60000	160000
Furniture		3000	By Goods send to branch		32000
To Goods sent to branch			(loading)		
To Goods returned by branch		160000	By goods returned by		2000
(loading)		400	branch (Return to HO)		
To Bank (expenses paid by HO)			By Balance c/d		
Rent	1800		Stock		28000
Salary	3200		Debtors (WN1)		16880
Stationary & printing	800	5800	Cash (800–600)		200
To Stock reserve (closing)		5600	Furniture 3000 – 300)		2700
To Profit transferred to General Profit & Loss a/c		24180			
		247780			247780

Working Note :

Debtors Account

	₹		₹
To Balance b/d	18000	By Cash account	60000
To Sales account (credit)	60000	By Sales return account	960
		By Discount allowed account	160
		By Balance c/d	16880
	78000		78000

Note : It is assumed that goods returned by branch are at invoice price.

Ans. 9

Trading and Profit and Loss a/c

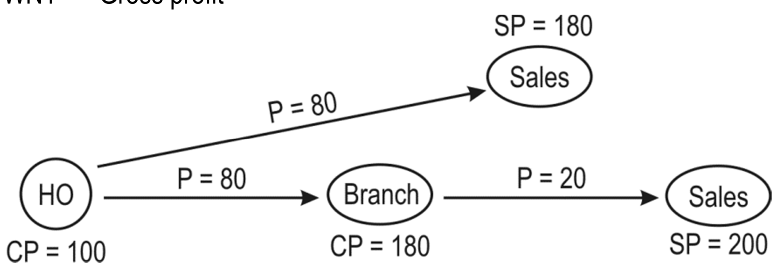
For the year ended 31st March 2014

	Head Office ₹	Branch ₹		Head Office ₹	Branch ₹
To opening stock	125000		By Sales	2379600	730000
To purchases	2150000		By Goods sent to branch	738000	
To goods received from head		738000	By Closing stock	543300	81000
office	1385600	73000		3660600	811000
To Gross profit c/d (WN1)	3660600	811000	By Gross profit b/d	1385600	73000
To Office expenses	50000	4500			
To Selling expenses	32000	3300			
To Staff salaries	45000	8000			
To Net Profit	1258600	57200			
	1385600	73000		1385600	73000

General P & L a/c

	₹		₹
To cl.st. res. (81000 × 80/180)	36000	By NP	1315800
To net profit	1279800		
	1315800		1315800

WN1 Gross profit



GP at HO

(1) In sales {180 $\rightarrow$ 2379600, 80 $\rightarrow$ (?)} = 1057600

(2) In GSTB {180 $\rightarrow$ 738000, 80 $\rightarrow$ (?)} = 328000 = 1385600

GP at Branch

In sales {200 $\rightarrow$ 730000, 20 $\rightarrow$ (1)} = 7300 on 31-3-2017.

Solution

Single Entry

Q:1

Statement of Affairs
As on 31-3-2016 and 31-3-2017

Liabilities	31-3-2016	31-3-2017	Assets	31-3-2016	31-3-2017
	₹	₹		₹	₹
Capital A/c's			Furniture	1,20,000	1,17,750
A	1,50,000	75,000	Advances	70,000	50,000
B	75,000	75,000	Inventory	60,000	74,750
C	—	75,000	Debtors	40,000	45,000
Loan	80,000	—	Cash at bank	50,000	1,40,000
Creditors	32,000	30,000	Current A/c B	2,000	—
Current A/c's					
A	5,000	74,036*			
B	—	48,322*			
C		50,142*			
	3,42,000	4,27,500		3,42,000	4,27,500

Notes:

(i)	**Depreciation on Furniture**	
	10% on ₹ 1,20,000	12,000
	10% on ₹ 10,000 for 1/4 year	250
		12,250
(ii)	**Furniture as on 31-3-2016**	
	Balance as on 31-3-2016	1,20,000
	Add: new purchase	10,000
		1,30,000
	Less: Depreciation	(12,250)
		1,17,750
(iii)	**Total of Current Accounts as on 31-3-2017**	
	Total of Assets (1,17,750 + 50,000 + 74,750 + 45,000 + 1,40,000)	4,27,500
	Less: Fixed Capital (75,000 + 75,000 + 75,000) + Liabilities (30,000)	(2,55,000)
		1,72,500

This is after adding salary, interest on capital and deducting drawings and interest on drawings.

(iv)	Interest on Capital :				₹
	A :	on	1,50,000	@ 6% for 3 months	2,250
		on	75,000	@ 6% for 9 months	3,375
					5,625
	B :	on	75,000	@ 6% for 1 year	4,500
	C :	on	75,000	@ 6% for 9 months	3,375
					7,875
(v)	Interest on Drawings :				
	A :	on	2,000	@ 10% for 11 months	183
		on	4,000	@ 10% for 9 months	300
		on	2,000	@ 10% for 3 months	50
					533
	B :	on	2,000	@ 10% for 10 months	167
		on	6,000	@ 10% for 6 months	300
		on	8,000	@ 10% for 1 month	67
					534

Allocation of Profit	₹1,15,067	
3 months Profit	₹ 28,767	
9 months Profit	₹ 86,300	
A : 2/3 × ₹ 28,767 + 1/3 ×₹86,300		= ₹ 47,944
B : 1/3 × ₹ 1,15,067		= ₹ 38,356
C: 1/3 × ₹ 86,300		= ₹28,767
		₹ 1,15,067

Current Accounts

	A	B	C		A	B	C
To Balance b/d	—	2,000	—	By Balance b/d	5,000	—	—
To Drawings	8,000	16,000	—	By Salary	24,000	24,000	18,000
To Interest on drawings	533	534	—	By Interest on Capital	5,625	4,500	3,375
To Balance c/d (b.f.)	74,036	48,322	50,142	By Share of Profit	47,944	38,356	28,767
	82,569	66,856	50,142		82,569	66,856	50,142

Statement of Profit

				₹
Current Account Balances as on 31-3-2017				1,72,500
Less: Salary	A ₹ 2,000 × 12	=	24,000	
	B ₹ 2,000 × 12	=	24,000	
	C ₹ 2,000 × 9	=	18,000	(66,000)
Less : Interest on Capital	A		5,625	
	B		4,500	
	C		3,375	(13,500)
Add : Drawings	A		8,000	
	B		16,000	24,000
Add : Interest on Drawings	A		533	
	B		534	1,067
				1,18,067
Less : Current A/C Balance as on 31-3-2016 (₹ 5,000 – ₹ 2,000)				(3,000)
				1,15,067

Q:2

A. Adamjee

Trading and Profit & Loss Account for the year ended 31-12-2016

	₹	₹		₹
To Opening Inventory		3,900	By Sales	62,100
To Purchases		49,100	By Closing Inventory	5,700
To Gross profit c/d (b.f.)		14,800		
		67,800		67,800
To Salaries		6,500	By Gross Profit b/d	14,800

To Rent and Taxes		1,500	By Interest on investment	200
To General expenses		2,500		
To Depreciation :				
Machinery @ 10%	750			
Furniture @ 10%	120	870		
To Provision for doubtful debts		800		
To Balance being profit carried to Capital A/c (b.f.)		2,830		
		15,000		15,000

Balance Sheet as on 31st December, 2016

Liabilities	₹	₹	Assets	₹	₹
A. Adamjee's Capital			Machinery	7,500	
on 1st January, 2016	29,100		Less : Depreciation	(750)	6,750
Add: Fresh Capital	6,000		Furniture	1,200	
Add:Profit for the year	2,830		Less : Depreciation	(120)	1,080
	37,930				
Less: Drawings	(3,600)	34,330	Inventory-in-trade		5,700
			Sundry debtors	17,600	
Sundry creditors		7,900	Less : Provision for		
			Doubtful debts	(800)	16,800
			Investment		5,000
			Cash at bank		6,400
			Cash in hand		500
		42,230			42,230

Working Notes :

1. **Balance sheet of A. Adamjee as on 1-1-2016**

	₹		₹
Sundry creditors	5,800	Machinery	7,500
A. Adamjee's capital	29,100	Furniture	1,200
(balancing figure)		Inventory	3,900
		Sundry debtors	14,500
		Investments	5,000
		Bank balance (from Cash statement)	2,800
	34,900		34,900

2.

Ledger Accounts

A. Adamjee's Capital Account

		₹			₹
Dec. 31	To Drawings	3,600	Jan. 1	By Balance	29,100
Dec. 31	To Balance c/d (b.f.)	31,500	Dec. 31	By Cash	6,000
		35,100			35,100

Sales Account

		₹			₹
Dec. 31	To Trading A/c (b.f.)	62,100	Dec. 31	By Cash	11,000
			Dec. 31	By Total Debtors Account	51,100
		62,100			62,100

Total Debtors Account

		₹			₹
Jan. 1	To Balance b/d	14,500	Dec. 31	By Cash	48,000
Dec. 31	To Credit sales (Balancing figure)	51,100	Dec. 31	By Balance c/d	17,600
		65,600			65,600
Jan. 1	To Balance b/d	17,600			

Purchases Account

		₹			₹
Dec. 31	To Cash A/c	12,000	Dec. 31	By Trading Account (b.f.)	49,100
	To Total Creditors A/c	37,100			
		49,100			49,100

Total Creditors Account

		₹			₹
Dec. 31	To Cash	35,000	Jan. 1	By Balance b/d	5,800
Dec. 31	To Balance b/d	7,900	Dec. 31	By Credit Purchases (Balancing figure)	37,100
		42,900			42,900

Q.3

Trading and Profit & Loss Account of Mr. Anup
for the year ended 31-12-2016

	₹	₹		₹	₹
To Opening Inventory		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales		
Less: Purchases Return	(4,200)	4,49,900	Return	(1,200)	9,58,550
To Gross Profit (b.f.)		5,88,650	By Closing Inventory		1,90,000
		11,48,550			11,48,550
To Wages (9,200 x12)		1,10,400	By Gross Profit		5,88,650
To Electricity & Tel. Charges(18,700+2,200)		20,900			
To Legal expenses		17,000	By Discount		2,700
To Discount (2,400+ 750)		3,150			
To Shop exp.(600 x12)		7,200			
To Provision for claims for damages		1,55,000			

To Shop Rent		20,000			
To Net Profit (b.f.)		2,57,700			
		5,91,350			5,91,350

Balance-Sheet as on 31-12-2016

Liabilities	₹		Assets	₹
Capital A/c (W.N.vi)	2,38,200		Building (from summary cash and bank A/c)	3,72,000
Add : Fresh capital introduced Maturity value from LIC	20,000		Furniture	25,000
Rent	14,000		Inventory	1,90,000
Add : Net Profit	2,57,700		Sundry debtors	92,000
	5,29,900		Bills receivable	6,000
Less : Drawing(14,00 x12)	(16,800)	5,13,100	Cash at Bank	87,000
Rent outstanding		20,000	Cash in Hand	5,300
Sundry creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Expenses	17,000			
Electricity & Telephone charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		7,77,300

Working Notes :

(i) **Sundry Debtors Account**

	₹		₹
To Balance b/d	70,000	By Bill Receivable A/c- Bills accepted by customers	40,000
To Bill receivable A/c-Bills dishonoured	3,000	By Bank A/c -	
To Bank A/c-Cheque dishonoured	5,700		
To Credit sales (Balancing Figure)	9,59,750	Cheque received	5,700

		By Cash (from summary cash and bank account)	8,97,150
		By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

(ii) **Bills Receivable Account**

	₹		₹
To Balance b/d	15,000	By Sundry creditors A/c (Bills endorsed)	10,000
To Sundry Debtors A/c (Bills accepted)	40,000	By Bank A/c (20,000 – 750)	19,250
		By Discount A/c(Bills discounted)	750
		By Bank Bills collected on maturity	16,000
		By Sundrydebtors Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

(iii) **Sundry Creditors Account**

	₹		₹
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase (Balancing figure)	4,54,100
To Bill Payable A/c	24,000		
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

(iv) **Bills Payable A/c**

	₹		₹
To Bank A/c (Balance figure)	22,000	By Balance b/d	12,000
To Balance c/d	14,000	By Sundry creditors A/c Bills accepted	24,000
	36,000		36,000

(v) Summary Cash and Bank A/c

	Cash	Bank		Cash	Bank
	₹	₹		₹	₹
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To Sundry debtors (Bal. Fig)	8,97,150		By Cash		1,21,000
			By Shop exp. (600 x 12)	7,200	
To Cash		7,62,750	By Wages (9,200 x 12)	1,10,400	
To Bank	1,21,000		By Drawing A/c (1,400 x 12)	16,800	
			By Bills Payable		22,000
To Sunday Debtors		5,700	By Sundry creditors	77,200	3,20,000
To Bills receivable		19,250	By Furniture	25,000	
To Bills receivable		16,000	By Sundry Debtors		5,700
To Capital (maturity value of LIC policy)		20,000	By Electricity & Tel. Charges	18,700	
To Capital (Rent received)		14,000	By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

(vi) Statement of Affairs as on 31-12-2015

Liabilities	₹	Assets	₹
Sundry Creditors	40,000	Inventory	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital (Balancing figure)	2,38,200	Bills receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

Trading and Profit and Loss Account for the year ending 31st March 2016

Particulars	₹	Particulars		₹
To Opening stock	2,80,000	By Sales (W.N. 3)		
To Purchases (W.N. 1)	3,64,000	Credit	4,80,000	
To Gross profit (b.f.)	1,16,000	Cash	1,20,000	6,00,000
		By Closing stock		1,60,000
	7,60,000			7,60,000
To Salary (2,000 x 12)	24,000	By Gross profit		1,16,000
To Rent	16,000			
To Office expenses (1,200 x 12)	14,400			
To Loss ofcash (W.N. 6)	23,600			
To Depreciation on furniture	4,000			
To Net Profit (b.f.)	34,000			
	1,16,000			1,16,000

Balance Sheet as on 31st March, 2016

Liabilities		₹	Assets		₹
A's Capital	4,04,000		Furniture	40,000	
Add: Net Profit	34,000		Less: Depreciation	(4,000)	36,000
Less: Drawings (500 x 12)	(6,000)	4,32,000	Stock		1,60,000
Creditors		1,46,000	Debtors		1,20,000
			Cash at bank		2,62,000
		5,78,000			5,78,000

Working Notes

1. **Calculation of purchases**

Creditors Account

Particulars	₹	Particulars	₹
To Bank A/c	3,00,000	By Balance b/d	82,000
To Balance c/d	1,46,000	By Purchases A/c (Bal. fig.)	3,64,000
	4,46,000		4,46,000

2. Calculation of total sales

	₹
Sales for the year 2015-16	5,00,000
Add: 20% increase	1,00,000
Total sales for the year 2016-17	6,00,000

3. Calculation of credit sales

	₹
Total sales	6,00,000
Less: Cash sales (20% of total sales)	(1,20,000)
	4,80,000

4. Calculation of cash collected from debtors

Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Bank A/c (Bal. fig.)	4,60,000
To Sales A/c	4,80,000	By Balance c/d	1,20,000
	5,80,000		5,80,000

5. Calculation of closing balance of cash at bank

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	38,000	By Creditors A/c	3,00,000
To Debtors A/c	4,60,000	By Rent A/c	16,000
To Cash A/c	80,000	By Balance c/d (b.f.)	2,62,000
	5,78,000		5,78,000

6. Calculation of amount of cash defalcated by the cashier

	₹	₹
Cash balance as on 1st April 2016		28,000
Add: Cash sales during the year		1,20,000
		1,48,000
Less: Salary (₹ 2,000x12)	24,000	
Office expenses (₹ 1,200 x 12)	14,400	
Drawings of A (₹ 500 x 12)	6,000	
Cash deposited into bank during the year	80,000	(1,24,400)
Cash balance as on 31st March 2017(defalcated by the cashier)		23,600

Trading and Profit and Loss Account
for the year ended 31st March, 2017

	Particulars	₹	Particulars		₹
To	Opening Stock	6,10,000	By Sales	73,80,000	
To	Purchases (W.N. 3)	84,10,000	Cash	19,20,000	
To	Gross profit c/d	9,30,000	Credit (W.N. 2)		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	15,000			
	(15% ₹ 1,00,000)				
To	Net Profit (b.f.)	3,26,300			
		9,58,000			9,58,000

Balance Sheet as at 31st March, 2016

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 (b.f.)	3,70,000	By Trade creditors	15,000
		(Bills endorsed)	
		By Balance c/d	75,000
	4,30,000		4,30,000

2. Trade Debtors Account

	₹		₹
To 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	93,00,000
To Purchases (Balancing figure)	84,10,000	By Closing stock	6,50,000
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 31–3–2015	2,000
	6,22,700
Less : Outstanding expenses as on 31–3–2015	(45,000)
	5,77,700
Add : Outstanding expenses as on 31–3–2016	5,000
	5,82,700
Less : Prepaid expenses as on 31–3–2016 (Insurance paid till July, 2016) (6,000 x 4/12)	(2,000)
	5,80,700

~~Answer 5~~ Q.5

Projected Balance Sheet of ......
as on 31st March, 2016

Liabilities		₹	Assets		₹
Capital		10,00,000	Fixed Assets	4,00,000	
Profit & Loss Account as on			Additions	1,00,000	
1st April, 2015	60,000			5,00,000	
Add : Profit for the year	3,74,000	4,34,000	Less : Depreciation @ 10%	(50,000)	4,50,000
Creditors (Trade)		1,10,000	Stock in trade		3,36,000
			Sundry Debtors		2,00,000
			Cash & Bank Balances (working note)		5,58,000
		15,44,000			15,44,000

Working Notes

1. **Projected Trading and Profit and Loss Account**
for the year ended 31st March, 2016

Particulars	₹	Particulars	₹
To Opening Stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock (balancing figure)	3,36,000
To Gross Profit c/d (30% on sales)	6,36,000		
	24,56,000		24,56,000
To Sundry Expenses (10% on sales)	2,12,000	By Gross Profit b/d	6,36,000
To Depreciation	50,000		
To Net Profit (b.f.)	3,74,000		
	6,36,000		6,36,000

2.

Cash and Bank Account
1st April, 2015 to 31st March, 2016

	Particulars	₹	Particulars	₹
To	Balance b/d	3,50,000	By Sundry Creditors	15,50,000
To	Sundry Debtors	20,70,000	(₹ 1,40,000 + ₹ 14,10,000)	
	(₹ 1,50,000 + ₹ 19,20,000)		By Expenses	2,12,000
			By Fixed Assets	1,00,000
			By Balance c/d (b.f.)	5,58,000
		24,20,000		24,20,000

DATE

In the Books of lucky.

Trading and profit and loss A/c For the Year Ended 2011

To opening stock		50000	By Sales		325000
To purchases.	1	272500	By closing stock		62500
To GP ud		65000			
		387500			387800
To loss on sale		750	By GP b/d.		65000
To expenses		49250			
To depreciation		1000			
To NP ud.	2	14000			
		65000			65000

Balance sheet As on 31·12·2011

Capital	169000		Fixed assets.	7500	
(+) capital introduced	5000		less: sold	2500	
(-) drawings	(25000)			5000	
(+) NP·	14000	163000	Add: Additions	5000	
creditors		46000		10000	
			less: depreⁿ	(1000)	9000
			closing Stock		62500
			Debtors		87500
			Bank Balance		50000
		209000			209000

Opening Balance sheet.

Capital.	(6) 169000	Debtors.	102500
creditors.	53500	Stock	50000
		Bank Balance	62500
		Fixed Assets.	7500
	222500		222500

Total Debtors A/c

To Balance b/d.	102500	By cash/Bank	340000
To sales.	325000	By Balance c/d. (3)	87500
	427500		427500

Total creditors A/c.

To cash/Bank	280000	By Balance b/d. (1.1)	53500
~~To purchases.~~	~~272500~~	By purchases.	272500
To Balance c/d	46000		
	326000		326000

Cash/Bank A/c.

To Balance b/d	(5) 62500	By creditors	280000
To debtors.	340000	By Expenses	49250
To additional capital	5000	By drawings	25000
To sale of FA	1750.	By Fixed assets.	5000
		By Balance c/d	50000
	409250		409250

C+P = S.

100 + 25 = 125.

↓ ↓ ↓

260000 65000 325000.

In the Books of loresh

Statement of Affairs As on 31·03·2004

liabilities	(₹)	Assets	(₹)
Capital	107712	Furniture & Fittings	22500
creditors	32940	Stk (24390 - 20%)	19512
loan owed to Brother	18000	Debtors	11025
		cash/Bank	15615
		House	90000
	158652		158652

Statement of Affairs as on 31·03·2010

liabilities	(₹)	Assets	(₹)
	~~20~~	Furniture, fixtures	
creditors	37800	and fittings	40500
~~loan to Brother~~	~~13500~~	Stk (54330 - 25%)	40748
capital	270113	Debtors	26640
		cash/Bank	29025
		House	90000
		car	33750
		Debentures in x Ltd	33750
		loan to Brother	13500
	307913		307913

Statement of profit

Particulars		(₹)
capital as on 31.03.2010		270113
Add: Drawings (living expenses)		
2004-05	13500	
2005-06	18000	
2006-07	27000	
2007-08	31500	
2008-09	31500	
2009-10	31500	153000
		423113
Add: amount stolen in may 2009		13500
		436613
less: capital on 31.03.2004		(107712)
		328901
less: profits shown in Income Tax Returns.		
31.03.2005	33075	
31.03.2006	33300	
31.03.2007	35415	
31.03.2008	61875	
31.03.2009	54630	
31.03.2010	41670	(259965)
understatement of Income by lokesh.		68936

H/w

PARTNERSHIP. Q.1

Page No. | Date

Homework Section :-

Q1

(1) Dr. Realisation A/c. Cr.

Particulars		Amt	Particulars		Amt
To sundry ~~Li~~assets:			By sundry liab:		
Goodwill	40,000		Trade Creditors		12,400
Freehold prop	8000		~~Loan from P~~		~~8000~~
Plant & Equip	12,800		Provision for DRS.		100
Motor vehicle	700				
Stock	3900		By cash/Bank A/c:		
Debtors	2000	67,400	Goodwill	—	
			Freehold prop	7000	
To cash/Bank A/c:			Plant & Equip	5000	
Creditors	11,700		Stock	3000	
Expenses	1500	13,200	Trade Dis	1600	16,600
			By Q (car)		500
			By partner's A/c: (Loss)		
			P	25,500	
			Q	17000	
			R	8500	51000
		80600			80600

Dr. Partner's capital A/c. ~~Cr.~~

Particulars	P	Q	R
To balance b/d (current A/c)	—	—	12000
To Realisation A/c (car).	—	500	—
To Realisation A/c (Loss)	25,500	17000	8500
To R's capital A/c	~~3493~~ 3523	~~3507~~ 3522	-
To profit & loss A/c	200	133	67
To cash/Bank A/c	16777	24845	
	46000	46000	20567

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Dr. Cash/Bank A/c Cr.

Particulars		Amt.	Particulars		Amt.
To balance b/d		200	~~To~~ By Realisation A/c:		
To Realisation A/c:			Creditors	11,700	
Goodwill	-		Expenses	1500	13200
Freehold prop	7000		By P's loan A/c		8000
Plant & Equip	5000				
Stock	3000		By Part cap A/c:		
Trade drs	1600	16,600	P's cap A/c		16777
			Q's cap A/c		24845
To P's capital A/c		25,500			
To Q's capital A/c		17000			
To R's capital A/c		~~3500~~ 3522			
		62822			62822

Cr.

Particulars	P	Q	R
By balance b/d	20,000	20,000	10,000
By balance (current A/c)	500	9000	-
By cash/Bank A/c	25,500	17000	-
By cash/Bank A/c (1/3 cash)	-	-	~~3500~~ 3523
By P's capital A/c	-	-	~~3513~~ 3523
By Q's capital A/c	-	-	~~3507~~ 3522
	46000	46000	20567

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HW section

(1) → Working Note :-

(1) Journal Entry of loss :-

→ Cash/Bank A/c ——— Dr 42,500 -
To P's Cap. A/c - 25,500
To Q's cap. A/c - 17000

(2) In absence of any specific information it is presumed that accounting for insolvency of partners R, who was bankrupt and calculation by Garner v/s Murray Rule :-

(i) → 10,500
→ P's capital A/c ——— Dr ~~3443~~ 3523 -
Q's capital A/c ——— Dr ~~3507~~ 3522 -
To R's cap. A/c - ~~10,500~~ 7045

(ii) Ratio = 1:1

	P	Q
Op. balance of capital	20,000	20,000
~~Dr. P&L A/c~~		
~~(3:2) (400)~~	~~240~~	~~160~~
	~~19760~~	~~19840~~

(3) → ~~Cash/Bank A/c ——— Dr 3500~~ -
~~To R's cap. A/c~~ - ~~3500~~

(2) ~~How~~ Homework Section.

Q.2

Page No.	
Date	

Realisation A/c

Particulars		Amt.	Particulars		Amt
To sundry assets:			By sundry liab:		
Goodwill	456300		sundry cr.	567000	
Plant & Mac	607500		BOD	606450	
Furniture	64650		loan from ram	1,50,000	13,23,450
Stock	236700		By cash/Bank A/c:		
Sundry drs.	534000		Joint l. Policy	232500	
Joint life policy	264650		Comiss. receiv.	140550	373050
Com. Receivable	140550	2304350	By Ram's cap. A/c:		
To Ram's capital			[Goodwill + P&M]		900000
Bank overdraft	606450		By furn & stock A/c:		
Loan from Mr. Ram	1,50,000		Ram (1/2)	1,80,000	
Dissolution exp.	18000	774450	Rahim (1/2)	1,80,000	360000
To cash/Bank A/c:			By part. cap. A/c: (loss)		
Bill dishonoured		30750	Ram (3/6)	76525	
			Rahim (2/6)	51017	
			Antony (1/6)	25508	153050
		3109550			3109550

Partner's capital A/c

Particulars	Ram	Rahim	Antony
To Realisation A/c [G/W + P&M]	9,00,000	—	—
To Realisation A/c [Fur + stock]	1,80,000	1,80,000	—
To cash/Bank A/c (final settlement)	—	—	1,50,000
To Antony's capital A/c	6840	4560	—
To cash/Bank A/c	163410	77640	-
To Realisation A/c (loss)	76525	51017	25508
	1326775	313217	

Cash/Bank A/c

Particulars		Amt	Particulars		Amt
To balance b/d		48750	By Realisation A/c:		
To Realisation A/c			Bill dishonoured		30750
~~JLP~~	~~230~~		By partner's cap:		
JLP	232500		Antony (final)		1,50,000
com. receivable	140550	373050	By part. cap. A/c:		
			Ram	163410	
			Rahim	77640	241050
		421800			421800

Particulars	Ram	Rahim	Antony
By balance b/d	4,20,000	2,25,000	120000
By JLP reserve	132325	88217	44108
By BCD	606450	–	–
loan from Mrs Ram	1,50,000	–	–
Dissolution Expense	18000	–	–
By R1's & R2's capital A/c	–	–	11400
	1326775	313217	

H.W Section:

2 WN: ~~Realisation A/c~~

~~Accounting for insolvency~~

Note:-

Mr Anthony took ₹ 1,50,000 in final settlement. After these payment his account is showing a Dr. balance of ₹ 11,400. These excess payment made to Antony by the firm is to be borne by Ram and Rahim in the FSR (3:2)

→ Ram's capital A/c —— Dr 6840 –
Rahim's capital A/c —— Dr 4560 –
To Antony's Cap. A/c – 11,400

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Q3

statement showing piecemeal distribution of cash

Date	Particulars	cash available	total liab	Creditors Rs (total)
1.4.11 (3)	op. Balance capital	275	58500	16500
	1st Instalment	18650		
		18925		
	(-) Dissolution expense	(3000)		
		15925		
	(-) C's remuneration of 1% (18650 x1%)	(187)		
		15738		
	(-) sundry creditors	(15738)	(15738)	(15738)
		—	42762	762
	2nd Instalment	17320		
	(-) C's remuneration of 1% (17320 x1%)	(173)		
		17147		
	(-) sundry creditors transfer to P&L A/c.	(162)	(162)	(162)
		16985	42600	600
	(-) sundry creditors settled		(600)	(600)
			42000.	—
	(-) B's loan	(4500)	(4500)	
		12485	37500	
	(-) C's remuneration of 10% amount distributed to partners (12485 x 10/110)	(1135)		
		11350		
	(-) paid to C	(3750)	(3750)	
		7600	33750	
	(-) paid to A & C in ratio (4:3)	7600	(7600)	
		—	26150	

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Date

(Highest Relative capital Method)

loan	A's cap	B's cap	C's cap
1500	15000	7500	15000.
(4500)			
—			
			(3750)
			11250
	(4343)		(3257)
	10657		7993

3rd Installment	10,000	
(-) C's remuneration of 1% on assets (10,000 x 1%)	(100)	
	9900	
(-) C's remuneration 10% amount distributed to partners (9900 x 10/110)	(900)	
	9000	
(-) Paid to A and C	(1150)	(1150)
	7850	25000
(-) paid to A, B and C in PSR.	(7850)	(7850)
	–	17150.
Last Installment	7000	
(-) C's remuneration of 1% on assets (7000 x 1%)	(70)	
	6930	
(-) C's remuneration 10% amount distributed to partners (6930 x 10/110)	(630)	
	6300	
(-) paid to A, B and C in PSR.	(6300)	(6300)
	–	10850

Working Note:

Calculation of priority payment.

Particulars	A	B	C
1 Cap. Bal	15000	7500	15000
2. PSR	4	3	3
3. Unit cap [1÷2]	3750	$\boxed{2500}$	5000
4. Prop. cap.	10000	7500	7500
5. Excess cap [1−4]	5000	0	7500
6. PSR	4		3
7. Unit cap.	$\boxed{1250}$		2500
8. prop. cap	5000		3750
	0		3750.

→ priority.

① pay ₹ 3750 to C.

② Pay ₹ 5000 to A & 3750 ₹ to C

③ pay to all in PSR.

(657)		(493)
10000		7500
(3140)	(2355)	(2355)
6860	5145	5145

(2520)	(1890)	(1890)
4340	3255	3255

4). Homework section. Q.4

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Date	Particulars	Cash available	total liab	Creditor	Bank loan
1.4.11	Balance as per Balance sheet	2,00,000	4700000	200000	5000
	(-) Realisation excepense	(1,00,000)			
		1,00,000			
	(-) payment to creditors and Bank loan in ratio (2:5)	(1,00,000)	(100000)	(28571)	(71429
		—	4600000	171429	42857
	1st Installment	1500000			
	(-) payment to Cr. & Bank loan	(600000)	(600000)	(171429)	(428571
		900000	4000000	—	—
	(-) L's loan	(900000)	(900000)		
		—	3100000		
	2nd Installment	1500000.			
	(-) L's loan	(100000)	(100000)		
		1400000	3000000		
	(-) paid to Mr L	(500000)	(500000)		
		900000	2500000		
	(-) paid to Mr L and Mr M in ratio (1:1)	(900000)	(900000)		
		—	16,00,000		
	3rd Installment	3000000			
	(-) paid to Mr. L & Mr. M	(100000)	(100000)		
		2900000	1500000		
	(-) paid to Mr L, M & N equally	(1500000)	(1500000)		
		1400000	—		
	(+) profit to all equally	(1400000)	(1400000)		
		—	(1400000)		
	4th installment	3000000			
	(+) Profit to All equally	(3000000)	(3000000)		
	Realisation profit.	—	(4400000)		

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Q5 In the books of Hari Brothers Limited

Realisation Account

Dr | | | Cr

Particulars	Amount	Particulars	Amount
To Sundry Assets:		By Creditors A/c	25,000
- Fixed Assets:		By Dena Bank A/c	25,000
- Land and Buildings	50,000	By Lal's Capital A/c	2000
- Plant and Machinery	30,000	By Hari Limited A/c	~~196,000~~ 2,21,000
- Motor Vehicles	20,000		
- Inventories	60,000		
- Debtors	25,000		
To Partners' Capital A/c profit:			
- Hari 2 35,200 ~~25,200~~ ~~24,400~~			
- Lal 2 35,200 ~~25,200~~ ~~24,400~~	88,000		
- Jay 1 17,600 ~~12,600~~	~~63,000~~ ~~63,000~~		
	248,000		248,000

NOTE: In absence of any specific information, it is assumed that overdraft of Dena Bank is not taken over by Hari Ltd.

Partners' Capital Account (7:3:2)

Dr | | | Cr

Particulars	Hari	Lal	Jay	Particulars	Hari	Lal	Jay
				By Balance b/d	70,000	30,000	20,000
				By Current A/c	7,000	5,000	3,000
To Realisation (Motor V.)	-	2,000					
To 10% Deb	35000	15,000	10,000	By Realisation A/c	35,200 ~~25,200~~ ~~24,400~~	35,200 ~~25,200~~ ~~24,400~~	17,600 ~~12,600~~ ~~12,200~~
~~To C/B A/c~~	~~10,000~~	~~10,000~~	~~5,600~~				
To Equity Shares (Cap B.F III)	~~67,200~~ 77,200	~~43,200~~ 53,200	~~25,600~~ 30,600				
	102,200	70,200	40,600		102,200	70,200	40,600
	~~66,400~~	~~42,400~~	~~25,200~~				
	~~101,400~~	~~59,400~~	~~35,200~~				

Dr **Bank Account** Cr

	Axis	Dena		Axis	Dena
To Balance b/d	5,000	–	By Balance b/d	–	20,000
To ~~Dena~~ Axis A/c		5,000	By Dena A/c	5,000	
			By Loan - Hari		3,000
			By Loan - Gopi Ltd		7,000
		I			
To Realisation A/c (B.F)		25,000			
	5,000	30,000		5,000	30,000

Hari Limited
~~Business Purchase~~ Account

Dr | | Cr

	₹		₹
		By Land and Building	96,000
		By Plant and Machinery	28,000
~~To Overdraft of Dena~~	~~25,000~~	By Motor Vehicles	28,000
To Creditors	25,000	By Inventories	60,000
		By Debtors	24,000
	II	By Goodwill	10,000
To Realisation A/c (B.F)	~~196,000~~ 2,21,000		
	2,46,000		2,46,000

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Q-6

In the books of 3R Enterprises

DOMS Page No. Date / /

Realisation Account

Dr				Cr
To Sundry Assets :			By Creditors	600,000
- Land and Building		1400,000		
- Machinery		11,00,000	By 3R Enterprises Private Limited (P.C)	4200,000
- Furniture		610,000		
- Stock		8,40,000		
- Debtors		600,000		
- Cash at Bank		1,90,000		
To Profit transferred to P.C. A/c:				
- Ramesh	30,000			
- Roshan	20,000			
- Rohan	10,000	60,000		
		4800,000		4800,000

Partners' Capital Account 3:2:1

Dr	Ramesh	Roshan	Rohan		Ramesh	Roshan	Rohan Cr
To Share in 3R Enter. Pvt A/c	21,00,000	1400,000	700,000	By Balance b/d	1680,000	11,60,000	6,70,000
				By General Reserve A/c	315000	210,000	105,000
				By Realisation profit	30,000	20,000	10,000
To Bank A/c settlement	—	—	85000	By Bank A/c settlement	75000	10,000	—
	2100,000	14,00,000	785,000		2100,000	1400,000	785000

Date / /

In the books of 3R Enterprises Pvt. Ltd

Journal Entries

Sr No			LF	Debit	Credit
1.	Business Purchase A/c	Dr		4200,000	
	To 3R Enterprises				4200,000
	~~(Being business taken over)~~				
2.	Books, Land & Building	Dr		1640,000	
	Machinery A/c	Dr		9,90,000	
	Furniture A/c	Dr		610,000	
	Stock A/c	Dr		840,000	
	Debtors A/c	Dr		600,000	
	Bank A/c	Dr		1,90,000	
	To Capital Reserve (B.F.)				40,000
	To Business Purchase A/c				4200,000
	To Provision for bad debts A/c				30,000
	To Creditors A/c				600,000
	(Being Assets & Liabilities taken over)				
3.	Capital Reserve A/c	Dr		23,000	
	To Bank A/c				23,000
	(Being take-over exp. paid)				
4	3 R Enterprises A/c	Dr		4200,000	
	To Equity shares Capital				42,00,000
	(Being P.C. payable by equity shares)				
5	Preliminary Expenses	Dr		57000	
	To Bank				57000
	(Being realization exp-paid)				
6	Profit & loss A/c	D.r		57000.	
	To Preliminary Expense A/c				57000
	[Being Preliminary expense written off to P&L A/c]				