PAPER – 1 : ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

Question 1

(a) *On 1st December, 2019, Mahindra Construction Co. Ltd. undertook a contract to construct a building for ₹ 170 lakhs. On 31st March, 2020, the company found that it had already spent ₹ 1,29,98,000 on the construction. Prudent estimate of additional cost for completion was ₹ 64,02,000. Calculate total estimated loss on contract and what should be shown in statement of profit and loss account as contract revenue and contract cost in the final accounts for the year ended 31st March, 2020, as per provision of Accounting Standard 7 (Revised).*

(b) *In the year 2019-20, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 45,00,000. The entity desired to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:*

Component	Useful life (years)	Cost (Amounts in ₹)
Land	Infinite	10,00,000
Roof	25	5,00,000
Lifts	20	2,50,000
Fixtures	10	2,50,000
Remainder of Building	50	25,00,000
		45,00,000

Calculate depreciation expense for the year 2019-20 as per componentization method.

(c) *Gowtham Limited invested in shares of another company (with the intention to hold the shares for short-term period) on 30th November, 2019 at a cost of ₹ 4,25,000. It also earlier purchased Gold of ₹ 8,00,000 and Silver of ₹ 3,50,000 on 31st March, 2017.*

Market values as on 31st March, 2020, of the above investments are as follows:

Shares ₹ 3,50,000

Gold ₹ 10,25,000

Silver ₹ 5,10,000

You are required to explain how will the above investments be shown (individually and in total) in the books of account of Gowtham Limited for the year ending 31st March, 2020 as per the provisions of AS 13.

(d) In the books of Rani Ltd., closing inventory as on 31.03.2020 amounts to ₹ 1,75,000 (valued on the basis of FIFO method).

The Company decides to change from FIFO method to weighted average method for ascertaining the costs of inventory from the year 2019-20. On the basis of weighted average method, closing inventory as on 31.03.2020 amounts to ₹ 1,59,000. Realizable value of the inventory as on 31.03.2020 amounts to ₹ 2,07 ,000.

Discuss disclosure requirements of change in accounting policy as per AS 1.

(4 Parts X 5 Marks = 20 Marks)

Answer

(a)

	₹
Cost incurred till 31st March, 2020	129,98,000
Prudent estimate of additional cost for completion	64,02,000
Total cost of construction	194,00,000
Less: Contract price	(170,00,000)
Total foreseeable loss	24,00,000

As per para 35 of AS 7 Construction Contracts, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately. Hence the foreseeable loss of ₹ 24,00,000 should be recognized as an expense immediately in the year ended 31st March 2020.

Contract work in progress = 129,98,000/194,00,000 X 100= 67%

Proportion of contract value recognized as turnover as per AS 7

= 67% of ₹ 170,00,000 = ₹ 113,90,000.

(b) Statement showing amount of depreciation as per Componentization Method

Component	Depreciation (Per annum) (₹)
Land	Nil
Roof (₹ 5,00,000/25)	20,000
Lifts (₹ 2,50,000/20)	12,500
Fixtures (₹ 2,50,000/10)	25,000
Remainder of Building (₹ 25,00,000/50)	50,000
	1,07,500

Note

1. When the roof requires replacement at the end of its useful life, the carrying amount will be nil. The cost of replacing the roof should be recognized as a new component.
2. It has been considered that entity has acquired new freehold building for ₹ 45,00,000 at the beginning of the year.

(c) As per AS 13 (Revised) 'Accounting for Investments', for investment in shares - if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 4,25,000) and market value (₹ 3,50,000) as on 31 March 2020, i.e., ₹ 3,50,000.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 31stMarch, 2017) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2020, i.e., ₹ 8,00,000 and ₹3,50,000 respectively, though their market values have been increased.

Thus the shares, gold and silver will be shown at ₹ 3,50,000, ₹ 8,00,000 and ₹ 3,50,000 respectively and hence, total investment will be valued at ₹ 15,00,000 for the year ending on 31st March, 2020 as per AS 13.

(d) As per AS 1 "Disclosure of Accounting Policies", any change in an accounting policy which has a material effect should be disclosed in the financial statements. The amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated. Thus Rani Ltd. should disclose the change in valuation method of inventory and its effect on financial statements. The company may disclose the change in accounting policy in the following manner:

"The company values its inventory at lower of cost and net realizable value. Since net realizable value of all items of inventory in the current year was greater than respective costs, the company valued its inventory at cost. In the present year i.e. 2019-20, the company has changed to weighted average method, which better reflects the consumption pattern of inventory, for ascertaining inventory costs from the earlier practice of using FIFO for the purpose. The change in policy has reduced current profit and value of inventory by ₹ 16,000 (1,75,000 – 1,59,000)."

Question 2

The summarized Balance Sheet of Galaxy Limited, as at 31st March, 2020 was as follows:

Liabilities	*Amounts (₹)*	*Assets*	*Amounts (₹)*
Authorized and subscribed Capital:		*Fixed Assets:*	
20,000 Equity shares of 100	*20,00,000*	*Machineries*	*8,00,000*

each fully paid			
Unsecured Loans:		*Current Assets:*	
10% Debentures	*3,00,000*	*Inventory*	*3,50,000*
Accrued interest on above	*36,000*	*Trade Receivables*	*3,20,000*
Current liabilities:		*Bank*	*50,000*
Trade payables	*84,000*	*Profit & Loss Account*	*9,80,000*
Provision for Income tax	*80,000*		
	25,00,000		*25,00,000*

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that :

(a) Each share is sub-divided into ten fully paid equity shares of ₹ 10 each.

(b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.

(c) Out of shares surrendered ₹ 20,000 shares of ₹ 10 each shall be converted into 15% preference shares of ₹ 10 each, fully paid.

(d) The claims of the debenture holders (including accrued interest) shall be reduced by 75%. In consideration of the reduction, the debenture holders shall receive all the preference shares. of ₹ 10 each as· issued above.

(e) Trade payables claim shall be reduced to 50%. Balance outstanding is settled by the issue of equity shares of ₹ 10 each out of the shares surrendered.

(f) Balance of profit & loss account to be written off.

(g) The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet. ***(16 Marks)***

Answer

Journal Entries in the books of Galaxy Limited

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c	Dr.	20,00,000	
	To Share Surrender A/c			10,00,000
	To Equity Share Capital (₹ 10) A/c			10,00,000
	(Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)			
(ii)	10% Debentures A/c	Dr.	2,25,000	
	Accrued Interest A/c	Dr.	27,000	

	To Reconstruction A/c			2,52,000
	(Transferred 75% of the claims of the debenture holders to Reconstruction A/c in consideration of which 15% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)			
(iii)	Trade payables A/c	Dr.	84,000	
	To Reconstruction A/c			84,000
	(Transferred claims of the trade payables to Reconstruction A/c, 50% of which is reduction and equity shares are issued in consideration of the balance amount from the shares surrendered account)			
(iv)	Share Surrender A/c	Dr.	10,00,000	
	To 15% Preference Share Capital A/c (₹ 10)			2,00,000
	To Equity Share Capital A/c (₹ 10)			42,000
	To Reconstruction A/c			7,58,000
	(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)			
(v)	Reconstruction A/c	Dr.	10,94,000	
	To Profit & Loss A/c			9,80,000
	To Capital Reserve A/c			1,14,000
	(Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)			

Note: In place of Reconstruction account, Capital Reduction account may also be used in the above journal entries.

Galaxy Limited (and reduced)

Balance Sheet as at 31st March, 2020

	Particulars	Notes No.	₹
	Equity and Liabilities		
1	Shareholders' funds		
	a) Share capital	1	12,42,000
	b) Reserves and Surplus	2	1,14,000

2	Non-current liabilities		
	Long-term borrowings	3	75,000
3	Current liabilities		
	a) Other current liabilities	4	9,000
	b) Short-term provisions	5	80,000
	Total		15,20,000
	Assets		
1	Non-current assets		
	a) Property, Plant and Equipment	6	8,00,000
2	Current assets		
	a) Inventories		3,50,000
	b) Trade receivables		3,20,000
	c) Cash and cash equivalents	7	50,000
	Total		15,20,000

Notes to Accounts:

		₹
1.	Share Capital	
	1,04,200, Equity shares of ₹ 10 each	10,42,000
	20,000, 15% Preference shares of ₹ 10 each	2,00,000
		12,42,000
	(all the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares)	
2.	Reserves and Surplus	
	Capital Reserves	1,14,000
3.	Long-term borrowings	
	10% Debentures	75,000
4.	Other current liabilities	
	Interest payable on 10% Debentures	9,000
5.	Short-term provisions	
	Provision for income tax	80,000
6.	Property, Plant and Equipment	
	Machineries	8,00,000
7.	Cash and cash equivalents	
	Balances with banks	50,000

Question 3

(a) *A fire occurred, on 1st February, 2019, in the premises of Omkar Limited, a retail store and business was partially disorganized up to 30th June, 2019.The Company was insured under a loss of Profits for ₹ 2,50,000 with a six months period indemnity. From the following information, compute the amount of claim under the loss of profit policy assuming entire sales during interrupted period was due to additional expenses.*

Particulars	*Amount in ₹*
Actual sales from 1st February 2019 to 30th June, 2019	*1,60,000*
Sales from 1st February, 2018 to 30th June, 2018	*4,00,000*
Sales from 1st February, 2018 to 31st January,2019	*9,00,000*
Net Profit for last financial year	*1,40,000*
Insured standing charges for last financial year	*1,12,000*
Total standing charges for last financial year	*1,28,000*
Sales for last financial year	*8,40,000*

The company incurred additional expenses amounting to ₹ 13,400 which reduced the loss in turnover. There was also a saving during the indemnity period ₹ 4,900 in the insured standing charges as a result of fire.

There had been a considerable increase in trade since the date of the last annual accounts and it has been agreed that an adjustment of 15% be made in respect of the upward trend in turnover.

(b) *The following particulars relate to hire purchase transactions:*

(i) R (hire purchaser) purchased three machineries from S on hire purchase system. The cash price of each machinery being ₹ 3,00,000.

(ii) The hire purchaser charged depreciation @ 20% on written down value method.

(iii) Two machineries were seized by hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two machineries at cash price less 30% depreciation charge for each of the years under written down value method.

(iv) The hire vendor spent ₹ 15,000 on repairs of the machineries and then sold them for a total amount of ₹ 2,55,000. You are required to compute:

(1) Agreed value of two machineries taken back by the hire vendor.

(2) Book value of one machine left with the Hire purchaser.

(3) Profit or loss to hire purchaser on two machineries taken, back by the hire vendor.

(4) Profit or loss on machineries repossessed, when sold by the hire vendor.

(8+8=16 Marks)

Answer

(a) (1) Calculation of short sales:

	₹
Sales for the period 1.2.2018 to 30.6.2018	4,00,000
*Add:*15% increase in sales	60,000
Estimated sales in current year	4,60,000
Less: Actual sales from 1.2.2019 to 30.6.2019	(1,60,000)
Short sales	3,00,000

(2) Calculation of gross profit:

$$\text{Gross profit} = \frac{\text{Net profit} + \text{Insured standing charges}}{\text{Turnover}} \times 100$$

$$= \frac{₹\,1{,}40{,}000 + ₹\,1{,}12{,}000}{₹\,8{,}40{,}000} \times 100$$

$$= \frac{₹\,2{,}52{,}000}{₹\,8{,}40{,}000}$$

= 30%

(3) Calculation of loss of profit:

₹ 3,00,000 x 30% =₹ 90,000

(4) Calculation of claim for increased cost of working:

Least of the following:

(i) Actual expense= ₹ 13,400

(ii) $\text{Expenditure x } \frac{\text{Gross profit on adjusted turnover}}{\text{Gross profit as above} + \text{Uninsured standing charges}}$

₹ 13,400 x 10,35,000x.3/ (10,35,000x.3 + 16,000) =

₹13,400 X 3,10,500/3,26,500 = ₹ 12,743 (rounded off)

Where,

Adjusted turnover	₹
Turnover from 1.2.2018 to 31.1.2019	9,00,000
Add: 15% increase*	1,35,000
	10,35,000

** Trend adjustment has been done for the total amount of annual turnover.*

(iii) Gross profit on sales generated due to additional expenditure = 30% x ₹ 1,60,000 = ₹ 48,000.

₹ 12,743 being the least, shall be the increased cost of working.

(5) Calculation of total loss of profit:

	₹
Loss of profit	90,000
Add: Increased cost of working	12,743
	1,02,743
Less: Saving in insured standing charges	(4,900)
	97,843

(6) Calculation of insurable amount:

Adjusted turnover x G.P. rate

= ₹ 10,35,000 x 30% = ₹ 3,10,500

(7) Total claim for consequential loss of profit:

$$= \frac{\text{Insured amount}}{\text{Insurable amount}} \times \text{Total loss of profit}$$

$$= \frac{₹\ 2,50,000}{₹\ 3,10,500} \text{ x } ₹\ 97,843 = ₹\ 78,779 \text{ (rounded off)}$$

(b)

		₹
(i)	Price of two machines = ₹ 3,00,000 x 2	6,00,000
	Less: Depreciation for the first year @ 30%	1,80,000
		4,20,000
	Less: Depreciation for the second year = ₹ 4,20,000 x $\frac{30}{100}$	1,26,000
	Agreed value of two machines taken back by the hire vendor	2,94,000

(ii)	Cash purchase price of one machine		3,00,000
	Less: Depreciation on ₹ 3,00,000 @20% for the first year		60,000
	Written drown value at the end of first year		2,40,000
	Less: Depreciation on ₹ 2,40,000 @ 20% for the second year		48,000
	Book value of machine left with the hire purchaser		1,92,000
(iii)	Book value of one machine as calculated above		1,92,000
	Book value of Two machines = ₹ 1,92,000 x 2		3,84,000
	Value at which the two machines were taken back, calculated in (i) above		2,94,000
	Hence, loss to hire purchaser on machine taken back by hire vendor (₹3,84,000 – ₹ 2,94,000)		₹ 90,000
(iv)	Profit or loss on machines repossessed when sold by hire vendor		
	Sale proceeds		2,55,000
	Less: Value at which machines were taken back	2,94,000	
	Repairs	15,000	(3,09,000)
	Loss on resale		54,000

Question 4

The following is the Receipt and Payment Account of TT Club in respect of the year ended 31st March, 2020.

Receipts	*Amount ₹*	*Payments*	*Amount ₹*
To Balance b/d	*3,07,500*	*By Salaries*	*6,24,000*
To Subscription		*By Stationery*	*1,20,000*
2018-19 - 13,500		*By Rent*	*1,80,000*
2019-20 - 6,33,000		*By Telephone expenses*	*30,000*
2020-21 - 22,500	*6,69,000*	*By Investment Purchase*	*3,75,000*
To Profit on sports meet	*4,65,000*	*By Sundry Expenses*	*2,77,500*
To Income from Investments	*3,00,000*	*Balance c/d*	*1,35,000*
	17,41,500		*17,41,500*

Additional Information:

(1) *There are 1,350 members each paying annual subscription of ₹ 500. On 1st April, 2019, outstanding subscription was ₹ 15,000.*

(2) *There was an outstanding telephone bill for ₹ 10,500 on 31st March, 2020.*

(3) *Outstanding Sundry Expenses as on 31st March, 2019 were totalled ₹ 21,000.*

(4) *Stock of Stationery:*

On 31st March, 2019 ₹ 15,000

On 31st March, 2020 ₹ 27 ,000

(5) *On 31st March, 2019 building stood in the books at ₹ 30,00,000 and it was subject to depreciation @ 5% per annum.*

(6) *Investment on 31st March, 2019 stood at ₹ 60,00,000.*

(7) *On 31st March, 2020, income accrued on the investments purchased during the year amounted to ₹ 11,250.*

Prepare an Income and Expenditure Account for the year ended 31st March, 2020, and the Balance Sheet as at that date. ***(16 Marks)***

Answer

TT Club
Income and Expenditure Account
for the year ending on 31st March 2020

Expenditure	***Amount (₹)***	***Income***	***Amount (₹)***
To Salaries	6,24,000	By Subscriptions (W.N. 2)	6,75,000
To Stationery consumed (W.N.3)	1,08,000	By Profit on sports meet	4,65,000
To Rent	1,80,000	By Income on investments 3,00,000	
To Telephone expenses 30,000		*Add*: Income accrued 11,250	3,11,250
Add: O/s on 31.3.20 10,500	40,500		
To Sundry expenses 2,77,500			
Less: O/s on 31.3.19 (21,000)	2,56,500		
To Depreciation of building	1,50,000		
To Surplus (excess of income over expenditure)	92,250		
	14,51,250		14,51,250

Balance Sheet as at 31st March 2020

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Capital fund (W.N.1) 93,16,500		Outstanding subscriptions (2019 - ₹ 1,500; 2020 -₹ 42,000)	43,500
Add: Surplus 92,250	94,08,750	Investment 63,75,000 (60,00,000+3,75,000)	
Subscriptions received in advance	22,500	*Add:* Interest accrued 11,250	63,86,250
Outstanding telephone bills	10,500	Building 30,00,000	
		Less: Depreciation (1,50,000)	28,50,000
		Stock of stationery	27,000
		Cash balance	1,35,000
	94,41,750		94,41,750

Working Notes:

(1) **Balance Sheet as at 31st March 2019**

Liabilities	***Amount (₹)***	***Assets***	***Amount (₹)***
Outstanding sundry expenses	21,000	Building	30,00,000
Capital fund (Bal. fig.)	93,16,500	Investments	60,00,000
		Stock of stationery	15,000
		Cash balance	3,07,500
		Outstanding subscriptions	15,000
	93,37,500		93,37,500

(2) **Calculation of subscriptions accrued during the year**

Subscription Account

Particulars	***Amount (₹)***	***Particulars***	***Amount (₹)***
To Outstanding Subscriptions (as on 1.4.19)	15,000	By Cash A/c	6,69,000
		By Outstanding subscriptions (as on 31.3.20)	43,500
To Income & Expenditure A/c	6,75,000		
To Subscriptions received in advance for 2019-20	22,500		
	7,12,500		7,12,500

(3) **Calculation of stationery consumed during the year**

	₹
Stock of stationery as on 31 March, 2019	15,000
Add: Purchased during the year 2019-20	1,20,000
	1,35,000
Less: Stock of stationery as on 31st March, 2020	(27,000)
Stationery consumed	1,08,000

Note: The answer has been given on the basis that the club is not registered under the Companies Act, 2013.

Question 5

(a) *From the following summary cash account of K Ltd., prepare cash flow statement for the year ended 31st March, 2020, in accordance with AS 3 (Revised) using the direct method.*

The company does not have any cash equivalents.

Summary Cash Account for the year ended 31-03-2020

Particulars	*Amount in (₹) '000*	*Particulars*	*Amount in (₹) '000*
Balance as on 01.04.2019	*100*	*Payment to Suppliers*	*4,000*
Issue of Equity Shares	*600*	*Purchase of Fixed Assets*	*400*
Receipts from Customers	*5,600*	*Overhead Expenses*	*400*
Sale of Fixed Assets	*200*	*Wages and Salaries*	*200*
		Taxation	*500*
		Dividend	*100*
		Repayment of bank loan	*600*
		Balance as on 31.03.2020	*300*
	6,500		*6,500*

(b) *A business concern maintains self-balancing ledgers. On the basis of the following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2019:*

Particulars	*All amounts in (₹)*
Debit balances in Debtors Ledger on 01.04.2019	*2,52,300*
Credit balances in Debtors Ledger on 01.04.2019	*6,500*
Transactions during the month of April, 2019 are:	

Total sales (including cash sales ₹85,000)	*12,10,200*
Return inwards	*18,680*
Cash received from Debtors	*9,57,640*
Discount allowed to Debtors for prompt payment	*14,740*
Bills Receivable received from Debtors	*62,400*
Bills Receivable dishonored	*5,260*
Noting charges on Bills Receivable dishonored	*600*
Interest debited for delay in payment	*2,500*
Cash paid to Debtors for returns	*4,200*
Bad Debts recovered (written off in 2015-16)	*4,800*
Transfers to Creditors Ledger	*12,000*
Credit balance in Debtors Ledger on 30.04.2019	*5,500*

(8+8=16 Marks)

Answer

(a) **K Ltd.**

Cash Flow Statement for the year ended 31st March, 2020 (using direct method)

	₹ '000	₹ '000
Cash flows from operating activities		
Cash receipts from customers	5,600	
Cash payments to suppliers	(4,000)	
Cash paid to employees	(200)	
Cash payments for overheads	(400)	
Cash generated from operations	1,000	
Income tax paid	(500)	
Net cash generated from operating activities		500
Cash flows from investing activities		
Payments for purchase of fixed assets	(400)	
Proceeds from sale of fixed assets	200	
Net cash used in investing activities		(200)
Cash flows from financing activities		
Proceeds from issuance of equity shares	600	
Bank loan repaid	(600)	

Dividend paid	(100)	
Net cash used in financing activities		(100)
Net increase in cash		200
Cash at beginning of the period		100
Cash at end of the period		300

(b) General Ledger Adjustment Account in Debtors Ledger

Date	*Particulars*	₹	*Date*	*Particulars*	₹
01.04.2019	To Balance b/d	6,500	1.4.2019	By Balance b/d	2,52,300
01.04.2019	To Debtors ledger		01.04.2019	By Debtors ledger	
to	adjustment A/c:		to	adjustment A/c:	
30.4.2019	Cash received	9,57,640	30.4.2019	Credit sales	11,25,200
	Sales Returns	18,680		Cash paid for returns	4,200
	Discount allowed	14,740		Bills receivable dishonoured	5,260
	Bills receivable received	62,400		Interest	2,500
				Noting charges	600
	Transfer to creditors ledger	12,000	30.04.2019	By Balance c/d	5,500
30.04.2019	To Balance c/d (bal. fig)	3,23,600			
		13,95,560			13,95,560

Note: Bad debts of year (2015-16), recovered now, will not appear in the above account. It will be credited to profit and loss account.

Question 6

A, B and C were partners sharing profits & losses in the ratio of 3:2:1. Their Balance Sheet as on 31st March, 2019 stood as follows:

Liabilities	*Amounts (₹)*	*Assets*	*Amounts (₹)*
Capital Accounts:		*Fixed Assets*	*2,50,000*
A 1,80,000		*Stock in trade*	*1,00,000*
B 1,50,000		*Debtors*	*1,20,000*
C 1,20,000	*4,50,000*	*Cash and Bank*	*70,000*
Reserves	*60,000*		

Creditors	*30,000*		
	5,40,000		*5,40,000*

On 30th September, 2019, C died. His representatives agreed that:

(i) Goodwill of the firm be valued at ₹ 1,20,000.

(ii) Opening Fixed Assets as on April 1, 2019 to be revalued at ₹ 2,20,000.

(iii) In lieu of profits, for the half year ended 30th September 2019, C should be paid at the rate of 20% per annum on his capital as on 31st March 2019.

Current Year's (2019-20) profits after charging depreciation of ₹ 14,000 (₹ 6,000 related to the period up to 30th September, 2019) was ₹ 1,54,000.

The year-end figures of Stock, Debtors, Creditors and Cash & Bank were respectively ₹ 80,000, ₹ 90,000 ₹ 25,000 and ₹ 79,765. The particulars regarding their drawings are given below:

Particular	*Up to 30.09.2019 (Amounts ₹)*	*After 30.09.2019 (Amounts ₹)*
A	*6,500*	*7,200*
B	*5,000*	*6,000*
C	*3,000*	

Prepare the Balance Sheet (along with relevant working notes) of the firm as on 31st March, 2020 assuming the final settlement to C's executors was made on 31st March, 2020.

(16 Marks)

Answer

Balance Sheet of the Firm as at 31-3-2020

Liabilities	*₹*	*₹*	*Assets*	*₹*	*₹*
Capital Accounts			Fixed Assets	2,50,000	
A	2,41,579		*Less*: Written down	(30,000)	
B	1,89,186	4,30,765		2,20,000	
Creditors		25,000	*Less*: Depreciation	(14,000)	2,06,000
			Debtors		90,000
			Inventory		80,000
			Cash and Bank		79,765
		4,55,765			4,55,765

Working Notes:

		₹
(a)	Profit after Depreciation	1,54,000
	Add: Depreciation	14,000
	Profit before Depreciation	1,68,000
(b)	Profit for the 1st half (assumed: evenly spread)	84,000
	Less: Depreciation with respect to 1st half	(6,000)
	Post Depreciation profit	78,000
(c)	Profit for the 2nd half	84,000
	Less: Depreciation for the 2nd half	(8,000)
	2nd half profit after Depreciation	76,000

(d) **Profit and Loss Appropriation A/c**

(for the first half)

Dr.		₹	₹		*Cr.* ₹
To	Interest on C's Capital (1,20,000 × 20% for 6 months)		12,000	By Profit	78,000
To	A	39,600			
	B	26,400	66,000		
			78,000		78,000

(e) **Capital Account as on 30-9-2019**

	A	*B*	*C*		*A*	*B*	*C*
To Revaluation Loss of Fixed Assets	15,000	10,000	5,000	By Balance b/d	1,80,000	1,50,000	1,20,000
To Drawings	6,500	5,000	3,000	By Reserves	30,000	20,000	10,000
To C	12,000	8,000	—	By A&B (goodwill adjustment)	—	—	20,000
To Executor's A/c	–	–	1,54,000	By Profit and Loss Appropriation A/c	39,600	26,400	12,000
To Balance c/d	2,16,100	1,73,400	–				
	2,49,600	1,96,400	1,62,000		2,49,600	1,96,400	1,62,000

(f) Application of Section 37 of the Partnership Act

Either

(i) Interest of = 1,54,000 x $\frac{6}{100} \times \frac{6}{12}$ = 4,620

(ii) Profit earned out of unsettled capital

$76{,}000 \times \frac{1{,}54{,}000}{5{,}43{,}500}$ = ₹21,535 (rounded off)*

**Alternatively, it may be rounded off as ₹21,534.*

(g) In the absence of specific agreement amongst partners on the above subject matter, the representatives of the deceased partner can receive at their option, interest at the rate of 6% p.a. or the share of profit earned for the amount due to the decease partner.

In the above case, it would be rational to assume that the representatives would opt for ₹ 21,535.

(h) **Profit and Loss Appropriation A/c**

for the second half

Dr.					*Cr.*
			₹		₹
To	Executors A/c		21,535	By Net Profit	76,000
To	A	32,679			
	B	21,786	54,465		
			76,000		76,000

(i) **Capital Accounts as on 31-3-2020**

Dr.					*Cr.*
	A	*B*		*A*	*B*
	₹	₹		₹	₹
To Drawings	7,200	6,000	By Balance b/d	2,16,100	1,73,400
To Balance c/d	2,41,579	1,89,186	By Profit & Loss Appropriation A/c	32,679	21,786
	2,48,779	1,95,186		2,48,779	1,95,186

(j) **Executor's Account**

Dr.			*Cr.*
	₹		₹
To Bank	1,75,535	By C's Capital A/c	1,54,000

		By Profit & Loss Appropriation A/c	21,535
	1,75,535		1,75,535

Question 7

*Attempt any **four** of the following:*

(a) *What is an ERP and what are the key considerations for selection of an ERP?*

(b) *Mr. PK purchased 1000 equity shares of ₹ 100 each in Savera Co. Ltd. for ₹ 1,25,000 inclusive of brokerage and stamp duty. Some years later the company resolved to capitalize its profit and to issue to the holders of equity shares, one equity bonus share for every share held by them. Prior to capitalization, the shares of Savera Co. Ltd. were quoted at ₹ 175 per share. After the capitalization, the shares were quoted at ₹ 92.50 per share. Mr. PK sold the bonus shares and received ₹ 90 per share.*

Prepare the Investment Account in PK's books on average cost basis.

(c) *The following transactions took place between Akil and Nikil for the period of three months ending 31st March, 2020:*

Books of Akil

Date	Particulars	Amounts (₹)
01.01.2020	Nikil's Opening Balance	50,000
10.01.2020	Sold goods to Nikil	1,00,000
15.01.2020	Cash received from Nikil	1,00,000
15.02.2020	Sold goods to Nikil	1,00,000
29.02.2020	Cash received from Nikil	50,000

You are required to calculate the amount of interest to be paid by one party to the other at 10% per annum using Epoque Method. Also prepare Account current of Mr. Nikil with Akil.

(d) *Following is the extract of the Balance Sheet of Sindhu Limited as at 31st March, 2020:*

	All amounts in ₹
50,000 Equity shares of ₹ 10 each, ₹ 8 paid up	4,00,000
General Reserve	80,000
Revaluation Reserve	20,000
Securities Premium	10,000
Surplus i.e. credit in Profit & Loss Account	1,60,000

On 1st April, 2020 the company made a final call, of ₹ 2 each on 50,000 Equity shares. The call money was received on 15th April, 2020. Thereafter, the company decided to *capitalize its reserves by way of bonus at the rate of one share for every five shares held. Additionally, the Company passed the board resolution to use securities premium, general reserve and balance, if any from the surplus in the profit and loss account. Show necessary entries in the books of Sindhu Limited.*

(e) *Identify four differences between Hire Purchase and Installment Payment agreement.*

(4 Parts X 4 Marks= 16 Marks)

Answer

(a) An **Enterprise Resource Planning (ERP)** is an integrated software package that manages the business process across the entire enterprise by integrating information created by different functional groups of the organization.

The following are the key considerations for selection of an ERP:

1. Functional requirement of the organization: The ERP that matches most of the requirements of an organization is preferred over the others.
2. Reports available in the ERP: The organization visualizes the reporting requirements and chooses a vendor which fulfils its reporting requirements.
3. Background of the vendors: The service and deliverable record of a vendor, from whom ERP is procured, is extremely important in choosing the vendor.
4. Cost comparisons: The budget constraints and fund position of an enterprise often becomes the deciding factor for choosing a particular package.
5. Future requirements: Ability of ERP to meet future requirements also need to be considered.

(b) Investment Account in the books of Mr. PK

[Scrip: Equity shares in Savera Co. Ltd.]

	Nominal Value	*Cost*		*Nominal Value*	*Cost*
	₹	₹		₹	₹
To Cash/Bank	1,00,000	1,25,000	By Cash/Bank (Sale)	1,00,000	90,000
To Bonus shares	1,00,000	-	By Balance c/d (W.N. 3)	1,00,000	62,500
To P & L A/c (W.N. 2)	-	27,500			
	2,00,000	1,52,500		2,00,000	1,52,500
To Balance b/d	1,00,000	62,500			

Working Notes:

1. Bonus shares do not have any cost.
2. Profit on sale of bonus shares

   Profit = Sale proceeds – Average cost

   Sale proceeds = ₹ 90,000

   Average cost = $1,25,000 \times \frac{1,000}{2,000}$ = ₹ 62,500

   Profit = ₹ 90,000 – ₹62,500 = ₹ 27,500.
3. The total cost of 2,000 share including bonus is ₹1,25,000

   Therefore, cost of 1,000 shares (carried forward) is $1,25,000 \times \frac{1,000}{2,000}$ = ₹ 62,500

   Market price of 1,000 shares = 92.50 x 1,000 = ₹ 92,500

   Cost being lower than the market price, therefore shares are carried forward at cost.

(c) **Mr. Nikil in Account Current with Mr. Akil**

(Interest to 31st March, 2020, @ 10% p.a. under epoque method)

Dr.									*Cr.*
Date	*Particulars*	*Amount*	*Days*	*Product*	*Date*	*Particulars*	*Amount*	*Days*	*Product*
2020		₹		₹	2020		₹		₹
Jan 1	To Bal. b/d	50,000	-	-	Jan 15	By Bank	1,00,000	15	15,00,000
Jan10	To Sales A/c	1,00,000	10	10,00,000	Feb. 29	By Bank	50,000	60	30,00,000
Feb. 15	To Sales A/c	1,00,000	46	46,00,000	March 31	By Balance of products			91,00,000
March 31	To Balance of products			80,00,000		(1,00,000 x 91)			
	To Interest A/c	2,186				Balance c/d	1,02,186		
	(80,00,000 x 10% x 1/366)								
		2,52,186		1,36,00,000			2,52,186		1,36,00,000

Note: Transaction dates considered as due dates.

(d) **Journal Entries**

			Dr.	Cr.
2020			₹	₹
April 1	Equity Share Final Call A/c	Dr.	1,00,000	

	To Equity Share Capital A/c (Final call of ₹ 2 per share on 50,000 equity shares due as per Board's Resolution dated....)			1,00,000
April 15	Bank A/c To Equity Share Final Call A/c (Final Call money on 50,000 equity shares received)	Dr.	1,00,000	 1,00,000
	Securities Premium A/c General Reserve A/c Profit and Loss A/c (b.f.) To Bonus to Shareholders A/c (Bonus issue @ one share for every five shares held by utilizing various reserves as per Board's Resolution dated...)	Dr. Dr. Dr.	10,000 80,000 10,000	 1,00,000
April 15	Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalization of profit)	Dr.	1,00,000	 1,00,000

(e) Statement showing differences between Hire Purchase and Installment System

	Basis of Distinction	*Hire Purchase*	*Installment System*
1.	Governing Act	It is governed by Hire Purchase Act,1972.	It is governed by the Sale of Goods Act, 1930.
2.	Nature of Contract	It is an agreement of hiring.	It is an agreement of sale.
3.	Passing of Title (ownership)	The title to goods passes on last payment.	The title to goods passes immediately as in the case of usual sale.
4.	Right to Return goods	The hirer may return goods without further payment except for accrued installments.	Unless seller defaults, goods are not returnable.
5.	Seller's right to repossess	The seller may take possession of the goods if hirer is in default.	The seller can sue for price if the buyer is in default. He cannot take possession of the goods.

6.	Right of Disposal	Hirer cannot hire out, sell, pledge or assign entitling transferee to retain possession as against the hire vendor.	The buyer may dispose off the goods and give good title to the bonafide purchaser.
7.	Responsibility for Risk of Loss	The hirer is not responsible for risk of loss of goods if he has taken reasonable precaution because the ownership has not yet transferred.	The buyer is responsible for risk of loss of goods because of the ownership has transferred.
8.	Name of Parties involved	The parties involved are called Hirer and Hire vendor.	The parties involved are called buyer and seller.
9.	Component other than cash price.	Component other than Cash Price included in installment is called Hire charges.	Component other than Cash Price included in Installment is called Interest.

Note: Any four differences may form part of the answer.