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) P Ltd., a construction contractor, undertakes the construction of a commercial complex. This commercial complex consists of three towers. Each tower is subject to separate negotiation. P Ltd. entered into an agreement for this commercial complex construction. The agreement lays down the contract revenue for each tower as ₹ 40 lakhs, ₹ 50 lakhs and ₹ 65 lakhs respectively besides other terms and conditions for each tower.

P Ltd. is of view that since a single agreement has been entered, with a single customer, the above contract should be treated as a single construction contract. Comment in context of AS- 7 (Revised).

(b) Following is the Cash Flow abstract of Beta Ltd., for the year ended 31st March 2020 :

Inflows	`	Outflows	`
Opening balance :		*Payment to creditors*	*1,00,000*
Cash	*20,000*	*Salaries and wages*	*25,000*
Bank	*90,000*	*Debentures redeemed*	*50,000*
Collection from Debtors	*4,10,000*	*Bank loan repaid*	*3,50,000*
Sale of Fixed assets	*1,15,000*	*Taxation*	*60,000*
		Closing balance:	
		Cash	*10,000*
		Bank	*40,000*
	6,35,000		*6,35,000*

Prepare Cash Flow Statement for the year ended 31-03-2020 using direct method is accordance with AS 3.

(c) (i) A Ltd. purchased an asset on 1st April 2014 for ₹ 5,00,000 and asset had useful life of 8 years with NIL residual value.

On 1st April 2019, directors reviewed the estimated life of the asset and decided that the asset would probably be useful for further 2 years with residual value of 5 of the original cost.

Calculate the amount of depreciation to be charged for each year as per AS-10, if the company charges depreciation on straight line basis.

(ii) A company manufactures a machine for its own use. The manufacturing of machine was completed on November 1st 2019. The machine was finally capable of being operated as on December 15th 2019, however company started using the machinery from February 1st 2020. The company charged depreciation from February 1st 2020. Comment in context of AS-10.

(d) A company purchased 20,000 kg of certain material at ₹ 140 per kg. Purchase price includes the GST of ₹ 1,00,000, in respect of which full input tax credit is admissible. The company availed full GST input tax credit. Freight inward incurred ₹ 1,20,000. Unloading charges ₹ 32,000. Normal loss during transit is 8%. The enterprise actually received 18,200 kg and consumed 16,500 kg. Compute Cost of inventory as per AS 2 and also allocate material cost. ***(4 Parts X5 Marks=20 Marks)***

Answer

(a) As per AS 7 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation

(c) the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(d) the costs and revenues of each asset can be identified.

As per the facts given in the question, P Ltd. is required to treat construction of each tower as a separate construction contract and it cannot treat all towers as single construction contract.

(b) Cash Flow Statement of Beta Ltd. for the year ended 31.3.2020

	₹	₹
Cash flow from operating activities		
Cash received from debtors	4,10,000	
Cash paid to creditors	(1,00,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Cash generated from operations	2,85,000	
Income tax paid	(60,000)	
Net cash generated from operating activities		2,25,000
Cash flow from investing activities		
Proceeds from sale of fixed assets	1,15,000	
Net cash generated from investment activities		1,15,000

Cash flow from financing activities		
Bank loan repaid	(3,50,000)	
Debentures redeemed	(50,000)	
Net cash used in financing activities		(4,00,000)
Net decrease in cash and cash equivalents		(60,000)
Cash and cash equivalents at the beginning of the year		1,10,000
Cash and cash equivalents at the end of the year		50,000

(c) **(i)** The entity has charged depreciation using the straight-line method at ₹ 62,500 per annum for first five years, i.e (5, 00,000/8 years).

On 1st April, 2019, the asset's net book value is [5,00,000 – (62,500 x 5)] ₹ 1, 87,500.

The revised remaining useful life is 2 years.

The company should amend the annual provision for depreciation to charge the unamortized cost over the revised remaining life of two years considering the revised residual value.

Consequently, it should charge depreciation for the next 2 years at ₹ 81,250 per annum

	₹
Net Book value of the asset as on 1st April 2019	1,87,500
Less: Revised Residual Value – 5% of ₹5,00,000	(25,000)
Net Book Value of the asset	1,62,500
Depreciation per year = 1,62,500/2	81,250

(ii) The entity should begin charging depreciation from the date the machine is ready for use – that is, 15th December, 2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation. Depreciation of an asset begins when an asset is available for use, ie: when it is in location and condition necessary for it to be capable of operating in the manner intended by the management

(d) **Computation of cost of inventory and allocation of material cost as per AS 2 is shown below:**

(Normal cost per Kg.)

	₹
Purchase price (20,000 X ₹140)	28,00,000
Less: Input Tax Credit	(1,00,000)

	27,00,000
Add: Freight and unloading charges	1,52,000
A. Total material cost	28,52,000
B. Number of units normally received =92% of 20,000 Kgs	18,400 Kg
C. Normal cost per Kg. (A/B)	₹ 155

Allocation of material cost

	Kg.	₹ /Kg.	₹
Materials consumed	16,500	155	25,57,500
Cost of inventory	1,700	155	2,63,500
Abnormal loss	200	155	31,000
Total material cost	18,400	155	28,52,000

Question 2

The Balance Sheet of Y Ltd. as on March 31st 2020 was as follows:

Particulars	*Amount (₹)*
Equity & Liabilities	
Shareholders' funds	
(a) 1,28,000, Equity shares of ₹ 10 each, ₹ 7.5 each paid up	*9,60,000.00*
(b) 1,28,000, 8% Cumulative Preference Shares ₹ 10 each fully paid up	*12,80,000.00*
(c) Profit & Loss A/c	*(9,76,000.00)*
Non-Current Liabilities	
Unsecured Loan from Directors	*1,20,000.00*
Current Liabilities	
Sundry Creditors	*8,80,000.00*
Bank Overdraft	*4,16,000.00*
	26,80,000.00
Assets	
Non-Current Assets	
- Freehold land at cost	*2,80,000.00*
- Plant & Equipment (at cost less depreciation)	*4,80,000.00*
- Goodwill	*1,36,000.00*
- Long-term investment in shares in B Ltd (at cost)	*6,48,000.00*

Current Assets	
Inventories	*4,96,000.00*
Sundry Debtors	*6,40,000.00*
	26,80,000.00

Note: *The arrears of preference dividends amount to ₹ 1,02,400*

A scheme of reconstruction was duly approved with effect from 1st April, 2020 under the conditions stated below:

(a) The unpaid amount on the equity shares would be called up.

(b) The preference shareholders would forego their arrear dividends. In addition, they would accept a reduction of ₹ 2.5 per share. The dividend rate would be enhanced to 10%.

(c) The equity shareholders would accept a reduction of ₹ 7.5 per share.

(d) Y Ltd. holds 21,600 shares in B Ltd. This represents 15% of the share capital of that company. B Ltd. is not a listed company. The average net profit (after tax) of the company is ₹ 5,00,000. The shares would be valued based on 12% capitalization rate.

(e) A bad debt provision at 2% would be created.

(f) The other assets would be valued as under:

Plant & Equipment	*₹ 2,80,000*
Freehold Land	*₹ 7,60,000*
Inventories	*₹ 5,00,000*

(g) The Profit & Loss A/c negative balance would be eliminated. Goodwill would be written off.

(h) The directors would have to take equity shares at the new face value of ₹ 2.5 per share in settlement of their loan.

(i) The equity shareholders including the directors, who would receive equity shares in settlement of their loans, would subscribe two new equity shares for every one share held in cash.

(j) The preference shareholders would subscribe one new preference share for every four preference shares held, in cash.

(k) The new face values of the shares - preference and equity will be maintained at their reduced levels.

You are required to prepare:

(i) Capital Reduction Account, Equity Share Capital Account, 8% Cumulative Preference Share Capital Account, 10% Cumulative Preference Share Capital Account and Bank Account.

(ii) Balance Sheet of the company after reconstruction. ***(16 Marks)***

Answer

(i) **Capital Reduction Account**

	₹		₹
To Provision for Bad Debts	12,800	By Equity share capital	9,60,000
To P & L A/c	9,76,000	By 8% Cumulative pref.	
To Plant and Equipment	2,00,000	share capital	3,20,000
To Goodwill	1,36,000	By Freehold land	4,80,000
To Long term Investment*	23,000	By Inventories	4,000
To Capital Reserve			
(Bal. fig.)	4,16,200		
	17,64,000		17,64,000

** Investment valued at 5, 00,000/.12 = 41, 66,666.67 X .15 = ₹ 6, 25,000*

Thus Reduction in value of investments = 6, 48,000 less ₹ 6, 25,000 = ₹23,000

Equity Share Capital Account

	₹		₹
To Capital Reduction Account	9,60,000	By Balance b/d	9,60,000
To Balance c/d	13,20,000	By Bank (Final call)	3,20,000
		By Directors unsecured loan	1,20,000
		By Bank	8,80,000
	22,80,000		22,80,000

8% Cumulative Preference Share Capital Account

	₹		₹
To Capital Reduction Account	3,20,000	By Balance b/d	12,80,000
To 10% Preference Share Capital Account	9,60,000		
	12,80,000		12,80,000

10% Cumulative Preference Share Capital Account

	₹		₹
To Balance c/d	12,00,000	By 8% Preference Share Capital Account	9,60,000

		By Bank	2,40,000
	12,00,000		12,00,000

Bank Account

	₹		₹
To Equity Share Capital (Final Call)	3,20,000	By balance c/d*	14,40,000
To Equity Share Capital	8,80,000		
To 10% cumulative Preference Share Capital Account	2,40,000		
	14,40,000		14,40,000

** Overdraft balance not adjusted here, shown separately in the balance sheet after reconstruction. Alternative answer after adjusting Overdraft balance is also possible.*

(ii) Balance Sheet of Y Ltd. (And Reduced) as at 1st April, 2020

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	25,20,000
	B	Reserves and Surplus	2	4,16,200
2		**Current liabilities**		
	A	Trade Payables		8,80,000
	B	Short term provision	3	12,800
	C	Short Term Borrowings (Bank Overdraft)		4,16,000
		Total		42,45,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	10,40,000
	B	Intangible assets		NIL
	C	Long term Investment		6,25,000
2		**Current assets**		
	A	Inventories		5,00,000
	B	Trade receivables		6,40,000
	C	Cash and cash equivalents		14,40,000
		Total		42,45,000

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital	
	5,28,000 Equity shares of ₹ 2.50 each (Out of this, 48,000 shares have been issued for consideration other than cash)	13,20,000
	Preference share capital	
	1,60,000 10% Preference shares of ₹ 7.50 each	12,00,000
	Total	25,20,000
2	**Reserves and Surplus**	
	Capital Reserve	4,16,200
3	**Short term provision**	
	Provision for doubtful debts*	12,800
4	**Property, plant and equipment**	
	Freehold Land	7,60,000
	Plant and Equipment	2,80,000
	Net carrying value	10,40,000

* *can also be adjusted from the balance of trade receivables and not shown separately.*

Question 3

(a) *The Balance Sheet of Gamma Ltd. as on March 31st 2020 is as follows:*

Particulars	*Note*	*Amount ₹*
Equity and Liabilities		
Shareholders' Funds		
(a) Share Capital	*1*	*16,00,000*
(b) Reserve and Surplus	*2*	*28,60,000*
Non-Current Liabilities		
5,000, 9 Debentures of ₹ 100 each		*5,00,000*
Current Liabilities		
Sundry Creditors		*3,40,000*
		53,00,000
Assets		
Non-Current Assets		
Property Plant and Equipment		*15,60,000*

Long Term Investments (Market Value ₹ 11,60,000)		*9,80,000*
Deferred Tax Asset		*6,80,000*
Current Assets		
Cash and Bank Balance		*5,60,000*
Sundry Debtors		*12,40,000*
Others - Preliminary expenses		*2,80,000*
		53,00,000

		Amount ₹
Note:		
I.	***Share Capital***	
	Authorised Share Capital	
	1,00,000, Equity shares of ₹10 each	*10,00,000*
	20,000, Preference shares of ₹ 100 each.	*20,00,000*
		30,00,000
	Issued, subscribed and paid up	
	60,000, Equity shares of ₹ 10 each	*6,00,000*
	10,000, Redeemable 8% Preference shares of ₹ 100 each	*10,00,000*
		16,00,000
2.	***Reserve and Surplus***	
	Securities Premium	*12,00,000*
	General Reserve	*13,00,000*
	Profit & Loss A/c	*3,60,000*
		28,60,000

In Annual General Meeting held on 20th June 2020 the company passed the following resolutions:

(i) To split equity shares of ₹ 10 each into five equity shares of ₹ 2 each from 1st July.

(ii) To redeem 8% preference shares. Capital redemption reserve out of free reserves to be created for the purpose of redemption of preference shares.

(iii) To redeem 9% debentures by making offer to debenture holders to convert their holding into equity shares at ₹ 10 per share or accept cash on redemption.

(iv) To issue fully paid bonus shares in the ratio of one equity share for every three shares held on record date. The company decided that there should be minimum reduction in free reserves.

(v) Preliminary expenses to be written off on 1st July 2020.

On 10th July, 2020 investments were sold for ₹ 11,10,000 and preference shares were redeemed. 40% of debenture holders exercised their option to accept cash and their claims were settled on 1st August 2020. The company fixed 5th September 2020 as record date and bonus issue was concluded by 12th September 2020.

You are requested to journalize the above transactions including cash transactions.

(b) EXE had accepted bills payables to Wye as follows:

29th January 2020 ₹ 8,000 for 3 Months

21st February 2020 ₹ 6,000 for 3 Months

27th February 2020 ₹ 4,000 for 4 Months

15th March 2020 ₹ 5,000 for 4 Months

On 1st May 2020 it was agreed that these bills should be withdrawn and that EXE should accept on that day two bills, one for ₹ 14,000 due on 4 months and the other for the balance amount with interest (as calculated on newly drawn bills), due on 5 months.

Calculate the amount of the second bill taking interest @ 10% p.a. Assume 366 days in the year. Earliest due date to be taken as base date. Any fraction of day resulting from calculation to be considered as full day. ***(8+8= 16 Marks)***

Answer

(a) Journal Entries in books of Gamma Limited

	2020		*Dr. (₹)*	*Cr. (₹)*
	July 1	Equity Share Capital A/c (₹ 10 each) Dr.	6,00,000	
(1)		To Equity Share Capital A/c (₹ 2 each)		6,00,000
		(Being equity share of ₹ 10 each split into 5 equity shares of ₹ 2 each) {3,00,000 X 2}		
		Profit and Loss A/c Dr.	2,80,000	
(2)		To Preliminary Expenses A/c		2,80,000
		(Being preliminary expenses written off)		
	July 10	Cash & Bank A/c Dr.	11,10,000	
		To Investment A/c		9,80,000
(3)		To Profit & Loss A/c		1,30,000
		(Being investment sold out and profit on sale credited to Profit & Loss A/c)		
	July 10	8% Redeemable Preference Share Capital A/c Dr.	10,00,000	
(4)		To Preference Shareholders A/c		10,00,000

		(Being amount payable to preference shareholders on redemption)		
	July 10	Preference Shareholders A/c Dr.	10,00,000	
(5)		To Cash & Bank A/c		10,00,000
		(Being amount paid to preference shareholders)		
	July 10	General Reserve A/c Dr.	10,00,000	
(6)		To Capital Redemption Reserve A/c		10,00,000
		(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)		
	Aug 1	9% Debentures A/c Dr.	5,00,000	
(7)		Interest on debentures A/c Dr.	15,000	
		To Debentureholders A/c		5,15,000
		(Being amount payable to debenture holders along with interest payable)		
	Aug. 1	Debentureholders A/c Dr.	5,15,000	
(8)		To Cash & Bank A/c (2,00,000 + 15,000)		2,15,000
		To Equity Share Capital A/c {30,000 X 2}		60,000
		To Securities Premium A/c		2,40,000
		(Being claims of debenture holders satisfied)		
	Sept. 5	Capital Redemption Reserve A/c Dr.	2,20,000	
(9)		To Bonus to shareholders A/c		2,20,000
		(Being balance in capital redemption reserve capitalized to issue bonus shares)		
	Sept. 12	Bonus to shareholders A/c Dr.	2,20,000	
(10)		To Equity Share Capital A/c		2,20,000
		(Being 1,10,000 fully paid equity shares of ₹ 2 each issued as bonus)		
	Sept. 30	Profit & Loss A/c Dr.	15.000	
(11)		To Interest on debentures A/c		15,000
		(Being interest on debentures transferred to Profit and Loss Account)		

(b) Exe bills payable to Wye (base date 2/5/20)

	Amount ₹	Months	Due Date	No. of days from base date	Amount ₹
29/1/20	8,000	3	2/5/20	-	0
21/2/20	6,000	3	24/5/20	22	1,32,000
27/2/20	4,000	4	30/6/20	59	2,36,000
15/3/20	5,000	4	18/7/20	77	3,85,000
	23,000				7,53,000

Average due date = Base Date + $\frac{\text{Total of products}}{\text{Total of amount}}$

Average due date: 7, 53,000/ 23,000 = 33 days from base date= **4th June 2020**

₹ 14,000 due on 4 months from 1st May 2020, payable on 4th September, 2020

And Balance due on 5 months from 1st May 2020, payable on 4th October 2020

Interest calculation

14,000 X10% for 92 days	= ₹ 352
9,000 X10% for 122 days	= ₹ 300
	₹ 652

Thus second bill be for 9,652 (9,000 + 652)

Question 4

P and Q are in partnership sharing profits & losses in equal ratio. They keep their books by single entry system. The following balances are available from their books as on 31st March, 2019 and 31st March, 2020 :

	31-03-2019	*31-03-2020*
Land & Building	*12,50,000*	*12,50,000*
Tools & Equipments	*6,26,000*	*7,10,000*
Furniture	*1,50,000*	*1,50,000*
Debtors	*10,50,000*	*11,80,000*
Creditors	*5,75,000*	*32,500*
Stock	*?*	*4,50,000*
Bank Loan	*80,000*	*55,000*
Cash	*62,000*	*?*
Outstanding Indirect Expenses	*9,000*	*15,000*

Bills Receivable	*5,000*	*9,500*
Bills Payable	*7,500*	*8,500*

The transactions during the year ended 31st March, 2020 are as follows:

	₹
Collection from debtors	*13,05,000*
Payment to creditors	*10,75,000*
Indirect expenses paid	*65,000*
Cash purchases	*1,80,000*
Cash sales	*2,55,000*
Drawings by partner (P)	*24,000*
Sale of old newspapers	*2,500*

- *On 1st April, 2019, some tools & equipments of book value ₹ 46,000 were sold for ₹ 49,000. On 31st March, 2020, some equipments were purchased.*
- *Cash sales are 15 % of total sales*
- *Credit Purchases are 75 % of total purchases.*
- *Firm sells goods at @ 20 % profit on sales'*
- *Opening Capital of P & Q as on 1st April, 2019, was in same proportion as their profit sharing ratio.*
- *Bills Receivable drawn during the year ₹ 10,000 and Bills Payable accepted during the year ₹ 7,500.*
- *Depreciation @ 10% p.a. to be charged on Tools & Equipments and Furniture.*
- *No Depreciation to be charged on Land & Building.*

You are required to prepare Trading & Profit & Loss Account for the year ended 31st March, 2020 and also prepare Balance Sheet as on 31st March, 2020. Working notes will form part of the answer. ***(16 Marks)***

Answer

Trading and Profit and Loss A/c for the year ended 31.3.2020

.	₹		₹
To Opening Stock (Balancing figure)	10,90,000	By Sales – Cash & Credit	17,00,000
To Purchases – Cash & Credit	7,20,000		
To Gross Profit c/d	3,40,000	By Closing Stock	4,50,000
	21,50,000		21,50,000

To Expenses 65,000		By Gross Profit b/d	3,40,000
Less: Outstanding as on 1.04.2019 (9,000)		By Profit on sale of Equipments	3,000
Add: Outstanding as on 31.03.2020 15,000		By Sale of old newspapers	2,500
	71,000		
To Depreciation :			
Equipment	58,000		
Furniture	15,000		
To Net Profit :			
P	1,00,750		
Q	1,00,750		
	3,45,500		3,45,500

Balance Sheet as on 31-3-2020

Liabilities		₹	Assets		₹
P's Capital	17,80,750		Land & Building		12,50,000
Less: Drawings	(24,000)		Tools & Equipment	7,10,000	
Add: Net Profit	1,00,750	18,57,500	Less: Depreciation	(58,000)	6,52,000
	17,80,750	18,81,500	Furniture	1,50,000	
Q's Capital	1,00,750	32,500	Less : Depreciation	(15,000)	1,35,000
Add: Net Profit			Debtors		11,80,000
Sundry Creditors		55,000			
		15,000	Bills Receivable		9,500
Bank Loan		8,500	Stock		4,50,000
O/s Expenses			Cash		1,73,500
Bills Payable		38,50,000			38,50,000

Working Notes:

1. Cash paid for bills payable

Bills Payable Account

	₹		₹
To Bank A/c (Balancing fig)	6,500	By Balance b/d	7,500
To Balance c/d	8,500	By Creditors	7,500
	15,000		15,000

2. Cash collected from Bills receivables

Bills Receivable Account

	₹		₹
To Balance b/d	5,000	By Bank (Balancing fig)	5,500
To Debtors	10,000	By Balance c/d	9,500
	15,000		15,000

3. Cash Account

	₹		₹
To Balance b/d	62,000	By Cash Purchases	1,80,000
To Cash Sales	2,55,000	By Cash paid to Creditors	10,75,000
To Cash received from Debtors	13,05,000	By Bank Loan repaid	25,000
		By Expenses paid	65,000
To Equipments sold	49,000	By Equipments Purchased	1,30,000
To Sale of old newspapers	2,500		
To Bills receivable	5,500	By Drawings	24,000
		By Bills Payable	6,500
		By Balance c/d	1,73,500
	16,79,000		16,79,000

4. Tools and Equipment Account

	₹		₹
To Balance b/d	6,26,000	By Cash	49,000
To Cash (Balancing figure)	1,30,000	By Balance c/d	7,10,000
To Profit on Sale	3,000		
	7,59,000		7,59,000

5. Calculation of Capital Accounts of P&Q on 31.3.2019

Balance sheet as on 31.3.2019

Liabilities		₹	Assets	₹
Capital Accounts :				
P	17,80,750		Land and Building	12,50,000
Q	17,80,750	35,61,500	Tools and Equipment	6,26,000
			Furniture	1,50,000
Bank Loan		80,000	Debtors	10,50,000

Creditors	5,75,000	Stock	10,90,000
Outstanding Expenses	9,000	Bills Receivable	5,000
Bills Payable	7,500	Cash Balance	62,000
	42,33,000		42,33,000

Question 5

(a) M/s Super Enterprises bought 3 trucks from Kaya Ltd. on 01-04-2017 on the following terms:

	₹
Down Payment	*6,50,000*
3 Instalments to be paid, each at the end of each year:	
1st Instalment ₹ 3,55,000	
2nd Instalment ₹ 3,38,000	
3rd Instalment ₹ 3,30,000	
Interest is charged @ 10 % p.a. and included in above instalments.	
M/s Super Enterprises provides depreciation @ 20 % on the diminishing balance of the Trucks	

On 31st March, 2020, M/s Super Enterprises failed to pay the 3rd Instalment upon which Kaya Ltd. repossessed 1 truck. Kaya Ltd. agreed to leave 2 trucks with M/s Super Enterprises and adjusted the value of 1 truck against the amount due.

The truck taken over was valued on the basis, of 30% depreciation annually on written down value basis.

The balance amount remaining in the Vendor's Account after the above adjustment was paid by M/s. Super Enterprises after 2 months with interest @ 18 % p.a.

You are required to:

(i) Calculate the Cash Price of the trucks and the amount of Interest paid with each instalment.

(ii) Prepare Truck Account, Kaya Ltd.'s Account in the books of M/s Super Enterprises assuming that the books of accounts are closed on 31st March every year.

(b) A fire occurred in the premises of M/s Star & Sons on 21st March 2020. The concern had taken Insurance Policy of ₹ 75,000 which was subject to average clause. From the books of accounts, the following particulars are available relating to the period 1st April 2019 to March 21st 2020 :

(i) Stock as on April 1st 2019 ₹ 1,50,500

(ii)	*Purchases (including purchase of ₹ 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown)*	*₹ 3,17,000*
(iii)	*Cost of goods distributed as, samples for advertising from April 1st 2019 to the date of fire, included in above purchases*	*₹ 32,000*
(iv)	*Sales (excluding goods sold on approval basis having sale value ₹ 35,000)*	*₹ 4,55,000*
	Approval has been received for goods before the date of fire.	
(v)	*Purchase return*	*₹ 15,000*
(vi)	*Wages (including salary of Manager ₹ 10000)*	*₹ 65,000*
(vii)	*Average Rate of Gross Profit @ 20% on sales*	
(viii)	*Cost of goods salvaged*	*₹ 12,000*

You are required to calculate the amount of claim to be lodged to Insurance Company.

(10+ 6= 16 Marks)

Answer

(a) (i) Calculation of Interest and Cash Price

No. of instalments	*Outstanding balance at the end after the payment of instalment*	*Amount due at the time of instalment*	*Outstanding balance at the end before the payment of instalment*	*Interest*	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4]= 2 +3*	*[5]= 4 x 10/110*	*[6]= 4-5*
3rd	-	3,30,000	3,30,000	30,000	3,00,000
2nd	3,00,000	3,38,000	6,38,000	58,000	5,80,000
1st	5,80,000	3,55,000	9,35,000	85,000	8,50,000

Total cash price = ₹ 8, 50,000+ 6, 50,000 (down payment) = ₹ 15, 00,000.

(ii) In the books of M/s Super Enterprises

Trucks Account

Date	*Particulars*	*₹.*	*Date*	*Particulars*	*₹*
1.4.2017	To Kaya Ltd.A/c	15,00,000	31.3.2018	By Depreciation A/c	3,00,000
				Balance c/d	12,00,000
		15,00,000			15,00,000

1.4.2018	To Balance b/d	12,00,000	31.3.2019	By Depreciation A/c	2,40,000
				Balance c/d	9,60,000
		12,00,000			12,00,000
1.4.2019	To Balance b/d	9,60,000	31.3.2020	By Depreciation A/c	1,92,000
				By Kaya Ltd. A/c (Value of 1 truck taken over after depreciation for 3 years @30% p.a.) {5,00,000-(1,50,000+1,05,000+73,500)}	1,71,500
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,56,000-1,71,500)	84,500
				By Balance c/d 2/3 (9,60,000 -1,92,000 = 7,68,000)	5,12,000
		9,60,000			9,60,000

Kaya Ltd. Account

Date	*Particulars*	₹	*Date*	*Particulars*	₹
1.4.17	To Bank (down payment)	6,50,000	1.4.17	By Trucks a/c	15,00,000
31.3.18	To Bank (1st Instalment)	3,55,000	31.3.18	By Interest a/c	85,000
	To Balance c/d	5,80,000			
		15,85,000			15,85,000
31.3.19	To Bank (2nd Instalment)	3,38,000	1.4.18	By Balance b/d	5,80,000
	To Balance c/d	3,00,000	31.3.19	By Interest a/c	58,000
		6,38,000			6,38,000
31.3.20	To Trucks a/c	1,71,500	1.4.19	By Balance b/d	3,00,000
	To Balance c/d (b.f.)	1,58,500	31.3.20	By Interest a/c	30,000
		3,30,000			3,30,000
31.5.20	To Bank (Amount settled after 2 months)	1,63,255	1.4.20	By Balance b/d	1,58,500
			31.5.20	By Interest a/c (@ 18% on bal.) (1,58,500x2/12x18/100)	4,755
		1,63,255			1,63,255

(b) Memorandum Trading Account for the period 1st April, 2019 to 21st March, 2020

		₹		₹
To Opening Stock		1,50,500	By Sales (4,55,000 + 35,000)	4,90,000
To Purchases	3,17,000			
Less: Returns	(15,000)		By Closing Stock (Bal. fig.)	83,500
Goods distributed as samples	(32,000)	2,70,000		
To Wages		55,000		
To Gross Profit (20% of Sales)		98,000		
		5,73,500		5,73,500

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	83,500
Less: Salvaged Stock	12,000
Loss of stock	71,500

Note: Since policy amount is less than vale of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula.

$$\text{Claim} = \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

Claim amount = ₹ 71,500X 75,000/ 83,500= ₹ 64,222(rounded off)

Question 6

The Balance Sheet of Amit, Jatin and Rajat, who share Profits and Losses in the ratio 4: 3 : 3 respectively, as on 01-04-2020 is as follows:

Liabilities		*Amount*	*Assets*		*Amount*
		(₹)			*(₹)*
Capital Accounts:			*Land & Building*		*6,50,000*
Amit	*4,50,000*				
Jatin	*2,75,000*				
Rajat	*2,15,000*	*9,40,000*			
General Reserve		*1,50,000*	*Plant & Machinery*		*2,75,000*

Creditors		*2,05,000*	*Furniture, Fixtures & Fittings*		*1,45,000*
Outstanding liability		*5,000*	*Stock*		*1,15,000*
			Trade Debtors	*80,000*	
			Less: Provision for Doubtful Debts	*(6,500)*	*73,500*
			Cash at Bank		*41,500*
		13,00,000			*13,00,000*

- *Sumit is admitted as a partner on above date i.e. 01-04-2020 for 1/5th share in profits and losses. Following terms are agreed upon:*
- *Sumit will bring in Furniture valued at ₹ 40,000 and ₹ 3,00,000 in cash as capital but he is unable to bring the required amount of premium for goodwill.*
- *Goodwill of the firm be valued at ₹ 2,00,000. (No Goodwill account to be raised or maintained). Necessary adjustments regarding Goodwill to be made through the partners' capital accounts.*
- *Value of Plant & Machinery be reduced by 10%.*
- *Value of Stock be appreciated by 5%*
- *Provision for doubtful debts be made equal to 10% of Trade Debtors.*
- *Land & Building to be appreciated by 10%.*
- *A liability of repairs ₹ 2,000 to be recorded in books of accounts.*
- *The Outstanding Liability includes ₹ 1,000 due to Mr. X, which has been paid by Amit.*
- *Investments amounting ₹ 10,000 (not mentioned in Balance sheet) to be taken into books of accounts.*
- *The entire capital of the newly constituted firm is decided to be ₹ 15,00,000. Partners decided to maintain capital in their new profit sharing ratio, i.e. actual cash to be paid off or brought in by the partners as the case may be.*

You are required to prepare Partners' Capital Accounts, Revaluation Account, Cash Account and Balance Sheet of newly constituted Firm as on date 01/04/2020. ***(16 Marks)***

Answer

Revaluation Account

	₹		₹
To Plant and Machinery	27,500	By Stock	5,750
To Provision for Bad Debts (8,000 less 6,500)	1,500	By Land and Building	65,000
To Liability for Repairs	2,000	By Investment	10,000
To Profit on revaluation transferred to Partners' capital accounts:			
Amit 19,900			
Jatin 14,925			
Rajat 14,925	49,750		
	80,750		80,750

Capital Accounts of Partners

Particulars	Amit	Jatin	Rajat	Sumit	Particulars	Amit	Jatin	Rajat	Sumit
	₹	₹	₹	₹		₹	₹	₹	₹
To Old partners (Goodwill adjustment)	–	–	–	40,000	By Balance b/d	4,50,000	2,75,000	2,15,000	
To Cash	66,900				By General Reserve	60,000	45,000	45,000	-
To Balance c/d*	4,80,000	3,60,000	3,60,000	3,00,000	By Furniture				40,000
					By Cash				3,00,000
					By Sumit (goodwill adjustment)	16,000	12,000	12,000	
					By Outstanding liability	1,000			
					By Revaluation A/c	19,900	14,925	14,925	
					By Cash A/c		13,075	73,075	
	5,46,900	3,60,000	3,600,00	3,40,000		5,46,900	3,60,000	3,600,00	3,40,000

Working Notes

1. Calculation of New Firm's Capital

   Combined Capital as given:₹ 15, 00,000 and old Profit Sharing Ratio: 4:3:3

   Sumit's Share: 1/5; Balance share of profit (after admission) :1-1/5 = 4/5

New Profit Share : 8:6:6:5

Amit's share of capital in new firm : 15, 00,000 x 8/25 = ₹ 4,80,000

Jatin's share of capital in new firm : 15, 00,000 x 6/25 = ₹ 3,60,000

Rajat's share of capital in new firm : 15, 00,000 x 6/25 =₹ 3,60,000

Sumit's share of capital in new firm : 15, 00,000 x 5/25 = ₹ 3,00,000

2. Calculation of Goodwill Share and write-off of Goodwill

Share of Sumit :1/5; Old Profit Sharing Ratio: 4:3:3

Balance share of profit (after admission) : 1-1/5 = 4/5

Goodwill of the firm:₹ 2, 00,000 and Sumit's share in goodwill:₹ 2, 00,000 x 1/5=₹ 40,000

This Goodwill is to be credited to other partners in their sacrificing ratio (adjustment entry):

Sumit's Capital Account Dr	`40,000	
To Amit's Capital Account (4/10)		₹16,000
To Jatin's Capital Account (3/10)		₹12,000
To Rajat's Capital Account (3/10)		₹12,000

Balance Sheet as on 1st April 2020

Liabilities	₹	*Assets*	₹
Trade creditors	2,05,000	Land and Buildings	7,15,000
Outstanding Liability	6,000	Plant and machinery	2,47,500
Capital Accounts of partners:		Furniture	1,85,000
Amit 4,80,000		Stock	1,20,750
Jatin 3,60,000		Debtors	72,000
Rajat 3,60,000		Investment	10,000
Sumit 3,00,000		Cash in hand	3,60,750
	15,00,000		
	17,11,000		17,11,000

Cash Account

	₹		₹
To Balance b/d	41,500	By Amit	66,900
To Capital accounts:		By balance c/d	3,60,750
Sumit	3,00,000		

Jatin	13,075		
Rajat	73,075		
	4,27,650		4,27,650

Question 7

*Answer any **four** of the following:*

(a) *The following information is given by Mr. X relating to his holding in 10 State Government Bonds.*

Opening Balance as on 1st April, 2019: Face value ₹ 5,00,000 (5,000 units @ ₹ 100 each) and Cost ₹ 4,50,000.

On 1st June, 2019 Purchased 1,500 units ex interest @ 95 per unit

On 31st January, 2020 Sold 4,500 units, cum interest @ 94.50 per unit - out of the original holdings.

Interest dates are 30th June and 31st December. Mr. X closes his books on every 31st March and he follows FIFO method.

Show the Investment Account as on March 31st 2020 as it would appear in his books.

(b) *Explain the significance of computerized accounting system in the modern time.*

(c) *From the following particulars prepare an Account Current, as sent by Mr. S to Mr. R as on 31st December 2019 by means of product method charging interest @ 8 % p.a. (Consider 1 year = 365 days)*

2019	Particulars	₹
1st May	Balance due from R	10,000
24th August	Cash Received from R	7,500
15th September	Sold goods to R	15,500
15th October	Payment by R by cheque	12,000
12th December	Cash Paid by R	3,000

(d) *In each of the following companies, operating/cycle and expected settlement of trade payables is given. State giving reasons whether the Trade Payables of each company are Current Liabilities or Non-Current Liabilities as per Schedule III of the Companies Act, 2013:*

Company	Operating Cycle Period	Expected Payment period
1	10 months	12 Months
2	11 months	13 Months
3	18 months	15 Months
4	16 months	17 Months

(e) *List some cases where the third parties cannot bind the partnership firm unless all the partners have agreed.* ***(4 Parts X4 Marks =16 Marks)***

Answer

(a) 10% State Government Bonds (Investment) Account in the Books of Mr. X

Date	Particulars	Face Value	Interest	Principal	Date	Particulars	Face Value	Interest	Principal
		₹	₹	₹			₹	₹	₹
1.4.19	To Balance b/d	5,00,000	12,500	4,50,000	30.6.19	By Bank A/c		32,500	
1.6.19	To Bank A/c	1,50,000	6,250	1,42,500	31.12.19	By Bank A/c		32,500	
31.03.20	To Profit & Loss A/c		55.000	16,500	31.01.20	By Bank A/c	4,50,000	3,750	4,21,500
					31.03.20	By Balance c/d	2,00,000	5,000	1,87,500
		6,50,000	73,750	6,09,000			6,50,000	73,750	6,09,000

Note: all units sold are from the opening balance.

Closing balance consists of 1, 87,500 (4, 50,000 X10/100 + 1, 42,500).

(b) In modern time, computerized accounting systems are used in various areas. The significance of the computerized accounting system is as follows:

(1) *Increase speed, accuracy and security* - In computerized accounting system, the speed with which accounts can be maintained is several fold higher. Besides speed, level of accuracy is also high in computerized accounting system.

(2) *Reduce errors* - In computerized accounting, the possibilities of errors are also very less unless some mistake is made while recording the data.

(3) *Immediate information* - In this system, with an entry of a transaction, corresponding ledger posting is done automatically. Hence, trial balance will also be automatically tallied and the user will get the information immediately.

(4) *Avoids duplication of work* - Computerized accounting systems also remove the duplication of the work.

(c) R in Account Current with S as on 31st Dec. 2019

Dr. *Cr.*

			Days	Product ₹				Days	Product ₹
1.5.19	To Bal. b/d	10,000	245	24,50,000					
15.9.19	To Sales	15,500	107	16,58,500	24.8.19	By Cash	7,500	129	9,67,500

31.12.19	To Interest	473			15.10.19	By Bank	12,000	77	9,24,000
					12.12.19	By Cash	3,000	19	57,000
					31.12.19	By Bal. c/d	3,473		21,60,000
		25,973		41,08,500			25,973		41,08,5000

Interest = 8% on ₹ 21, 60,000 divided by 365 days = ₹473

(d) As per Schedule III to the Companies Act, 2013, a liability shall be classified as current when it satisfies any of the following criteria:

(a) it is expected to be settled in the company's normal operating cycle;

(b) it is held primarily for the purpose of being traded;

(c) it is due to be settled within twelve months after the reporting date; or

(d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

Company	Operating Cycle period	Expected payment period	Current or Non-current and reason thereof
1	10 months	12 months	Expected payment period is within 12 months although it is more than the operating cycle. It will be treated as **Current Liability***
2	11 months	13 months	Expected payment period is more than the operating cycle period and not within 12 months. Hence it is **Non-Current Liability**
3	18 months	15 months	Expected payment period is less than the operating cycle period, although it is more than 12 months period. Hence it is **Current Liability**
4	16 months	17 months	Expected payment period is more than the operating cycle and not within the 12 month period. Hence it is **Non-Current Liability**

Note: The question gives the information about the expected payment period (period in which the entity is expected to pay) which may differ from the due date. The solution given above is based on the assumption that the expected payment period is the time in which the liability will become due considering the third criteria of Schedule III.

* *This may be treated as Non-Current as the liability is not expected to be settled in the company's normal operating cycle considering the first criteria of Schedule III. For cases of companies 2 to 4, the classification will remain same but the reasoning may differ as per the first criteria of Schedule III classification.*

(e) Third parties cannot bind the firm unless all the partners have agreed in the following cases:

(a) Submitting a dispute relating to the firm arbitration;

(b) Opening a bank account on behalf of the firm in the name of a partner;

(c) Compromise or relinquishment of any claim or portion of claim by the firm;

(d) Withdrawal of a suit or proceeding filed on behalf of the firm;

(e) Admission of any liability in a suit or proceedings against the firm;

(f) Acquisition of immovable property belonging to the firm;

(g) Entering into partnership on behalf of the firm.