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) From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019 as per AS-3.

Particulars	*Amount (₹)*
Balance as per the Bank Statement	*25,000*
Cheque issued but not presented in the Bank	*15,000*
Short Term Investment in liquid equity shares of ABC Limited	*50,000*
Fixed Deposit created on 01-11-2018 and maturing on15-04-2019	*75,000*
Short Term Investment in highly liquid Sovereign Debt Mutual fund on 01-03-2019	*1,00,000*
Bank Balance in a Foreign Currency Account in India	*$ 1,000*
(Conversion Rate: On the day of deposit ₹ 69/USD As on 31-03-2019 ₹ 70/USD)	

(b) Given the following information of ABC Ltd.

(i) Goods of ₹ 80,000 were sold on 10-03-2019 but at the request of the buyer these were delivered on 10-04-2019.

(ii) On 25-01-2019 goods of ₹ 2,00,000 were sent on consignment basis of which 20% of the goods unsold are lying with the consignee as on 31-03-2019.

(iii) ₹ 2,40,000 worth of goods were sold on approval basis on 1-12-2018. The period of approval was 3 months after which they were considered sold. Buyer sent approval for 75% goods up to 31-1-2019 and no approval or disapproval received for the remaining goods till 31-3-2019.

(iv) Apart from the above, the company has made cash sales of ₹ 9,60,000 (gross). Trade discount of 5% was allowed on the cash sales.

You are required to advise the accountant of ABC Ltd., with valid reasons, the amount to be recognized as revenue in above cases in the context of AS-9 for the year ending 31-1-2019.

(c) Shyan Limited commenced a construction contract on 01-04-2018. The company expended ₹ 500 crores in 2018-19 for 40% work. The total estimated cost of the project is ₹ 1,250 crores. Compute (i) Revenue, (ii) Expense, (iii) Provision for loss and (iv) Profit or loss to be recognized in the statement of Profit and Loss A/c as per AS-7 for the year ending 31-03-2019 if:

(1) It is fixed price contract of ₹ 1,200 crores.

(2) It is cost plus contract of 20%.

(d) With reference to AS-10, classify the items under the following heads:

HEADS

(i) Purchase Price of PPE

(ii) Directly attributable cost of PPE or

(iii) Cost not included in determining the carrying amount of an item of PPE.

ITEMS

(1) Import duties and non-refundable purchase taxes.

(2) Initial delivery and handling costs.

(3) Costs of testing whether the asset is functioning properly, after deducting the net proceeds.

(4) Initial operating losses, such as those incurred while demand for the output of an item builds up.

(5) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.

(6) Trade discounts and rebates.

(7) Costs of relocating or reorganizing part or all of the operations of an enterprise.

(8) Installation and assembly costs.

(9) Cost of site preparation.

(10) Administration and other general overhead costs. ***(4 Parts x 5 Marks = 20 Marks)***

Answer

(a) Computation of Cash and Cash Equivalents as on 31st March, 2019

	₹
Cash balance with bank (₹ 25,000 less ₹ 15,000)	10,000
Short term investment in highly liquid sovereign debt mutual fund on 1.3.19*	1,00,000

Bank balance in foreign currency account ($1,000 x ₹ 70)	70,000
	1,80,000

* Considered to be having maturity period of less than 3 months.

Note: Short term investment in liquid equity shares and fixed deposit will not be considered as cash and cash equivalents.

(b) As per AS 9 “Revenue Recognition”, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i)

The sale is complete (assuming risks and rewards transferred on 10.3.19) but delivery has been postponed at buyer’s request. M/s ABC Ltd. should recognize the entire sale of ₹ 80,000 for the year ended 31st March, 2019.

Case (ii)

20% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 1,60,000 (80% of ₹ 2,00,000). In case of consignment sales revenue should not be recognized until the goods are sold to a third party.

Case (iii)

In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 2,40,000 as the time period for rejecting the goods had expired.

Case (iv)

Trade discounts given should be deducted in determining revenue. Thus ₹ 48,000 should be deducted from the amount of turnover of ₹ 9,60,000 for the purpose of recognition of revenue. Thus, revenue should be recognized for ₹ 9,12,000.

(c) 1. If it is a fixed price contract of ₹ 1,200 crores

Percentage of completion till date to total estimated cost of construction = 40%

		(₹ in crores)
i	Revenue (₹ 1,200 crores x 40%)	480
ii	Expenses	500
iii	Provision for loss (Refer Working note)	30
iv	Loss	50

2. If it is a cost-plus contract of 20%

i	Revenue (500 crores x120%)	600
ii	Expenses	500
iii	Provision for loss	Nil
iv	Profit	100

Working Note:

Calculation of provision for loss in case of fixed price contract

Amount of foreseeable loss	(₹ in crores)
Total cost of construction	1,250
Less: Total contract price	(1,200)
Amount of foreseeable loss	50
Loss for current year [500 – 480 (₹ 1,200 crores x 40%)]	(20)
Expected loss to be recognized immediately	30

According to AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(d) Heads

(i) Purchase price of PPE

(ii) Directly attributable cost of PPE

(iii) Cost not included in determining the carrying amount of an item of PPE

Items		Classified under Head
1	Import duties and non-refundable purchase taxes	(i)
2	Initial delivery and handling costs	(ii)
3	Costs of testing whether the asset is functioning properly, after deducting the net proceeds*	(ii)
4	Initial operating losses, such as those incurred while demand for the output of an item builds up	(iii)

5	Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity.	(iii)
6	Trade discounts and rebates (deducted for computing purchase price)	(i)
7	Costs of relocating or reorganizing part or all of the operations of an enterprise.	(iii)
8	Installation and assembly costs	(ii)
9	Costs of site preparation	(ii)
10	Administration and other general overhead costs	(iii)

**Considered that this cost of testing is after deducting net proceeds from selling any items produced while bringing the asset to that location and condition otherwise if the net proceeds are after fixing the asset to its location and condition (asset ready for use), it will be classified under category (iii) i.e. Cost not included in determining the carrying amount of an item of PPE.*

Question 2

A Limited and B Limited amalgamate to form a new company AB Limited. The financial position of these companies as on the date of amalgamation was as under :

Particulars	*Amount A Ltd.*	*Amount B Ltd.*
Equity and Liabilities		
Shareholders' Fund:		
(a) Equity share capital of ₹ 100 each	*5,00,000*	*2,50,000*
(b) 9% Preference Share Capital of ₹ 100 each	*3,00,000*	*2,00,000*
(c) General Reserve	*1,50,000*	*1,40,000*
(d) Profit & Loss Account	*1,36,800*	*80,500*
Non-Current Liabilities:		
12% Debentures	*2,00,000*	*-*
Secured Loan.	*-*	*2,00,000*
Current Liabilities:		
Trade Payables	*3,17,500*	*2,00,800*
	16,04,300	*10,71,300*
Assets		
Non-Current Assets		
Fixed Assets		
Land and Building	*2,50,000*	*1,90,000*

Plant and Machinery	*1,75,000*	*2,00,000*
Furniture	*75,000*	*50,000*
Intangible Assets (Goodwill)	*2,00,000*	
Non-Current Investments:		
Current Assets:		
Inventories	*1,20,000*	*1,00,000*
Trade Receivables	*4,21,000*	*3,00,000*
Bank Balance	*3,40,000*	*1,80,000*
Cash in hand	*23,300*	*51,300*
	16,04,300	*10,71,300*

The terms of Amalgamation are as under :

(1) All assets and liabilities are to be taken at book value except inventory and trade receivables for which provision of 5% and 7.5% respectively is required.

(2) Issue of 5 preference shares of ₹ 20 each in AB Limited @ ₹ 18 paid up at a premium of ₹ 4 per share for each preference share held in both the companies.

(3) Issue of 6 equity shares of ₹ 20 each in AB limited @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the companies.

(4) In addition cash should be paid to the equity shareholders of both the companies as is required to adjust the rights of the shareholders in accordance with the intrinsic value of shares of both the companies.

(5) Issue of such amount of fully paid 15% debentures in AB limited as is sufficient to discharge the 12% debentures in A Limited.

(6) Trade receivable of A Limited include ₹ 25,000 due from B Ltd.

(i) Prepare necessary ledger accounts in the books of A limited to close their book.

(ii) Show necessary Journal entries in the books of AB Ltd. to give effect to the above transactions. ***(16 Marks)***

Answer

Books of A Ltd.

Realization Account

		₹			₹
To	Goodwill	2,00,000	By	5% Debentures	2,00,000
To	Land & Building	2,50,000	By	Trade payables	3,17,500
To	Plant & Machinery	1,75,000	By	AB Ltd.	10,49,225
To	Furniture	75,000		(Purchase consideration)	
To	Trade receivables	4,21,000	By	Equity shareholders A/c	67,575

To	Inventory	1,20,000		(loss)	
To	Bank balance	3,40,000			
To	Cash in hand	23,300			
To	Preference shareholders (excess payment)	30,000			
		16,34,300			16,34,300

Equity Shareholders Account

		₹			₹
To	Realisation A/c (loss)	67,575	By	Share capital	5,00,000
To	Equity Shares in AB Ltd.	6,60,000	By	Profit & Loss A/c	1,36,800
To	Cash	59,225	By	Reserve	1,50,000
		7,86,800			7,86,800

9% Preference Shareholders Account

		₹			₹
To	Preference Shares in AB Ltd.	3,30,000	By	Share capital	3,00,000
			By	Realisation A/c	30,000
		3,30,000			3,30,000

AB Ltd. Account

		₹				₹
To	Realisation A/c	10,49,225	By	Equity Shares in AB Ltd.		
				For Equity	6,60,000	
				Pref.	3,30,000	9,90,000
			By	Cash		59,225
		10,49,225				10,49,225

Working Notes:

(i) **Purchase consideration**

	A Ltd. ₹	*B Ltd.* ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 (18*+4) per share	3,30,000	2,20,000
Equity Shares at ₹ 22(18*+4) per share	6,60,000	3,30,000
Cash [See W.N. (*ii*)]	59,225	93,000
	10,49,225	6,43,000

(ii) Value of Net Assets

		A Ltd. ₹		*B Ltd.* ₹
Goodwill		2,00,000		
Land & Building		2,50,000		1,90,000
Plant & Machinery		1,75,000		2,00,000
Furniture		75,000		50,000
Trade receivables less 7.5%		3,89,425		2,77,500
Inventory less 5%		1,14,000		95,000
Bank balance		3,40,000		1,80,000
Cash in hand		23,300		51,300
		15,66,725		10,43,800
Less: Debentures	2,00,000		–	
Trade payables	3,17,500		2,00,800	
Secured Loans	–	(5,17,500)	2,00,000	(4,00,800)
		10,49,225		6,43,000
Payable in shares		9,90,000		5,50,000
Payable in cash		59,225		93,000

**considered that the paid-up value of ₹ 18 consists of only face value.*

Journal Entries in the Books of AB Ltd.

1	Goodwill	Dr.	2,00,000	
	Land & Building	Dr.	2,50,000	
	Plant & Machinery	Dr.	1,75,000	
	Furniture	Dr.	75,000	
	Trade receivables less 7.5%	Dr.	3,89,425	
	Inventory less 5%	Dr.	1,14,000	
	Bank balance	Dr.	3,40,000	
	Cash in hand	Dr.	23,300	
	To Debentures			2,00,000
	To Trade payables			3,17,500
	To Business Purchase Account			10,49,225
	(Incorporation of various assets and liabilities taken over from A Ltd.'s at agreed value)			
	Land & Building	Dr.	1,90,000	
	Plant & Machinery	Dr.	2,00,000	
	Furniture	Dr.	50,000	

	Trade receivables less 7.5%	Dr.	2,77,500	
	Inventory less 5%	Dr.	95,000	
	Bank balance	Dr.	1,80,000	
	Cash in hand	Dr.	51,300	
	To Secured Loans			2,00,000
	To Trade payables			2,00,800
	To Business Purchase Account			6,43,000
	(Incorporation of various assets and liabilities taken over from B Ltd.'s at agreed value)			
2	Business Purchase A/c	Dr.	10,49,225	
	To Liquidator of A Ltd			10,49,225
	(Amount payable to A Ltd. as per agreement dated)			
	Business Purchase A/c	Dr.	6,43,000	
	To Liquidator of B Ltd			6,43,000
	(Amount payable to B Ltd. as per agreement dated)			
3	Liquidator of A Ltd.	Dr.	10,49,225	
	To Equity Share Capital			5,40,000
	To 9% Preference Share Capital			2,70,000
	To Securities premium			1,80,000
	To Bank A/c			59,225
	(Discharge of consideration for A Ltd.'s business)			
	Liquidator of B Ltd.	Dr.	6,43,000	
	To Equity Share Capital			2,70,000
	To 9% Preference Share Capital			1,80,000
	To Securities premium			1,00,000
	To Bank A/c			93,000
	(Discharge of consideration for B Ltd.'s business)			
4	12% Debentures A/c	Dr.	2,00,000	
	To 15% Debentures A/c			2,00,000
	(Allotment of 15% Debentures to debenture holders of A Ltd.)			
5	Trade payable of B Ltd.	Dr.	25,000	
	To Trade receivables of A Ltd.			25,000
	(Cancellation of mutual owing)			

Note: Alternative set of entries (combined entries for both A Ltd. and B Ltd.) may also be given for entries numbered 1,2,3.

Question 3

(a) *Prepare cash flow for ABC Ltd., using Direct Method for the year 10 ending 31-03-2019 from the following information:*

(1) Sales for the year amounted to ₹ 270 Lakh out of which 50% was cash sales.

(2) Purchases for the year amounted to ₹ 60 lakh out of which credit purchases were 80%.

(3) Administrative expenses amounted to ₹ 18 lakh. Salary of ₹ 16 lakh was charged to profit and loss account for the year. Salary of ₹ 4 lakh was outstanding as on 31-03-2019. (Salary does not form part of Administrative expenses)

(4) The company has 15% debentures of ₹ 10 lakh, which it redeemed during the year at a premium of 10% by issue of equity shares of ₹ 9 lakh towards redemption and the balance was paid in cash. Debenture Interest was also paid during the year.

(5) Dividend paid during the year amounted to ₹ 12 lakh (including dividend distribution tax).

(6) Investment costing ₹ 10 lakh were sold at a profit of ₹ 2.50 lakh.

(7) Income tax payable for the year was ₹ 80,000.

(8) Depreciation of 25% is charged by the company on opening balance of Plant and Machinery. At the year end one old plant costing ₹ 5,00,000 (WDV ₹ 2,00,000) was sold for ₹ 3,50,000. The purchases were also made at year end.

(9) The following balances are also provided :

	₹ in Lakh 31-03-2018	₹ in Lakh 31-03-2019
Debtors	40	45
Creditors	20	23
Bank	5	-
Plant & Machinery	50	70
Provision for tax	1	0.7

(b) *From the following details, find out the average due date of the bills issued by A to B :*

Date of Bill	Amount (₹)	Usance of the Bill
29th January, 2018	10,000	1 month
20th March 2018	8,000	2 months
12th July, 2018	14,000	1 month
10th August, 2018	12,000	2 months

Base date to be taken shall be the earliest due date. ***(10 + 6 = 16 Marks)***

Answer

(a) **ABC Ltd.**

Cash Flow Statement for the year ended 31st March, 2019

(Using direct method)

Particulars	*₹ In lakhs*	*₹ In lakhs*
Cash flows from operating activities		
Cash sales (50% of 270)	135	
Cash receipts from Debtors [40 + 135 - 45]	130	
Cash purchases (20% of 60)	(12)	
Cash payments to suppliers [20 + 60 x 80% – 23]	(45)	
Cash paid to employees	(12)	
Cash payments for overheads (Adm. and selling)	(18)	
Cash generated from operations	178	
Income tax paid	(1.1)	
Net cash generated from operating activities		176.9
Cash flows from investing activities		
Sale of investments (10+ 2.5)	12.5	
Payments for purchase of fixed assets	(34.5)	
Sale of Machinery	3.5	
Net cash used in investing activities		(18.5)
Cash flows from financing activities		
Redemption of debentures (11-9)	(2)	
Interest paid	(1.5)	
Dividend paid	(12)	
Net cash used in financing activities		(15.5)
Net increase in cash		142.90
Cash at beginning of the period		5.00
Cash at end of the period		147.90

Working Notes

1. **Calculation of Income Tax paid during the year**

Provision for taxation A/c

		₹			₹
To	Cash (Amount paid during the year balancing figure)	1,10,000	By	Balance b/d	1,00,000
To	Balance c/d	70,000	By	P & L A/c (Provision for the year)	80,000
		1,80,000			1,80,000

2. **Calculation of Purchase of Fixed Assets**

Plant & Machinery A/c

		₹			₹
To	Balance b/d	50,00,000	By	Depreciation (25% of ₹ 50 Lacs)	12,50,000
To	P & L A/c (Profit on Sale)	1,50,000	By	Cash (Sale)	3,50,000
To	Cash (Purchases)(bal. fig.)	34,50,000	By	Balance c/d	70,00,000
		86,00,000			86,00,000

(b) Calculation of Average Due Date

(Taking 3rd March, 2018 as base date)

Date of bill 2018	*Term*	*Due date 2018*	*Amount (₹)*	*No. of days from the base date i.e. 3rd March,2018 (₹)*	*Product (₹)*
29th January	1 month	3rd March	10,000	0	0
20th March	2 months	23rd May	8,000	81	6,48,000
12th July	1month	14th Aug.	14,000	164	22,96,000
10th August	2 months	13th Oct.	12,000	224	26,88,000
			44,000		56,32,000

$$\text{Average due date} = \text{Base date + Days equal to } \frac{\text{Sum of Products}}{\text{Sum of Amounts}}$$

$$= \quad 3^{rd} \text{ March, 2018} + \frac{56,32,000}{44,000}$$

$$= \quad 3^{rd} \text{ March, 2018} + 128 \text{ days} = 9^{th} \text{ July, 2018}$$

Note:

Bill dated 12th July, 2018 has the maturity period of one month, due date (after adding 3 days of grace) falls on 15th August, 2018. 15th August being public holiday, due date would be preceding date i.e. 14th August, 2018.

Question 4

Prepare the Income & Expenditure Account of the Entertainment Club for the year ending 31st March, 2019 and Balance Sheet on that date from the following information:

Receipts and Payment Account of Entertainment Club

For the year ending on 31st March, 2019

Receipts	*₹*	*Payments*	*₹*
To Balance b/d (cash)	*25,000*	*By Rent and Rates*	*89,250*
To Subscriptions:		*By Furniture purchased (1-4-2018)*	*80,000*
2017-18 13,350		*By Creditors for Sports Materials*	*71,000*
2018-19 4,20,000 *2019-20 12,000*	*4,45,350*	*By Purchases for Sports Materials*	*20,000*
		By Cost of prizes awarded	*23,450*
To Sales of Sports Materials	*34,000*	*By Match expenses*	*38,200*
To Entrance Fees	*50,000*	*By Miscellaneous expenses*	*1,28,300*
To General Donation	*25,750*	*By Balance c/d*	*1,49,300*
To Donation for prize fund	*15,500*		
To Interest on prize fund Investments	*2,000*		
To Miscellaneous receipts	*1,900*		
	5,99,500		*5,99,500*

Additional Information :

Particulars	*31st March, 2018*	*31st March, 2019*
Sports materials	*25,000*	*28,000*

Furniture	*2,50,000*	*?*
5% Prize fund investments	*80,000*	*?*
Creditors for sports materials	*7,500*	*15,250*
Subscription in arrears (17-18)	*23,750*	*?*
Prize fund	*80,000*	*?*
Rent paid in advance	*-*	*4,750*
Outstanding rent	*3,750*	*-*

- *Book value of sports materials sold was ₹ 30,000.*
- *Depreciation on furniture is to be provided @ 10%.*
- *Half of the entrance fee is to be capitalized.*
- *There are 1520 members, each paying an annual subscription@ ₹ 300.*
- *Subscription received in advance on 31-3-2018 were ₹ 9,000 (For 2018-19).* ***(16 Marks)***

Answer

Books of Entertainment Club

Income & Expenditure Account

For the year ending 31st March, 2019

Particulars	₹	Particular	₹
To Rent & Rates (W.N.4)	80,750	By Subscription (₹ 1,520 × ₹ 300)	4,56,000
To Match expenses	38,200	By Profit on sale of sports material	4,000
To Misc. expense	1,28,300	(₹ 34,000 - ₹ 30,000)	
To Depreciation	33,000	By Entrance fee	25,000
(10% of ₹ 3,30,000) on furniture		By Misc. Receipts	1,900
To Sports material consumed	65,750	By General donation	25,750
To Surplus	1,66,650		
	5,12,650		5,12,650

Balance Sheet of Entertainment Club as on 31st March, 2019

Particular		₹	Particular		₹
Capital Fund			Outstanding subscription		
Opening balance	3,03,500		(2018-19)	27,000	
Add: Surplus	1,66,650		(2017-18)	10,400	37,400
Entrance fee	25,000	4,95,150	Furniture		2,97,000
Price fund (W.N.5)		76,050	Sports material		28,000
Subscription received in advance		12,000	5% Prize fund investments		80,000
Creditors for sports material		15,250	Accrued interest* on Prize Fund investments		2,000
			Cash balance		1,49,300
			Rent paid in advance		4,750
		5,98,450			5,98,450

* Interest on prize fund investment amounts to ₹ 4,000 but only ₹ 2,000 was received, hence ₹ 2,000 is accrued.

Working Notes:

1. **Balance Sheet as on 31.3.2018**

Particulars	₹	Particular	₹
Capital fund (bal figure)	3,03,500	Furniture	2,50,000
Subscription received in advance	9,000	Investment (Prize Fund)	80,000
Prize Fund	80,000	Stock of sports material	25,000
Outstanding rent	3,750	Cash Balance	25,000
Creditors (Sports material)	7,500	Outstanding subscription	23,750
	4,03,750		4,03,750

2. **Furniture Account**

Particulars	₹	Particular	₹
To Opening balance	2,50,000	By Depreciation (10% of 3,30,000)	33,000
To Bank A/c	80,000	By bal. c/d	2,97,000
	3,30,000		3,30,000

3. (i) Sports material purchased during the year (on credit)

Creditors

Particulars	₹	Particular	₹
To Bank A/c	71,000	By Balance b/d	7,500
To Bal. c/d	15,250	By Purchases (Bal figure)	78,750
	86,250		86,250

(ii) Sports material consumed during year

Particulars		₹
Opening balance		25,000
Add: Credit purchase	78,750	
Cash purchase	20,000	98,750
Less Sale		(30,000)
Total		93,750
Less: Closing Stock		(28,000)
Sports material consumed		65,750

4. Rent & Rates to be shown in Income & Expenditure A/c

Particulars	₹
Payment	89,250
Less: Rent paid in advance on 31.3.19	(4,750)
Outstanding rent on 31.3.18	(3,750)
	80,750

5. Prize fund

Particulars		₹
Opening balance		80,000
Add:	Donation	15,500
	Interest	4,000
		99,500
Less: Prize distributed		(23,450)
		76,050

Note: The answer has been given on the assumption that the club is not registered under the Companies Act, 2013. Therefore, Income & Expenditure A/c and Balance Sheet of the club are not prepared as per Schedule III of the Companies Act, 2013.

Question 5

(a) ABC Ltd. has insured itself under a loss of profit policy for ₹ 3,30,000 with indemnity period of 8 months under average clause. A fire occurred in the factory on 01-01-2019 and normal business was affected up to 30-04-2019.

From the following information, prepare a Statement of Claim under the policy:

Actual Turnover over the period of dislocation (01-01-2019 to 30-4-2019)	*50,000*
Turnover for 12 months immediately preceding the date of fire (01-01-2018 to 31-12-2018)	*10,00,000*
Turnover for corresponding period in 12 months immediately preceding the date of fire (01-01-2018 to 30-04-2018)	*4,50,000*
Turnover for last financial year	*12,00,000*
Net Profit for last financial year	*3,00,000*
Uninsured Standing charges	*18,000*
Insured Standing charges for the last financial year	*60,000*

Following increases are approved in the policy:

(i) Increase in G.P. rate by 2%

(ii) Increase in turnover by 10%

There was an additional cost of working of ₹ 20,000 during dislocation period. Due to this additional cost there was a saving of ₹ 5,000 in insured standing charges during the indemnity period and but for this additional cost the turnover during the period of dislocation would have been only ₹ 35,000.

(b) XYZ Limited held on 1st April, 2018, 1000 9% Government Securities at ₹ 90,000 (Face Value of Security ₹ 100 each). Three month's interest had accrued on the above date. On 1st May, the company purchased the same Government Securities of the face value of ₹ 80,000 at ₹ 95 cum-interest. On 1st June, ₹ 60,000 face value of the security was sold at ₹ 94 cum-interest. Interest on the security was paid each year on 30th June and 31st December and was credited by the bank on the same date. On 30th September, ₹ 40,000 face value of the Govt. securities were sold at ₹ 97 cum-interest. On 1st December, the company purchased the same security ₹ 10,000 at par ex-interest. On 1st March, the company sold ₹ 10,000 face value of the government securities at ₹ 95 ex-interest.

You are required to draw up the 9% Government Security Account in the books of XYZ Limited. FIFO method shall be followed.

Calculation shall be made to the nearest rupee or multiple thereof. ***(8 + 8 = 16 Marks)***

Answer

(a) Computation of loss of profit Insurance claim

		₹
(1)	**Rate of gross profit:**	
	Net profit for the last financial year	3,00,000
	Add: Insured standing charges	60,000
		3,60,000
	Turnover for the last financial year	12,00,000
	Rate of gross profit = $\left[\frac{₹\ 3,60,000}{₹\ 12,00,000} \times 100\right]$ = 30%	
	Gross profit after adding 2% = 30%+2%= 32%	
(2)	**Short sales:**	
	Standard Turnover	4,50,000
	Add: 10% increasing trend	45,000
		4,95,000
	Less: Turnover during the dislocation period	(50,000)
		4,45,000
(3)	**Annual (Adjusted) Turnover:**	
	Annual Turnover (1-1-2018 to 31-12-2018)	10,00,000
	Add: 10% increasing trend	1,00,000
		11,00,000

Note: Assumed that trend adjustment is required on total amount of annual turnover. However, part of the annual turnover represents trend adjusted figure. Alternatively, trend may be ignored and annual turnover can be taken simply.

(4) Additional Expenses: ₹

(i) Actual Expenses 20,000

(ii) Gross profit on sales generated by additional expenses

32/100× (₹ 50,000 – ₹ 35,000) = 4,800

(iii) $\frac{\text{Gross Profit on Annual (Adjusted) Turnover}}{\text{Gross Profit shown in the numerator + Uninsured standing charges}} \times \text{Additional Expenses}$

(32% on ₹ 11,00,000)/ [(32% on ₹ 11,00,000)+18,000)] x ₹ 20,000

[₹ 3,52,000/(₹ 3,52,000+ ₹ 18,000)] x ₹ 20,000 = ₹19,027

Least of the above three figures, *i.e.* ₹ 4,800 allowable.

(5) **Computation of Claim*:***

	₹
Loss of profit on short sales (32% on ₹ 4,45,000)	1,42,400
Add: Allowable additional expenses	4,800
	1,47,200
Less: Savings in insured standing charges	(5,000)
	1,42,200

Application of average clause

(3,30,000/3,52,000) x 1,42,200 = ₹ 1,33,312.50

(b) **In the Books of XYZ Ltd.**

9% Government Securities (Investment) Account

Particulars		*Face Value*	*Interest*	*Principal*	*Particulars*		*Face Value*	*Interest*	*Principal*
2018		₹	₹	₹	*2018*		₹	₹	₹
April 1	To Balance b/d	1,00,000	2,250	90,000	June 1	By Bank A/c	60,000	2,250	54,150
May 1	To Bank A/c	80,000	2,400	73,600	June 30	By Bank A/c	-	5,400	-
June 1	To P&L A/c	-	-	150	Sept. 30	By Bank A/c	40,000	900	37,900
Sept. 30	To P & L A/c	-	-	1,900	Dec. 31	By Bank A/c	-	4,050	-
Dec. 1	To Bank A/c	10,000	375	10,000	Mar.1 2019	By Bank A/c	10,000	150	9,500
Mar. 1	To P&L A/c	-	-	300	Mar. 31	By Balance c/d	80,000	1,800	74,400
Mar. 31	To P&L A/c (Transfer)	-	9,525	-					
		1,90,000	14,550	1,75,950			1,90,000	14,550	1,75,950

Working Notes:

1. Interest accrued on 1st April 2018 = ₹1,00,000 x 9% x 3/12 = ₹ 2,250
2. Accrued Interest on 800 units as on 01.05.2018 = ₹ 80,000 x 9/100 x 4/12 = ₹ 2,400

3. Cost of Investment for purchase on 01.05.2018 = ₹ 76,000 - ₹ 2,400 = ₹ 73,600
4. Accrued Interest on 600 units as on 01.06.2018 = ₹ 60,000 x 9/100 x 5/12 = ₹ 2,250
5. Profit on Securities sold on 1st June = ₹ 54,150 (56,400 – 2,250)- ₹ 54,000 (60,000 x 90,000/1,00,000) = ₹ 150
6. Interest received on 30.06.2018 = ₹1,20,000 x 9/100 x 6/12 = ₹ 5,400
7. Accrued Interest on 400 units as on 30.09.2018 = ₹ 40,000 x 9/100 x 3/12 = ₹ 900
8. Cost of 400 Govt. Securities sold on 30.09.2018 = 40,000 x 90,000/1,00,000 = ₹ 36,000
9. Profit on securities sold on 30th September = ₹37,900 (38,800-900) - ₹ 36,000 = ₹ 1,900
10. Accrued Interest on 1.12.2018 = ₹ 10,000 x 9/100 x 5/12 = ₹ 375
11. Interest received on 31.12.2018 = ₹ 90,000 x 9/100 x 6/12 = ₹ 4,050
12. Accrued Interest on 100 units as on 01.03.2019 = ₹ 10,000 x 9/100 x 2/12 = ₹ 150
13. Cost of 100 Govt. Securities sold on 01.03.2019 = ₹ 10,000 x 73,600/80,000 = ₹ 9,200
14. Profit on securities sold on 01.03.2019 = ₹ 9,500 - ₹ 9,200 = ₹ 300
15.

Calculation of closing balance:	*Units*	₹
Securities in hand remained in hand at 31/3/2019		
From original holding (1,00,000 – 60,000 – 40,000)		-
Purchased on 1st May (80,000 – 10,000)	70,000	64,400
Purchased on 1st December	10,000	10,000
	80,000	74,400

Question 6

X, Y, and Z are partners of the firm XYZ & Co., sharing profits and losses in the ratio of 5:3:2. Following is the Balance Sheet of the firm as at 31-3-2019:

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Partners' Capital Accounts		*Goodwill*	*2,00,000*
X	*5,00,000*	*Building*	*9,50,000*
Y	*2,50,000*	*Machinery*	*7,00,000*
Z	*2,00,000*	*Furniture*	*2,50,000*
Investment fluctuation	*2,00,000*	*Investments (market value*	*1,00,000*

reserve		*₹ 1,25,000)*	
General Reserve	*95,000*	*Stock*	*5,50,000*
Long-term loan	*10,45,000*	*Sundry debtors*	*5,00,000*
Bank overdraft	*3,60,000*	*Profit and Loss A/c*	*50,000*
Sundry Creditors	*6,50,000*		
	33,00,000		*33,00,000*

It was decided that Y would retire from the partnership on 1-4-2019 and M would be admitted as a partner on the same date. Following adjustments are agreed amongst the partners for the retirement/admission:

(i) Goodwill is to be valued at ₹ 6,00,000, but the same will not appear as an asset in the books of the firm.

(ii) Building and machinery are to be revalued at ₹ 10,00,000 and ₹ 6,40,000 respectively.

(iii) Investments are to be taken over by Y at the market value.

(iv) Provision for doubtful debts is to be maintained at 15% on Sundry debtors.

(v) The capital of the reconstituted firm will be ₹ 15,00,000 to be contributed by the partners X, Y[1] and M in their new profit sharing ratio of 2:2:1.

(vi) Surplus funds, if any will be used to pay the bank overdraft.

(vii) Amount due to retiring partner Y will be transferred to his loan account.

Prepare:

(1) Revaluation Account

(2) Capital Accounts of the partners; and

(3) Balance Sheet of the firm after reconstitution. ***(16 Marks)***

Answer

Revaluation Account

	₹		₹
To Provision for doubtful debts (15% on 5,00,000)	75,000	By Building	50,000
To Machinery	60,000	By Investments	25,000
		By Parents' Capital A/cs:	
		X 30,000	
		Y 18,000	

[1] *PS: Partner Y to be read as partner Z.*

		Z	12,000	60,000
	1,35,000			1,35,000

Partners' Capital Accounts

Particulars	*X*	*Y*	*Z*	*M*	*Particulars*	*X*	*Y*	*Z*	*M*
	₹	₹	₹	₹		₹	₹	₹	₹
To Revaluation	30,000	18,000	12,000						
To Goodwill	1,00,000	60,000	40,000		By Balance b/d	5,00,000	2,50,000	2,00,000	-
To Investment		1,25,000	-	-	By Investment Fluctuation Reserve	1,00,000	60,000	40,000	-
To P & L A/c	25,000	15,000	10,000		By General Reserve	47,500	28,500	19,000	-
To X	-		30,000	30,000	By Z	30,000	90,000	-	-
To Y	-	-	90,000	90,000	By M	30,000	90,000	-	-
To Y's Loan	-	3,00,500	-	-					
To Balance c/d	6,00,000	-	6,00,000	3,00,000	By Bank	47,500	-	5,23,000	4,20,000
	7,55,000	5,18,500	7,82,000	4,20,000		7,55,000	5,18,500	7,82,000	4,20,000

Balance sheet of firm as on 31.03.2019 (after reconstitution)

	₹			₹
Capital			Buildings	10,00,000
X	6,00,000		Machinery	6,40,000
Z	6,00,000		Furniture	2,50,000
M	3,00,000	15,00,000	Stock	5,50,000
Y's loan A/c		3,00,500	Debtors less provision	4,25,000
Long-term loan		10,45,000	Bank	6,30,500
Sundry Creditors		6,50,000		
		34,95,500		34,95,500

Working Notes:

1. **Profit sharing ratio – gain for the other partners including new partner**

Old Ratio			*New Ratio*			*Gain/loss X*	*Gain/loss Z*	*Gain/loss M*
X	Y	Z	X	Z	M	(5/10 less 2/5) = loss 1/10	(2/5 less 2/10) =1/5	1/5
5	3	2	2	2	1			
5/10	3/10	2/10	2/5	2/5	1/5			

Z and M gain in 1:1 but X loses by 1/10.

Adjustment of goodwill has been made accordingly in the partner's capital accounts by crediting X by 1/10th and Y by 3/10th value of goodwill and debiting Z and M in their equal gaining ratio correspondingly.

Goodwill, already shown in the Balance Sheet of ₹ 2,00,000, is firstly written off and then an adjusting entry is passed for revalued goodwill of ₹6,00,000 in sacrificing and gaining ratio of partners.

2. Bank Account

	₹		₹
To X' s capital	47,500	By Balance b/d (overdraft)	3,60,000
To Z' s capital	5,23,000	By Balance c/d	6,30,500
To M' s capital	4,20,000		
	9,90,500		9,90,500

3. Capitals of X, Z and M as per new ratio

X's share 15,00,000 x2/5	6,00,000
Z's share 15,00,000 x2/5	6,00,000
M's share 15,00,000 x1/5	3,00,000
Total capital	15,00,000

Question 7

*Answer any **4** out of below **5** questions.*

(a) *What is an Enterprise Resource Planning (ERP) Software? What are the factors which you will take into consideration while choosing an ERP software?*

(b) *PQR Investments Ltd., wants to re-classify its investments in accordance with AS 13. State the values, at which the investments have to be reclassified in the following cases:*

(i) *Long term investments in Company A, costing ₹ 10 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹ 8 lakhs to recognize a permanent decline in value. The fair value on date of transfer is ₹ 8.50 lakhs.*

(ii) *Long term investments in Company B, costing ₹ 5 lakhs are to be re-classified as current. The fair value on date of transfer is ₹ 6 lakhs and book value is ₹ 5 lakhs.*

(iii) *Current investment in Company C costing ₹ 8 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 9 lakhs.*

(iv) Current investment in Company D, costing ₹ 12 lakhs are to be re-classified as long term. The market value on date of transfer is ₹ 11 Lakhs.

You are required to advise PQR Investments Ltd., the correct treatment in light of relevant accounting standard.

(c) On 1st January 2016 M/s KMR acquired a machine on hire purchase from M/s PQR on the following terms:

(1) Cash price of the machine was ₹ 2,40,000.

(2) The down payment at the time of signing the contract was ₹ 96,000.

(3) The balance amount is to be paid in 3 equal annual instalments plus interest.

(4) Interest is chargeable @ 8% p.a.

On this basis prepare the H.P. Interest Suspense Account and Account of M/s PQR in the books of the purchaser.

(d) (1) Under what circumstances does the necessity for valuation of Goodwill in a partnership firm arise.

(2) List four methods of valuation of Goodwill.

(e) XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2019.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014:

8,00,000 Equity Shares of ₹ 10 each fully paid up	*80,00,000*
General Reserves	*25,00,000*
Revaluation Reserves	*6,50,000*
Net profit for the year	*1,42,500*

Average rate of dividend during the last five years has been 12%. ***(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 organisation.

Choice of ERP software depends upon the following factors:

1. *Functional requirement of the organisation*: The ERP that matches most of the requirements of an organisation is preferred over the others.
2. *Reports available in the ERP*: The organisation visualises 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 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.

(b) 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 ₹ 8 lakhs in the books.

(ii) The carrying / book value of the long term investment is same as cost i.e. ₹ 5 lakhs. Hence this long term investment will be reclassified as current investment at book value of ₹ 5 lakhs only.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 8 lakhs as cost is less than its market value (considered as fair value) of ₹ 9 lakhs.

(iv) In this case, market value is ₹ 11 lakhs which is lower than the cost of ₹ 12 lakhs. The reclassification of current investment as long-term investments will be made at ₹ 11 lakhs.

(c) **In the books of M/s KMR (purchaser)**

H.P. Interest Suspense Account

Date	*Particulars*	*₹*	*Date*	*Particulars*	*₹*
1.1.2016	To M/s PQR A/c (W.N.)	23,040	31.12.2016	By Interest A/c	11,520
			31.12.2016	By Balance c/d	11,520
		23,040			23,040
1.1.2017	To Balance b/d	11,520	31.12.2017	By Interest A/c	7,680
			31.12.2017	By Balance c/d	3,840
		11,520			11,520
1.1.2018	To Balance b/d	3,840	31.12.2018	By Interest A/c	3,840

M/s PQR Account

Date	*Particulars*	*₹*	*Date*	*Particulars*	*₹*
1.1.2016	To Bank/Cash A/c	96,000	1.1.2016	By Machine/Van A/c	2,40,000

31.12.2016	To Bank/Cash A/c	59,520	1.1.2016	By H.P. Interest Suspense A/c	23,040
31.12.2016	To Balance c/d	1,07,520			
		2,63,040			2,63,040
31.12.2017	To Bank/Cash A/c	55,680	1.1.2017	By Balance b/d	1,07,520
31.12.2017	To Balance c/d	51,840			
		1,07,520			1,07,520
31.12.2018	To Bank/Cash A/c	51,840	1.1.2018	By Balance b/d	51,840

Working Note:

Cash Price	2,40,000
Down Payment	96,000
	1,44,000

₹ 1,44,000 to be paid in 3 instalments ie. ₹ 48,000 plus interest

Total interest = ₹ 11,520 + ₹ 7,680 + ₹ 3,840 = ₹ 23,040

(d) Goodwill is the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits. The necessity for valuation of goodwill in a firm arises in the following cases:

(a) When the profit sharing ratio amongst the partners is changed;

(b) When a new partner is admitted;

(c) When a partner retires or dies, and

(d) When the business is dissolved or sold.

There are four methods for valuation of goodwill, viz:

- Average profit basis
- Super profit basis
- Annuity basis
- Capitalization basis

(e) Amount that can be drawn from reserves for (10% dividend on ₹ 80,00,000 i.e. ₹ 8,00,000)

Profits available

Current year profit	₹ 1,42,500

Amount which can be utilized from reserves (₹ 8,00,000 – 1,42,500) ₹ 6,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 20X1:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. ₹ 10,50,000 [10% of (80,00,000 + 25,00,000)]

Condition III

The balance of reserves after drawl ₹ 18,42,500 (₹ 25,00,000 - ₹ 6,57,500) should not fall below 15 % of its paid up capital ie. ₹ 12,00,000 (15% of ₹ 80,00,000]

Since all the three conditions are satisfied, the company can withdraw ₹ 6,57,500 from accumulated reserve (as per Declaration and Payment of Dividend Rules, 2014).