Questions Covered in Video

Chapter-2: Self Balancing

Q.No.1: (PCC-Nov. 10) Gupta Traders keep their Ledger on the self balancing system. They provide you the following information for the year ended 31st March, 2010:

	Rs.
Debtors balance on 1st April, 2009	1,37,250
Credit sales	68,100
Returns inward	1,200
Returns outward	1,800
Cash received from customers	76,800
Discount received	2,010
Acceptances received	25,500
Bills receivables dishonoured	3,600
Bad debts written off	7,500

You are required to prepare General Ledger Adjustment A/c. in Sales Ledger of Gupta Traders.

Q.No.2: Suggest, with the help of entry, whether following transaction will have effect on self balancing control account.

1. Cash sale
2. Cash purchase
3. Bills discounted
4. Bills receivable honoured
5. Bills payable honoured
6. Provision for bad and doubtful debt
7. Provision for discount on debtor
8. Bad debt recovered

Q.No.3: (IPCC-Gr.-I-May 11) On 1st October, 2010, the debit balances of debtors account is Rs. 77,500 in the books of M/s Zee Limited. Transactions during the 6 months ended on 31st March, 2011 were as follows:

	Rs.
Total sales (including cash sales Rs. 14,000)	84,000
Payment received from debtors in cash	38,000
Bills receivable received	26,000
Discount allowed to customers for prompt payment	1,000
Goods rejected and returned back by the customer	2,550
Bad debts recovered (written off in 2009)	900
Interest debited for delay in payment	1,250

Out of the bills received, bills of Rs. 8,500 were dishonoured on due dates and noting charges paid Rs. 250. Bills of Rs. 5,000 were endorsed to the suppliers.

You are required to prepare a Debtors Account for the period ending 31st March, 2011 in the General Ledger of M/s Zee Ltd.

Q.No.4: From the following details write up the General Ledger Adjustment Accounts and the Bought and Sold Ledger Adjustment Accounts as on 31st December 2010-

Debtors (1st January, 2010) .. Dr. 20,425

Debtors (1st January, 2010) .. Cr. 3,320
Creditors(1st January, 2010) .. Cr. 30,408
Creditors(1st January, 2010) .. Dr. 2,204

Purchases	1,25,200
Sales	2,28,209
Sales Return	208
Purchases Return	714
Cash paid to creditors	1,12,700
Bill received from debtors	9,300
Bill dishonoured	200
Bill accepted for creditors	7,400
Discount allowed to debtors	115
Discount allowed to debtors but later on disallowed	100
Cash received from debtors	2,08,700
Discount allowed by creditors	1,020
Cash paid to debtors	20
Transfers from debtors to creditors ledger	1,242
Cash purchases	4,320
Cash Sales	7,400
Bad debts written off (after deducting bad debts recovered 200/-)	1,215

Closing Balance: Debtors Credit balance 2,150
Creditors Debit balance 3,500

Q.No.5: Suggest, with the help of entry, whether following transaction will have effect on self balancing control account.

1. Transfer from debtor to creditor/ Transfer from creditor to debtor/ Transfer
2. Transfer debtor having credit balance to creditor/ Transfer creditor having debit to debtor
3. Bill of exchange received
4. Bill receivable endorsed
5. Endorsed Bill dishonoured

Q.No.6: Prepare the Sales Ledger Control Account and Purchases Ledger Control Account from the following particulars:

	Sales Ledger Rs.	Purchase Ledger Rs.
Debit balance as on 1-1-2011	1,50,000	1,000
Credit balance as on 1-1-2011	200	1,25,000
Credit sales and purchases	6,00,000	4,80,000
Cheque received and paid	6,50,000	4,50,000
Advance paid to creditors		20,000
B/R received and B/P accepted	50,000	50,000
Discount allowed and received	5,000	3,000
Returns	10,000	5,000
Transfer from Purchases to Sales Ledger	10,000	10,000
Bad debts	2,000	
Reserve for discounts	10,000	5,000
B/R/B/P dishonoured	5,000	5,000
Debit Balances as on 30-6-2011	30,000	?
Credit Balance as on 30-6-2011	?	72,000

Q.No.7: (IPCC-Gr.-I-Nov. 10) Ujju Enterprise furnishes you the following information for the period October to December, 2009. You are requested to draw up Debtors Ledger Adjustment Account in the General Ledger:

(i) Total sales amounted to Rs. 2,20,000 including sale of old motor car for Rs. 10,000 (book value Rs. 5,000). Total credit sales were 80% higher than the cash sales.

(ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to Rs. 40,000 and credit sales for the period. Debtors were allowed discount of Rs. 10,000.

(iii) Bills receivables drawn during the period totaled Rs. 20,000 of which one bill of Rs. 5,000 was dishonoured for non-payment as the party became insolvent, his estate realized 50 paise in a rupee.

(iv) A sum of Rs. 3,000 was written off as bad debts, Rs. 7,000 was realized against bad debts written off in earlier years and provision of Rs. 6,000 was made for doubtful debts.

Chapter-3: Average Due Date

Q.No.1: (IPCC-Gr.-I-May 10) Swaminathan owed to Subramanium the following sums:

Rs. 5,000 on 20th January, 2009

Rs. 8,000 on 3rd March, 2009

Rs. 6,000 on 5th April, 2009

Rs. 11,000 on 30th April, 2009

Ascertain the average due date. Interest rate 12% p.a. Calculate amount to be paid if paid on (i) 15.04.2009 or (ii) 15.02.2009

Q.No.2: (IPCC-Gr.-I-Nov. 10) From the following details find out the average due date:

Date of Bill	Amount (Rs.)	Usance of Bill
29th January, 2009	5,000	1 month
20th March, 2009	4,000	2 months
12th July, 2009	7,000	1 month
10th August, 2009	6,000	2 months

Q.No.3: A trader having accepted bills falling due on different dates now desires to have his bills cancelled & to accept a new bill for the whole amount payable on the average due date. Calculate Av. Due date.

Date of Bill	Date of Acceptance	Amount	Term/ usence of bill
01/03/2009	03/03/2009	5,400.00	2 months from date bill
06/03/2009	10/03/2009	4,300.00	3 months from date of Acceptance.
05/04/2009	10/04/2009	2,200.00	2 months after sight
15/04/2009	20/04/2009	1,325.00	1 months from date of signing.
10/05/2009	12/05/2009	3,500.00	60 days from date of bill.

Q.No.4: Two traders X & Y buy goods from one another each allowing the other 1 months credit. At the end of 3 months the details are as follows; calculate the date upon which the balance should be paid so that no interest is due to either X or Y.

Goods sold by X to Y -> i) 18/04/2010 Rs. 3,600.
ii) 15/05/2010 RS. 2,700,
iii) 16/06/2010 Rs. 2,800.

Goods sold by Y to X -> i) 23/03/2010 Rs. 5,200,
ii) 24/05/2010 Rs. 2,500.

Q.No.5: (IPCC-Gr.-I-May 11)

A and B are partners in a firm and share profits and losses equally. A has withdrawn the following sum during the half year ending 30th June, 2010:

Date	Amount
January 15	5,000
February 10	4,000
April 5	8,000
May 20	10,000
June 18	9,000

Interest on drawings is charged @ 10% per annum. Find out the average due date and calculate the interest on drawings to be charged on 30th June, 2010.

Q.No.6: Mr. A lends Rs. 5,00,000 to Mr. B on 1st Jan.,2010. Calculate the average due date and interest, if interest @ 18% p.a. to be charged by A in each of the following alternative cases:

a. If the amount is repayable in 5 equal annual installments commencing from 1st January, 2011.
b. If the amount is repayable in 5 half yearly equal installments commencing from 1st January, 2011.
c. If the amount is repayable in three equal installments at an interval of two years commencing from 30th June, 2012.
d. If the amount is repayable in 5 equal installments as under:-
   Ist on 01.01.2011; IInd on 1.7.2011; IIIrd on 1.7.2012; IVth on 01.01.2013; Vth on 01.01.2014.

Q.No.7: (May 07) A promissory note executed by Mr. X is due on 12.8.2007. What is the maturity date of the promissory note including grace days?

Chapter-4: Account Current

Q.No.1: From the following information, prepare account current on 30th September, 2010 to be submitted by E to F. Interest is to be taken into account @ 12% per annum; it may be calculated to the nearest rupee.

2010	Particulars	Rs.
July 1	Debit balance b/f	13,500
5	Sold goods to F	9,000
15	Received cash from F	13,500
August 4	Sold goods to F	19,200
16	Received cash from F	9,000
September 1	Bought goods from F	21,000
2	Paid cash to F	7,500
12	Sold goods to F	9,600
15	Paid cash to F	6,000

Q.No.2: Rahul had a bank balance of Rs. 30,700 in his account with IOB on 1.9.2010. His other transactions during the month of September are as follows:

	Date	Rs.		Date	Rs.
Deposits	4.9.2010	23,000	Withdrawal	6.9.2010	37,000
	15.9.2010	23,500		13.9.2010	28,000
	27.9.2010	24,000		25.9.2010	22,000

Prepare account current of Rahul with IOB on 30.9.2010 as per Product of Balance Method assuming interest @14% p.a.

Q.No.3: (PCC-May 11) From the following transactions, draw up an account current by means of product up to 31st December, 2010 to be rendered by X to Y and give the amount of interest charging @8% per annum.

Date 2010	Particulars	Amount (Rs. in thousands)
July 01	Balance owing by Y	600
July 15	Goods sold to Y	900
Aug 21	Goods bought from Y	700
Aug 23	Cash received from Y	450
Oct. 23	Y accepted X's bill at 3 months	300
Nov. 01	Goods bought from Y	950
Dec. 03	Accepted a bill drawn by Y at 3 months (due date of bill is on Sunday)	400

On 31st December, 2010, X and Y settled their account after considering the interest factor. Show the cash amount received or paid by X on that date.

Chapter-5: Account from Incomplete Records

(SINGLE ENTRY SYSTEM)

Statement of Affairs Method

Q.No.1: Calculate profit earned under following cases.

(a) A person starts business with Rs. 20,000/-. He doesn't maintain any books of accounts. No personal Transactions from business money. No credit sale (i.e. no debtors). No credit purchase (hence no Creditors). He does business from rented place (hence no properties). All goods are immediately sold out (i.e. no stock).
At the end of the year he counts the cash & Bank balance which aggregates to Rs. 80,000/-.

(b) Now suppose in above case he withdraws Rs. 3000 p.m. for his household expenses then the cash bank balance at the end will be only Rs. 44,000 (80,000 – 36,000) i.e. capital will be Rs. 44,000.

(c) Now suppose in above situation he also received during the year gift from his father Rs. 20,000 which he invested in the business, then closing cash bank balance will be Rs. 64,000/- consequently closing capital will be Rs. 64,000/-

(d) Now suppose in above case there were credit sale, credit purchase, as well as stock holding. At the end of the year he prepared the list of Debtors, Creditors & stock in hand which amounted to Rs. 25,000/-, Rs. 20,000 & Rs. 30,000 respectively. He also found that furniture was purchased for Rs. 14,000/-. In this case the cash bank balance left was 15,000/-. Suppose depreciation of Rs. 1,500 is to be charged on furniture.

Q.No.2: A and B are partners in a firm sharing profits and loss as A 60% and B 40%. They keep their books on single entry system. On 1/1/2010, the following statement of affairs was extracted from this book.

Liabilities		Rs.	Assets	Rs.
Sundry Creditors		60,000	Plant	30,000
A's Loan A/c		25,000	Stock	30,000
Capital Account			Sundry Debtors	45,000
A	25,000		Cash at Bank	25,000
B	20,000	45,000		
		1,30,000		1,30,000

On 31.12.2010, the assets and liabilities were as follows:

Plant Rs. 50,000, Stock Rs. 40,000, Debtors Rs. 40,000, Cash Rs. 30,000, Loan A/c Rs. 25,000. Creditor Rs. 45,000, Drawings - A Rs. 6,000 and B Rs. 4,000.

You are required to prepare a Profit and Loss statement for the year ended 31.12.2010, and a statement of Affairs as at that date after taking into consideration the following additional information:

1) Plant to be depreciated by 10% p.a. 2) Stock to be reduced to Rs. 35,000,
2) A reserve for bad debts to be raised @2.5% on Debtors,
3) Interest on partners' capital is to be allowed @5% p.a. and @ 10% on Drawings.
4) Allow interest on A's loan @ 6% p.a.

Q.No.3: (ICWA): The following is the position of Assets and Liabilites of A & B who does not maintain Complete Books of Account. Capital of A at the beginning of the year was Rs. 10,000 more than B and interest on capital is allowable @ 10% of opening Capital:

	1.4.2010	31.3.2011

Cash in hand	2,500.00	5,200.00
Cash at Bank as per Pass Book	15,200.00	20,200.00
Stock at shop at cost	20,000.00	25,000.00
Sundry Debtors	23,000.00	32,000.00
Sundry Creditors	32,000.00	23,000.00
Furniture	6,000.00	6,000.00
Machinery	20,000.00	25,000.00

Additional information:

(a) Partners have drawn A Rs. 3,000 p.m. and B Rs. 2,000 p.m. No interest is chargeable on drawings.

(b) Stock at shop includes goods sold for Rs. 5,000 at a profit of 20% not yet delivered.

(c) Debtors on 31.03.2011 include Rs. 5,000 for goods sent out on consignment at 25% above cost, and the goods were not sold until that date.

(d) Depreciate Furniture 10% and Machinery @ 20% on closing balances.

(e) As on 31st March, 2011 cheque deposited but not credited by Bank Rs. 9,000 and cheque issued not presented for payments of Rs. 6,500. Bank has also debited our accounts by Rs. 200 as Bank charges.

Prepare Statement of Profit & Loss for the year ended 31st March, 2011 and also a Balance Sheet on that date.

Q.No.4: (PCC-May 10) The closing capital of Mr. B as on 31.3.2010 was Rs. 4,00,000. On 1.4.2009 his capital was Rs. 3,50,000. His net profit for the year ended 31.3.2010 was Rs. 1,00,000. He introduced Rs. 30,000 as additional capital in February, 2010. Find out the amount drawn by Mr. B for his domestic expenses.

Completed Account Method

Q.No.5: Shri Ram has a trading business for which the following procedures are followed:

1. All collections are deposited with the Bank each day.
2. To meet petty expenses a Cheque for Rs.1,500 is withdrawn from the Bank on the 1st day of each month.
3. Payments made to Creditors during the year Rs.1,20,000.
4. Personal drawings out of Bank Rs.6,000.
5. Shri Ram sells goods at a profit of 33&1/3% on cost.
6. Prepare Profit and Loss Account for the year ended 31st December, 2010 and Balance Sheet as on that date from the above information.

The following figures are available from Shri Ram's records:

	1-1-2010 (Rs.)	31-12-2010 (Rs.)
Cash-in-hand ...	150	300
Balance in Bank ...	40,000	31,000
Debtors ...	90,000	95,000
Creditors ...	90,000	80,000
Stock ...	15,000	25,000

Q.No.6: (Nov.2004) Lucky does not maintain proper books of accounts. However, he maintains a record of his bank transactions and also is able to give the following information from which you are requested to prepare his final accounts for the year 2003:

	1.1.2003	31.12.2003

	Rs.	Rs.
Debtors	1,02,500	-
Creditors	-	46,000
Stock	50,000	62,500
Bank balance	-	50,500
Fixed assets	7,500	9,000
Details of his bank transactions were as follows:		Rs.
Received from debtors		3,40,000
Additional capital brought in		5,000
Sale of fixed assets (book value Rs. 2500)		1,750
Paid to creditors		2,80,000
Expenses paid		49,250
Personal drawings		25,000
Purchase of fixed assets		5,000

No cash transactions took place during the year. Goods are sold at cost plus 25%. Cost of goods sold was Rs. 2,60,000.

Q.No.7: (IPCC-Gr.-I-May10) The books of account of Ruk Ruk Maan of Mumbai showed the following figures:

	31.3.2008 Rs.	31.3.2009 Rs.
Furniture & Fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & Bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills Payable	70,000	80,000
Outstanding Salaries	19,000	20,000
An analysis of the cash book revealed the following:	Rs.	
Cash sales	16,20,000	
Collection from debtors	10,58,000	
Discount allowed to debtors	20,000	
Cash purchases	6,15,000	
Payment to Creditors	9,73,000	
Discount received from creditors	32,000	
Payment for bills payable	4,30,000	
Drawings for domestic expenses	1,20,000	
Salaries paid	2,36,000	
Rent paid	1,32,000	
Sundry trade expenses	81,000	

Depreciation is provided on furniture & fixtures @ 10% p.a. on diminishing balance method. Ruk Ruk Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare trading and profit and loss account for the year ended 31st March, 2009 and Balance Sheet as on that date.

Q.No.8: Shri Rahim furnishes you with the following information relating to his business :

a) Assets and liabilities as on

	1.1.2010 (Rs.)	31.12.2010 (Rs.)
Furniture (w.d.v.)	6,000	6,350
Stock at cost	8,000	7,000
Sundry debtors	16,000	?
Sundry creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

b) Receipts and payments during 2010:

Collections from debtors, after allowing discount of Rs. 1,500 amounted to Rs. 58,500. Collections on discounting of bills of exchange, after deduction of discount of Rs. 125 by the bank, totalled to Rs. 6,125. Creditors of Rs. 40,000 were paid Rs. 39,200 in full settlement of their dues. Payment for freights inward Rs. 3,000. Amounts withdrawn for personal use Rs. 7,000. Payment for office furniture Rs. 1,000.

Investment carrying annual interest of 4% was purchased at Rs. 96 on 1st July, 2010 and payment made therefor. Expenses including salaries paid Rs. 14,500. Miscellaneous receipts Rs. 500.

c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 10,000. Of these, bills of exchange of Rs. 400 were dishonoured.

d) Goods costing Rs. 900 were used as advertising materials.

e) Goods are invariably sold to show a gross profit of 33 and 1/3% on sales.

f) Difference in cash book, if any, is to be treated as further drawing or introduction by Shri Rahim.

g) Provide at 2.5% for doubtful debts on closing debtors.

Rahim asks you to prepare Trading and Profit and Loss Account for the year ended 31st December, 2010 and the Balance Sheet as on that date.

Q.No.9: The following information is supplied from which you are required to prepare the Profit & Loss Account for the year ended 31st December, 2010 & Balance Sheet as at that date:

Assets & Liabilities	1-1-10 (Rupees)	31-12-10 (Rupees)
Sundry Assets	18,000	20,000
Stock	14,000	19,000
Cash-in-hand	8,200	4,800
Cash-at-Bank	2,200	8,000
Debtors	?	26,000
Creditors	12,000	9,800
Miscellaneous Expenses Outstanding	1,000	600

Details relating to the year's transactions are:	**Rs.**
Receipts in the year and discount credited to Debtors Accounts	2,45,000
Returns from Debtors	6,000
Bad Debts	1,000
Sales-cash and credit	3,00,000
Returns to Creditors	3,000
Payments to Creditors by Cheque	2,36,000
Receipts from Debtors deposited in to Bank	2,43,000
Cash purchases	10,000
Salary and Wages paid out of Bank	18,000
Miscellaneous expenses paid by cash	5,000
Drawings by cash	9,400
Purchase of Sundry Assets by Cheque	2,000

Cash withdrawn from Bank	21,000
Cash sales deposited in Bank	?
Discount allowed by creditors	4,000

Q.No.10: (PCC-May 11) The following is the Balance Sheet of M/s. Neel and Company as on 31st March, 2009:

Liabilities	Rs.	Assets	Rs.
Capital	1,92,000	Building	1,30,000
Loan	60,000	Furniture	20,000
Creditors	1,24,000	Motor car (for business)	36,000
		Stock	80,000
		Debtors	68,000
		Cash in Hand	8,000
		Cash in Bank	34,000
	3,76,000		3,76,000

A riot occurred on the night of 31st March, 2010 in which all books and records were lost. The cashier had absconded with the available cash. The following information is available.

(i) The sales for the year ended 31st March, 2010 were 20% higher than the previous year's sales. Firm always sells the goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2010 were for cash. There were no cash purchases.

(ii) On 1st April, 2009, the stock level was raised to Rs. 1,20,000 and stock was maintained at this new level all throughout the year.

(iii) Collections from Debtors amounted to Rs. 5,60,000 of which Rs. 1,40,000 was received in cash. Business expenses amounted to Rs. 80,000 of which Rs. 20,000 was outstanding on 31st March, 2010 and Rs. 24,000 was paid by cheque.

(iv) Analysis of the pass book revealed the following for the year ended 31-3-2010:

Payment to creditors	Rs. 5,50,000
Personal Drawing	Rs. 30,000
Cash deposited into Bank	Rs. 2,86,000
Cash withdrawn from Bank	Rs. 48,000

(v) Gross profit as per last year's audited accounts was Rs. 1,20,000.

(vi) Provide depreciation on Building and Furniture @ 5% and Motor Car @ 20%.

(vii) The amount defaulcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2010 and the Balance Sheet as on date.

Q.No.12: Kapil, who is in business as a wholesaler in sunflower oil, is a client of your accounting firm. You are required to draw up his final accounts for the year ended 31.3.2011. From the files, you pick up his Balance Sheet as at 31.3.2010 reading as below:

Balance Sheet as at 31.3.2010

	Rs.	Rs.
Liabilities		
Kapil's Capital		1,50,000
Creditors for Oil Purchases		2,00,000
12% Security Deposit from Customers		50,000
Creditors for Expenses:		
Rent		6,000
Salaries		4,000
Commission		20,000

	Rs.	Rs.
		4,30,000
Assets		
Cash and Bank Balances		75,000
Debtors		1,60,000
Stock of Oil (125 tins)		1,25,000
Furniture	30,000	
Less: Depreciation	3,000	27,000
Rent Advance		12,000
Electricity Deposit		1,000
3 – Wheeler Tempo Van	40,000	
Less: Depreciation	10,000	30,000
		4,30,000

A summary of the rough Cash Book of Kapil for the year ended 31.3.2011 is as below:

Cash and Bank Summary

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

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

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

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

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

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

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

Q.No.13: The following is the Balance Sheet of Sanjay, a small trader as on 31.3.2010 :

(Figures in Rs. '000)

Liabilities	Rs.	Assets	Rs.
Capital	200	Fixed Assets	145
Creditors	50	Stock	40
		Debtors	50
		Cash on Hand	5
		Cash at Bank	10
	250		250

A fire destroyed the accounting records as well as the closing cash of the trader on 31.3.2011. However, the following information was available:

a) Debtors and creditors on 31.3.2011 showed an increase of 20% as compared to 31.3.2010.

b) Credit Period : Debtors - 1 month Creditors - 2 months
c) Stock was maintained at the same level throughout the year.
d) Cash sales constituted 20% of total sales.
e) All purchases were for credit only.
f) Current ratio as on 31.3.2011 was exactly 2.
g) Total expenses excluding depreciation for the year amounted to Rs. 2,50,000.
h) Depreciation was provided at 10% on the closing value of fixed assets.
i) Bank and cash transactions:
    1) Payments to creditors included Rs. 50,000 by cash.
    2) Receipts from debtors included Rs. 5,90,000 by ways of cheques.
    3) Cash deposited into the bank Rs. 1,20,000.
    4) Personal drawings from bank Rs. 50,000.
    5) Fixed assets purchased and paid by cheques Rs. 2,25,000.

You are required to prepare :

a) The Trading and Profit & Loss Account of Sanjay for the year ended 31.3.2011 and
b) A Balance Sheet on that date.

For your exercise, assume cash destroyed by fire is written off in the Profit & Loss Account.

Chapter-6: Not For Profit Orgnisation

Q.No.1: On 31st March, 2010 Writers Club a cultural association had the following assets and liabilities:

Liabilities	Rs.	Assets	Rs.
Trust fund	5,00,000	Cash	3,000
Accumulated surplus in		Canara Bank:	
income & expenditure a/c	1,05,000	Savings a/c	7,000
Membership fee received in		Fixed deposits	2,00,000
advance for 2010-2011	10,000	Investments in:	
Outstanding expenses	10,000	Government securities	3,00,000
		Fixed assets	95,000
		Membership fee receivable	15,000
		Prepaid expenses	5,000
	6,25,000		6,25,000

The following is the receipt and payment account for the year ended 31st March, 2011:

Receipts		Rs.	Payment		Rs.
Opening balance:			Administrative expenses		1,25,000
Cash	3,000		Programme expenses including cost of printing souvenir		2,75,000
Savings with Canara Bank	7,000	10,000			
Membership fee received			Fixed deposits with Canara Bank		1,25,000
Up to 31/3/2010	14,000		Fixed assets purchased		80,000
For 2010-2011	1,50,000		Investments in ICICI Bond		3,00,000
For 2011-2012	16,000	1,80,000	Closing balance:		
Sale of tickets - Programme		25,000	Cash	2,700	
Advertisements in programme souvenir		5,00,000	Savings with Canara Bank	5,000	7,700
Fixed deposits with Canara Bank		75,000			
Interest on bank a/c:					
Savings	700				
Fixed deposit	22,000	22,700			
Amount received on maturity of government security inclusive of interest Rs. 8,000 (cost Rs. 80,000)		1,00,000			
		9,12,700			9,12,700

<u>The club informs you that:</u>

(i) Membership fee for 2010-2011 due is Rs. 25,000; it includes Rs. 1,000 due from the member who has not yet paid also for 2009-10; provision for irrecoverable membership is to be made in respect of this member.

(ii) Income receivable on 31-3-2011 on ICICI bond is Rs. 30,000 and on government securities is Rs. 24,000.

(iii) Prepaid expenses on 31-3-2011 amount to Rs. 7,000.

(iv) Outstanding expenses on 31-3-2011 amount to Rs. 8,000.

(v) Depreciation provision is to be Rs. 12,500.

(vi) Programme is an annual feature.

<u>The club asks you to prepare:</u> (a) Income and expenditure account for the year ended 31st March, 2011. (b) Balance sheet as at 31st March, 2011.

Q.No.2: (IPCC-Gr.-I-May10) On the basis of the following information, prepare Income and Expenditure Account for the year ended 31st March, 2010:

Receipts	Rs.	Payments	Rs.
To Cash in hand (opening)	1,300	By Salaries	2,58,000
To Cash at Bank (opening)	3,850	By Rent	71,500
To Subscriptions	4,94,700	By Printing & Stationery	3,870
To Interest on 8% Govt. Bonds	4,000	By Conveyance	10,600
To Bank Interest	160	By Scooter purchased	50,000
		By 8% Govt. Bonds	1,00,000
		By Cash in hand (closing)	840
		By Cash at Bank (closing)	9,200
	5,04,010		5,04,010

(i) Salaries paid includes Rs. 6,000 paid in advance for April, 2010. Monthly salaries paid were Rs. 21,000.

(ii) Outstanding rent on 31st March, 2009 and 31st March, 2010 amounted to Rs. 5,500 and Rs. 6,000 respectively.

(iii) Stock of printing and stationery material on 31st March, 2009 was Rs. 340; it was Rs. 365 on 31st March, 2010.

(iv) Scooter was purchased on 1st October, 2009. Depreciation @20% per annum is to be provided on it.

(v) Investments were made on 1st April, 2009.

(vi) Subscriptions due but not received on 31st March, 2009 and 31st March, 2010 totalled Rs. 14,000 and Rs. 12,800 respectively. On 31st March, 2010 subscriptions amounting to Rs. 700 had been received in advance for April, 2010.

Q.No.3: (IPCC-Gr.-I-May 11) The following is the Receipt and Payment Account of Park View Club in respect of the year ended 31st March, 2011:

Receipts		Rs.	Payments	Rs.
To Balance b/d		1,02,500	By Salaries	2,08,000
To subscriptions:			By Stationery	40,000
2009-10	4,500		By Rent	60,000
2010-11	2,11,000		By Telephone Exp.	10,000
2011-12	7,500	2,23,000	By Investment	1,25,000
To Profit on sports meet		1,55,000	By Sundry Expenses	92,500
To Income from investments		1,00,000	By Balance c/d	45,000
		5,80,500		5,80,500

Additional information:

(i) There are 450 members each paying an annual subscription of Rs. 500. On 1st April, 2010, outstanding subscription was Rs. 5,000.

(ii) There was an outstanding telephone bill for Rs. 3,500 on 31st March, 2011.

(iii) Outstanding sundry expenses as on 31st March, 2010 totaled Rs. 7,000.

(iv) Stock of stationery:

On 31st March, 2010 Rs. 5,000

On 31st March, 2011 Rs. 9,000

(v) On 31st March, 2010 building stood in the books at Rs. 10,00,000 and it was subject to depreciation @5% per annum.

(vi) Investment on 31st March, 2010 stood at Rs. 20,00,000.

(vii) On 31st March, 2011, income accrued on the investments purchased during the year amounted to Rs. 3,750.

Prepare an Income and Expenditure Account for the year ended 31st March, 2011 and the Balance Sheet as at that date.

Q.No.4: Prepare Income and Expenditure Account and Balance Sheet of CAPS College Sports Club, Nagpur from the following information:

Receipts and Payments Account of CAPS College Sports Club, Nagpur for the year ended on 31st March, 2011

Dr. Cr.

Receipts		Rs.	Payments	Rs.
To Balance b/d : Cash		500	By Rent	9,750
Bank		4,000	By Miscellaneous Expenses	28,800
Stamps		300	By Postage Expenses	1,200
To Subscription			By Furniture	8,000
2009-2010	4,650		By Creditors for sports Material	12,200
2010-2011	67,200		By Cost of prizes (to be awarded)	4,150
2011-2012	2,600	74,450	By Match Expenses	7,030
To Sale of old Sports Materials		5,200	By Cash purchase of Sports Materials	2,000
To Entrance Fees		8,000	By Balance c/d;	
To General Donations		4,050	Cash	545
To Donations for Prize Fund		2,800	Bank	26,000
To Miscellaneous Receipts		225	Stamps	150
To Interest on Prize Fund Investment		300		
		99,825		99,825

Information:

Particulars	1.4.2010 (Rs.)	31.3.2011 (Rs.)
Sports Materials	4,000	5,000
Furniture	40,000	?
5% Prize Fund Investment (Face Value Rs. 12,000)	11,700	?
Creditors for Sports Material	1,400	2,950
Subscription in arrears	4,750	?
Subscription in advance	1,400	?
Prize Fund	12,000	?
Rent paid in advance	-	750
Outstanding Rent	750	-
Outstanding Miscellaneous Expenses	2,280	4,020
Miscellaneous Expenses paid in advance	750	850

Book Value of Sports Materials sold was Rs. 4,000. Depreciation on furniture is to be provided @ 10%. Half of entrance fees to be capitalised. There are 720 members, each paying an annual subscription of Rs. 100.

Q.No.5: (PCC-Nov. 10) Income and Expenditure Account for the year ended 31st March, 2010 of South Asia club is given below:

Expenditure	Amount Rs.	Income	Amount Rs.
To Salaries & Wages	47,500	By Subscription	75,000
To Misc. Expenses	5,000	By Entrance fees	2,500
To Audit fees	2,500	By Contribution for Annual Day (After deducting expenses Rs. 7,500)	7,500
To Executive's Honorarium	10,000		
To Sports day exp.	5,000		
To Printing & Stationery	4,500		
To Interest on Bank loan	1,500		
To Depreciation on sports equipment	3,000		
To Excess of income over expenditure	6,000		
	85,000		85,000

Following additional information are also available:

	31-3-2009 Rs.	31-3-2010 Rs.
(1) Subscription received in advance	4,500	2,700
(2) Subscription outstanding	6,000	7,500
(3) Salaries outstanding	4,000	4,500
(4) Sports equipment (After deducting depreciation)	26,000	27,000
(5) Cash in hand on 31-3-10 was Rs. 16,000		

(6) The club took a 5% loan of Rs. 30,000 from a bank during 2008-09 for which interest was not paid in F.Y. 2009-10.

Prepare Receipts and Payments A/c of South Asia Club for the year ending 31.3.2010.

Q.No.6: Following is the Income and Expenditure Account of the Gondwana Club for the year ended on 30.6.2011:

Expenditure	Rs.	Income	Rs.
To Salaries	15,750	By Subscriptions	45,000
To Stationery	1,250	By Donations	7,500
To Postage	800	By Sale of furniture(profit)	1,000
To Sundry expenses	4,700	By Govt. grant	4,000
To Repairs & maintenance	3,600	By Interest on fixed deposit	800
To Sports expenses	1,800		
To Swimming pool expenses	2,000		
To Affiliation fee	500		
To Electricity	3,250		
To Billiards room expenses	1,250		
To Periodicals	1,200		
To Audit fees	250		
To Depreciation on Sports Equip.	1,000		
To Depreciation on building	2,500		
To Depreciation on furniture	450		
To Surplus	18,000		
	58,300		58,300

The above account is prepared after considering the information mentioned below:

01.07.10 30.06.11

Building	1,00,000	97,500
Sports ground	1,00,000	1,00,000
Sports equipment	6,000	9,000
Furniture	5,000	-
Fixed Deposits in bank	8,000	8,000
Bank A/c - Saving deposit	-	25,000
Subscriptions outstanding	5,000	2,000
Subscriptions received in advance	3,000	1,000
Stock of stationery	250	500
Audit fees outstanding	200	250
Salaries outstanding	500	1,000
Affiliation fee paid in advance	-	250

Cash in hand on 1.7.10 was Rs. 1,250. New furniture of Rs. 9,000 has been purchased on credit but not entered in books. Depreciation has been charged on this furniture at 5%.You are required to prepare: (a) Receipts and Payments Account for the year ended on 30.6.11; (b) Balance Sheet as on 30.6.11.

Q.No.7: The following is the Income & Expenditure Account of the Red Roses Club for the year ended 31st March, 2011:

Expenditure	Rs.	Income	Rs.
To Salaries a/c	24,000	By Subscriptions a/c	72,000
To Rent a/c	10,800	By Entrance Fees a/c	8,000
To Rates & Taxes a/c	600	By Surplus on Publication of brochure	4,500
To Postage's & Telephone a/c	720		
To Affiliation fees to the All India Lawn Tennis Association a/c	1,200	By Profit on sale of old sundry assets	1,200
To Tennis Court maintenance a/c	9,600	By Interest on 5% Investment a/c	600
To Depreciation on Assets at 10% of book value at end of year a/c	4,800	By Miscellaneous Income a/c	225
To Sports material a/c	15,750		
To Electricity charges a/c	1,200		
To Surplus carried to Capital Fund	17,855		
	86,525		86,525

The following further information is made available:

	Balances on 31-3-2010 (Rs.)	Balances on 31-3-2011 (Rs.)
i. Sundry Assets	44,000	?
Bank Balance	4,800	?
Subscriptions in arrears	4,750	3,500
5% Investments	12,000	12,000
Subscriptions received in advance	1,400	2,600
ii. Expenses outstanding:		
Salaries	600	1,200
Rent	900	1,800
Rates & Taxes	NIL	600
Tennis Court maintenance	780	320
iii. Outstanding for purchase of sports materials	1,400	2,950
iv. Prize Fund	4,600	3,250

v. The book value as on 1-4-2010, of sundry assets sold in the year was Rs.4,000/-.

vi. Prize fund is separately maintained all receipts being credited to it separately and expenditure met out of the fund directly. During the year credits to the account amounted to Rs.2,800.
vii. Interest received this year was only for two quarters.
viii. The club was admitted as a member of the All India Lawn Tennis Federation on 1-10-2010 when it paid subscription current till 30-9-2011.
ix. Advertisement charges in brochure yet to be collected Rs.450.
x. A fixed deposit of Rs.25,000 was made on 31-3-2011.

You are required to prepare the Receipts & Payments Account for the year ended 31st March, 2011 and the Balance Sheet as on that date of the Red Roses Club.

Q.No.8: Summary of Receipts and payments of Bombay Medical Aid Society for the year ended 31.12.2010 are as follows:

Opening Cash balance in hand Rs.8,000, Subscription Rs. 50,000, Donation Rs. 15,000, Interest on Investments @ 9% p.a. Rs.9,000, Payments for medicine supply Rs.30,000, Honorarium to Doctors Rs.10,000, Salaries Rs. 28,000, Sundry Expenses Rs. 1,000, Equipment purchase Rs. 15,000, Charity show expenses Rs. 1,500, Charity show collections Rs. 12,500.

Additional informations:

	1.1.2010	31.12.2010
Subscription due	1,500	2,200
Subscription received in advance	1,200	700
Stock of medicine	10,000	15,000
Amount due for medicine supply	9,000	13,000
Value of equipment	21,000	30,000
Value of building	50,000	48,000

You are required to prepare Receipts and Payments Account and Income and Expenditure Account for the year ended 31.12.2010 and Balance Sheet as on 31.12.2010.

Q.No.9: Following are the details furnished by Maharajabag Club. You are required to prepare Balance sheet as at 31.3.2010 & 31.3.2011:

Receipts and Payments Account for the year ended 31.3.2011

Receipts	Rs.	Payments	Rs.
Opening Balance: Cash	3400	Salary	12,100
Bank	12,400	Insurance	3,150
Entrance fees	14,500	Postage	2,550
Subscription received:		Furniture purchased (30.9.2010)	5,300
Year 2009-2010	3,200	Printing and stationery	6,750
Year 2010-2011	44,500	Sundry expenses	4,500
Sale of old newspaper	1,100	Members meeting expenses	25,100
Lecturer meet fees	3,800	Closing balance:	
Sale of old furniture (1.10.2010)	5,650	Cash	13,500
		Bank	15,600
	88,550		88,550

Income and Expenditure Account for the year ended 31.3.2011

Expenditure	Rs.	Income		Rs.
To Salaries	12,100	By Entrance fees		14,500
To Insurance	3,150	By Subscription: Received	44,500	
To Postage	2,550	Add: Outstanding	5,500	50,000
To Printing and Stationery	6,750	By Lecture Meet Fees: Received	3,800	
To Sundry expenses	4,500	Add: Outstanding	1,200	5,000
To Members Meeting Exp.	25,100	By sale of Newspaper		1,100
To Depreciation (charged on		By Profit on sale of furniture		900

Expenditure	Rs.	Income	Rs.
timebasis)			
Furniture @10%	515		
Machinery @20%	2,000		
Building @10%	10,000		
To Excess of income over expend.	4,835		
	71,500		71,500

Details	(As on)	31.3.2010	31.3.2011
(i) Subscription due and outstanding		4,000	?
(ii) Club Building		1,00,000	90,000

Q.No.10: The Chief Accountant of Best Club Ltd.' suddenly expired on December 31, 2010 and the following information was available on that date:

(a) The books of account were maintained inproperly and the last Balance Sheet as at December 31, 2009, showed the following:

	Rs.	Rs.
Assets:		
Furniture and Fixtures	76,570	
Less: Depreciation to date	36,570	40,000
Bar Stock	26,560	
Members Subscription due	720	
Bank Balance	96,820	
Cash on hand	1,900	1,26,000
		1,66,000
Liabilities:		
General Fund	1,52,540	
Creditors for Bar Purchases	13,100	
Members Subscription in Advance	360	
		1,66,000

(b) Members of the club paid an annual subscription of Rs.60. Duplicate receipts issued showed that as at Dec. 31, 2010, 540 members had paid the current years subscription, 10 members paid arrears of previous year and 5 members paid advance for 2011. 2 members resigned without paying their arrears of previous year and as at the end of the year, there were 550 members as per records.

(c) The Cash Book was not written up-to-date and the records showed that the following bills were paid:

	Rs.
Food for Bar	33,280
Sundry Expenses	5,440
Repairs & Maintenance	2,400
Salaries	36,690
Stationery	2,290

(d) The club's main source of income was from bar sales (including food sales) and the bartender generally hands over daily cash collections to the accountant along with collection list. On cash enquiry, it was found that certain cash collection lists were misplaced or lost. The bartender stated that the average gross profit on bar sales were 50% of sales. Bar Stock as on Dec. 31, 2010 were Rs.30,260 and cash on hand Rs.125 with Bartender.

(e) Bank Statement were summarised and showed the following:

	Rs.		Rs.
Balance on 1-1-2010	96,820	Bar Purchases	2,39,040
Cash Deposits	3,92,310	Salaries	1,19,450
		Rent	2,420
		Power	12,570
		Telephone	910
		Repairs and Renewals	8,510
		Washing Machine	5,940
		Balance on 31-12-2010	1,00,290
	4,89,130		4,89,130

(f) The accounts records were searched and following unpaid bills were located:

	Rs.
Bar Purchases	62,540
Power	1,830
Stationery	2,170
Telephone	460

From the above inadequate data, you are required to prepare:

(1) Income and Expenditure Account for the year ended Dec.31, 2010.

(2) Balance Sheet as at that date after providing depreciation at 20% on written down value of Fixed Assets.

Q.No.11: (IPCC-Gr.-I-Nov. 10) The Young Trust runs a Charitable Hospital and a Dispensary. The following information is available for the year ended 31st March, 2009 from the books of accounts:

	Dr. Rs.	Cr. Rs.
Capital Fund		9,00,000
Donations received during the year		6,00,000
Recovery of the Rent		2,75,000
Fees received from patients		3,00,000
Recovery of Food Supplies		1,40,000
Surgical Equipments	4,55,000	
Building & Operation Theatres	3,20,000	
Consumption in the Hospital of:		
Medicines	1,20,000	
Food Stuff	90,000	
Chemicals	30,000	
Closing Stock of Hospital		
Medicines	20,000	
Food Stuff	4,000	
Chemicals	1,000	
Sales of Medicines (Dispensary)		3,10,000
Opening Stock of Medicines (Dispensary)	55,000	
Purchase of Medicines (Dispensary)	3,00,000	
Salaries:		
Administrative Staff	30,000	

Doctors/Nurses	1,50,000	
Assistant at the Dispensary	15,000	
Electricity & Power Charges:		
Hospital	1,05,000	
Dispensary	2,000	
Furniture & Equipments	80,000	
Ambulance	30,000	
Postage & Telephone Expenses less recovery	26,000	
Subscription to Medical Journals	21,000	
Ambulance Maintenance Charges less recovery		800
Consumption of Bed Sheets	90,000	
Fixed Deposits made on 01-04-2008 for three years at interest @ 11% p.a.	5,00,000	
Cash & Bank Balances	41,300	
Sundry Debtors (Dispensary)	60,500	
Sundry Creditors (Dispensary)		41,000
Remuneration to Trustees, Trust Office Expenses etc.	21,000	
	25,66,800	25,66,800

Additional Information:

(a) The dispensary supplied medicines to the hospital worth Rs. 60,000, for which no adjustment was made in the books.

(b) The closing stock of the medicines was Rs. 40,000 at the dispensary.

(c) The stock of medicines on 31st March, 2009 at the hospital included Rs. 4,000 worth of medicines belonging to the patients, which has not been considered while arriving at the figure of consumption of medicines.

(d) The donations were received towards Corpus of the Trust.

(e) On 15th August, 2008, surgical equipments were donated having market value of Rs. 40,000.

(f) The hospital is to receive the grant of 25% of the amount spent on treatment of the poor patients from the Red Cross Society. Such expenditure was Rs. 50,000.

(g) Out of the fees recovered from the patients, 10% is to be given to the Specialist retained by the Hospital.

(h) Depreciation on the assets on the closing balances:

Surgical Equipments @ 20%

Building @ 5%

Furniture & Equipments @ 10%

Ambulance @ 30%

You are required to prepare:

(i) Income and Expenditure Account of the Hospital, Dispensary and Trust.

(ii) Statement of Affairs of the Trust for the year ended 31st March, 2009.

Q.No.12: From the following balances and particulars of Republic College prepare Income & Expenditure Account for the year ended March 2011 and a Balance Sheet as on the date:

Seminars & Conference Receipts	4,80,000
Consultancy Receipts	1,28,000
Security Deposit-Students	1,50,000
Capital fund	16,06,000
Research Fund	8,00,000
Building Fund	25,00,000
Provident Fund	5,10,000
Tuition Fees received	8,00,000

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

<u>Adjustments:</u>

1) Materials & supplies consumed for:
   Teaching 50,000, Research 1,50,000 Students Welfare 75,000 Games or Sports 25,000
2) Tuition fee receivable from Government for Backward Class Scholars 80,000
3) Stores selling prices are fixed to give a net profit of 10% on selling price.
4) Depreciation is provided on straight-line basis at the following rates:
   i) Buildings 5% ii) Plant & Equipment 10% iii) Furniture & Fixtures 10% iv) Motor Vehicles 20%.

Chapter-7: Insurance Claim

STOCK POLICY

Q.No.1: (IPCC-Gr.-I-May 10) In January, 2010 a firm took an insurance policy for Rs. 60 lakhs to insure goods in its godown against fire subject to average clause. On 7th March, 2010 a fire broke out destroying goods costing Rs. 44 lakhs. Stock in the godown was estimated at Rs. 80 lakhs. Compute the amount of insurance claim.

Q.No.2: A fire occurred in the premises of Amogh on 25th August, 2010 when a large part of the stock was destroyed. Salvage was Rs. 15,000. Amogh gives you the following information for the period January 1st, 2010 to August 25th, 2010:

(a) Purchases Rs.95,000.
(b) Sales Rs. 1,05,000.
(c) Goods costing Rs. 15,000 were taken by Amogh for personal use.
(d) Cost price of stock on January 1st, 2010 was Rs. 50,000.

Over the past few years, Amogh has been selling goods at a consistent gross profit margin of 33&1/3%.
Amogh asks you to prepare a statement of claim to be made on the insurance company.

Q.No.3: On 1st April, 2010, a trader took out a fire policy containing an average clause covering his stock for Rs. 15,00,000. His practice was to place his selling price at cost plus 33 1/3%. He closes his books on 31st March, every year.
On 31st December, 2010, a fire broke out at the premises and destroyed his stock. The value of salvaged stock was Rs. 6,00,000. During the period of 9 months preceding the fire, his purchases amounted to Rs. 61,00,000 and sales to Rs. 84,00,000. His stock on 1st April, 2010 was valued at Rs. 20,00,000.
Prepare a statement showing the amount of claim.

Q.No.4: On 1st July 2011, a fire took place in the godown of Ram Kumar which destroyed all Stocks. Calculate the amount of insurance claim for the stock from the following details:

	Rs.
Sales in 2009	2,00,000
Gross profit in 2009	60,000
Sales in 2010	3,00,000
Gross profit 2010	60,000
Stock as on 1-1-2011	2,70,000
Purchases from 1-1-2011 to 30-6-2011	4,00,000
Sales from 1-1-2011 to 30-6-2011	7,20,000

The following are also to be taken in to consideration:

1. Stock as on 31st Dec. 2010 had been undervalued by 10%
2. Stock taking conducted in March 2011 had revealed that stocks costing Rs.80,000 were lying in a damage condition. 50% of these stocks had been sold in May 2011 at 50% of cost and the balance were expected to be sold at 40% of cost.
3. Amount of policy Rs. 1,50,000.

Q.No.5: (PCC-Nov. 10) On 20th October, 2009, the godown and business premises of Aman Ltd. were affected by fire. From the salvaged accounting records, the following information is available.

	Rs.
Stock of goods @ 10% lower than cost as on 31st March, 09	2,16,000
Purchases less returns (1.4.09 to 20.10.09)	2,80,000
Sales less returns (1.4.09 to 20.10.09)	6,20,000

Additional Information:

(1) Sales upto 20th October, 09 includes Rs. 80,000 for which goods had not been dispatched.

(2) Purchases upto 20th October, 09 did not include Rs. 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in Godown.

(3) Past records show the GP rate 25%.

(4) The value of goods salvaged from fire Rs. 31,000.

(5) Aman Ltd. has insured their stock for Rs. 1,00,000.

Compute the amount of claim to be lodged to the insurance company.

Q.No.6: (IPCC-Gr.-I-May 11) On 30th March, 2011 fire occurred in the premises of M/s Suraj Brothers. The concern had taken an insurance policy of Rs. 60,000 which was subject to the average clause. From the books of accounts, the following particulars are available relating to the period 1st January to 30th March, 2011.

(a) Stock as per Balance Sheet at 31st December, 2010, Rs. 95,600.

(b) Purchases (including purchase of machinery costing Rs. 30,000) Rs. 1.70.000.

(c) Wages (including wages Rs. 3,000 for installation of machinery) Rs. 50,000.

(d) Sales (including goods sold on approval basis amounting to Rs. 49,500) Rs. 2,75,000. No approval has been received in respect of 2/3rd of the goods sold on approval.

(e) The average rate of gross profit is 20% of sales.

(f) The value of the salvaged goods was Rs. 12,300.

You are required to compute the amount of the claim to be lodged to the insurance company.

PROFIT POLICY

Q.No.7: From the following information, compute a consequential loss claim.

Financial year ending on 31st Dec:	Turnover Rs. 2,00,000.
Indemnity Peroid:	6 Months.
Period of interruption:	1st July to 31st October.
Net Profit:	Rs. 18,000
Standing charges:	Rs. 42,000 out of which Rs. 10,000 have not been insured.
Sum assured:	Rs. 50,000.
Standard Turnover:	Rs. 65,000.
Turnover in the period of interruption:	Rs. 25,000 out of which Rs. 6,000 was from a Rented place at Rs. 600 per month.
Annual Turnover:	Rs. 2,40,000.
Savings in Insured Standing Charges:	Rs. 4,725 per annum.

Date of fire night of 30th June.

It was agreed in between the Insurer and the Insured that the business trends would lead to an increase of 10% in the turnover.

Q.No.8: The premises of XY Limited were partially destroyed by fire on 1st March, 2011 and as result , the business was practically disorganized upto 31st August, 2011. The company is insured under a loss of profits policy for Rs. 1,65,000 having an indemnity period of 6 months.

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

		Rs.
(i)	Actual turnover during the period of dislocation (1.3.2011 to 31.8.2011)	80,000
(ii)	Turnover for the corresponding period (dislocation) in the 12 months immediately before the fire (1.3.10 to 31.8.10)	2,40,000
(iii)	Turnover for the 12 months immediately preceding the fire (1.3.10 to 28.2.11)	6,00,000
(iv)	Net profit for the last financial year	90,000
(v)	Insured standing charges for the last financial year	60,000
(vi)	Uninsured standing charges	5,000
(vii)	Turnover for the last financial year	5,00,000

Due to substantial increase in trade, before and up to the time of the fire, it was agreed that an adjustment of 10% should be made in respect of the upward trend in turnover. The company incurred additional expenses amounting to Rs. 9,300 immediately after the fire and but for this expenditure, the turnover during the period of dislocation would have been only Rs. 55,000. There was also a saving during the indemnity period, of Rs. 2,700 in insured standing charge as a result of the fire.

Q.No.9: The premises of a Company were partly destroyed by fires which took place on Ist March 2011 and as a result of which the business was dis-organised from 1st March to 31st July, 2011. Accounts are closed on 31st December, every year. The company is insured under a Loss of Profits Policy for Rs. 7,50,000. The period of indemnity specified in the Policy is 6 months. From the following information you are required to compute the amount of claim under the Loss of Profits Policy:

	(Rs.)
Turnover for the year 2010	40,00,000
Net Profits for the year 2010	2,40,000
Insured standing charges	4,80,000
Uninsured standing charges	80,000
Turnover during the period of dislocation i.e. from 1-3-2011 to 31-7-2011	8,00,000
Standard turnover for the corresponding period in the preceding year i.e. from 1-3-2010 to 31-7-2010	20,00,000
Annual Turn over for the year immediately preceding the fire i.e. from 1-3-2010 to 29-2-2011	44,00,000
Increased cost of working	1,50,000
Savings in Insured Standing Charges	30,000
Reduction in turnover avoided through increase in working cost	4,00,000

Owing to reasons acceptable to the Insurer, the "Special circumstances clause" stipulates for:

(a) Increase of turnover (Standard and Annual) by 10% and (b) Increase of rate of gross profit by 2%

Q.No.10: (IPCC-Gr.-I-Nov. 10) A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	Rs.
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%

To achieve additional sales, trader has to incur additional expenditure of Rs. 31,250.

STOCK AND PROFIT POLICY

Q.No.11: S & M Ltd. give the following Trading and Profit and Loss Account for the year ended 31st Dec., 2010:

Particulars	Rs.	Particulars	Rs.
To Opening Stock	50,000	By Sales	8,00,000
To Purchases	3,00,000		
To Wages (Rs.20,000 for skilled labour)	1,60,000	By Closing Stock	70,000
To Manufacturing Expenses	1,20,000		
To Gross Profit	2,40,000		
	8,70,000		8,70,000
To Office Administrative Exp.	60,000	By Gross Profit	2,40,000
To Advertising	20,000		
To Selling Expenses (Fixed)	40,000		
To Commission on Sales	48,000		
To Carriage Outward	16,000		
To Net Profit	56,000		
	2,40,000		2,40,000

The Company had taken out policies both against loss of stock and against loss of profit, the amounts being Rs.80,000 and Rs.1,72,000. Fire occurred on 1st May, 2011and as a result of which sales were seriously affected for the period of 4 months.

<u>You are given the following further information:</u>

(a) Purchases, wages and other manufacturing expenses for the first 4 months of 2011 were Rs. 1,00,000 Rs. 50,000 and Rs. 36,000 respectively.

(b) Sales for the same period were Rs.2,40,000.

(c) Other sales figures were as follows:

	Rs.
From 1st January, 2010 to 30th April, 2010	3,00,000
From 1st May, 2010 to 31st August, 2010	3,60,000
From 1st May, 2011 to 31st August, 2011	60,000

(d) Due to rise in wages, net profit during 2011 was expected to decline by 2% on sales.

(e) Additional expenses incurred during the period after fire amounted to Rs. 14,000. The amount of the policy included Rs. 1,20,000 for expenses leaving Rs. 20,000 uncovered.

Ascertain the claim for stock and for loss of profit.

Chapter-8: Hire Purchase Accounts

Books of Purchaser

Q.No.1: (IPCC-Gr.-I-May 10) On 1st April, 2009 a car company sold to Arya Bros., a motor car on hire-purchase basis. The total hire-purchase price was Rs. 4,60,000 with down payment of Rs. 1,60,000. Balance amount was to be paid in three annual instalments of Rs. 1,00,000 each. The first instalment payable on 31st March, 2010. The cash price of the car was Rs. 4,00,000.

How will Arya Bros. account for interest over three accounting years assuming books of accounts are closed on 31st March every year.

Q.No.2: (IPCC-Gr.-I-May 10) From the following, calculate the cash price of the asset:

	Rs.
Hire purchase price of the asset	50,000
Down payment	10,000
Four annual installments at the end of each year	10,000
Rate of Interest	5% p.a.

Q.No.3: Taking the information of **Q.1,** and considering SLM Depreciation @20%, show how will Arya Bros. account for the hire purchase transaction under different method, assuming books of accounts are closed on 31st March every year.

Q.No.4: Taking the information of **Q.2,** and considering WDV Depreciation @25%, show how will Purchaser account for the hire purchase transaction under different method, assuming books of accounts are closed on 31st March every year and the agreement was entered in to on 1.04.2010 and installments are payable at the beginning of next year.

Q.No.5: On July 1, 2009 Eastern Printers purchased a printing machine on a hire purchase basis, payments to be made Rs. 10,000 on the said date and the balance in three half-yearly installments of Rs. 8,200. Rs. 7,440 and Rs. 6,300 commencing from December 31, 2009. The vendor charged interest at 10% per annum calculated on half- yearly rests.

Eastern Printers closes books annually on December 31, and provide depreciation at 10% per annum on diminishing balances in each year. Determine the cash price of the machine and show the necessary ledger accounts in the books of Eastern Printers.

Q.No.6: X Transport Ltd. purchased from Delhi Motors three tempos costing Rs. 50,000 each on the hire-purchase system on 1-1-2008. Payment was to be made Rs. 20,000 down and the remainder in three equal annual installments payable on 31-12-2008, 31-12-2009 and 31-12-2010 together with interest @ 9%. X Transport Ltd. write off depreciation @ 20% on the diminishing balance. It paid the installment due at the end of the first year i.e. 31-12-2008 but could not pay the next on 31-12-2009. Delhi Motors repossessed all the tempos. Show the necessary accounts in the books of X Transport Ltd. for the years 2008 and 2009.

Q.No.7: Bombay Roadways Ltd. purchased three trucks costing Rs. 1,00,000 each from Hindusthan Auto Ltd. on 1st January, 2008 on the hire purchase system.

<u>The terms were:</u>

Payment on delivery Rs. 25,000 for each truck and balance of the principal amount by 3 equal installments plus interest at 15% per annum to be paid at the end of each year.

Bombay Roadways Ltd. writes off 25% depreciation each year on the diminishing balance method.

Bombay Roadways Ltd. paid the installments due on 31st December, 2008 and 31st December, 2009 but could not pay the final installment.

Hindusthan Auto Ltd. re-possessed two trucks adjusting values against the amount due. The re-possession was done on 1st January, 2008 on the basis of 40% depreciation on the diminishing balance method.

<u>You are required to:</u>

a) Write up the ledger accounts in the books of Bombay Roadways Ltd. showing the above transactions upto 1.1.2011, and
b) Show the disclosure of the balances arising from the above in the Balance Sheet of Bombay Roadways Ltd. as on 31st December, 2010.

Books of Vendor

Q.No.8: On 1st April, 2009 a ABC car company sold to Arya Bros., a motor car on hire-purchase basis. The total hire-purchase price was Rs. 4,60,000 with down payment of Rs. 1,60,000. Balance amount was to be paid in three annual installments of Rs. 1,00,000 each. The first installment payable on 31st March, 2010. The cash price of the car was Rs. 4,00,000.

Account for the hire purchase transaction in the books of ABC car company, for all the years, assuming books of accounts are closed on 31st March every year.

Q.No.9: From the following, calculate the cash price of the asset and account for the hire purchase transaction in the books of Hire Vendor for the year 2007 to 2010:

	Rs.
Hire purchase price of the asset	50,000
Down payment	10,000
Four annual installments at the end of each year	10,000
Rate of Interest	5% p.a.

Q.No.10: Y Ltd. sells products on hire purchase terms, the price being cost plus 331/3%.

From the following particulars for 2010, prepare Hire Purchase Stock Account, Shop Stock Account, Hire purchases Debtors Account, Stock Reserve Account and Hire Purchase Adjustment Account (for profit).

2010		Rs.
January 1	Stock out on hire at Hire Purchase Price	1,20,000
	Stock in hand, at shop	15,000
	Installments due (Customers still paying)	9,000
December 31	Stock out on hire at Hire Purchase Price	1,38,000
	Stock in hand at the shop	21,000
	Installment due (Customers still paying)	15,000
	Cash received during the year	2,40,000

Q.No.11: (IPCC-Gr.-I-Nov. 10) Sonam Corporation sells goods on hire purchase basis. The hire purchase price is cost plus 50%.

From the following particulars prepare Hire Purchase Trading Account for the year ended 31st March, 2010:

Installments not yet due on 01-04-09	3,00,000
Installments due on 01-04-09	1,50,000
Goods sold on hire purchase during the year	9,00,000
Installments collected from HP debtors	6,80,000
Stock with customers at hire purchase price	4,50,000
Goods re-possessed during the year	60,000
On 31-03-2010 Goods repossessed were valued at	Cost less 40%

Q.No.12: (PCC-Nov. 10) From the following information of M/s Chennai Traders, you are required to prepare Hire Purchase Trading Account to ascertain the profit made during the Financial Year 2009-10.

Chennai Traders sell goods on hire purchase basis at cost plus 25%. The following details are available:

		Rs.
(1)	Installment not due on 31st March, 2009	4,50,000
(2)	Installment due and collected during the financial year 2009-10	12,00,000
(3)	Installment due but not collected during the financial year 2009-10 which includes Rs. 15,000 for which goods were repossessed	75,000
(4)	Installment not due on 31st March, 2010 including Rs. 30,000 for which goods were repossessed.	5,55,000
(5)	Installment collected on repossessed stock	22,500
(6)	M/s Chennai Traders valued repossessed stock at 60% of original cost.	

Q.No.13: (IPCC-Gr.-I-May10) Easilife Ltd. has a hire-purchase department which fixes hire-purchase price by adding 40% to the cost of the goods. The following additional information is provided to you:

	Rs.
On 1st April, 2009:	
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Installments due	14,000
Transactions during the year:	
Hire-purchase price of goods sold	9,80,000
Installments received	8,12,000
Value of goods repossessed due to defaults	
(hire-purchase installments unpaid Rs. 5,600)	7,800
On 31st March, 2010:	
Goods out on hire-purchase (at hire-purchase price)	3,78,000

You are required to prepare Hire-purchase Trading Account, ascertaining the profit made by the department during the year ended 31st March, 2010.

Q.No.14: Omega Corporation sells computers on hire purchase basis at cost plus 25%. Terms of sales are Rs. 10,000 as down payment and 8 monthly installments of Rs. 5,000 for each computer. From the following particulars prepare Hire Purchase Trading Account for the year 2010.

As on 1st January, 2010, 30 installment were outstanding as these were not due.

During 2010 the firm sold 240 computers.

As on 31st December, 2010 the position of installments outstanding were as under:

<u>Installments due but not collected:</u> 2 installments on 2 computers and last installment on 6 computers.

<u>Installments not yet due:</u> 8 installments on 50 computers, 6 installments on 30 and last installment on 20 computers.

Two computers on each of which 1 installment were due and 6 installment not yet due on 31.12.2010 had to be repossessed. Repossessed stock is valued at 50% of cost. All other installments have been received.

Q.No.15: Majestic & co. commenced business on January 1, 2010 dealing in radio sets and record players. They sell goods both directly as well as on hire purchase. You are furnished with the following information for the year ended 31st December 2010:

		Radio Sets	Record Players
Purchases	No.	1,000	100
Sales: Direct for cash	No.	800	50
On hire-purchase	No.	40	20
To employees as explained below	No.	3	2
Purchase cost per unit	Rs.	Rs. 400	Rs. 1,200
Direct sales price per unit	Rs.	Rs. 500	Rs. 1,500
Terms of hire-purchase sale:			
Cash down at the time of delivery	Rs.	Rs. 100	Rs. 300
Monthly installments	Rs.	Rs. 50	Rs. 150
Number of installments	No.	10	12
Installment collected	No.	260	110
Installments due but not collected	No.	15	10

During the year the firm re-possessed 3 radio sets and 2 record players for failure to pay installment. The hire-purchase customers had paid only 4 installments, each in respect of these radio sets and record players. At the time of repossession, the radio sets were valued at Rs. 200 each and the record players were valued at Rs.500 each. The firm spent Rs. 30 per radio set and Rs. 70 per record player on reconditioning. These sets were sold to employees at a concessional rate of Rs. 300 per radio set and Rs. 700 per record player and the amount was recovered from their salaries before the close of the year.

Prepare columnar accounts to show the ‘earnings' during the year.

Q.No.16: Krishna Agencies started business on 1st April, 2010. During the year ended 31st March, 2011, they sold under mentioned durable under two schemes - Cash Price Scheme (CPS) and Hire-purchase scheme (HPS).

Under the CPS they priced the goods at cost plus 25% and collected it on delivery. Under the HPS the buyers were required to sign a Hire-purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 installments, the value being calculated at Cash price plus 50%.

The following are the details available at the end of 31st March, 2011 with regard to the products:

Product	Nos. purchased	Nos. sold under CPS	Nos. sold under HPS	Cost per unit Rs.	No. of installments due during the year	No. of installments received during the year
TV sets	90	20	60	16,000	1,080	1,000
Washing Machines	70	20	40	12,000	840	800

The administrative and selling expenses during the year were: Rs.3,80,000

From the above information, you are required to prepare:

(a) Hire-purchase Trading Account, and (b) Trading and Profit & Loss Account.

Chapter-9: Partnership- Change in Constitution

Ratios

Q.No.1: (IPCC-Gr.-I-May 10) In the absence of a partnership deed, what will be your decision in disputes amongst partners regarding the following matters:

(a) Profit sharing ratio;

(b) Interest rate at which interest is to be allowed to a partner on loan given to the firm by a partner.

Q.No.2: (i) (IPCC-Gr.-I-Nov. 10) Following problem regarding issue in Partnership Accounts, kindly solve:

Anil and Mukesh are partners sharing profit and losses in the ratio of 3 : 2. Govind is admitted for $1/4^{th}$ share of firm. Thereafter Madan enters for 20 paisa in a rupee. Compute new profit sharing ratios under both the admission of partners.

Q.No.2: (ii) (IPCC-Gr.-I-Nov. 10) Following problem regarding issue in Partnership Accounts, kindly solve:

The following Goodwill Account was opened by the partners of R and S, on the admission of H as a new partner into firm Om and Sons. Calculate the share of profit agreed to be given to "H".

Goodwill A/c

		Rs.			Rs.
1-4-2010	To R's Capital A/c	24,800	1-4-2010	By R's Capital A/c	12,400
1-4-2010	To S's Capital A/c	18,600	1-4-2010	By S's Capital A/c	12,400
			1-4-2010	By H's Capital A/c	18,600
		43,400			43,400

Goodwill Valuation & Accounting

Q.No.3: (IPCC-Gr.-I-May 10) A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. Their capitals are Rs. 60,000 and Rs. 40,000 respectively. They admit C as a new partner who will get $1/6^{th}$ share in the profit of the firm. C brings in Rs. 25,000 as his capital. Find out the amount of goodwill on the basis of the above information.

Q.No.4: (IPCC-Gr.-I-May 11) Shiv and Mohan are partners in a firm sharing profits and losses equally. On 31^{st} March, 2011, the balances of their capital accounts were Rs. 3,00,000 and Rs. 2,00,000 respectively. The average profits of the firm are Rs. 1,36,000 and the rate of normal profit is 20%.

On 1^{st} April, 2011 they agreed to admit Hari as a partner for one fourth share. Hari will bring Rs. 1,00,000 as capital.

You are required to compute the value of the Goodwill of the firm on admission of Hari, if goodwill is to be calculated on the basis of:

(1) 5 years purchase of super profit

(2) Capitalisation method

(3) 3 years purchase of average profit

Q.No.5: (IPCC-Gr.-I-May 11) X, Y and Z are partners sharing profits and losses in the ratio of 4 : 3 : 2 respectively. On 31^{st} March, 2011 Y retires and X and Z decide to share profits and losses in the ratio of 5 : 3. Then immediately, W is admitted for $3/10^{th}$ shares in profits, $2/3^{rd}$ of which was given by X and rest was taken by W from Z. Goodwill of the firm is valued at Rs. 2,16,000. W brings required amount of goodwill.

Give necessary Journal Entries to adjust goodwill on retirement of Y and admission of W if they do not want to raise goodwill in the books of accounts.

Admission of Partner

Q.No.6: Amit and Sumit are partners sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31st March 2011 is given below:

Liabilities	Amount	Assets	Rs.
Capital Accounts:		Land & Building	3,20,000
Amit	1,76,000	Investments (Market value Rs. 55,000)	50,000
Sumit	2,54,000		
Loan from Puneet	3,00,000	Debtors 3,00,000	
General Reserve	30,000	Less: Provision for	
Employer's Provident Fund	10,000	doubtful debts 10,000	2,90,000
Creditors	50,000	Stock	1,10,000
		Cash at Bank	50,000
Total	**8,20,000**	**Total**	**8,20,000**

They decided to admit Puneet as a new partner from 1st April, 2011 on the following terms:

(1) Amit will give 1/3rd of his share and Sumit will give 1/4th of his share to Puneet.

(2) Punnet's loan account will be converted into his capital.

(3) The Goodwill of the firm is valued at Rs. 3,00,000. Puneet will bring his share of Goodwill in cash and the same was immediately withdrawn by the partners.

(4) Land and building was found undervalued by Rs. 1,00,000.

(5) Stock was found overvalued by Rs. 60,000.

(6) Provision for doubtful debts will be made equal to 5% of debtors.

(7) Investments are to be valued at their market price.

It was decided that the total capital of the firm after admission of new partner would be Rs. 10,00,000. Capital accounts of partners will be readjusted on the basis of their profit sharing ratio and excess or deficiency will be adjusted in cash.

You are required to prepare:

(a) Revaluation A/c

(b) Partner's Capital A/c

(c) Balance Sheet of the firm after admission of new partner.

Q.No.7: A, B and C are partners in a firm of accountants who maintain accounts on the cash basis sharing profits and losses in the ratio of 2 : 3 : 1. Their Balance sheet as on 31st March 2011 on which date D is admitted as a partner is as follows:

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

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

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

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

(c) Goodwill account is raised in the books of Rs. 50,000. It is agreed among A, B and C that C is interested in goodwill only upto a value of Rs. 30,000.
(d) Fees billed but not realised, Rs. 15,000. are brought into account.
(e) Expenses incurred but not paid Rs. 7,000 are provided for.

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

Prepare Revaluation a/c, Capital a/c and the Balance Sheet of the firm after D's admission.

Retirement of Partner

Q.No.8: On 31st December 2010 the Balance Sheet of M/s. A, B and C, sharing profits and losses in proportion to their Capitals, stood as follows:

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

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

(i) that out of the amount of Insurance premium which was debited annually entirely to Profit and Loss Account, Rs. 10,000 be carried forward for unexpired insurance on 31-12-2010;
(ii) that the land and building be appreciated by 10%
(iii) that the Reserve for Doubtful Debts be brought upto 5% on Debtors.
(iv) that machinery be depreciated by 5%.
(v) that a provision for Rs. 15,000 be made in respect of an outstanding bill for repairs. ;
(vi) that the goodwill of the entire firm be fixed at Rs. 1,80,000 and B's Share of the same adjusted in the account of A and C who share future profits in the Proportion of 3/4th & 1/4th respectively (no goodwill account being raised); and
(vii) that B be paid Rs. 50,000 in cash and the balance be transferred to his loan a/c.

Prepare Revaluation Account, the Capital Accounts of the partners and the Balance Sheet of the firm of A & C.

Q.No.9: Manish, Jatin and Paresh were partners sharing Profits/Losses in the ratio of Manish 40 percent, Jatin 35 percent, and Paresh 25 percent. The draft Balance Sheet of the partnership as on 31st December, 2010 was as follows:

Liabilities		Rs.	Assets		Rs.
Sundry Creditors		30,000	Cash on hand and at Bank		67,000
Bills payable		8,000	Stock		42,000
Loan from Jatin		30,000	Sundry Debtors	34,000	
Current Accounts:			Less: Provisions for Doubtful Debts	6,000	28,000
Manish	12,000		Plant and Machinery (at cost)	80,000	
Jatin	8,000		Less: Depreciation	28,000	52,000
Paresh	6,000	26,000	Premises(at cost)		75,000
Capital Accounts:					
Manish	90,000				
Jatin	50,000				

Paresh	30,000	1,70,000		
		2,64,000		2,64,000

Jatin retired on 31st December, 2010. Manish and Paresh continued in partnership sharing Profits/Losses in the ratio of Manish 60 per cent and Paresh 40 per cent. 50 per cent of Jatin's Loan was repaid on 1-1-2011 and it was agreed that of the amount then remaining due to him a sum of Rs. 80,000 should remain as loan to partnership and the balance to be carried forward as ordinary trading liability. The following adjustments were agreed to be made to the above mentioned Balance Sheet.:

(I) Rs. 10,000 should be written off from the premises.
(II) Plant and Machinery was revalued at Rs. 58,000.
(III) Provisions for Doubtful debts to be increased by Rs. 1,200.
(IV) Rs. 5,000 due to creditors for expenses had been omitted from the books of account.
(V) Rs. 4,000 to be written off on stocks.
(VI) Provide Rs. 1,200 for professional charges in connection with revaluation.

As per the deed of partnership, in the event of the retirement of a partner, goodwill was to be valued at an amount equal to one year's purchase of the average profits of the preceding three years on the date of retirement. Before determining the said average profits a notional amount of Rs. 80,000 should be charged for remuneration to partners. The necessary profits before charging such remuneration were:

Year ending 31-12-2008	**Rs. 1,44,000**
Year ending 31-12-2009	Rs. 1,68,000
Year ending 31-12-2010	Rs. 1,88,200 (as per draft accounts)

It was agreed that, for the purpose of valuing goodwill, the amount of profit for the year 2010 be recomputed after charging the loss on revaluation in respect of premises and stock, the un-provided expenses (except professional expenses) and increase in the provision for doubtful debts. The continuing partners decided to eliminate goodwill account from their books.

<u>You are required to prepare:</u>

(I) Revaluation Account;
(II) Capital Accounts (merging current accounts therein);
(III) Jatin's Account showing balance due to him; and
(IV) Balance Sheet of Manish and Paresh as at 1st January 2011.

Admission cum Retirement of Partner

Q.No.10: Ardeshir, Burjor and Cawasji are Partners of M/s. Evergreen & Co. sharing profits and losses in the ratio of 3 : 3 : 2. Their Balance Sheet as on 30th September 2011 was as under:

	Rs.	Rs.
Fixed Assets:		
Cost	3,00,000	
Less: Depreciation	1,80,000	1,20,000
Investments: Cost (Market value Rs. 2,00,000)		80,000
Working Capital		3,00,000
		5,00,000
Financed By:		
Loans from Dorab	1,50,000	
Engineer	1,00,000	2,50,000
Reserves		1,00,000
Capital : Burjor (Credit)	2,00,000	
Cawasji (Credit)	1,00,000	
	3,00,000	

Less: Ardeshir (Debit)	1,50,000	1,50,000
		5,00,000

On that day Ardeshir retired from business. Burjor and Cawasji decided to admit Dorab as a Partner and Engineer, who was a minor, to benefits of partnership.

Burjor, Cawasji, Dorab and Engineer are to share profits in the ratio of 3 : 3 : 2 :2. Losses, if any, are to be borne by Burjor, Cawasji and Dorab in the ratio of 3 :3 : 2.

For the purpose of the above retirement-cum-admission, it is decided that:-

(a) Goodwill of the firm to be valued at Rs. 2,00,000. However, no account is to appear for goodwill. Treatment for goodwill in relation to minor, is to be deferred to the date when he opts to be a partner on attaining majority, when the value of goodwill will be deemed, for this purpose, to remain unchanged at Rs. 2,00,000.

(b) Ardeshir takes over: Building (Cost Rs., 1,00,000; written down value Rs. 35,000) for Rs. 75,000. Investments (Cost Rs. 10,000) at their market value of Rs. 5,000.

(c) The continuing partners take over the remaining assets at their book values, except investments, which are taken over at their market values.

(d) Loans are to be transferred to Capital Account.

(e) The amount due to/from Ardeshir is to be settled by Cheque immediately.

You are required to prepare:

(a) The revaluation/adjustment account;

(b) The Capital Accounts; and

(c) The Balance Sheet of the firm after giving effect to all the above point Agreement.

Q.No.11: A and B are equal partners. A, by agreement, retires and C joins the firm on the basis of the third share of profits on 1-1-2011. The balances of the books as on 31-12-2010 were.

	Dr.	**Cr.**
Goodwill	10,000	
Fixed Assets - at cost	1,20,000	
Current Assets:		
Stock	60,000	
Debtors	40,000	
Bank Balance	8,000	
Creditors		20,000
Provision for Depreciation		12,000
Capital Accounts:		
A		1,04,000
B		1,02,000
	2,38,000	2,38,000

Goodwill and Fixed Assets valued at Rs.30,000 and Rs.1,40,000 respectively and it was agreed to be written up accordingly before admission of C as partner. Sufficient money is to be introduced so as to enable A to be paid off and leave Rs.5,000 cash at bank; B and C are to provide such sum as to make their Capitals proportionate to their share of profit. Assuming the agreement was carried out, show the Journal entries required and prepare the Balance Sheet after admission of C.

Death of Partner

Q.No.12: (IPCC-Gr.-I-Nov. 10) Ramu, Shamu and Raju were partners sharing profits and losses in the ratio of 3 : 2 : 2. Their Balance Sheet as on 01-01-2009 was as follows:

Liabilities		Rs.	Assets	Rs.
Capital Accounts			Fixed Assets	80,000
Ramu	30,000		Stock	15,000
Shamu	20,000		Debtors	12,000
Raju	20,000	70,000	Cash & Bank	1,951
Reserves		14,000		
Creditors		24,951		
		1,08,951		1,08,951

On 1st October, 2009 Ramu died. His heirs agreed that:

(i) Goodwill of the firm be valued at 2 years' purchase of average profit of past three years Profits for the year 2006, 2007 and 2008 were Rs. 30,000, Rs. 40,000 and Rs. 47,600 respectively.

(ii) Fixed Assets be revalued at Rs. 1,01,000.

(iii) Profit to be shared, earned in subsequent period after death of Ramu till settlement of his executors' claim.

Ramu's heirs account was settled on 31-12-2009 by bringing in required cash by remaining partners in equal proportion leaving cash balance of Rs. 1,234. Each partner had drawn @ Rs. 1,000 per month for personal use.

Profit for the current year after charging depreciation of Rs. 9,000 (Rs. 6,000 for first three quarters and Rs. 3,000 for last quarter) was Rs. 46,600 earned evenly through-out the year.

You are requested to prepare Profit & Loss Appropriation A/c, Cash & Bank A/c, Ramu's Executor's A/c and partners' Capital Accounts for the year ended on 31-12-2009 assuming remaining partners' decided not to retain goodwill in the books.

Q.No.13: A, B, and C were partners of a firm sharing profits and losses in the ratio of 3:4:3. The Balance Sheet of the firm, as at 31st March, 2010 was as under:

Liabilities		Rs.	Assets		Rs.
Capital accounts:			Fixed assets		1,00,000
A	48,000		Current Assets:		
B	64,000		Stock	30,000	
C	48,000	1,60,000	Debtors	60,000	
Reserves		20,000	Cash and Bank	30,000	1,20,000
Creditors		40,000			
		2,20,000			2,20,000

The firm had taken a Joint Life Policy for Rs. 1,00,000; the premium periodically paid was charged to Profit and Loss Account. Partner C died on 30th September, 2010. It was agreed between the surviving partners and the legal representatives of C that:

i. Goodwill of the firm will be taken at Rs. 60,000 ii. Fixed assets will be written down by Rs. 20,000

iii. In lieu of Profits, C should be paid at the rate of 25% per annum on his capital as on 31st March, 2010.

Policy money was received and the legal heirs were paid off. The profits for the year ended 31st March, 2011, after charging depreciation of Rs. 10,000 (depreciation upto 30th September was agreed to be Rs. 6,000) were Rs. 48,000.

Partners' Drawings Accounts showed balances as under:

A) Rs. 18,000 (drawn evenly over the year) B) Rs. 24,000 (drawn evenly over the year)

C) (up-to-date of death) Rs. 20,000

On the basis of the above figures, please indicate the entitlement of the legal heirs of C, assuming that they had not been paid anything other than the share in the Joint Life Policy.

Admission of Partner & Direct Sharing of Fees

Q.No.14: (PCC-Nov. 10) P, Q, R are three doctors who are running a Polyclinic. Their capital on 31st March, 2009 was Rs. 1,00,000 each. They agreed to admit X, Y and Z as partner w.e.f. 1st April, 2009. The terms for sharing Profits & Losses were as follows:

(a) 70% of the visiting fee is to go to the specialist concerned.

(b) 50% of the chamber fees will be payable to the individual specialist.

(c) 40% of operation fees and fees for pathological reports, X-ray and ECG will accrue in favour of the doctor concerned.

(d) Balance of profit or loss is shared equally.

(e) All the partners are entitled for 6% interest on capital employed.

They further agreed that:

(i) X, Y and Z brought in Rs. 20,000 each as goodwill. Goodwill is shared by the existing partners equally.

(ii) X, Y and Z were brought in Rs. 50,000 each as Capital. Each of the original partners also contributed Rs. 50,000 by way of capital.

The receipts for the year after admission of new partners were:

Name of doctors	Particulars	Visiting Fees Rs.	Chamber Fees Rs.	Fees for report, operation etc. Rs.
P	General Physician	1,50,000	2,00,000	
Q	Gynecologist	25,000	1,75,000	1,00,000
R	Cardiologist		1,00,000	75,000
X	Child Specialist	1,00,000	1,50,000	
Y	Pathologist			1,00,000
Z	Radiologist			2,00,000
	Total	**2,75,000**	**6,65,000**	**4,75,000**

Expenses for the year were as follows:

Particulars	Rs.
Medicines, injections and other consumables	1,00,000
Printing and Stationery	5,000
Telephone Expenses	5,000
Rent	42,000
Power and Light	10,000
Nurses Salary	20,000
Attendants wages	20,000
Total	2,02,000
Depreciation	
X-Ray Machines	15,000
ECG equipments	5,000
Furniture	5,000
Surgical equipments	5,000

Total Depreciation	30,000

You are requested to:

(i) Pass necessary Journal entries on admission of partners.

(ii) Prepare the Profit and Loss Account of the Polyclinic for the year ended 31^{st} March, 2010.

(iii) Prepare Capital Accounts of all the partners at the end of the Financial year 2009-10. Also show the distribution of profit among partners.

Change in Ratio

Q.No.15: X and Y are partners in a business started in 2006, sharing profits and losses in the ratio of 5:4. After the accounts for the calendar year 2009 were made up and their proportionate shares taken note of in their individual accounts, they decide to share profit and losses equally retrospectively for and from the year 2009. It was also discovered that in ascertaining the results in prior years certain adjustments, details of which are given below, had not been noticed.

	2006 Rs.	2007 Rs.	2008 Rs.	2009 Rs.
Profits as per accounts	72,000	78,000	90,000	1,08,000
Income not taken into account	5,400	4,500	3,600	6,300
Expenses not provided for	9,000	6,000	10,000	7,200

I. On 31st December, 2008 Reserve stood at Rs.54,000. Capitals of X and Y Rs.1,26,000 and Rs.96,000 respectively on 31st December, 2009.

II. On 1st January, 2010 Z was decided to be admitted as a partner and was allotted 1/5 share. Goodwill was decided to be ascertained by capitalising at 20% the average profits of the immediately two preceding years before admission. Z would bring in proportionate capital. Capitals of X and Y are to be equal, the differences to be adjusted in their current accounts.

III. Profits for 2010 were Rs.1,26,000. Drawings of X, Y, and Z for the year were Rs.54,000 Rs.48,000 and Rs.18,000 respectively.

IV. Incomes not taken into account are received in subsequent year. Expenses not provided for are paid in subsequent years.

V. Prepare capital and current accounts of the partners for 2010.

Chapter-10: Shares

Q.No.1: Draft Journal Entry for all types of alteration of share capital.

a) Increase the share capital by issuing 10,000 new shares of Rs.100 each at Rs.125.

b) Consolidate its existing 10,00,000 Equity share of Rs.1 each fully paid into 10,000 Rs.100 fully paid equity share.

c) Sub-divide its existing 50,000 Equity share of Rs.100 each fully paid into 1,00,000 Rs.50 fully paid equity share.

d) Cancel shares, which have not been taken up : Shares issued 1,00,000. Shares Subscribed 90,000 only

e) Cancel shares, which have not been taken up and diminish the amount of the share capital by the number of shares so cancelled: Authorised Capital 1,00,000 share of Rs.100 each reduced to 75,000 share of Rs.100 each. The Issued, subscribed and paid up share capital is 75,000 share of Rs.100 each

Q.No.2: Draft Journal Entry for all types of reduction of share capital.

a) Rs. 50 are paid up, on a share of Rs. 100 and the company extinguishes the liability of the remaining Rs. 50 , on 10,000 shares.

b) Rs. 100 fully paid up share and the company extinguishes/repays Rs.50 per share on 10,000, symaltaneously reducing face value .

c) Rs. 100 fully paid up share and the company extinguishes/repays Rs. 50 per share, without reducing face value, on 10,000.

Q.No.3: Draft Journal Entry for conversion of 1,00,000 Equity share of Rs.10 each fully paid into stock

Q.No.4: Draft Journal Entry for conversion of Rs.10,00,000 stock in to 1,00,000 Equity share of Rs.10 each fully paid.

Q.No.5: 10,000 6% Preference Share of Rs.100 each redeemable now. The terms of issue provided that the preference share could be redeemed at a premium of 10% either by payment in cash or by allotment of other preference Shares, equity shares and/or debentures according to the option of the preference share holders.

On 1st April, 2011, the company informed the preference share holders to redeem the preference share on 1st May, 2011, either by payment in cash or by allotment of 8% preference shares of Rs.100 each at Rs.120 per share or 7% debentures of Rs.60 each at Rs.55 per debenture or Equity share of Rs.10 each at Rs.20 per share.

Holders of 3,000 preference share accepted the offer of the 8% Preference Shares, holders of 2,000 preference share accepted the offer of 7% debentures, holders of 4,000 preference share accepted the offer of Equity shares and the rest demanded cash.

Give Journal entries recording the above redemption.

Q.No.6: CAPS Education India Ltd has 10,000 fully paid Equity shares of Rs100 each & 6000 Fully convertible Debentures of Rs100 each. Debenture are convertible in to 5000 number of fully paid equity shares after 6 month pass entries for the Bonus @ 1 for 4 shares held .

Q.No.7: The Balance Sheet of COSMOS Ltd., on 31st December, 2010, was as follows:

Liabilities	Rs.	Assets	Rs.
4000 Equity shares of Rs.100, each, Rs.80 paid	3,20,000	Sundry Assets	10,00,000
Share Premium Account	60,000		
Capital Redemption Reserve A/c.	70,000		
General Reserve	1,00,000		
Profit & Loss Account	3,00,000		
Sundry Creditors	1,50,000		
	10,00,000		10,00,000

The directors recommend the following with a view to capitalising whole of share premium account, Capital Redemption Reserve Account, General Reserve and Rs. 50,000 out of Profit and Loss Account.

1. The existing shares are made fully paid without the shareholders having to pay anything.
2. Each shareholder to be given fully paid bonus shares at a premium of 25% for the remaining amount in proportion to his holdings. Assuming that the scheme is accepted and that all formalities are gone through, give journal entries and also show in what proportion bonus shares will be distributed among shareholders.

Q.No.8: The Balance Sheet of A Ltd. as at 31.3.2011 is as follows :

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital			
1,50,000 Equity Shares of Rs. 10 each	15,00,000	Sundry Assets	17,00,000
Issued , Subscribed and paid-up			
80,000 Equity Shares of Rs. 7.50 each called-up and paid -up	6,00,000		
Reserves:			
Capital Redemption Reserve	1,50,000		
Plant Revaluation Reserve	20,000		
Share Premium Account	1,50,000		
Development Rebate Reserve	2,30,000		
Investment Allowance Reserve	2,50,000		
General Reserve	3,00,000		
Total	17,00,000	Total	17,00,000

The company wanted to issue bonus shares to its shareholders at the rate of one share for every two shares held. Necessary resolution were passed; required legal requirements were complied with:

(a) You are required to give effect to the proposal by passing journal entries in the books of A Ltd.

(b) Show the amended Balance Sheet .

Q.No.9: (IPCC-Gr.-I-Nov. 10) The following is the Balance Sheet of Bumbum Limited as at 31st March, 2009:

Sources of Funds	Rs.
Authorized Capital	
50,000 Equity shares of Rs. 10 each	5,00,000
10,000 Preference shares of Rs. 100 each	10,00,000
Issued subscribed and paid up	15,00,000
30,000 Equity shares of Rs. 10 each	3,00,000
5,000 Redeemable 8% Preference shares of Rs. 100 each	5,00,000
Reserves & Surplus	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	1,80,000
2500, 9% Debentures of Rs. 100 each	2,50,000
Sundry Creditors	1,70,000
	26,50,000
Application of Funds	
Fixed Assets (net)	7,80,000
Investments (market value Rs. 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Sundry Debtors	6,20,000
Cash & Bank balance	2,80,000

Preliminary expenses	1,40,000
	26,50,000

In Annual General Meeting held on 20th June, 2009 the company passed the following resolutions:

1. To split equity share of Rs. 10 each into 5 equity shares of Rs. 2 each from 1st July, 09.
2. To redeem 8% preference shares at a premium of 5%.
3. To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at Rs. 10 per share or accept cash on redemption.
4. To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2009 investments were sold for Rs. 5,55,000 and preference shares were redeemed.

40% of Debenture holders exercised their option to accept cash and their claims were settled on 1st August, 2009.

The company fixed 5th September, 2009 as record date and bonus issue was concluded by 12th September, 2009.

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2009. All working notes should form part of your answer.

Chapter-11: Profit Prior to Incorporation

Q.No.1: (PCC-May 10) X Ltd. was incorporated on 1.8.2009 to take over the running business of M/s Kumar Bros. with effect from 1.4.2009. The accounts of the company were closed on 31.3.2010.

The average monthly Sales during the first four months of the year (2009-10) was twice the average monthly sales during each of the remaining eight months.

Calculate Time Ratio and Sales Ratio.

Q.No.2: (PCC-May 10) ABC Ltd. took over a running business with effect from 1st April, 2009. The company was incorporated on 1st August, 2009. The following P & L A/c has been prepared for the year ended 31.3.2010:

Dr.	Rs.	Cr.	Rs.
To Salaries	48,000	By Gross profit	3,20,000
To Stationery	4,800		
To Travelling expenses	16,800		
To Advertisement	16,000		
To Misc. trade exp.	37,800		
To Rent (office buildings)	26,400		
To Electricity charges	1,200		
To Director's fees	11,200		
To Bad debts	3,200		
To Commission to selling Agents	16,000		
To Audit fees	6,000		
To Debenture interest	3,000		
To Int. paid to vendors	4,200		
To Selling expenses	25,200		
To Depreciation on fixed assets	9,600		
To Net profit	90,600		
	3,20,000		3,20,000

Additional information:

(a) Total sales for the year, which amounted to Rs. 19,20,000 arose evenly upto the date of 30.9.2009. Thereafter they spurted to record an increase of two-third during the rest of the year.

(b) Rent of office building was paid @ Rs. 2,000 per month upto September, 2009 and thereafter it was increased by Rs. 400 per month.

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

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

(e) Purchase consideration was discharged by the company on 30th September, 2009 by issuing equity shares of Rs. 10 each.

Prepare the P & L A/c in columnar form showing distinctly the allocation of expenses between pre and post incorporation periods.

Q.No.3: (IPCC-Gr.-I-Nov. 10) The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2008. However, company could be incorporated only on 1st June, 2008. the business was continued on behalf of the company and the consideration of Rs. 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of Rs. 9,00,000 @ 10% per annum on 1st June, 2008 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2009 and presents you the following summarized profit and loss account:

	Rs.	Rs.
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Sales promotion expenses	33,000	
Preliminary expense (to be written off in first year itself)	15,000	18,07,200
		1,72,800

Sales from June, 2008 to December, 2008 were 2 ½ times of the average sales, which further increased to 3 ½ times in January to March quarter, 2009. The company recruited additional work force to expand the business. The salaries from July, 2008 doubled. The company also acquired additional showroom at monthly rent of Rs. 10,000 from July, 2008.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods. Also suggest how the pre-incorporation profits/losses are to be dealt with.

Chapter-12: Company Financial Statements

Q.No.1: Given below is the Trial Balance (rounded off to rupees thousands) of Bharat Implements Limited as at the end of their financial year 2010-11 and additional information to be considered while preparing the final accounts which you are required to do in proper form:

Trial Balance as on 31st March, 2011

Debit	Rs.	Credit	Rs.
Stock (01-04-2010)		Sales	6,69,700
Raw Material and Stores	50,020	Other Income	2,880
Work-in-process	20,080	Shares Capital	20,000
Finished Goods	99,900	Development Rebate Reserve	2,340
Purchases	4,48,400	Investment Allowance Reserve	4,250
Salaries and Wages	29,710	General Reserve	25,800
Other Expenses	1,17,640	Secured Loans	13,480
Depreciation	3,550	Fixed Deposits	16,000
Fixed Assets at Cost	63,870	Depreciation Reserve	28,000
Investments	190	Sundry Creditors	1,10,775
Interest accrued	25	Provision for doubtful debts	60
Sundry Debtors	59,000		
Cash at Bank	320		
Loans and Advances	580		
	8,93,285		8,93,285

Additional Information:

1. Stocks at the end of 31.03.2011: (Rs. in thousands)
   Raw Materials & stores 30,010 Work-in-process 25,040 Finished Goods 75,950
2. Depreciation allowable under section 350 for the year Rs.4,250 thousands.
3. Depreciation allowable for Income tax for the year Rs.4,750 thousands.
4. Market value of investments Rs.150 thousands.
5. Sundry debtors include Rs.121 thousands due for more than six months out of which provision has been made for doubtful debts at Rs.45 thousands during the year.
6. Included in other expenses are: (i) Fees to auditors Rs.65 thousands, out of whichRs.15 thousands are in other capacities. (ii) Interest on fixed loans Rs.620 thousands and other interest Rs.1000 thousands
7. Rs.340 thousands are to be re-transferred from Development Rebate Reserve A/c.
8. Income-tax is to be provided at 40.00% of taxable income.
9. Provision is to be made for Managing Director's remuneration at 5% of net profits as provided under law, subject to a maximum of Rs.240 thousand per annum.
10. Balance of profit is to be transferred to General Reserve after providing for dividend at 25% on capital.
11. The authorised capital of the company is 20 lacs equity shares of Rs.10 each.

Q.No.2: The following is the Trial balance of Subhash Limited as on 31.3.2011:

(Figures in Rs. '000)

Debit	Rs.	Credit	Rs.
Land at cost	110	Equity capital (shares of Rs. 10 each)	150
Plant & machinery at cost	385	10% Debentures	100
Debtors	48	General Reserves	65
Stock	43	Profit & Loss A/c	36
Bank	10	Share Premium	20
Adjusted Purchases	160	Sales	350
Factory Expenses	30	Creditors	26
Administration Expenses	15	Provision for Depreciation	86
Selling Expenses	15	Suspense Account	2

(Figures in Rs. '000)

Debit	Rs.	Credit	Rs.
Debenture Interest	10		
Interim Dividend Paid	9		
	835		835

Additional Information:

a) On 31.3. 2011, the company issued bonus shares to the Shareholders on 1:3 basis. No entry relating to this has yet been made.

b) The authorised share capital of the company is 25,000 shares of Rs. 10 each.

c) The company on the advice of independent valuer wishes to re-value the land at Rs. 1,80,000.

d) Proposed final dividend 10%.

e) Suspense account of Rs. 2,000 represents cash received for the sale of some of the machinery on 1.4.2010. The cost of the machinery was Rs. 5,000 and the accumulated depreciation thereon being Rs. 4,000.

f) Depreciation to be provided on Plant and Machinery at 10% on cost. You are required to prepare Subhash limited profit and Loss account for the year ended 31.3.2011 and a balance sheet on that date in vertical form as per the provisions of schedule VI of the companies act , 1956.

g) 2,000 equity shares were issued for consideration other than cash.

h) The Debentures are secured by hypothecation of the Plant and Machinery.

i) Balance at Bank includes Rs.2,000 with Perfect Bank Ltd. which is not a scheduled Bank.

j) Bill receivable for Rs.25,000 maturing on 30th June, 2011, have been discounted.

k) The company had contract for the erection of machinery at Rs.1,50,000, which is still incomplete.

Your answer to include detailed schedules only for the following:
(1) Share capital. (2) Reserve & Surplus. (3) Fixed Assets.
Ignore Previous year 's figures & taxation.

Q.No.3: Following are the balances (rounded off to the nearest thousands) from the books of Good Earth Ltd. as of 31-12-2010:

	Rs.		Rs.
Sales	13,39,400	Depreciation	7,100
Other Income	5,760	Development Rebate Reserve	4,680
Investment allowance Reserve	8,500	Fixed Assets at cost	1,27,740
Investment	380	Interest accrued (Dr.)	50
Purchases	8,96,800	Salaries and Wages	69,420
Other Expenses	2,25,280	General Reserve	51,600
Sundry Debtors	1,18,000	Share Capital	40,000
Secured Loans	26,960	Cash at Bank	640
Loans and Advances	1,160	Fixed Deposits	32,000
Depreciation Reserve	56,000	Provision for doubtful debts	120
Sundry Creditors	2,21,550		

Calculate Managing Director's remuneration and prepare in the proper form the Profit and Loss Account and Balance Sheet as of December, 31, 2010 with the help of the following additional information:

		(All figures in Rs. Thousands)	
(1)	Stocks:	On 1-1-2010	On 31-12-2010
	Raw Material and Stores	1,00,040	50,020
	Work in process	90,160	40,080
	Finished Goods	1,49,800	1,61,900
(2)	Depreciation u/s. 350		8,400
	Depreciation as per Income Tax rules		8,000
(3)	Market Value of Investments		290
(4)	Sundry Debtors due for more than six months		720
	Out of above, provision made this year for doubtful debts		80
(5)	Included in other expenses are:		

	(a) Auditor's fee for audit	120
	(b) Payment to auditors for other services	40
(6)	Income Tax to be provided at 55%	
(7)	Managing Director's remuneration is at 5% of net profits as per the law subject to maximum of Rs.240 thousand per annum.	
(8)	Provide dividends at 25% on capital & transfer balance profit to General Reserve.	
(9)	Authorised capital of the company is 6 lakh Equity Shares of Rs.100 each. Out of this, 4 lakh share have been issued and fully paid.	

Q.No.4: ET Limited are in the midst of finalising their accounts for the year ended 30th September 2011. A profit and loss account has been prepared in draft. The account balances as rounded off to the nearest thousands, are listed below:

Particulars	Rs.
Share Capital	25,000
General Reserve	6,031
Development Rebate Reserve	6,271
Land	2,225
Buildings	9,316
Plant & Machinery	64,282
Furniture, Fixtures and Office Equipment	1,594
Vehicles	454
Depreciation Reserve:	
-Buildings	2,193
-Plant and Machinery	30,328
-Furniture etc.	568
-Vehicles	245
Loan from State Government	575
Other Secured loans	32,460
Fixed Deposits from public	2,400
Unsecured loans	1,114
Raw Materials and components	42,014
Work-in-progress	6,116
Finished Goods	1,414
Stores and Spares	2,771
Tools, jigs and Dies	9,187
Cash Credits from banks	30,672
Acceptances	2,645
Sundry Creditors	6,162
Others Current Liabilities	10,317
Interest accrued but not due on loans	589
Provision for Gratuity and Pension	241
Interest Accrued on deposits	2
Sundry debtors	24,231
Cash-in-hand	37
Balance with banks - on Current A/cs.	39
-- do -- on Deposit A/cs.	27
Loans and advances	4,518
Preliminary expenses	8
Advance Income-tax Paid	3,489

Capital Work- in progress	596
Profit and Loss A/c. (profit for the year)	14,509

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

	(Rs. thousands)
(a) Depreciation	12,424
(b) Salary and perquisites to Managing Director	72
(c) Directors Fees	4

The authorised capital is 3,50,000 equity shares of Rs.100 each.

The loans from the State Government is secured by a charge on the land, cash credits by hypothecation of stocks and book debts and the other secured loans on the buildings and plant and machinery.

<u>The following adjustments are yet to be made:</u>

(1) Investment allowance reserve to be created Rs: thousands 5,400

(2) Provision to be made for Income Tax in Rs: thousands 4,400

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

(4) Proposed dividends at 10%.

(5) Depreciation as per Section 350 of the Companies Act. in Rs. Thousands is 10,424. You are required to:

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

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

Chapter-13: Investment Account

Investment in Debentures/Bonds

Q.No.1: 2000 Debentures of Rs. 100 each purchased on 1.7.2011 at a cost of Rs. 2,10,000 through a broker who is entitled for 2% brokerage and stamp duties for transfer is Rs. 4,000. Due date of interest is 30^{th} June. Pass Journal entry.

Q.No.2: (IPCC-Gr.-I-May 10) Mr. X purchased 1,000, 6% Government Bonds of Rs. 100 each on 31^{st} January, 2009 at Rs. 95 each. Interest is payable on 30^{th} June and 31^{st} December. The price quoted is cum interest. Journalise the transaction.

Q.No.3: (IPCC-Gr.-I-May10) Gamma Investment Company hold 1,000, 15% debentures of Rs. 100 each in Beta Industries Ltd. as on April 1, 2009 at a cost of Rs. 1,05,000. Interest is payable on June, 30 and December, 31 each year.

On May 1, 2009, 500 debentures are purchased cum-interest at Rs. 53,500. On November 1,2009, 600 debentures are sold ex-interest at Rs. 57,300. On November 30, 2009, 400 debentures are purchased ex-interest at Rs. 38,400. On December 31, 2009, 400 debentures are sold cum-interest for Rs. 55,000.

Prepare the investment account showing value of holdings on March 31, 2010 at cost, using FIFO method.

Q.No.4: Calcutta Investments hold 400, 12 per cent Debentures of Rs.100 each in Acme Ltd. as on 1st April, 2010 at a cost of Rs.50,000. Interest is payable on 30th June and 31st December each year. On 1st June, 2010, 200 Debentures are purchased cum-interest at Rs. 21,400. On 1st November, 2010, 300 Debentures re-sold ex-interest at Rs. 28,650. On 30th Nov. 2010, 200 Debentures are purchased ex-interest at Rs.19,200. On 31st December, 2010, 300 Debentures are sold-cum-interest for Rs. 32,250. Prepare Investment A/c valuing closing stock as on 31.3.2011 at cost (applying FIFO method) or market prices whichever is lower. The Debentures were quoted at par on 31.3.2011.

Investment in Equity Shares

Q.No.5: 2000 Equity Shares of Rs. 100 each purchased on 1.7.2011 at a cost of Rs. 2,80,000 through a broker who is entitled for 2% brokerage and stamp duties for transfer is Rs. 6,000. On 1.10.2011, 20% dividend is received from the above company for the year 1.4.2010 to 31.3.2011 Pass Journal entry.

Q.No.6: (IPCC-Gr.-I-Nov. 10) H purchased 500 equity shares of Rs. 100 each in the ABC Company Limited for Rs. 62,500 inclusive of brokerage and stamp duty. Some years later the company decided to capitalize its profit and to issue to the holders of equity shares one equity shares as bonus share for every share held by them. Prior to capitalization, the shares of ABC Company Limited were quoted at Rs. 175 per share. After the capitalization, the shares were quoted at Rs. 92.50 per share. H sold the Bonus shares and received Rs. 90 per share. Show Investment A/c in H’s books on average cost basis as per AS-13.

Q.No.7: (IPCC-Gr.-I-May 11) On 1^{st} April, 2010, Rajat has 50,000 equity shares of P Ltd., at a book value of Rs. 15 per share (face value Rs. 10 each). He provides you the further information:

(1) On 20^{th} June, 2010 he purchased another 10,000 shares of P Ltd. at Rs. 16 per share.

(2) On 1^{st} August, 2010, P Ltd. issue one equity bonus share for every six shares held by the shareholders.

(3) On 31^{st} October, 2010 the directors of P Ltd. announced a right issue which entitle the holders to subscribe three shares for every seven shares at Rs. 15 per share. Shareholders can transfer their rights in full or in part.

Rajat sold $1/3^{rd}$ of entitlement to Umang for a consideration of Rs. 2 per share and subscribe the rest on 5^{th} November, 2010.

You are required to prepare Investment A/c in the books of Rajat for the year ending 31^{st} March, 2011.

Q.No.8: (PCC-Nov. 10) On 1st April 2009 XY Ltd. has 15,000 equity shares of ABC Ltd. at a book value of Rs. 15 per share (face value Rs. 10 per share). On 1st June 2009, XY Ltd. acquired 5,000 equity shares of ABC Ltd. for Rs. 1,00,000 on cum right basis.

ABC Ltd. announced a bonus and right issue.

(1) Bonus was declared, at the rate of one equity share for every five shares held on 1 July 2009.

(2) Right shares are to be issued to the existing shareholders on 1st Sept. 2009. The company will issue one right share for every 6 shares at 20% premium. No dividend was payable on these shares.

(3) Dividend for the year ended 31 – 3 – 2009 were declared by ABC Ltd. @ 20%, which was received by XY Ltd. on 31st Oct. 2009.

XY Ltd.

(i) Took up half the right issue.

(ii) Sold the remaining rights for Rs. 8 per share.

(iii) Sold half of its share holdings on 1st Jan. 2010 at Rs. 16.50 per share. Brokerage being 1%.

You are required to prepare Investment a/c of XY Ltd. for the year ended 31st March 2010 assuming the shares are being valued at average cost.

Q.No.9: 'A' holds 2000 shares at a cost of Rs. 20, aggregating to Rs. 40,000/- he receives a right offer @ 1:2 i.e. right for 1000 shares at Rs. 16 each. Pass Journal entries for right issue under following entries:

I. He allows the right to lapse.

II. If he subscribes for the rights.

III. If he sells the right at Rs. 3 each, & the original lot was purchased ex-right (i.e. old holding)

IV. If he sells the right at Rs. 3 each. The original lot was purchased cum-right (i.e. recent purchase). Give accounting under the following alternative:

(a) If the market value of shares ex-right (i.e. after the right allotment is completed and old + new shares are traded in the market) is Rs. 20 or more.

(b) If the market value of shares ex-right is Rs. 18.50 or less (M.V. of the holding will be Rs. 37,000/- or less)

(c) If the market value of shares ex-right is Rs. 19 (M.V. of the holding will be Rs. 38,000/-)

Chapter-14: Cash Flow Statement

Q.No.1: The following summary cash account has been extracted from the company's accounting records:

Summary Cash Account		(Rs.'000)
Balance at 1.1.2010		35
Receipts from customers		2,783
Issue of shares		300
Sale of fixed assets		128
		3,246
Payments to suppliers	2,047	
Payments for fixed assets	230	
Payments for overhead	115	
Wages and salaries	69	
Taxation	243	
Dividends	80	
Repayments of bank loan	250	
		(3,034)
Balance at 31.12.2010		212

Prepare Cash Flow Statement of this company Hills Ltd. for the year ended 31st December 2010 in accordance with AS-3 (Revised).

Q.No.2: From the following information, you are required to ascertain the amount of flow of cash on account of plant:

	Rs.
Opening balance of plant	1,32,500
Closing balance of plant	1,97,500
Provision of depreciation on plant at the beginning of the year	45,000
Provision for depreciation on plant at the end of the year	61,000

During the year, a plant costing Rs. 65,000 was purchased in exchange for fully paid debentures. An old plant costing Rs. 40,000 was sold for Rs. 34,000. Depreciation provided on the same amounted to Rs. 18,000.

Q.No.3: From the following information calculate cash from operations:

Particulars	Rs. 2009	Rs. 2010
P&L A/c (credit)	40,000	50,000
Debtors	20,000	26,000
Bills Receivable	20,000	12,000
Prepaid Rent	2,000	3,000
Prepaid Insurance	1,000	800
Goodwill	20,000	14,000
Depreciation provision	32,000	40,000
Creditors	20,000	30,000

Q.No.4: Prepare a Cash Flow statement from the following:

Particulars	Rs. 2009	Rs. 2010
Assets		
Cash	60,000	94,000
Debtors	2,20,000	2,10,000
Stock	1,80,000	2,00,000
Land	1,00,000	1,32,000
Total	5,60,000	6,36,000
Capital & liabilities		
Share capital	4,00,000	5,00,000
Creditors	1,40,000	90,000
Retained earnings	20,000	46,000
Total	5,60,000	6,36,000

Q.No.5: From the following balance sheets of Sulekha Ltd. You are required to prepare a cash flow statement:

Liabilities	2009 Rs.	2010 Rs.	Assets	2009 Rs.	2010 Rs.
Share capital	2,00,000	3,25,000	Cash	45,000	70,500
Debenture	1,00,000	50,000	Debtors	1,90,000	1,72,500
Trade Creditors	1,05,000	67,500	Stock in Trade	1,10,000	1,35,000
P&L A/c	15,000	34,500	Land	75,000	99,000
	4,20,000	4,77,000		4,20,000	4,77,000

Q.No.6: (PCC-May 10) From the following information prepare cash flow statement of A (P) Ltd. as at 31st March, 2010 by using indirect method:

Balance Sheet

Liabilities	2009 Rs.	2010 Rs.
Share capital	12,00,000	12,00,000
Profit & Loss A/c	8,50,000	10,00,000
Long Term Loans	10,00,000	10,60,000
Creditors	3,50,000	4,00,000
	34,00,000	36,60,000
Assets		
Fixed Assets	17,00,000	20,00,000
Investment in shares	2,00,000	2,00,000
Stock	6,80,000	7,00,000
Debtors	7,20,000	6,60,000
Cash	60,000	70,000
Bills Receivable	40,000	30,000
	34,00,000	36,36,000

Income Statement for the year ended 31st March, 2010

Sales		40,80,000
Less: Cost of sales		27,20,000
Gross Profit		13,60,000
Less: Operating expenses		
Administrative expenses	4,60,000	
Depreciation	2,20,000	
	6,80,000	6,80,000
Operating Profit		6,80,000
Add: Non-operating incomes (dividend received)		50,000
		7,30,000
Less: Interest paid		1,40,000
		5,90,000
Less: Income-tax		2,60,000
Profit after tax		3,30,000

Statement of Retained Earnings

	Rs.
Opening balance	8,50,000
Add: Profit	3,30,000
	11,80,000
Less: Dividend paid	1,80,000
Closing balance	10,00,000

Q.No.7: (IPCC-Gr.-I-Nov. 10) From the following information, prepare a Cash Flow Statement as per AS-3 for Banjara Ltd., using direct method:

Balance Sheet as on March 31, 2010 (Rs.000)

Assets	**2010**	**2009**
Cash on hand and balances with bank	200	25
Marketable securities (having one month Maturity)	670	135
Sundry Debtors	1,700	1,200
Interest Receivable	100	–
Inventories	900	1,950
Investments	2,500	2,500
Fixed Assets at Cost	2,180	1,910
Accumulated Depreciation	(1,450)	(1,060)
Fixed Assets (net)	730	850
Total Assets	6,800	6,660
Liabilities:		
Sundry Creditors	150	1,890
Interest Payable	230	100
Income tax Payable	400	1,000
Long term Debt	1,110	1,040
	1,890	4,030
Shareholder's Fund:		
Share Capital	1,500	1,250
Reserves	3,410	1,380

	4,910	2,630
Total Liabilities and Shareholders' Fund	6,800	6,660

Statement of Profit or Loss for the year ended 31-3-10

	(Rs.'000)
Sales	30,650
Cost of sales	(26,000)
Gross profit	4,650
Depreciation	(450)
Administrative and Selling expenses	(910)
Interest expenses	(400)
Interest income	300
Dividend income	200
Net profit before taxation and extraordinary items	3,390
Extraordinary items:	
Insurance proceed from earthquake disaster settlement	140
Net profit after extraordinary items	3,530
Income tax	(300)
Net profit	3,230

Additional information:

(i) An amount of Rs. 250 was raised from the issue of share capital and a further Rs. 250 was raised from long-term borrowings.

(ii) Interest expense was Rs. 400 of which Rs. 170 was paid during the period Rs. 100 relating to interest expense of the prior period was also paid during the period.

(iii) Dividends paid were Rs. 1,200.

(iv) Tax deducted at source on dividends received (included in the tax expense of Rs. 300 for the year) amounted to Rs. 40.

(v) During the period the enterprise acquired Fixed Assets for Rs. 350. The payment was made in cash.

(vi) Plant with original cost of Rs. 80 and accumulated Depreciation of Rs. 60 was sold for Rs. 20.

(vii) Sundry debtors and Sundry creditors include amounts relating to credit sales and credit purchase only.

Q.No.8: From the following balance sheets of Sneha Ltd. as on 31.3.2010 and 31.3.2011 prepare a Cash Flow statement for the year ending 31.3.2011:

Liabilities	31.3.2010 Rs.	31.3.2011 Rs.	Assets	31.3.2010 Rs.	31.3.2011 Rs.
Equity share capital	13,00,000	16,90,000	Goodwill	65,000	42,500
Profit and loss account	4,90,100	8,77,500	Building	11,70,000	11,37,500
10% debentures	16,25,000	13,00,000	Machinery	16,18,500	21,38,500
Creditors	9,00,000	10,00,000	Non-trade investments	5,07,000	3,93,250
Bills payable	42,500	1,70,000	Debtors	4,16,000	11,70,000
Provision for tax	2,60,000	9,75,000	Stock	5,07,000	7,99,500
Dividend payable	-	42,250	Cash	2,60,000	2,92,500
			Prepaid expenses	42,250	52,000
			Debenture discount	31,850	29,000
	46,17,600	60,54,750		46,17,600	60,54,750

The following additional information is given:

i)	Building	Machinery

	Rs.	Rs.
Accumulated depreciation 31.3.2010	4,87,500	15,92,500
Accumulated depreciation 31.3.2011	5,20,000	15,66,500
Depreciation for 2010-11	32,500	1,36,500
ii) Profit and loss account for 2010-11 is as follows:		
Balance as on 31.3.2010	4,90,100	
Add: Profit for 2010-11	4,71,900	
	9,62,000	
Less: Dividend	84,500	
	8,77,500	

iii) During 2010-11 machinery costing Rs. 2,92,500 was sold for Rs. 97,500
iv) Investments which were sold for Rs. 1,17,000 had cost Rs. 97,500.

Q.No.9: *From the following details of Grow More Ltd. prepare cash flow statement:*

Liabilities	31.3.2011 (Rs.)	31.3.2010 (Rs.)
Share capital	10,00,000	8,00,000
Reserve	2,00,000	1,50,000
Profit and loss account	1,00,000	60,000
Debentures	2,00,000	--
Provision for taxation	1,00,000	70,000
Proposed dividend	2,00,000	1,00,000
Sundry creditors	7,00,000	8,20,000
	25,00,000	20,00,000
Assets		
Plant and machinery	7,00,000	5,00,000
Land/building	6,00,000	4,00,000
Investments	1,00,000	--
Sundry debtors	5,00,000	7,00,000
Stock	4,00,000	2,00,000
Cash on hand/bank	2,00,000	2,00,000
	25,00,000	20,00,000

i) Depreciation @25% was charged on the opening value of plant and machinery.
ii) During the year one old machine costing 50,000 (WDV 20,000) was sold for Rs. 35,000.
iii) Rs. 50,000 was paid towards income tax during the year.
iv) Building under construction was not subject to any depreciation.
Prepare cash flow statement.

Q.No.10: (PCC-May 11) From the following information, prepare Cash Flow Statement of Amex Limited for the year ended 31st March, 2010 by using indirect method:

Balance Sheet as on:

	31-3-2009 (Rs.)		31-3-2010 (Rs.)	
Liabilities				
Share Capital		5,00,000		6,00,000
Reserves		1,50,000		1,80,000
Profit and Loss Account		40,000		65,000
Debentures		3,00,000		2,50,000

Creditors for goods		1,70,000		1,60,000
Provision for Income Tax		60,000		80,000
		12,20,000		13,35,000
Assets				
Gross Block	10,00,000		11,20,000	
Less: Depreciation	3,70,000		4,60,000	
Net Block		6,30,000		6,60,000
Stock in Trade		2,40,000		3,70,000
Book Debts		2,50,000		2,30,000
Cash in hand and at bank		80,000		60,000
Misc Expenditure				
Discount on issue of shares		10,000		7,500
Preliminary Expenses		10,000		7,500
		12,20,000		13,35,000

Profit and Loss Appropriation Account for the year ended 31st March, 2010

Particulars	Debit (Rs.)	Particulars	Credit (Rs.)
To Transfer to Reserves	30,000	By Balance b/d	40,000
To Interim Dividend paid	80,000	By Net Profit for current year	1,35,000
To Balance carried to Balance sheet	65,000		
	1,75,000		1,75,000

Q.No.11: (IPCC-Gr.-I-May 11) The following are the summarized Balance Sheets of Lotus Ltd. as on 31st March, 2010 and 2011:

Liabilities	**31-3-10**	**31-3-11**
Equity share capital (Rs. 10 each)	10,00,000	12,50,000
Capital Reserve	–	10,000
Profit and Loss A/c	4,00,000	4,80,000
Long term loan from the bank	5,00,000	4,00,000
Sundry creditors	5,00,000	4,00,000
Provision for taxation	50,000	60,000
	24,50,000	26,00,000
Assets	**Rs.**	**Rs.**
Land and building	4,00,000	3,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry Debtors	4,00,000	4,20,000
Cash in hand	2,00,000	1,40,000
Cash at bank	3,00,000	4,10,000
	24,50,000	26,00,000

Additional information:

(1) Depreciation written off on land and building Rs. 20,000.

(2) The company sold some investment at a profit of Rs. 10,000, which was credited to Capital Reserve.

(3) Income-tax provided during the year Rs. 55,000.

(4) During the year, the company purchased a machinery for Rs. 2,25,000. They paid Rs. 1,25,000 in cash and issue 10,000 equity shares of Rs. 10 each at par.

You are required to prepare a cash flow statement for the year ended 31st March, 2011 as per AS-3, by using indirect method.

Q.No.12: (IPCC-Gr.-I-May10) The following particulars relate to Bee Ltd. for the year ended 31st March, 2010:

(i) Furniture of book value of Rs. 15,500 was disposed off for Rs. 12,000.

(ii) Machinery costing Rs. 3,10,000 was purchased and Rs. 20,000 were spent on its erection.

(iii) Fully paid 8% preference shares of the face value of Rs. 10,00,000 were redeemed at a premium of 3%. In this connection 60,000 equity shares of Rs. 10 each were issued at a premium of Rs. 2 per share. The entire money being received with applications.

(iv) Dividend was paid as follows:

On 8% preference shares	Rs. 40,000
On equity shares for the year 2009-10	Rs. 1,10,000

(v) Total sales were Rs. 32,00,000 out of which cash sales were Rs. 11,50,000.

(vi) Total purchases were Rs. 8,00,000 including cash purchase of Rs. 60,000.

(vii) Total expenses were Rs. 12,40,000.

(viii) Taxes paid including dividend tax of Rs. 22,500 were Rs. 3,30,000.

(ix) Cash and cash equivalents as on 31st March, 2010 were rs. 1,25,000.

You are requested to prepare Cash Flow Statement as per AS-3 for the year ended 31st March, 2010 after taking into consideration the following also:

	On 31st March, 2009 Rs.	On 31st March, 2010 Rs.
Sundry debtors	1,50,000	1,47,000
Sundry creditors	78,000	83,000
Unpaid expenses	63,000	55,000

Chapter-15: Amalgamation

Q.No.1: (IPCC-Gr.-I-May 10) The abstract of the Balance Sheet of the AXE Ltd. as at 31st March 2011, are as follows:

Liabilities	**Rs.**
Equity share capital (Rs. 100 each)	15,00,000
12% preference share capital (Rs. 100 each)	8,00,000
13% Debentures	3,00,000

On the 31st March, 2011 BXE Ltd. agreed to take over AXE Ltd. on the following terms:

(1) For each preference share in AXE Ltd., Rs. 10 in cash and one 9% preference share of Rs. 100 in BXE Ltd.

(2) For each equity share in AXE Ltd., Rs. 20 in cash and one equity share in BXE Ltd. of Rs. 100 each. It was decided that the share in BXE Ltd. will be issued at market price Rs. 140 per share.

(3) Liquidation expenses of AXE Ltd. are to be reimbursed by BXE Ltd. to the extent of Rs. 10,000. Actual expenses amounted to Rs. 12,500.

You are required to compute the amount of purchase consideration.

Q.No.2: *The Indo-Gulf Co. Ltd. sells its business to the Continental Co. Ltd. as on December 31, 2010, on which date its Balance Sheet was as under:*

Liabilities	**Rs.**	**Assets**	**Rs.**
Paid-up Capital 2000 shares	2,00,000	Freehold property	1,50,000
Of Rs.100 each		Goodwill	50,000
Debentures	1,00,000	Plant and Tools	83,000
Trade Creditors	30,000	Stock	35,000
Reserve Fund	50,000	Bills Receivable	4,500
Profit & Loss Account	20,000	Sundry Debtors	27,500
		Cash at Bank	50,000
	4,00,000		**4,00,000**

The Continental Co. Ltd. agreed to take over the Assets (exclusive of cash at Bank and Goodwill) at 10 percent less than the book value, to pay Rs. 75,000 for Goodwill, and to take over the Debentures. The purchase consideration was to be discharged by the allotment to the Indo-Gulf Ltd. of 1,500 shares of Rs.100 each at premium of Rs.10 per share and the balance in cash.
The cost of the liquidation amounted to Rs. 3,000. Show the necessary Accounts in the books of the Indo-Gulf Co. Ltd. and show the necessary journal entries recording the transactions in the books of the Continental Co. Ltd.

Q.No.3: The following are the Balance Sheets of Strong Limited and Small Limited as at 31.12. 2010:

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

Strong Limited agreed to absorb Small Limited as on 31st December, 2010 on the following terms:

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

You are required to:

(a) Calculate the ratio of exchange of shares.
(b) Give journal entries in the books of Strong Limited.
(c) Construct the bank account to arrive at the Balance on absorption.

Q.No.4: Star and Moon had been carrying on business independently. They agreed to amalgamate and form a new company Neptune Ltd. with an authorised share capital of Rs. 2,00,000 divided into 40,000 equity shares of Rs. 5 each. On 31st December, 2010, the respective Balance Sheets of Star and Moon were as follows :

	Star Rs.	**Moon Rs.**
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
	4,81,000	2,66,375
Less : Current Liabilities	2,98,500	90,125
Representing Capital :	1,82,500	1,76,250

Additional Information:

a) Revalued figures of Fixed and Current Assets were as follows :

	Star Rs.	**Moon Rs.**
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

b) The debtors and creditors - include Rs. 21,675 owed by Star to Moon. The purchase consideration is satisfied by issue of the following shares and debentures:

i) 30,000 equity shares of Neptune Ltd., to Star and Moon in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows :

	Star	**Moon**
2008 Profit	2,24,788	1,36,950
2009 (Loss)/Profit	(1,250)	1,71,050
2010 Profit	1,88,962	1,79,500

ii) 15% debentures in Neptune Ltd., at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st December, 2010 after revaluation of assets.

You are requested to :

1) Compute the amount of debentures and shares to be issued to Star and Moon.
2) A Balance Sheet of Neptune Ltd., showing the position immediately after amalgamation.

Q.No.5: *The Balance Sheets of 'A Ltd.' & 'B Ltd.' as on 31st March, 2011 were as follows*

(Rs. in '000)

Liabilities	**A Ltd.**	**B Ltd.**	**Assets**	**A Ltd.**	**B Ltd.**
Share Capital:			Patents	2,000	--
20,00,000 equity shares			Land and Building	6,000	--
of Rs.10 each	20,000	----	Plant and machinery	15,500	--
4,00,000 equity shares			Motor Vehicles	--	600
of Rs.10 each	----	4,000	Furniture	--	350
			Investments	1,150	--

General reserve	8,000	--	Stocks	3,500	2,790
Profit and loss A/c.	900	320	Debtors	800	620
Creditors	500	210	Cash-Bank balance	450	170
	29,400	4,530		29,400	4,530

A new company, 'C Ltd.' was formed to acquire the assets and liabilities of 'A Ltd.' and 'B Ltd.'. The terms of acquisition of business were as under:

1) 'C Ltd.' to have an authorised capital of Rs.4,50,00,000 divided into 50,000 13 per cent preference shares of Rs.100 each and 40,00,000 equity shares of Rs.10 each.
2) Business of 'A Ltd.' valued at Rs.3,00,00,000; settlement being made by issue of fully-paid equity shares at Rs.12.
3) Business of 'B Ltd.' valued at Rs.48,00,000 to be satisfied by issue of fully-paid equity shares at Rs.12.
4) 'C Ltd.' made a public issue of 30,000 preference shares at par and 3,00,000 equity shares at Rs.12. The issue was underwritten at the commission allowed by law and was fully subscribed. All obligations were met.
5) 'D', who mooted the scheme, was allotted 40,000 equity shares (fully-paid) at Rs.12 in consideration of his services.

You are required to:

(i) Make journal entries in the books 'A Ltd.', and 'B Ltd.', to close their books of accounts, and

(ii) Make opening entries in the books of 'C Ltd.' and prepare the balance sheet of 'C. Ltd.'

Q.No.6: (PCC-May 11) XYZ Limited was incorporated for taking over the business of Y from 1st April, 2010. The following is the Balance Sheet of Y as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
Capital	10,08,000	Land and Building	16,00,000
Loans	12,00,000	Plant and Machinery	2,80,000
Creditors	7,12,000	Furniture	2,00,000
		Sundry Debtors	8,40,000
	29,20,000		29,20,000

The company takes over the business with fixed assets and loans on the following terms:

1. The fixed assets should be depreciated @ 10%.
2. The value of Goodwill is estimated at Rs. 8,00,000.

The company realized Rs. 8,00,000 from Sundry debtors as the agent of the vendor in full settlement and discharged all the trade creditors by paying Rs. 6,80,000 for a commission of 3% on the amount collected and 2% on the amount paid. (Commission is treated as pre-incorporation profit)

The lenders accepted 10% preference shares of Rs. 100 each in discharge of their loan. After realization of debts and discharge of the liabilities, the total amount due to the vendor was settled by payment of Rs. 54,400 in cash and the balance in shares of fully paid equity shares of Rs. 10 each.

You are required to:

(i) Compute purchase consideration

(ii) Pass Journal Entries in the books of XYZ Limited after taking over the business of Y.

(iii) Prepare the Balance sheet of the company as on 1st April, 2010.

Q.No.7: (IPCC-Gr.-I-May10) The Balance Sheet of Reckless Ltd. as on 31st March, 2008 is as follows:

Assets		Rs.
Freehold Premises		2,20,000

Machinery Furniture & Fittings Stock Sundry Debtors Less: Provision for Bad Debts Cash in hand Cash at bank Bills Receivable	 80,000 4,000	1,77,000 90,800 3,87,400 76,000 2,300 1,56,500 15,000
		11,25,000
Liabilities 60,000 Equity Shares of Rs. 10 each Prior Incorporation profit Contingency Reserve Profit & Loss Appropriation Account Acceptances Creditors Provision for Income-tax		 6,00,000 21,000 1,35,000 1,26,000 20,000 1,13,000 1,10,000
		11,25,000

Careful Ltd. decided to take over Reckless Ltd. from 31st March, 2008 with the following assets at value noted against them:

Bills Receivable	15,000
Freehold Premises	4,00,000
Furniture and Fittings	80,000
Machinery	1,60,000
Stock	3,45,000

1/4 of the consideration was satisfied by the allotment of fully paid preference share of Rs. 100 each at par which carried 13% dividend on cumulative basis. The balance was paid in the form of Careful Ltd.'s equity shares of Rs. 10 each, Rs. 8 paid up.

Sundry Debtors realized Rs. 79,500. Acceptances were settled for Rs. 19,000. Income-tax authorities fixed the taxation liability at Rs. 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expense amounting to Rs. 4,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of consideration.

(ii) Prepare the important ledger accounts in the books of Reckless Ltd.; and

(iii) Pass Journal entries in the books of Careful Ltd. with narration.

Q.No.8: (IPCC-Gr.-I-May 11) The Balance Sheet of Mars Limited as on 31st March, 2011 was as follows:

Liabilities	**Amount**	**Assets**		**Rs.**
Share Capital:		**Fixed Assets**		
1,00,000 Equity Shares of Rs. 10 each fully paid up	10,00,000	Land and building		7,64,000
		Current Assets		
Reserve and Surplus		Stock		7,75,000
Capital Reserve	42,000	Sundry Debtors	1,60,000	
Contingency Reserve	2,70,000	Less: Provision for		
Profit and Loss A/c	2,52,000	doubtful debts	8,000	1,52,000
Current Liabilities & Provisions		Bills receivable		30,000
Bills payable	40,000	Cash at Bank		3,29,000

Liabilities	Amount	Assets	Rs.
Sundry Creditors	2,26,000		
Provision for Income tax	2,20,000		
	20,50,000		20,50,000

On 1st April, 2011 Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

(1) Jupiter Limited will take over the assets at the following values:

Land and building	Rs. 10,80,000
Stock	Rs. 7,70,000
Bills receivable	Rs. 30,000

(2) Purchase consideration will be settled by Jupiter Ltd. as under:

4,100 fully paid 10% preference shares of Rs. 100 will be issued and the balance will be settled by issuing equity shares of Rs. 10 each at Rs. 8 paid up.

(3) Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of Rs. 5,000.

(4) Sundry debtors realized Rs. 1,50,000. Bills payable were settled for Rs. 38,000. Income tax authorities fixed the taxation liability at Rs. 2,22,000 and the same was paid.

(5) Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to Rs. 8,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Jupiter limited in discharge of purchase consideration.

(ii) Prepare the Realisation A/c, Bank Account, Equity Shareholders Account and Jupiter Limited's account in the books of Mars Ltd.

Q.No.9: (PCC-Nov. 10) Balance Sheets as on 31st March, 2010

Liabilities	Gee Ltd. Rs.	Pee Ltd. Rs.	Assets	Gee Ltd. Rs.	Pee Ltd. Rs.
Equity Share Capital (Rs. 10 per share)	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
14% Preference Share	11,00,000	8,50,000	Plant and Machinery	16,25,000	8,50,000
Capital (Rs. 100 each)	–	–	Furniture and Fixtures	2,87,500	1,75,000
General Reserve	2,50,000	2,50,000	Investments	3,50,000	2,50,000
Export Profit Reserve	1,50,000	1,00,000	Stock	6,25,000	4,75,000
Investment Allowance Reserve	–	50,000	Debtors	4,00,000	4,60,000
Profit and Loss Account	3,75,000	1,25,000	Bills Receivables	50,000	55,000
15% Debentures (Rs. 100 each)	2,50,000	1,75,000	Cash at Bank	3,62,500	2,60,000
Trade Creditors	1,50,000	75,000			
Bills Payables	75,000	1,00,000			
Other Current Liabilities	1,00,000	75,000			
	49,50,000	**33,00,000**		**49,50,000**	**33,00,000**

All the bills receivables of Pee Ltd. were having Gee Ltd's acceptances.

Gee Ltd. takes over Pee Ltd. on 1st April, 2010. The purchase consideration is discharged as follows:

1. Issued 1,65,000 equity shares of Rs. 10 each at par to the equity shareholders of Pee Ltd.
2. Issued 15% preference shares of Rs. 100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.

3. The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.
4. The Statutory Reserves of Pee Ltd. are to be maintained for two more years.
5. Expenses of amalgamation amounting to Rs. 10,000 will be borne by Gee Ltd.

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2010 after amalgamation, on the assumption that the amalgamation is in the nature of the merger.

Q.No.10: X Limited is absorbed by Y Limited. Given below are the Balance Sheets of the two companies prepared after revaluation of their assets on a uniform basis.

Balance Sheet of X Limited

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital:		Sundry Assets	16,85,000
9,000 Equity Shares of Rs.150 each	13,50,000	Cash-in-hand	3,500
Paid up Share Capital:			
9,000 Equity Shares of Rs.150 each Rs.135 paid up	12,15,000		
General Reserve	4,03,500		
Profit and Loss A/c.	15,000		
Sundry Creditors	55,000		
	16,88,500		16,88,500

Balance Sheet of Y Limited

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital:		Sundry Assets	43,57,500
60,000 Equity Shares of Rs.75 each	45,00,000	Cash-in-hand	27,500
Paid up Share Capital:			
40,000 Equity Shares of Rs.75 paid up	30,00,000		
General Reserve	12,85,000		
Profit and Loss A/c.	35,000		
Sundry Creditors	65,000		
	43,85,000		43,85,000

The holder of every three Shares in X Limited was to receive five shares in the Y Limited plus cash as much as is necessary to adjust the rights of shareholders of both the Companies in accordance with the intrinsic values of the share as per the respective Balance Sheets.

Pass necessary journal entries in the books of Y Limited and prepare the Balance Sheet giving effect to the scheme of absorption. Entries are to be made at par value only.

Q.No.11: The following are the Balance Sheet of A Co. Ltd. and B Co. Ltd. as on 30th September, 2011.

A Co. Ltd.

Liabilities	Rs.	Assets	Rs.
Share Capital-		Buildings	1,50,000
50,000 Equity Shares of Rs.10 each, fully paid-up	5,00,000	Machinery	5,50,000
General Reserve	1,70,000		
Profit and Loss A/c.	30,000	Stock	80,000
12% Debentures of Rs.100 each	1,00,000	Debtors	70,000
			15,000

Trade Creditors Employees Provident Fund	50,000 15,000	Cash	
	8,65,000		8,65,000

B Co. Ltd.

Liabilities	Rs.	Assets	Rs.
Share Capital 30,000 Equity Shares of Rs.10 each Trade Creditors	 3,00,000 40,000	Machinery Stock Debtors 50,000 Less: Prov. for Doubtful Debt 5,000 Cash	2,50,000 40,000 45,000 5,000
	3,40,000		3,40,000

The two companies agree to amalgamate and form a new company called C. Co. Ltd. which takes over all the assets and liabilities of both the companies on 1st October, 2011.

The purchase consideration is agreed at Rs. 6,61,500 and Rs. 3,15,000 for A Co. Ltd. and B Co. Ltd. and show the opening entries in the books of C. Co. Ltd. Also prepare the opening Balance Sheet in the books of C. Co. Ltd. as on 1st October, 2011. The authorised capital of C Co. Ltd. is 2,00,000 equity shares of Rs.10 each.

Chapter-16: Internal Reconstruction

Q.No.1: The Summarised assets and liabilities position of Hopeful Ltd. as on 1-4-2011 as follows:

Liabilities	**Rs.**
Authorised Capital:	
80,000 Equity Shares of Rs.10 each	8,00,000
2,000 9% Preference shares of Rs.100 each	2,00,000
Issued and Paid-up Capital:	
40,000 Equity Shares of Rs.10 each	3,00,000
Amount paid on each share of Rs.7.50	
2,000 9% Preference shares of Rs.100 each fully paid	2,00,000
Unsecured Loans	80,000
Trade Creditors	48,000
Bank Overdraft	16,800
TOTAL	**6,44,800**
Assets	
Goodwill	20,000
Land and Building	1,60,000
Plant and Machinery	1,20,000
Investments	24,000
Stock	54,000
Debtors	1,18,000
Cash-in-hand	6,000
Profit and Loss Account	1,42,800
TOTAL	**6,44,800**

Notes:

a) Dividend on preference shares has not been declared for 2 years.

b) No provision has been made for sales tax liability of Rs.9,600.

Following scheme of Reconstruction has been approved by the court.

a) Uncalled capital is to be called up in full and equity shares are to be reduced to Rs.5 per share.

b) Sales Tax Liability of Rs.9,000 is to be paid immediately.

c) Land and Building are to be shown in the Balance Sheet, at full market value of Rs.2,20,000 and goodwill is to be written off.

d) Trade Creditors have consented for 25% remission of liability on a condition that 25% of the net liability after remission is paid forthwith and the balance is paid within one year.

e) Investments are to be taken over by Bank in full settlement of the overdraft balance.

f) Preference shareholders have agreed to give up their right for the two years dividend and accept 12 fully paid equity shares of Rs.5 each for each fully paid preference share.

You are required to:

1) Pass necessary Journal Entries recording the above transactions: and

2) Draw up a final Balance Sheet after giving effect to the scheme of Reconstruction.

Q.No.2: The following is the Balance Sheet of Rocky Ltd. as at March 31, 2011:

Liabilities	**Rs. in lacs**
Fully paid equity shares of Rs. 10 each	500
Capital Reserve	6
12% Debentures	400
Debentures Interest outstanding	48
Trade Creditors	165
Directors' Remuneration Outstanding	10
Other Outstanding Expenses	11
Provisions	33
	1,173
Assets	
Goodwill	15

Land and Building	184
Plant and Machinery	286
Furniture and Fixtures	41
Stock	142
Debtors	80
Cash at Bank	27
Discount on Issue of Debentures	8
Profit and Loss Account	390
	1,173

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

1. All the equity shares be converted into the same number of fully –paid equity shares of Rs. 2.50 P. each.
2. Directors agree to forgo their outstanding remuneration.
3. The debenture holders also agree to forgo outstanding interest in return of their 12% debentures being converted into 13% debentures.
4. The existing shareholders agree to subscribe for cash, fully paid equity shares of Rs. 2.50 P. each for Rs. 125 lacs.
5. Trade creditors are given the option of either to accept fully- paid equity shares of Rs. 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Creditors for Rs. 65 lacs accept equity shares whereas those for Rs. 100 lacs accept Rs. 80 lacs in cash in full settlement.

The Assets are revalued as under:

	Rs. in lacs
Land and Building	230
Plant and Machinery	220
Stock	120
Debtors	76

Pass Journal Entries for all the above mentioned transaction and draft the company's Balance Sheet immediately after the reconstruction.

Q.No.3: Green Limited had decided to reconstruct the Balance Sheet since it had accumulated huge losses. The following is the Balance Sheet of the Company on 31.3.2011 before reconstruction:

Balance Sheet of Green Limited as at 31.3.2011

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

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

	Mr. X Rs.	Mr. Y Rs.
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Sundry Creditors	2,00,000	1,00,000
	12,00,000	6,00,000

Fully paid up Rs. 50 shares	3,00,000	2,00,000
Partly paid up shares (Rs. 40 paid up)	5,00,000	5,00,000

The following scheme of reconstruction is approved by all parties interested and also by the court:

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

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

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

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

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

Chapter-15: Amalgamation - (New Schedule VI)

Q.No.1: (IPCC-Gr.-I-May 10) The abstract of the Balance Sheet of the AXE Ltd. as at 31st March 2011, are as follows:

Liabilities	Rs.
Equity share capital (Rs. 100 each)	15,00,000
12% preference share capital (Rs. 100 each)	8,00,000
13% Debentures	3,00,000

On the 31st March, 2011 BXE Ltd. agreed to take over AXE Ltd. on the following terms:

(4) For each preference share in AXE Ltd., Rs. 10 in cash and one 9% preference share of Rs. 100 in BXE Ltd.

(5) For each equity share in AXE Ltd., Rs. 20 in cash and one equity share in BXE Ltd. of Rs. 100 each. It was decided that the share in BXE Ltd. will be issued at market price Rs. 140 per share.

(6) Liquidation expenses of AXE Ltd. are to be reimbursed by BXE Ltd. to the extent of Rs. 10,000. Actual expenses amounted to Rs. 12,500.

You are required to compute the amount of purchase consideration.

Q.No.2: *The Indo-Gulf Co. Ltd. sells its business to the Continental Co. Ltd. as on December 31, 2010, on which date its Balance Sheet was as under:*

Liabilities	Rs.	Assets	Rs.
Paid-up Capital 2000 shares	2,00,000	Freehold property	1,50,000
Of Rs.100 each		Goodwill	50,000
Debentures	1,00,000	Plant and Tools	83,000
Trade Creditors	30,000	Stock	35,000
Reserve Fund	50,000	Bills Receivable	4,500
Profit & Loss Account	20,000	Sundry Debtors	27,500
		Cash at Bank	50,000
	4,00,000		**4,00,000**

The Continental Co. Ltd. agreed to take over the Assets (exclusive of cash at Bank and Goodwill) at 10 percent less than the book value, to pay Rs. 75,000 for Goodwill, and to take over the Debentures. The purchase consideration was to be discharged by the allotment to the Indo-Gulf Ltd. of 1,500 shares of Rs.100 each at premium of Rs.10 per share and the balance in cash.

The cost of the liquidation amounted to Rs. 3,000. Show the necessary Accounts in the books of the Indo-Gulf Co. Ltd. and show the necessary journal entries recording the transactions in the books of the Continental Co. Ltd.

Q.No.3: The following are the Balance Sheets of Strong Limited and Small Limited as at 31.12. 2010:

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

Strong Limited agreed to absorb Small Limited as on 31st December, 2010 on the following terms:

5) Strong Limited agreed to repay 10% debentures of Small Limited.
6) Strong Limited to revalue its Fixed Assets at Rs.1,95,000, to be incorporated in the books.
7) Shares of both companies to be valued on net Assets basis, after considering Rs. 50,000 towards value of goodwill of Small Limited.
8) The cost of absorption of Rs. 3,000 are met by Strong Limited.

You are required to:

(a) Calculate the ratio of exchange of shares.
(b) Give journal entries in the books of Strong Limited.
(c) Construct the bank account to arrive at the Balance on absorption.

Q.No.4: Star and Moon had been carrying on business independently. They agreed to amalgamate and form a new company Neptune Ltd. with an authorised share capital of Rs. 2,00,000 divided into 40,000 equity shares of Rs. 5 each. On 31st December, 2010, the respective Balance Sheets of Star and Moon were as follows :

	Star Rs.	Moon Rs.
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
	4,81,000	2,66,375
Less : Current Liabilities	2,98,500	90,125
Representing Capital :	1,82,500	1,76,250

Additional Information:

c) Revalued figures of Fixed and Current Assets were as follows :

	Star Rs.	Moon Rs.
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

d) The debtors and creditors - include Rs. 21,675 owed by Star to Moon. The purchase consideration is satisfied by issue of the following shares and debentures:

iii) 30,000 equity shares of Neptune Ltd., to Star and Moon in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows :

	Star	Moon
2008 Profit	2,24,788	1,36,950
2009 (Loss)/Profit	(1,250)	1,71,050
2010 Profit	1,88,962	1,79,500

iv) 15% debentures in Neptune Ltd., at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st December, 2010 after revaluation of assets.

You are requested to :

3) Compute the amount of debentures and shares to be issued to Star and Moon.
4) A Balance Sheet of Neptune Ltd., showing the position immediately after amalgamation.

Q.No.5: *The Balance Sheets of 'A Ltd.' & 'B Ltd.' as on 31st March, 2011 were as follows*

(Rs. in '000)

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share Capital:			Patents	2,000	--
20,00,000 equity shares			Land and Building	6,000	--
of Rs.10 each	20,000	----	Plant and machinery	15,500	--
4,00,000 equity shares			Motor Vehicles	--	600
of Rs.10 each	----	4,000	Furniture	--	350
			Investments	1,150	--

General reserve	8,000	--	Stocks	3,500	2,790
Profit and loss A/c.	900	320	Debtors	800	620
Creditors	500	210	Cash-Bank balance	450	170
	29,400	4,530		29,400	4,530

A new company, 'C Ltd.' was formed to acquire the assets and liabilities of 'A Ltd.' and 'B Ltd.'. The terms of acquisition of business were as under:

6) 'C Ltd.' to have an authorised capital of Rs.4,50,00,000 divided into 50,000 13 per cent preference shares of Rs.100 each and 40,00,000 equity shares of Rs.10 each.
7) Business of 'A Ltd.' valued at Rs.3,00,00,000; settlement being made by issue of fully-paid equity shares at Rs.12.
8) Business of 'B Ltd.' valued at Rs.48,00,000 to be satisfied by issue of fully-paid equity shares at Rs.12.
9) 'C Ltd.' made a public issue of 30,000 preference shares at par and 3,00,000 equity shares at Rs.12. The issue was underwritten at the commission allowed by law and was fully subscribed. All obligations were met.
10) 'D', who mooted the scheme, was allotted 40,000 equity shares (fully-paid) at Rs.12 in consideration of his services.

<u>You are required to:</u>

(i) Make journal entries in the books 'A Ltd.', and 'B Ltd.', to close their books of accounts, and

(ii) Make opening entries in the books of 'C Ltd.' and prepare the balance sheet of 'C. Ltd.'

Q.No.6: (PCC-May 11) XYZ Limited was incorporated for taking over the business of Y from 1st April, 2010. The following is the Balance Sheet of Y as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
Capital	10,08,000	Land and Building	16,00,000
Loans	12,00,000	Plant and Machinery	2,80,000
Creditors	7,12,000	Furniture	2,00,000
		Sundry Debtors	8,40,000
	29,20,000		29,20,000

The company takes over the business with fixed assets and loans on the following terms:

3. The fixed assets should be depreciated @ 10%.
4. The value of Goodwill is estimated at Rs. 8,00,000.

The company realized Rs. 8,00,000 from Sundry debtors as the agent of the vendor in full settlement and discharged all the trade creditors by paying Rs. 6,80,000 for a commission of 3% on the amount collected and 2% on the amount paid. (Commission is treated as pre-incorporation profit)

The lenders accepted 10% preference shares of Rs. 100 each in discharge of their loan. After realization of debts and discharge of the liabilities, the total amount due to the vendor was settled by payment of Rs. 54,400 in cash and the balance in shares of fully paid equity shares of Rs. 10 each.

You are required to:

(i) Compute purchase consideration

(ii) Pass Journal Entries in the books of XYZ Limited after taking over the business of Y.

(iii) Prepare the Balance sheet of the company as on 1st April, 2010.

Q.No.7: (IPCC-Gr.-I-May10) The Balance Sheet of Reckless Ltd. as on 31st March, 2008 is as follows:

Assets		Rs.
Freehold Premises		2,20,000

Machinery		1,77,000
Furniture & Fittings		90,800
Stock		3,87,400
Sundry Debtors	80,000	
Less: Provision for Bad Debts	4,000	76,000
Cash in hand		2,300
Cash at bank		1,56,500
Bills Receivable		15,000
		11,25,000
Liabilities		
60,000 Equity Shares of Rs. 10 each		6,00,000
Prior Incorporation profit		21,000
Contingency Reserve		1,35,000
Profit & Loss Appropriation Account		1,26,000
Acceptances		20,000
Creditors		1,13,000
Provision for Income-tax		1,10,000
		11,25,000

Careful Ltd. decided to take over Reckless Ltd. from 31st March, 2008 with the following assets at value noted against them:

Bills Receivable	15,000
Freehold Premises	4,00,000
Furniture and Fittings	80,000
Machinery	1,60,000
Stock	3,45,000

1/4 of the consideration was satisfied by the allotment of fully paid preference share of Rs. 100 each at par which carried 13% dividend on cumulative basis. The balance was paid in the form of Careful Ltd.'s equity shares of Rs. 10 each, Rs. 8 paid up.

Sundry Debtors realized Rs. 79,500. Acceptances were settled for Rs. 19,000. Income-tax authorities fixed the taxation liability at Rs. 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expense amounting to Rs. 4,000.

You are required to:

(iv) Calculate the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of consideration.

(v) Prepare the important ledger accounts in the books of Reckless Ltd.; and

(vi) Pass Journal entries in the books of Careful Ltd. with narration.

Q.No.9: (PCC-Nov. 10) Balance Sheets as on 31st March, 2010

Liabilities	Gee Ltd. Rs.	Pee Ltd. Rs.	Assets	Gee Ltd. Rs.	Pee Ltd. Rs.
Equity Share Capital (Rs. 10 per share)	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
			Plant and Machinery	16,25,000	8,50,000
14% Preference Share	11,00,000	8,50,000	Furniture and Fixtures	2,87,500	1,75,000
Capital (Rs. 100 each)	–	–	Investments	3,50,000	2,50,000
			Stock	6,25,000	4,75,000
General Reserve	2,50,000	2,50,000	Debtors	4,00,000	4,60,000
Export Profit Reserve	1,50,000	1,00,000	Bills Receivables	50,000	55,000
Investment Allowance Reserve	–	50,000	Cash at Bank	3,62,500	2,60,000

Liabilities	Gee Ltd. Rs.	Pee Ltd. Rs.	Assets	Gee Ltd. Rs.	Pee Ltd. Rs.
Profit and Loss Account	3,75,000	1,25,000			
15% Debentures (Rs. 100 each)	2,50,000	1,75,000			
Trade Creditors	1,50,000	75,000			
Bills Payables	75,000	1,00,000			
Other Current Liabilities	1,00,000	75,000			
	49,50,000	**33,00,000**		**49,50,000**	**33,00,000**

All the bills receivables of Pee Ltd. were having Gee Ltd's acceptances.

Gee Ltd. takes over Pee Ltd. on 1st April, 2010. The purchase consideration is discharged as follows:

6. Issued 1,65,000 equity shares of Rs. 10 each at par to the equity shareholders of Pee Ltd.
7. Issued 15% preference shares of Rs. 100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.
8. The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.
9. The Statutory Reserves of Pee Ltd. are to be maintained for two more years.
10. Expenses of amalgamation amounting to Rs. 10,000 will be borne by Gee Ltd.

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2010 after amalgamation, on the assumption that the amalgamation is in the nature of the merger.

Q.No.10: X Limited is absorbed by Y Limited. Given below are the Balance Sheets of the two companies prepared after revaluation of their assets on a uniform basis.

Balance Sheet of X Limited

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital:		Sundry Assets	16,85,000
9,000 Equity Shares of Rs.150 each	13,50,000	Cash-in-hand	3,500
Paid up Share Capital:			
9,000 Equity Shares of Rs.150 each Rs.135 paid up	12,15,000		
General Reserve	4,03,500		
Profit and Loss A/c.	15,000		
Sundry Creditors	55,000		
	16,88,500		16,88,500

Balance Sheet of Y Limited

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital:		Sundry Assets	43,57,500
60,000 Equity Shares of Rs.75 each	45,00,000	Cash-in-hand	27,500
Paid up Share Capital:			
40,000 Equity Shares of Rs.75 paid up	30,00,000		
General Reserve	12,85,000		
Profit and Loss A/c.	35,000		
Sundry Creditors	65,000		
	43,85,000		43,85,000

The holder of every three Shares in X Limited was to receive five shares in the Y Limited plus cash as much as is necessary to adjust the rights of shareholders of both the Companies in accordance with the intrinsic values of the share as per the respective Balance Sheets.

Pass necessary journal entries in the books of Y Limited and prepare the Balance Sheet giving effect to the scheme of absorption. Entries are to be made at par value only.

Q.No.11: The following are the Balance Sheet of A Co. Ltd. and B Co. Ltd. as on 30th September, 2011.

A Co. Ltd.

Liabilities	Rs.	Assets	Rs.
Share Capital-		Buildings	1,50,000
50,000 Equity Shares of Rs.10 each, fully paid-up	5,00,000	Machinery	5,50,000
General Reserve	1,70,000		
Profit and Loss A/c.	30,000	Stock	80,000
12% Debentures of Rs.100 each	1,00,000	Debtors	70,000
Trade Creditors	50,000	Cash	15,000
Employees Provident Fund	15,000		
	8,65,000		8,65,000

B Co. Ltd.

Liabilities	Rs.	Assets	Rs.
Share Capital		Machinery	2,50,000
30,000 Equity Shares of Rs.10 each	3,00,000	Stock	40,000
		Debtors 50,000	
		Less: Prov. for Doubtful Debt 5,000	45,000
Trade Creditors	40,000	Cash	5,000
	3,40,000		3,40,000

The two companies agree to amalgamate and form a new company called C. Co. Ltd. which takes over all the assets and liabilities of both the companies on 1st October, 2011.

The purchase consideration is agreed at Rs. 6,61,500 and Rs. 3,15,000 for A Co. Ltd. and B Co. Ltd. and show the opening entries in the books of C. Co. Ltd. Also prepare the opening Balance Sheet in the books of C. Co. Ltd. as on 1st October, 2011. The authorised capital of C Co. Ltd. is 2,00,000 equity shares of Rs.10 each.

Chapter-16: Internal Reconstruction - (New Schedule VI)

Q.No.1: The Summarised assets and liabilities position of Hopeful Ltd. as on 1-4-2011 as follows:

Liabilities	**Rs.**
Authorised Capital:	
80,000 Equity Shares of Rs.10 each	8,00,000
2,000 9% Preference shares of Rs.100 each	2,00,000
Issued and Paid-up Capital:	
40,000 Equity Shares of Rs.10 each	3,00,000
Amount paid on each share of Rs.7.50	
2,000 9% Preference shares of Rs.100 each fully paid	2,00,000
Unsecured Loans	80,000
Trade Creditors	48,000
Bank Overdraft	16,800
TOTAL	**6,44,800**
Assets	
Goodwill	20,000
Land and Building	1,60,000
Plant and Machinery	1,20,000
Investments	24,000
Stock	54,000
Debtors	1,18,000
Cash-in-hand	6,000
Profit and Loss Account	1,42,800
TOTAL	**6,44,800**

Notes:

c) Dividend on preference shares has not been declared for 2 years.

d) No provision has been made for sales tax liability of Rs.9,600.

Following scheme of Reconstruction has been approved by the court.

g) Uncalled capital is to be called up in full and equity shares are to be reduced to Rs.5 per share.

h) Sales Tax Liability of Rs.9,000 is to be paid immediately.

i) Land and Building are to be shown in the Balance Sheet, at full market value of Rs.2,20,000 and goodwill is to be written off.

j) Trade Creditors have consented for 25% remission of liability on a condition that 25% of the net liability after remission is paid forthwith and the balance is paid within one year.

k) Investments are to be taken over by Bank in full settlement of the overdraft balance.

l) Preference shareholders have agreed to give up their right for the two years dividend and accept 12 fully paid equity shares of Rs.5 each for each fully paid preference share.

You are required to:

3) Pass necessary Journal Entries recording the above transactions: and

4) Draw up a final Balance Sheet after giving effect to the scheme of Reconstruction.

Q.No.2: The following is the Balance Sheet of Rocky Ltd. as at March 31, 2011:

Liabilities	**Rs. in lacs**
Fully paid equity shares of Rs. 10 each	500
Capital Reserve	6
12% Debentures	400
Debentures Interest outstanding	48
Trade Creditors	165
Directors' Remuneration Outstanding	10
Other Outstanding Expenses	11
Provisions	33
	1,173
Assets	
Goodwill	15

Land and Building	184
Plant and Machinery	286
Furniture and Fixtures	41
Stock	142
Debtors	80
Cash at Bank	27
Discount on Issue of Debentures	8
Profit and Loss Account	390
	1,173

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

6. All the equity shares be converted into the same number of fully –paid equity shares of Rs. 2.50 P. each.
7. Directors agree to forgo their outstanding remuneration.
8. The debenture holders also agree to forgo outstanding interest in return of their 12% debentures being converted into 13% debentures.
9. The existing shareholders agree to subscribe for cash, fully paid equity shares of Rs. 2.50 P. each for Rs. 125 lacs.
10. Trade creditors are given the option of either to accept fully- paid equity shares of Rs. 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Creditors for Rs. 65 lacs accept equity shares whereas those for Rs. 100 lacs accept Rs. 80 lacs in cash in full settlement.

The Assets are revalued as under:

	Rs. in lacs
Land and Building	230
Plant and Machinery	220
Stock	120
Debtors	76

Pass Journal Entries for all the above mentioned transaction and draft the company's Balance Sheet immediately after the reconstruction.

Q.No.4: Green Limited had decided to reconstruct the Balance Sheet since it had accumulated huge losses. The following is the Balance Sheet of the Company on 31.3.2011 before reconstruction:

Balance Sheet of Green Limited as at 31.3.2011

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

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

	Mr. X Rs.	Mr. Y Rs.
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Sundry Creditors	2,00,000	1,00,000
	12,00,000	6,00,000

Fully paid up Rs. 50 shares	3,00,000	2,00,000
Partly paid up shares (Rs. 40 paid up)	5,00,000	5,00,000

The following scheme of reconstruction is approved by all parties interested and also by the court:

e. Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of Rs. 20 each.

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

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

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

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