Qn.1 (i) 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 1/6th 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.

(ii) 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 instalments at the end of each year	10,000
Rate of Interest	5% p.a.

(iii) Mr. X purchased 1,000, 6% Government Bonds of Rs. 100 each on 31st January, 2009 at Rs. 95 each. Interest is payable on 30th June and 31st December. The price quoted is cum interest. Journalise the transaction.

(iv) 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.

(v) A company acquired a machine on 1.4.2006 for Rs. 5,00,000. The company charged depreciation upto 2008-09 on straight line basis with estimated working life of 10 years and scrap value of Rs. 50,000. From 2009-10, the company decided to change depreciation method at 20% on reducing balance method. Compute the amount of depreciation to be debited to Profits and Loss A/c for the year 2009-10.

(vi) An unquoted long-term investment is carried in the books at cost of Rs. 2 lac. The published accounts of unlisted company received in May, 2009 showed that the company has incurred cash losses with decline market share and the long-term investment may not fetch more than Rs. 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2009.

(vii) 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.

(viii) According to Accounting Standard-9, when revenue from sales should be recognised ?

(ix) 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.

(x) 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.

Ans. 1 (i)

		Rs.
Capital of A	=	60000
" of B	=	40000
Total Capital of A & B		100000

Share of A & B after admission of C = $\frac{5}{6}$

		Rs.
∴ Total capital of A, B & C	= 100000 x $\frac{6}{5}$ =	120000
Less : Capital of A & B	=	100000
Capital of C	=	20000
Amount brought by C	=	25000
∴ Amount of Goodwill	=	5000

Calculation of cash price of the asset

Ans. 1. (ii)

Particulars	**Total**	**Interest**	**Principal**
Instalment	10000		
Less : Interest $10000 \times \frac{5}{105}$	476	476	9524
	9524		
Add : 3rd Instalment	10000		
	19524		
Less : Interest $15238 \times \frac{5}{105}$	930	930	9070
	18594		
Add : 2nd Instalment	10000		
	28594		
Less : Interest $28594 \times \frac{5}{105}$	1362	1362	8638
	27232		
Add : 1st Instalment	10000		
	37232		
Less : Interest $37232 \times \frac{5}{105}$	1773	1773	8227
	35459		
Add : Cash down	10000	--	10000
Cash price =	45459	4541	45459

Ans. 1 (iii) **Journal Entry in the Books of X**

Investment in 6% Govt. Bonds a/c ----------- Dr. 94500
Interest on 6% Govt. Bonds a/c ---------- Dr. 500
To Bank a/c 95000
(Being purchase of 1000 6% govt. Bonds at Rs.95 each cum interest, interest, for one month transferred to interest a/c)

W.N. (1) Calculation of Interest

Face value of debentures purchased = 100000
Interest rate = 6% p.a.
Period of Interest = 1 month

$$\text{Interest Amount} = 100000 \times 6\% \times \frac{1}{12} = 500\ /\text{-}$$

Ans. 1 (iv) Calculation of Average due date

20.1.2009	5000/-	0	0
3.3.2009	8000/-	42	336000
5.4.2009	6000/-	75	450000
30.4.2009	11000/-	100	1100000
∑ Amount =	30000	∑ Amt. x No. of days =	1886000

Calculation of No. of days

Due date	Jan.	Feb.	March	April	Total
20.1.2009	0	--	--	--	0
3.3.2009	11	28	3	--	42
5.4.2009	11	28	31	5	75
30.4.2009	11	28	31	30	100

$$\text{Average No. of Days} = \frac{\sum \text{Amount} \times \text{No. of days}}{\sum \text{Amount}}$$

$$= \frac{1886000}{30000} = 62.866 \text{ days}$$
or 63 days

Average Due Date = Base date + 63 days
= 20.1.2009 + 63 days
= 24.3.2009

Ans. 1 (v) (A) Calculation of Book value of machine as on 1.4.09
as per SLM –

Original cost of the machine as on 1.4.2006		500000
Less : Scrap Value =		50000
Depreciable Amount =		450000
Useful life	10 years	
Depreciation pee annum	45000	
Depreciation for the period 1.4.06 to 1.4.09		
45000 /- p.a. x 3 years =	135000	
∴ Book Value of the Machine as on 1.4.09		
(500000 - 135000)	365000	

(B) Calculation of Book value of Machine as on 1.4.09
As per WDV method –

Original cost of the machine as on 1.4.06	500000
Less : Depreciation @ 20% for the period 2006-07	100000
	400000
Less : Depreciation @ 20% for the period 2007 – 08	80000
	320000
Less : Depreciation @ 20% for the period 2008 – 09	64000
Book value of the machine as on 1.4.09	256000

Solution
Amount to be debited to P & L A/c (A – B) = 109000

Ans.1 (vi) As per AS – 13, long term investments are to be valued at cost. But if there is a permanent decline in the value of long term investments, they are to be valued at a lower figure.

As per information given in the question, it seems that there is permanent decline in the value of long term investments. Therefore the value of investments will be as follows -

Cost of investment	=	Rs. 200000
Less : Depreciation	=	Rs. 180000
		Rs. 20000

Ans. 1(vii) In the absence of partnership deed, provisions of partnership act, 1932 will be applicable

(a) Profit sharing ratio : Profit sharing ratio will be equal among all the partners.
(b) Interest on loan : Interest @ 6% p.a. on loan given by the partner to the firm will be allowed.

Ans. 1 (viii) As per AS 9, a key criteria for determining when to recognise revenue from a transaction involving sale of goods is that seller has transferred involving sale of goods is that seller has transferred property in goods to buyer for a consideration. However, sometimes, significant risk is not transferred at the time of transfer of property. In such situation, the revenue should be recognized at the time when significant risk is transferred.

Ans. 1 (ix) When average clause will apply, then

$$\text{Insurance claim} = \frac{\text{Policy Amount x Loss of Stock}}{\text{Value of Stock in the godown}}$$

$$= \frac{60,00,000 \times 44,00,000}{80,00,000}$$

$$= 33,00,000 \text{ /-}$$

Ans. 1 (x) In the books of Arya Brothers, Calculation of Interest over three years --

H.P. Price	=	460000
Cash price of the car	=	400000
Total Interest	=	60000

Calculation of ratio in which total interest will be apportioned : -

H.P. price of Car	460000
Less : Cash down payment	160000

Amount utilized during 1st year	300000
Less : 1st Instalment	100000
Amount utilized during 2nd year	200000
Less : 2nd instalment	100000
Amount utilized during 3rd year	100000

Ratio = 3 : 2 : 1

Therefore,

Interest for the year ended 31.3.10 $= 60000 \times \frac{3}{6}$

$= 30000$

Interest for the year ended 31.3.11 $= 60000 \times \frac{2}{6}$

$= 20000$

Interest for the year ended 31.3.12 $= 60000 \times \frac{1}{6}$

$= 10000$

Qn. 2 The books of account of Ruk Ruk Maan of Mumbai showed the following figures : [16 marks]

	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.

Ans. 2. In the books of Ruk Ruk Maan

Trading Profit & Loss Account for the year ended on 31.3.2009

Expenditure		Amount	Income		Amount
To Opening Stock		2,45,000	By Sales		
" Purchases			Cash	16,20,000	
Cash	6,15,000		Credit (w.n.2)	11,00,000	27,20,000
Credit	15,00,000	21,15,000	" Closing Stock		3,20,000
" Gross Profit (B/f)		6,80,000			30,40,000
		3040000	By Gross Profit		6,80,000
To Discount allowed		20,000	" Discount received		32,000
" Salary paid	2,36,000				

Add : Closing o/s 20,000			
Less : Opening o/s 19,000	2,37,000		
" Rent	1,32,000		
" Sundry trade Exps.	81,000		
" Depreciation on F & F	26,000		
" Net Profit (B/f)	2,16,000		
	7,12,000		7,12,000

Cash A/c

Receipts	Amount	Payments	Amount
To Balance b/d	1,10,000	By Purchases	6,15,000
" Sales	16,20,000	" Creditors	9,73,000
" Debtors A/c	10,58,000	" Bills payable	4,30,000
		" Drawings	1,20,000
		" Salary	2,36,000
		" Rent	1,32,000
		" Sundry trade exps.	81,000
		" Balance c/d	2,01,000
	27,88,000		27,88,000

W.N. (1)

Memorandum Balance Sheet of Ruk Ruk Maan as on 31.3.08

Liabilities	Amount	Assets	Amount
Capital A/c (B/f)	5,16,000	Fixed Assets	
		Furniture & Fixture	2,60,000
Current Liabilities		Current Assets	
Creditors	1,35,000	Stock	2,45,000
Bills Payable	70,000	Debtors	1,25,000
Outstanding Salaries	19,000	Cash & Bank Balance	1,10,000
	7,40,000		7,40,000

W.N. (2)

Calculation of Sales

COGS = Op. Stock + Purchases – Clo. Stock
= 245000 + 21,15,000 - 3,20,000
= 20,40,000 /-

G. P. ratio = 25% on Sales

$$\therefore \text{Sales} = 20{,}40{,}000/- \times \frac{100}{100 - 25}$$

= 27,20,000 /-

Cash Sales = 16,20,000 /-
∴ Credit Sales = 11,00,000 /-

Creditors A/c

Particulars	Amount	Particulars	Amount
To Cash A/c	973000	By Balance b/d	135000
" Discount received	32000	" Purchases (B/f)	1500000
" B/P A/c	440000		
" Balance c/d	190000		
	1635000		1635000

Debtors A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	125000	By Cash a/c	1058000

" Sales A/c (W.N. 2)	1100000	" Discount allowed	20000
		" Balance c/d	147000
	1225000		1225000

Bills Payable A/c

Particulars	Amount	Particulars	Amount
To Cash A/c	430000	By Balance b/d	70000
To Balance c/d	80000	" Creditors (B/f)	440000
	510000		510000

Balance Sheet of Ruk Ruk Maan as on 31.3.2009

Liabilities	Amount	Assets		Amount
Capital Account		Fixed Assets		
Opening Balance (W.N. 1)	516000	Furniture & Fittings	260000	
Add : Net Profit	216000	Less : Depreciation @ 10%	26000	234000
Less : Drawings	120000			
	6,12,000	Current Assets		
Current Liabilities		Stock		320000
o/s Salaries	20000	Debtors		147000
B/P	80000	Cash & Bank Balance		201000
Creditors	190000			
	902000			902000

Qn 3. The Balance Sheet of Reckless Ltd. as on 31st March, 2008 is as follows : [Marks 16]

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 realised 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.

Ans. 3 (i) Calculation of No. of equity shares & pref. shares to be allotted by careful Ltd.

Particulars	**Amount**
Bills Receivable	15,000
Freehold premises	4,00,000
Furniture & Fittings	80,000
Machinery	1,60,000
Stock	3,45,000

Net Assets taken over	10,00,000

Discharge of Purchase consideration

(a) Issue of 13% accumulative Pref. Shares
¼ of Rs. 10,00,000 = 2,50,000

(b) Balance in the form of equity shares of Rs.10 each Rs. 8 paid up 7,50,000

$$\frac{7,50,000}{8} = 93,750 \text{ Shares}$$

10,00,000

No. of Shares

(a) 13% cum. Pref. shares $\frac{250000}{100}$ = 2500

(b) Equity share capital 93750
Rs. 10 each FV., Rs.8 paid up --------

Ans. (ii) In the books of Reckless Ltd. Realisation A/c

Particulars	Amount	Particulars	Amount
To Freehold Premises	2,20,000	By Pro. for Bad debts	4000
" Machinery	177000	" Acceptances	20000
" Furniture & Fittings	90800	" Creditors	113000
" Stock	387400	" Pro. for I. tax	110000
" Sundry Debtors	80000	" Careful Ltd.	1000000
" Bills Receivables	15000	(P.c)	
" Cash a/c		" Cash A/c	
Acceptances	19000	Debtors	79500
I. Tax	111600		
Creditors [Refer Cash A/c]	103700		
Liquidations Exps.	4000		
" Equity Share holders a/c (B/f)	118000		
	1326500		1326500

Equity Shareholders a/c

Particulars	Amount	Particulars	Amount
To 13% Pref. Shares of Careful Ltd.	250000	By Equity Share capital	600000
" Equity Shares of careful Ltd.	750000	" Prior incorporation	21000
		" Contingency reserve profit **	135000
		" P & L app. a/c	126000
		" Realisation a/c	118000
	1000000		1000000

Cash in Hand A/c

Particulars	Amount	Particulars	Amount
To Balance b/d	2300	By Realisation A/c	
" Bank A/c	156500	Acceptances	19000
" Realisation	79500	Income tax	111600
		Liquidation exps.	4000
		Creditors	103700
	238300		238300

Careful Ltd.

Particulars	Amount	Particulars	Amount
To Realisation	1000000	By 13% Pref. Shares of careful Ltd.	250000
		" Equity Shares of careful Ltd.	750000
	1000000		1000000

Ans. (iii) Journal Entries in the books of careful Ltd.

Date	Particulars	LF	Amount	Amount
	Bills Receivable -------- Dr.		15000	
	Freehold Premises ------- Dr.		400000	
	Furniture & Fitting ------- Dr.		80000	
	Machinery ------ Dr.		160000	
	Stock ------ Dr.		345000	
	To Liquidator of Reckless Ltd.			1000000
	(Being various assets taken over from reckless Ltd. for a consideration of Rs. 1000000)			
	Liquidator of Reckless Ltd. ----- Dr.		1000000	
	To 13% Cum. Pref. Share capital			250000
	" Equity share capital			750000
	(Being purchase consideration discharged in the form of Rs.2,50,000 13% cum. Pref. of Rs.100 each of par and 93750 equity shares of Rs.10 each Rs. 8 paid up)			

4. (a) 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 : [10 marks]

	Rs.
On 1st April, 2009 :	
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Instalments due	14,000
Transactions during the year :	
Hire-purchase price of goods sold	9,80,000
Instalments received	8,12,000
Value of goods repossessed due to defaults (hire-purchase instalments 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.

(b) Gamma Investment Company hold 1,000, 15% debentures of Rs. 100 each in 6 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.**[6 m]**

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.

Ans. 4 (a) Hire purchase trading account of eagilife Ltd. for the year ended 31.3.2010

Particulars	Amount	Particulars	Amount
To balance b/d		By Cash A/c	812000
Instalment not due	150000	" Goods repossessed a/c	7800

$\left(2,10,000 \times \frac{100}{140}\right)$		(valuation)	
		" Balance c/d.	
		Instt. Not yet due	
Instalment due but not received	14000	$378000 \times \frac{100}{140}$	270000
" Cost of goods sold on Hire Purchase $\left(980000 \times \frac{100}{140}\right)$	700000	Instt. due but not received W.N. (1)	8400
" P & L A/c (B/f)	234200		
	1098200		1098200

W.N. (1) Calculation of Clo. Instt. Due but not received

Opening instalment not due		210000
Add : Goods sold on H.P.		980000
		1190000
Less : Closing instalment not due		378000
		812000
Less : Cash received	812000	
Add : Instt. not received on goods repossessed	5600	
	817600	
Less : Op. Instt. Unpaid	14000	803600
Closing Instt. due but not received		8400

Ans. 4 (b) In the books of Gamma investment company

Investment account for the period April – March 2010 by using FIFO Method

Date	Particulars	Face Value	Interest	Cost	Date	Particulars	Face Value	Intt.	Cost
1.4.09	To Balance. b/d	100000	3750	105000	30.6.09	By Bank	--	11250	--
1.5.09	To Bank a/c	50000	2500	51000	1.11.09	By Bank	60000	3000	57300
30.11.09	To Bank a/c	40000	2500	38400	1.11.09	By P & L a/c	--	--	5700
31.12.09	To P & L a/c	--	--	13000	31.12.09	By Bank a/c	--	9750	--
31.3.10	To P& L a/c	--	18625	--	31.12.09	By Bank a/c	40000	--	55000
		----------	----------	---------	31.3.10	By Bal. c/d	90000	3375	89400
		190000	27375	207400			190000	27375	207400

W.N. (1)

Calculation of interest on 15% Debentures

Date	Particulars	Face Value	Period of Interest	Rate of Interest	Interest Amount
1.4.09	Interest accrued on opening balance	100000	3 months	15% pa.	3750
1.5.09	Interest on purchase of debenture	50000	4 months	15% pa.	2500
30.6.09	Interest received on holding	90000	6 months	15% pa.	11250
1.11.09	Interest on sale of debenture	60000	4 months	15% pa.	3000
30.11.09	Interest on purchase of debenture	40000	5 months	15% pa.	2500
31.12.09	Interest received on holdings	40000	6 months	15% pa.	9750
31.3.10	Interest accrued on closing balance	90000	3 months	15% pa.	3375

Note : - It is assumed that interest has been received first on 31.12.09 & after that debentures of Rs.40000 FV have been sold.

W.N. (2) Calculation of cost of debenture purchased on 1.5.2009

Total amount paid		53500/-
Less : Interest (w.n. 1)		2500/-
Cost	=	51000/-

W.N. (3) Calculation of Profit / Loss on sale of debentures on 1.11.09

Sale proceeds			57300/-
Less : Cost of FIFO basis			
$\frac{105000}{100000}$	x 60000	=	63000/-
Loss on sale			5700/-

W.N. (4) Calculation of profit / loss on sale of debentures on 31.12.09

Sale proceeds			85000/-
Less : Cost on FIFO basis			
$\frac{105000}{100000}$	x 40000	=	42000/-
Profit on sale		=	13000/-

Qn. 5. (a) On the basis of the following informations, prepare Income and Expenditure Account for the year ended 31st March, 2010 : [8 marks]

Receipts and Payments 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 riot 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.

(b) The following particulars relate to Bee Ltd. for the year ended 31st March, 2010 : [8 marks]
(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

Ans. 5 (a) Income & Expenditure account for the year ended 31.3.10

Expenditure	Amount	Income	Amount
To Salaries Paid 258000 Closing advance 6000	252000	By Subscriptions Received 494700 + Closing o/s 12800 - Opening o/s 14000 - Closing advance 700	492800
" Rent Paid 71500 + Closing o/s 6000 - Opening o/s 5500	72000	" Interest on 8% Govt. Bonds Received 4000 Accrued 4000	8000
" Printing & Stationery 3870 Less : Clo. Stock of P&S 365 Add : Op. stock of P&S 340	3845	" Bank interest	160
" Conveyance	10600		
" Depreciation on scooter (50000 x 20% x 6/12)	5000		
" Surplus (B/f)	157515		
	500960		500960

Ans. 5 (b) **Bee Ltd.**

W.N. (1) **Sundry Debtors a/c**

To Balance b/d	150000	By Cash a/c (B/f)	2053000
" Sales (Credit) [3200000 – 1150000]	2050000	" Balance c/d	147000
	2200000		2200000

Sundry Creditors a/c

To Cash a/c (B/f)	735000	By Balance b/d	78000
" Balance c/d	83000	" purchases (credit) (800000 – 60000)	740000
	818000		818000

Unpaid Expenses a/c

To Cash a/c	1248000	By Balance b/d	63000
" Balance c/d	55000	" Expenses a/c	1240000
	1303000		1303000

Cashflow Statements for the year ended 31.3.2010

A. Cashflow from operating activities

Cash sales		1150000	
Collection from debtors		2053000	
		3203000	
Less : Payments			
Cash purchases	60000		
Payment to creditors	735000		
Expenses paid	1248000	2043000	
Cash generated from operations		1160000	
Less : Income Taxes paid (320000 – 22500)		307500	852500
B. Cashflow from investing activities			
Sale of Furniture		12000	
Purchase of machinery		(330000)	(318000)
C. Cashflow from financing activities			
Redemption of preference shares [1000000 + (1000000 x 3%)]		(1030000)	
Issue of equity shares (60000 Shares x 12% each)		720000	

Dividend paid			
Preference	40000		
Equity	110000	(150000)	
Dividend distribution tax paid		(22500)	(482500)

Net increase in cash & cash equivalents			52000
Closing cash & cash equivalents			125000
Opening cash & cash equivalents			73000

Qn. 6. Answer the following : [4 x 4 = 16 marks]

(a) Weak Ltd. acquired the fixed assets of Rs. 100 lakhs on which it received the grant of Rs. 10 lakhs. What will be the cost of the fixed assets as per AS-12 and how it will be disclosed in the financial statements.

(b) During the current year 2009-10 M/s L & C Ltd. made the following expenditure relating to its plant and machinery :

	Rs.
General repairs	4,00,000
Repairing of Electric Motors	1,00,000
Partial Replacement of parts of Machinery	50,000
Substantial improvements to the electrical wiring system which will increase efficiency of the plant and machinery	10,00,000

What amount should be capitalised according to AS-10 ?

(c) What are the advantages of pre-packaged accounting software ?

(d) Raw materials inventory of a company includes certain material purchased at Rs. 100 per kg. The price of the material is on decline and replacement cost of the inventory at the year end is Rs. 75 per kg. It is possible to convert the material into finished product at conversion cost of Rs. 125.

Decide whether to make the product or not to make the product, if selling price is (i) Rs. 175 and (ii) Rs. 225. Also find out the value of inventory in each case.

Ans. 6 (a) Under ASIL, where the grant relates to a specific fixed assets, the company can follow any of the following accounting methods, as illustrated below –

Particulars	Asset Cost reduction method	Deferred income method
1. Original cost of machinery	Rs. 100 lacs	Rs.100 lacs
2. Scrap value of "	NIL	NIL
3. Specific Grant received	Rs.10 lacs [Reduced from cost]	Rs.10 lacs [Treated as deferred income]
4. Cost (1) – (2) – (3)	Rs. 90 lacs	Rs. 100 lacs

Note : (1) Rs. 90 lacs will be written off over the useful life of fixed assets.

Note : (2) The balance in deferred income a/c shall be shown in balance sheet separately after reserve & surplus but before secured loan with a description as deferred government grants.

Ans. 6 (b) As per As 10, expenditure on improvements / repairs that increases the future benefits from the existing asset beyond its previously assessed standard of performance is capitalized other expenditures should be charged to the P & L account.

The following is the break up of revenue & capital expenditure in this case –

Particulars	Reasons / Explanations	Total	Revenue Exp.	Capital Exp.
(a) General Repairs	Maintenance of assets rather than increase in future benefits	400000	400000	NIL
(b) Repairing of Electric Motors	Maintenance of assets rather than increase in future benefits	100000	100000	NIL
(c) Partial Replacement of parts of Machinery	Replacement of defective parts, does not lead to increase in future benefits.	50000	50000	NIL

(d) Substantial improvement to the electrical wiring system which will increase efficiency	Improvement in asset functionality, which will create benefits of enduring nature	1000000	NIL	1000000

Ans. 6 (c) ADVANTAGES OF PRE-PACKAGED ACCOUNTING SOFTWARE :

1. Easy to install: The CD or floppy disk is to be inserted and the setup file should be run to complete the installation. Certain old DOS based accounting softwares required some settings to be added in the system configuration file and the system batch file. These instructions are generally provided in the user manuals.
2. Relatively inexpensive: These packages are sold at very cheap prices nowadays.
3. Easy to use: Mostly menu driven with help options. Further the user manual provides most of the solutions to problems that the user may face while using the software.
4. Backup procedure is simple: Housekeeping section provides a menu for backup. The backup can be taken on floppy disk or CD or harddisk.
5. Certain flexibility of report formats provided by some of the softwares: This allows the user to make the invoice, challan, GRNs look the way they want.
6. Very effective for small and medium size businesses: Most of their functional areas are covered by these standardised packages.

Ans. 6 (d) If Raw Material is sold without conversion into finished product

Cost of Raw Material per k.g.	100/-
Less : Replacement cost per k.g.	75/-
Loss per kg.	25/-

If Raw Material is converted & than sold

Particulars		case 1	case 2
Selling Price of Finished product		175/-	225/-
Less : Raw material cost	100/-		
Conversion cost	125/-	225/-	225/-
Loss per k.g.		50/-	NIL

Decision

Case 1 Raw Material should be sold without conversion

Case 2 Conversion of Raw material into finished goods is beneficial.

Value of Inventory : Generally Raw Materials held for use in production process are valued at cost or NRV whichever is lower. But if the finished goods are expected to be sold at or above cost, then Raw Material can be valued at cost.

Case 1 : - In this case the NRV of finished goods is also declined Raw Material should be valued at NRV i.e. Rs.75 per k.g.

Case 2 : In this case the NRV of finished goods is equal to cost ∴We can value Raw Material at cost i.e. Rs.100 per kg.