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1.(a) **Hire purchase trading A/c for the year ending 31.03.2013**

To balance b/d H/P Stock	80,000	By Stock Reserve A/c (Opening) [80,000 × 25/125]	16,000
To goods sold on H/P	4,00,000	By goods sold on H/P (loading) [4,00,000 × 25/125]	80,000
To stock Reserve A/c (closing) [1,70,000 × 25/125]	34,000	By Cash/bank A/c	3,00,000
To P & L A/c (profit transferred)	62,000	By balance c/d H/P Stock H/P Debtors	 1,70,000 10,000
	5,76,000		**5,76,000**

Working Note :

(i) **Installments not yet due A/c (H/P Stock A/c)**

To balance b/d	80,000	By Installments due during the year	3,10,000
To goods sold on H/P	4,00,000	By balance c/d **(bal. fig.)**	1,70,000

(ii) **Insuallments due A/c (H/P Debtors)**

–	–	By Cash bank A/c	3,00,000
To Installments due during the year **(bal.fig.)**	3,10,000	By balance c/d	10,000

1.(b) **(i)** Mehta's A/c (in debtors ledger) Dr. 8,700
To Mehra's A/c (in debtor's ledger) 8,700
(Mehra's A/c wrongly debited now credited and Mehta's A/c is debited)

(ii) Suspense A/c Dr. 1,000
To Sales A/c 1,000
(Sales account undercast now credited and Suspense account debited)

Debtor's ledger adjustment A/c Dr. 1,000
To General ledger adjustment A/c 1,000
(Self balancing rectification entry for sales undercast.)

(iii) M/s Mega Ltd. A/c Dr. 15,600
To Purchase return A/c 15,600
(Purchase return from Mega Ltd omitted now recorded.)

Creditors ledger adjustment A/c Dr. 15,600
To General ledger adg. A/c 15,600
(Self balancing rectification entry for purchase return omitted.)

1.(c)

Memorandum Trading A/c
for the period 01-04-2012 to 15-12-2012

To Opening Stock	9,40,000	BY Sales	20,25,000
To Purchase	13,20,000	By Closing Stock ***(bal. fig.)***	6,40,000
To Gross profit c/d (20,25,000 × 20%)	4,05,000		
	26,65,000		**26,65,000**

Therefore,	Average stock as on 15-12-2012	Rs. 6,40,000
	Less : Cost of stock salvaged	(Rs.1,40,000)
	Net Loss	Rs. 5,00,000

Since Policy Amount is less than the Average stock

$$\text{Net claim} = \frac{\text{Sum Insured}}{\text{Insurable Amount}} \times \text{Loss of Stock}$$

$$= \frac{4,00,000}{6,40,000} \times 5,00,000$$

$$= 3,12,500$$

1.(d)

<u>In The Books of M/s Bull & Bear</u>
12% Debentures of M/s Wye Ltd. A/c

Date	Particula-rs	No. of deb.	Intt.	Cost	Date	Particula-rs	No. of deb.	Intt.	Cost
1.12.12	To Bank A/c	10,000	20,000	10,00,100	1.3.13	By Bank A/c (Sale)	10,000	50,000	9,99,400
31.3.13	To P&L A/c **(bal. fig.)**	–	30,000	–	1.3.13	By P&L A/c (loss on sale)	–	–	700
			50,000	**10,00,100**				**50,000**	**10,00,100**

2. **Revaluation A/c as on 31.08.2012**

To Machinery A/c	10,000	By Land & Building A/c	1,00,000
To Provision for Bad debts A/c	8,000		
To Partner's Capital A/c			
P 41,000			
Q 24,600			
R 16,400	82,000		
	1,00,000		**1,00,000**

P's Capital A/c as on 31.08.2012

Date	Particulars	Amount	Date	Particulars	Amount
01.04.12 to 31.08.12	To Drawing A/c (upto 5 months ending 31.08.12)	46,000	01.04.12	By balance b/d	7,00,000
			31.08.12	By P & L Suspense A/c (share of profit for 01.04.12 to 31.08.12)	75,000
31.08.12	To P's heir A/c (balance transferred)	11,00,000	31.08.12	By Q's & R's Capital A/c (share of goodwill)	3,30,000
			31.08.12	By Revaluation A/c (profit)	41,000
		11,46,000			**11,46,000**

P's heir A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.08.12	To bank A/c	5,00,000	31.08.12	By P's Capital A/c	11,00,000
31.03.13	To bank A/c	6,54,000	31.03.13	By Interest A/c (6,00,000 × 12% × 9/12)	54,000
		11,54,000			**11,54,000**

Working Note :

(i) <u>Calculation of gaining / sacrificing ratio</u>

Partners	New ratio	Old ratio	Gaining / (Sacrificing) ratio		
P	–	5/10	(5/10)	=	(5/10)
Q	3/5	3/10	3/5 – 3/10	=	3/10
R	2/5	2/10	2/5 – 2/10	=	2/10

Gaining ratio (Q : R) = 3 : 2

(ii) <u>Calculation of Goodwill</u>

Year ended	Profts (as given)
31.03.2010	2,90,000
31.03.2011	3,40,000
31.03.2012	3,60,000
	9,90,000

Average Profit $\left(\frac{9,90,000}{3}\right)$ Rs. 3,30,000

Goodwill = Average profit × No. of purchase years
= Rs. 3,30,000 × 2
= Rs. 6,60,000

Journal Entry

Q's Capital A/c	Dr.	1,98,000	
R's Capital A/c	Dr.	1,32,000	
To P's Capital A/c			3,30,000

(P's share of goodwill is credited to his account and debited to Q's & R's capital A/c in their sacrificing ratio.)

3.(a)

Date		Particulars	L.F.	Dr.	Cr.
	(i)	₹ 100, 8% Preference Share Capital A/c Dr.		200 lakh	
		To ₹ 80, 8% Pref. Share Capital A/c			160 lakh
		To Capital Reduction A/c			40 lakh
		(8% preference shares of ₹ 100 each fully paid up reduce to ₹ 80 each fully paid up)			
	(ii)	₹ 10 Equity Share Capital A/c Dr.		500 lakh	
		To ₹ 2 Equity Share Capital A/c			100 lakh
		To Capital Reduction A/c			400 lakh
		(Equity shares of ₹ 10 each fully paid up reduce to ₹ 2 each fully paid up)			
	(iii)	Capital Reduction A/c Dr.		16 lakh	
		To Arrears of Pref. Share Dividend. A/c			16 lakh
		(Liability for Arrears of Pref. Share div. recognized)			
	(iv)	Arrears of Pref. Share Dividend A/c Dr.		16 lakh	
		To ₹ 2 Equity Share Capital A/c			16 lakh
		(Liability for Arrears of Pref. Share dividend settled by issuing equity share of ₹ 2 each fully paid up)			
	(v)	6% Debenture A/c Dr.		150 lakh	
		To Freehold property A/c			150 lakh
		(6% debentures agreed to accept freehold property of ₹ 150 lakh at its book value for part satisfaction.)			
	(vi)	Interest accrued and due on 6% Debenture A/c Dr.		12 lakh	
		To bank A/c			12 lakh
		(Interest accrued on 6% debenture paid in cash)			
	(vii)	Freehold property A/c Dr.		75 lakh	
		To Capital Reduction A/c			75 lakh
		(Remaining freehold property of ₹ 125 lakh valued at ₹ 200 lakh and profit credited to capital reduction)			
	(viii)	Bank A/c Dr.		125 lakh	
		To Investment in Equity Instruments A/c			100 lakh
		To Capital Reduction A/c			25 lakh
		(All Equity investments sold at a profit of ₹ 25 lakh credited to capital reduction)			
	(ix)	Director's loan A/c Dr.		150 lakh	
		To ₹ 2 equity share capital A/c			45 lakh
		To capital Reduction A/c			105 lakh
		(70% of director's loan being waived & for balance, equity shares of ₹ 2 each were issued)			
	(x)	Capital Reduction A/c Dr.		15 lakh	
		To bank A/c			15 lakh
		(Contractual Commitments of ₹ 300 lakh have been cancelled by paying 5% penalty of contract value, loss debited to capital reduction)			
	(xi)	Capital Reduction A/c Dr.		614 lakh	
		To Profit & Loss A/c (Dr. bal)			261 lakh
		To Sundry debtors A/c			90 lakh
		To Inventories A/c			120 lakh
		To Capital Reserve A/c **[balancing figure]**			143 lakh
		(P&L A/c Dr. balance, sundry debtors & inventories were written off; balance of capital reduction transferred to capital reserve)			

(b) **Reconstruction A/c**

Particulars	₹ in lakh	Particulars	₹ in lakh
To Arrears of Pref. Share Div. A/c	16	By ₹ 100 8% Pref. Share Cap. A/c	40
To Bank A/c (penalty)	15	By ₹ 10 Equity Share Cap. A/c	400
To P&L A/c (Dr. balance)	261	By Freehold property A/c	75
To Sundry debtors A/c	90	By Bank A/c (Profit on sale of Investment)	25
To Inventories A/c	120	By Directors loan A/c	105
To Capital Reserve A/c **(bal. fig.)**	143		
	645		**645**

(c) **M/s. Cube Limited**
Balance Sheet as on 31.03.2013 (..... and reduced)

Particulars	Note No.	Amount (₹ in lakh)
EQUITY & LIABILITIES:		
Shareholders Funds		
Share Capital	1	321
Reserve & Surplus	2	143
Non-Current Liabilities		
Long term borrowings (6 % Debentures)	3	50
Current Liabilities		
Trade Payables	4	51
Total		**565**
ASSETS :		
Non – Current Assets		
Fixed Assets		
Tangible Assets	5	300
Current Assets		
Inventories	6	30
Trade Receivables	7	135
Cash & cash equivalent [w. note (i)]	8	100
Total		**565**

Notes :

	Amount (Rs. in lakh)
1. Share Capital	
Authorised	
100 lakh Equity shares of Rs. 2 each	200
4 lakh, 8% preference share of Rs. 80 each	320
	520
Issued, Subscribed and Paid up	
80.50 lakh equity shares of Rs. 2 each, fully paid up	161
2 lakh, 8% preference shares of Rs. 80 each fully paid up	160
	321
5. Tangible Assets :	
Freehold property	200
Plant & Machinery	100
	300

Working Note :

(i) **Bank A/c**

To balance b/d	2	By Interest accured & due on 6% debenture	12
To Investment in Eq. investment	100	By Capital Reduction A/c	15
To Capital reduction	25	By balance b/d	100
	127		127

4. **Trading and P & L A/c**
for the year ended 31.03.13

Particulars		Amount (₹)	Particulars		Amount (₹)
To Opening Stock		89,500	By Sales		
To Purchases		4,13,500	Cash	5,09,800	
To Gross profit c/d		3,34,100	Credit	2,31,900	7,41,700
			By Closing stock		95,400
		8,37,100			**8,37,100**
To Salaries		99,300	By Gross profit b/d		3,34,100
To Rent		72,000			
To Insurance Premium		9,900			
To Stationery consumed		1,450			
To Mobile phone exp.		9,000			
To Depreciation					
Furniture	4,800				
Computer	2,430				
Mobile phone	2,000	9,230			
To Provision for bad debts		3,250			
To Net Profit (transferred to capital A/c)		1,29,970			
		3,34,100			**3,34,100**

Balance Sheet as on 31.03.13

Liabilities		Amount (₹)	Assets		Amount (₹)
Capital **[working note (v)]**		2,07,400	Furniture (Less depreciation)		91,200
Outstanding Expenses			Computer (Less depreciation))		21,870
Salaries	8,300		Mobile phone (Less depreciation)		6,000
Rent	6,000	14,300	Stock		95,400
Bills Payable		26,500	Trade Debtors	65000	
Trade Creditors		76,000	Less : PBD	(3250)	61,750
			Unexpired Insurance		2,500
			Bills receivable		20,000
			Stock of stationery		250
			Cash in land & at bank		25,230
		3,24,200			**3,24,200**

Working Note :

(i) **Trade Debtors A/c**

To balance b/d	55,000	By B/R A/c	70,000
To Sales (Credit) **(bal. fig.)**	2,31,900	By Cash/Bank A/c	1,51,900
		By balance c/d	65,000
	2,86,900		**2,86,900**

(ii) **Bills Receivable A/c**

To balance b/d	15,000	By Cash A/c	65,000
To Debtors A/c **(bal. fig.)**	70,000	By balance c/d	20,000
	85,000		**85,000**

(iii) **Bills payable A/c**

To Cash A/c	80,000	By balance b/d	22,500
To balance c/d	26,500	By Creditors A/c **(bal. fig.)**	84,000
	1,06,500		**1,06,500**

(iv) **Trade Creditors A/c**

To Cash A/c	3,06,000	By balance b/d	52,500
To B/P accepted	84,000	By Purchase (Credit) **(bal. fig.)**	4,13,500
To balance c/d	76,000		
	4,66,000		**4,66,000**

(v) **Capital A/c as on 31.03.2013**

To Drawings A/c	1,20,000	By balance b/d	1,97,430
To Balance c/d	2,07,400	By Net Profit during the year	1,29,970
	3,27,400		**3,27,400**

5.(a) **BALANCE SHEET OF THE SPORTS CLUB as on 31.03.2013**

Liabilities		Amount (`)	Assets		Amount (`)
General Fund			Club ground & Pavilion		4,40,000
Opening balance	7,83,000		Sports Equipment	2,50,000	
Add : Surplus	1,38,000	9,21,000	Less : Depreciation	(90,000)	1,60,000
			Furniture & fixtures	60,000	
Subscription recd. in advance		4,000	Less : Depreciation	(5,000)	55,000
[working note (ii)]			Subscription in arrear [working note (ii)]		6,000
Outstanding Salary		5,000			
Cred. for Printing & Stationery		1,000	Rent accrued		4,000
Outstanding Audit fees		5,000	Accrued Interest on Investment		6,000
			Unexpired fire Insurance		2,000
			Entrance fees in arrear		5,000
			Cash & bank balance		58,000
			12% Investments		2,00,000
		9,36,000			**9,36,000**

Working Note :

(i) **Statement of Affairs as on 31.03.2012**

Subscription received in advance	2,000	Club ground & pavilion	4,40,000
Creditors for printing & stationery	5,000	Sports equipments	2,50,000
		Furniture & Fixtures	40,000
		Subscription in Arrear	8,000
General fund (balance fig.)	7,83,000	Entrance fees in arrear	10,000
		Cash & Bank balance	42,000
	7,90,000		**7,90,000**

(ii) **Subscription A/c**

To Subscription in arrear (beginning)	8,000	By Subs recd. in advance (beginning)		2,000
		By bank A/c		
To Income & Exp. A/c (2012-13)	1,56,000	2011-12	6,000	
		2012-13	1,50,000	
		2013-14	4,000	1,60,000
To Subscription recd. In advance (end.) (2013-14)	4,000	By Subscription in arrear (end)		
		2011-12	2,000	
		2012-13	4,000	6,000
	1,68,000			**1,68,000**

5(b) **IN THE BOOKS OF M/S POWER MOTORS**

M/S Singh & Singh A/c

Date	Particulars	Amount	Date	Particulars	Amount
01.04.12	To H/P Sales	9,00,000	01.04.12	By Bank A/c (Down payment recd.)	3,00,000
31.07.12	To Interest A/c (6,00,000×12% × 4/12)	24,000	31.07.12	By Bank A/c (1st installment recd.)	1,24,000
			31.07.12	By Balance c/d	5,00,000
		9,24,000			**9,24,000**
01.08.12	To Balance b/d	5,00,000	30.11.12	By Goods repossessed A/c (valued amount)	7,00,000
30.11.12	To Interest A/c (5,00,000 × 12% × 4/12)	20,000			
30.11.12	To P&L A/c (profit on repossession)	1,80,000			
		7,00,000			**7,00,000**

Goods repossessed A/c

To Singh & Singh (value of truck)	7,00,000	By Bank A/c (sale)	7,50,000
To Bank A/c (repairs)	80,000	By P&L A/c (Loss on sale)	30,000
	7,80,000		**7,80,000**

6.(a) Statement Showing the Calculation of Pre & Post Incorporation Profits

Particulars	Basis	Pre-Incorporation 4 months	Post Incorporation 8 months
Gross profit @ 25%		100 lakhs	300 lakhs
		100 lakhs	**300 lakhs**
Expenses :			
Salaries	Time ratio (1:2)	23 lakhs	46 lakhs
Rent rates & Insurance	Time ratio (1:2)	8 lakhs	16 lakhs
Sundry office expenses	Time ratio (1:2)	22 lakhs	44 lakhs
Traveller's Commission	Sales ratio (1:3)	4 lakhs	12 lakhs
Discount allowed	Sales ratio (1:3)	3 lakhs	9 lakhs
Bad debts	Sales ratio (1:3)	1 lakhs	3 lakhs
Directors fees	-	-	25 lakhs
Audit fees	Time ratio (1:2)	3 lakhs	6 lakhs
Depreciation on Tangible Assets	Time ratio (1:2)	4 lakhs	8 lakhs
Debenture Interest	-	-	11 lakhs
		68 lakhs	**180 lakhs**
Pre-incorporation profit transferred to Capital Reserve.		32 lakhs	-
Post-incorporation profit transferred to P&L A/c		-	120 lakhs

Working Note:

(i) Calculation of sales ratio & time ratio

	Pre-incorporation	*Post-Incorporation*	*Ratio*
Sales	400 lakhs	1200 lakhs	1 : 3
Time period	4 months	8 months	1 : 2

6(b)

CASH FLOW STATEMENT
(Direct Method)

	Particulars	Amount (` in Crores)
[A]	**CASH FLOW FROM OPERATING ACTIVITIES**	
	Cash Sales	131
	Cash / bank received from debtors	67
	Cash paid to suppliers & employees	(159)
		39
	Less : Income Tax Paid	(13)
	Total [A]	**26**
[B]	**CASH FLOW FROM INVESTING ACTIVITIES**	
	Proceeds out of sale of Machine	20.70
	Payment for purchase of new machine	(40.00)
	Total [B]	**(19.30)**
[C]	**CASH FLOW FROM FINANCING ACTIVITIES**	
	Payment for redemption of preference shares	(16)
	Proceeds out of issue of equity shares	16
	Proceeds out of securities premium	4
	Debenture interest paid	(1)
	Equity & Preference Dividend paid	(10)
	Corporate Dividend tax paid (10 Crore × 17%)	(1.7)
	Total [C]	**(8.7)**
	Decrease in Cash & Cash equivalent **[A+B+C]**	(2)
	Add : Cash & Cash equivalent at the beginning	9
	Cash & Cash equivalent at the end [working note (i)]	7

Working Note :

(i) **Cash & Bank A/c**

To Balance b/d	9	By Suppliers & employees	159
To Sales A/c	131	By Preference Share Capital	16
To Debtors A/c	67	By Income tax paid	13
To Equity Share Capital	16	By Machinery A/c	40
To Securities premium	4	By Debenture interest	1
To Machinery A/c	20.70	By Equity & Pref. dividend	10
		By Corporate Dividend tax	1.70
		By balance c/d	7
	247.70		**247.70**

7(a) An ERP is an integrated software package that manages the business process across the entire enterprise. Larger organisations often go for an ERP package where finance comes as a module.

ERP helps to generate majority of the desired reports which are standardised across industry and are generally acceptable to the users. It is a generalised package which covers most of the common functionalities of any specific module.

The choice of an ERP depends upon the following factors :

(i) Functional requirement of the organisation

The ERP that matches most of the requirements of an organisation is preferred over the others.

(ii) Reports available in the ERP

The organisation visualises the reporting requirements and choses a vendor which fulfils its reporting requirements.

(iii) Background of the vendors

The service and deliverable record of a vendor is extremely important in chosing the vendor.

(iv) Cost comparisons

The budget constraints and fund position of an enterprise often becomes the deciding factor for choosing a particular package.

7(b) As per paragraph 10 of *AS 1 "Disclosure of Accounting Policies"*, there are three fundamental accounting assumptions which have been recognised. These are

(a) Going Concern

The financial statements are normally prepared on the assumption that an enterprise will continue in operation in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.

If any financial statement is prepared on a different basis, e.g. when assets of an enterprise are stated at net realisable values in its financial statements, the basis used should be disclosed.

(b) Consistency

The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods. The consistency improves comparability of financial statements through time. An accounting policy can be changed if the change is required :

(i) by a statute

(ii) by an accounting standard

(iii) for more appropriate presentation of financial statements.

(c) Accrual.

As per this assumption, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid. It ensures better matching between revenue and cost and profit/ loss obtained on this basis reflects activities of the enterprise during an accounting period, rather than cash flows generated by it.

But since accrual basis exposes an enterprise to the risk of recognising an income before actual receipt. Therefore, accounting standards requires that no revenue should be recognised unless the amount of consideration and actual realisation of the consideration is reasonably certain.

So long as these assumptions are followed in preparation of financial statements, no disclosure of such adherence is necessary. Any departure from any of these assumptions should however be disclosed.

7(c) **(i)** The value of inventory as on 31.03.2013 is determined as below :

		Amount (in `)
	Net selling price	750
Less :	Estimated cost of completion	(310)
		440
Less :	Brokerage (4% of 750)	(30)
	Net Realisable Value	410

But, Cost of inventory is `530

Therefore, Value of inventory (Lower of cost and net realisable value) `410

(ii) Since incremental cost ` 310 (cost to complete) is less than incremental revenue `720 (`750 – `30). The enterprise will therefore decide to finish the unit for sale at `750.

7(d) As per para 11 of AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled :

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

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

Also as per Appendix to AS 9, trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Hence they should be deducted in determining revenue.

In the light of the above,the treatment given by the accountant of M/s Moon Ltd. is not correct.

The sale should be booked at gross value less trade discount i.e. Rs.5,97,000 and later when goods are returned by Mr. Star, then a credit note can be issued for the value of goods returned.

7(e) Accounting Standards are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements.

Accounting Standards reduce the various accounting alternatives in the preparation of financial statements by rationalising the standards, thereby ensuring the comparability of financial statements of different enterprises.

Accounting Standards deals with the issues of :

(i) recognition of events and transactions in the financial statements,

(ii) measurement of these transactions and events,

(iii) presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the user, and

(iv) the disclosure requirements which should be there to enable the public at large and the stakeholders and the potential investors in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

Thus, Accounting Standards standardize diverse accounting policies with a view to eliminate, to the maximum possible extent,

(1) the non-comparability of financial statements and thereby improving the reliability of financial statements, and

(2) to provide a set of standard accounting policies, valuation norms and disclosure requirements.