SOLUTION : ACCOUNTING

Ans.1

(a)

(a) Amount of foreseeable loss

	(₹in lakhs)
Total cost of construction (500 + 105 + 495)	1,100
Less: Total contract price	1,000
Total foreseeable loss to be recognized as expense	100

According to para 35 of AS 7 (Revised 2002), when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

(b) Contract work-in progress i.e. cost incurred to date are ₹ 605 lakhs

	(₹ in lakhs)
Work certified	500
Work not certified	105
	605

This is 55% (605/1,100 x 100) of total of construction.

(c) Proportion of total contract value recognized as revenue as per para 21 of AS 7 (Revised), 55% of ₹ 1,000 lakhs = ₹ 550 lakhs

(d) Amount due from/to customers = Contract costs + Recognised profits – Recognised losses – (Progress payments received + Progress payments to be received)

= [605 + Nil – 100 – (400 + 140)] ₹ in lakhs

= [605 – 100 – 540] ₹ in lakhs

Amount due to customers = ₹ 35 lakhs

The amount of ₹ 35 lakhs will be shown in the balance sheet as liability.

(e) The relevant disclosures under AS 7 (Revised) are given below:

	₹ in lakhs
Contract revenue	550
Contract expenses	605
Recognised profits less recognized losses	(100)
Progress billings (400 + 140)	540
Retentions (billed but not received from contractee)	140
Gross amount due to customers	35

(b)

In this case X Ltd. concurrently agrees to repurchase the same goods from Y Ltd. at a later date. Also, the repurchase price is predetermined and covers Y Ltd. purchasing and holding costs. Hence, the transaction between X Ltd. and Y Ltd. on 1st February, 2013 should be accounted for as a financing transaction rather as a sale. The resulting cash inflow of ₹ 2,50,000 [i.e. ₹ 2,00,000 / (1.00 – 0.20)] is not revenue as per AS – 9.

Therefore the pattern of journal entries, required to be made in the books of X Ltd. during the year 2012- 2013, are as follows:

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
01.02.2013	Bank A/c	Dr.	2,50,000	
	To Advance from Y Ltd. A/c			2,50,000
	(Being amount received from Y Ltd. as per sale and repurchase agreement)			
31.03.2013	Financing charges A/c	Dr.	10,000	
	To Advance from Y Ltd. A/c			10,000
	(Being financing charges on ₹ 2,50,000 for 2 months (i.e. (₹ 2,80,000 - ₹ 2,50,000) x (2 months /6 months)]			
31.03.2013	Profit and Loss A/c	Dr.	10,000	
	To Financing charges A/c			10,000
	(Being Financing charges transferred)			

Disclosures:

(i) At Extract of Balance Sheet of X Ltd. as at 31st March, 2013

Particulars	₹	₹
Current Liabilities:		
Advance money from Y Ltd.	2,50,000	
Add: Accrued finance charges	10,000	2,60,000
Current Assets:		
Goods lying with Y Ltd.		2,00,000

(ii) By way of notes:

(a) Goods lying with Y Ltd. costing ₹ 2,00,000 to be purchased after 6 months at ₹ 2,80,000

(b) Goods sold to Y Ltd. for ₹ 2,50,000 (cost ₹ 2,00,000) on repurchase agreement. The difference between sale price and repurchase price is treated as financing charges and located proportionately in the current accounting period.

(c) Case (a)

The company considers that the residual value, based on prices prevailing at the balance sheet date, will equal the cost.

There is, therefore, no depreciable amount and depreciation is correctly zero.

Case (b)

The company considers that the residual value, based on prices prevailing at the balance sheet date, will be ₹ 9,00,000 and the depreciable amount is, therefore, ₹ 1,00,000. Annual depreciation (on a straight line basis) will be ₹ 5,000 [{10,00,000 – 9,00,000} ÷ 20].

(d) Net Realisable Value of Inventory as on 31st March, 2015

= ₹ 107.75 x 20 units = ₹ 2,155

Value of inventory as per Weighted Average basis

Total units purchased and total cost:

01.03.2015	₹ 108 x 20 units = ₹ 2160
08.3.2015	₹ 107 x 15 units = ₹ 1605
17.03.2015	₹ 109 x 30 units = ₹ 3270
25.03.2015	₹ 107 x 15 units = ₹ 1605
Total	80 units = ₹ 8640

Weighted Average Cost = ₹ 8640/80 units = ₹108

Total Value = ₹ 108 x 20 units = ₹ 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2015 is, Cost or Net Realisable value whichever is lower i.e. ₹ 2,155.

Ans. 2

(a) **Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods**

For the year ended 31st March, 2014

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
	(₹in lakhs)	(₹in lakhs)	(₹in lakhs)	(₹in lakhs)
Gross Profit	3,90,800	Sales	39,080	3,51,720
Less: Directors' fee	30,000	Post		30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Time	6,000	18,000
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Donation to Political Party	10,000	Post		10,000
Net Profit	1,81,600			1,81,240
Pre-incorporation profit transfer to Capital Reserve			360	

Working Notes:

1. Sales ratio

Particulars	₹
Sales for period up to 30.06.2013 (4,80,000 * 3/6)	2,40,000
Sales for period from 01.07.2013 to 31.03.2014 (24,00,000 – 2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1^{st} April, 2013 to 30 June, 2013: 1^{st} July, 2013 to 31^{st} March, 2014
= 3 months: 9 months = 1: 3
Thus, Time Ratio is 1: 3

(b) Balance Sheet of Sports Club as at 31^{st} March 2013

Liabilities	₹	₹	Assets	₹	₹
Capital Fund:			Fixed Assets:		
Opening Balance	7,83,000		Club, Grounds & Pavilion		4,40,000
(W.N.)			Furniture & Fixtures	40,000	
Add: Surplus	1,38,000	9,21,000	Add: Additions	20,000	
Current Liabilities:				60,000	
Outstanding Salary (15,000 -10,000)		5,000	Less : Depreciation	(5,000)	55,000
Outstanding Audit Fees		5,000	Sports Equipments	2,50,000	
Creditors for Printing & Stationery			*Less*: Depreciation	(90,000)	1,60,000
{22,000-(26,000–5,000)}		1,000	Investments : Investment (at cost)		2,00,000
Subscription received in advance		4,000	Accrued Interest [₹ 12,000 - ₹ 6,000]		6,000
			Current Assets:		
			Accrued rent (28,000 - 24,000)		4,000
			Subscription receivable For 2011-12 (8,000-6,000)		2,000
			For 2012-13 {(1,56,000-(1,50,000 + 2,000)}		4,000
			Entrance Fees receivables (1,05,000 - 1,00,000)		5,000
			Prepaid Insurance (12,000-10,000)		2,000
			Cash and bank		58,000
		9,36,000			**9,36,000**

Working Note:

Calculation of Capital Fund as on 1st April, 2012

Balance Sheet of Sports Club As at 31st March 2012

Liabilities	₹	Assets	₹
Capital Fund (bal.fig.)	7,83,000	Fixed Assets :	
Current Liabilities:		Club, Grounds & Pavilion	4,40,000
Subscription received in advance	2,000	Furniture & Fixtures	40,000
Creditors for Printing and Stationary	5,000	Sports Equipments	2,50,000
		Current Assets:	
		Entrance Fees receivables	10,000
		Subscription receivables	8,000
		Cash and Bank	42,000
	7,90,000		**7,90,000**

Ans. 3 **Balance Sheet of C Ltd. as at 1st April, 2015**

Particulars	Notes No.	(₹ in Lakhs)
EQUITY AND LIABILITIES		
1. Shareholders' funds		
a) Share capital	1	750
b) Reserves and Surplus	2	875
2. Non-current liabilities		
Long-term borrowings	3	30
3. Current liabilities		
Trade Payables	4	305
Total		1,960
ASSETS		
1. Non-current assets		
a) Fixed assets		
i)Tangible assets	5	775
ii) Intangible Assets	6	13
b) Non Current Investment	7	100
Other Non Current Assets	8	50
2. Current Assets		
a) Inventories (175 + 125)		300
b) Trade Receivables	9	325
c) Cash & Cash equivalent	10	397
Total		1,960

Notes to Accounts

	(₹ in Lakhs)
1. Share Capital	
Authorised share capital:	
50,00,000 Equity shares of ₹ 10 each	**500**
Issued and subscribed:	
50,00,000 Equity shares of ₹ 10 each	**500**
2,50,000 Preference shares of ₹ 100 each	**250**
(Of the above shares 35,00,000 equity shares and all preference shares are allotted as fully paid up for consideration other than cash)	
Total	**750**

	(₹ in Lakhs)
2. Reserves and Surplus	
Securities premium (₹ 50 per Preference share on 2.5 Lakh Preference Shares + ₹ 20 per equity share on 35 Lakh equity shares issued to shareholders of A Ltd. & B Ltd. = ₹ 825 Lakhs)	**825**
Investment allowance reserve (25+25)	**50**
Total	**875**

	(₹ in Lakhs)
3. Long-term borrowings	
Secured	
15% Debentures	**30**
Interest on Debentures of A Ltd is ₹ 3 Lakhs and of B Ltd is ₹ 1.5 Lakhs. Total int = ₹ 4.5 Lakhs. 15% debentures to be issued to equal interest of ₹ 4.5 Lakhs = ₹ 4.5 Lakhs / 15% = 30 Lakh 15% Debentures of ₹ 100 each = 30,000 debentures	

	(₹ in Lakhs)
4. Trade Payables	
Acceptances (75+35)	**110**
Creditors (135+60)	**195**
Total	**305**

	(₹ in Lakhs)
5. Tangible assets	
Land and building (275+200)	**475**
Plant and machinery (175+125)	**300**
Total	**775**

	(₹ in Lakhs)
6. Intangible assets	
Intangible assets	**13**

	(₹ in Lakhs)
7. Non-current investments	
Other non-current investments(75+25)	**100**

	(₹ in Lakhs)
8. Other non-current assets	
Amalgamation adjustment account	**50**

	(₹ in Lakhs)
9. Trade receivables	
Debtors (125+150)	**275**
Bills receivables (25+25)	**50**
Total	**325**

	(₹ in Lakhs)
10. Cash and cash equivalents	
Cash and cash equivalents	**397**

Working Notes: 1

Computation of Purchase Consideration		**(₹ in Lakhs)**	
		A Ltd.	**B Ltd.**
(a) Preference shareholders:			
1,50,00,000/100 = 1,50,000 shares			
Share capital = 1,50,000 shares × ₹ 100 each	150		
Securities premium = 1,50,000 shares × ₹ 50 each	75	**225**	
1,00,00,000/100 = 1,00,000 shares			
Share capital = 1,00,000 shares × ₹ 100 each	100		
Securities premium= 1,00,000 shares × ₹ 50 each	50		**150**
(b) Equity shareholders:			
4,00,00,000/100 × 5 = 20,00,000 shares			
Share capital = 20,00,000 shares × ₹ 10 each	200		
Securities premium=20,00,000 shares× ₹ 20 each	400	**600**	
3,75,00,000/100 × 4 = 15,00,000 shares			
Share capital = 15,00,000 shares ×₹ 10 each	150		
Securities premium = 15,00,000 shares × ₹ 20 each	300		**450**
Amount of purchase consideration		**825**	**600**

2

Calculation of number of debentures issued	(₹ in Lakhs)	
	A Ltd.	B Ltd.
10% Debentures of ₹ 100 each	**30**	**15**
15% Debentures to be issued to maintain same amount of interest:		
Interest = ₹ 30,00,000 x 10% = ₹ 3,00,000		
Value of 15% Debentures = ₹ 3, 00,000/15 ×100	**20**	
Interest = ₹ 15,00,000 x 10%		
Value of 15% Debentures = ₹ 1, 50, 000/15 x 100		**10**

3.

Net assets taken over	(₹ in Lakhs)	
	A Ltd.	B Ltd.
Assets taken over		
Land and building	**275**	**200**
Plant and machinery	**175**	**125**
Investments	**75**	**25**
Inventory	**175**	**125**
Debtors	**125**	**150**
Bills receivable	**25**	**25**
Bills receivable	**150**	**100**
	1,000	**750**
Less: Liabilities taken over		
Debentures	**20**	**10**
Creditors	**135**	**60**
Bills payable	**75**	**35**
	230	**105**
Net assets taken over	**770**	**645**
Purchase consideration	**825**	**600**
(Goodwill)/ Capital Reserve	**(55)**	**45**
Net goodwill		**(10)**

4. As the Liquidation expenses of A Ltd. and B Ltd., ₹ 2 lakhs and ₹ 1 lakhs respectively are borne by C Ltd. the same will be debited to Goodwill account in the books of C Ltd.

Ans. 4

(a) Calculation of Interest and Cash Price

No. of installments	Outstanding balance at the end after the payment of installment	Amount due at the time of installment	Outstanding balance at the end before the payment of installment	Interest	Outstanding balance at the beginning
[1]	[2]	[3]	[4]= 2 +3	[5]= 4 x 10/110	[6]= 4-5
3rd	-	2,75,000	2,75,000	25,000	2,50,000
2nd	2,50,000	2,45,000	4,95,000	45,000	4,50,000
1st	4,50,000	2,65,000	7,15,000	65,000	6,50,000

Total cash price = ₹ 6,50,000+ 5,00,000 (down payment) = ₹ 11,50,000.

In the books of Lucky

Tractors Account

Date	Particulars	₹	Date	Particulars	₹
1.10.2011	To Happy a/c	11,50,000	30.9.2012	By Depreciation A/c	2,30,000
				Balance c/d	9,20,000
		11,50,000			11,50,000
1.10.2012	To Balance b/d	9,20,000	30.9.2013	By Depreciation A/c	1,84,000
				Balance c/d	7,36,000
		9,20,000			9,20,000
1.10.2013	To Balance b/d	7,36,000	30.9.2014	By Happy a/c (Value of 1 Tractor taken over after depreciation for 3 years @30% p.a.) {5,75,000-(1,72,500+1,20,750+84,525)}	1,47,200
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,94,400-1,97,225)	1,97,225
				By Balance c/d ½ (7,36,000 1,47,200=5,88,800)	97,175
					2,94,400
		7,36,000			7,36,000

Happy Account

Date	Particulars	₹	Date	Particulars	₹
1.10.11	To Bank (down payment)	5,00,000	1.10.11	By Tractors a/c	11,50,000
	To Bank 1st Installment	2,65,000	30.9.12	By Interest a/c	65,000
		4,50,000			
		12,15,000			12,15,000
30.9.13	To Bank 2nd Installment	2,45,000		By Balance b/d	4,50,000
	To Balance c/d	2,50,000		By Interest a/c	45,000
		4,95,000			4,95,000
30.9.14	To Tractor a/c	1,97,225	1.10.13	By Balance b/d	2,50,000
	To Balance c/d	77,775	30.9.14	By Interest a/c	25,000
		2,75,000			2,75,000
31.12.14	To Bank (Amount settled after 3 months	81,275	1.10.14	By Balance b/d	77,775
			31.12.14	By Interest a/c (@ 18% on bal.) (77,775x3/12x18/100)	3,500
		81,275			81,275

(b)

M/s DEF & CO.
Memorandum Trading A/c (1.4.14 to 13.9.14)

Particulars	*(₹)*	*Particulars*	*(₹)*
To Opening stock (Refer W.N.)	9,60,000	By Sales	45,98,200
To Purchases	35,49,900	By goods with customer	18,750
To Gross profit (25% of sales)	11,49,550	By Closing stock (bal. fig.)	10,42,500
	56,59,450		56,59,450

Computation of insurance claim

		₹
Stock on the date of fire (i.e. on 13.09.2014)		10,42,500
Less: Stock salvaged	40,000	
Agreed value of damaged stock	20,000	(60,000)
Loss of stock		9,82,500

Claim subject to average clause:

$$\text{Insurance Claim} = \frac{\text{Loss of Stock}}{\text{Value of stock on the date offire}} \text{ x Amount of Policy}$$

$$\text{Insurance Claim} = \frac{9,00,000}{10,42,500} \text{ x } 9,82,500 = ₹\ 8,48,201$$

Working Notes:

1. **Calculation of original cost of the stock as on 31st March, 2014**
   Stock as on 31st March, 2014 was valued at 10% lower than cost.
   Hence, original cost of the stock would be ₹ 9,60,000 (8,64,000/90 ₹ 100)

2. **Purchases for the period of 1.4.14 to 13.9.14**

	₹
Purchases	35,29,900
Add: purchases where goods have been received in godown purchase invoice had not been received	60,000
Less: Purchase of machinery included in purchases	40,000
	35,49,900

3. **for the period of 1.4.14 to 13.9.14**

	₹
Sales	46,93,200
Less: goods not been dispatched	70,000
Less: goods sent on approval basis but not yet confirmed	25,000
	45,98,200

4. **Goods with customer on 13.9.14**

Since no approval for sale has been received for the goods for ₹ 25,000
These should be valued at cost i.e. 25,000 – 25,000 x 25/100 = 18,750

Ans.5

In the books of Shri Ramji
Trading and Profit and Loss Account
for the year ended 31st March, 2005

Dr. **Cr.**

Particulars		₹	**Particulars**		₹
To Opening Stock		1,60,800	By Sales:		
To Purchases:			Cash	92,000	
Cash	20,600		Credit	13,44,200	
Credit (W.N.3)	11,60,000			14,36,200	
	11,80,600		Less: Returns	29,000	14,07,200
Less: Returns	8,000	11,72,600	BY Closing Stock		2,22,400
To Gross Profit c/d		2,96,200	By Gross profit b/d		16,29,600
		16,29,600			
To Discount allowed		30,000	By discount		14,000
To Bad Debts		8,400			
To General expenses (W.N.5)		1,86,000			
To Depreciation (W.N.4)		55,000			
To Net Profit		30,800			
		3,10,200			3,10,200

Balance Sheet as at 31st March, 2005

Liabilities		₹	Assets		₹
Capital (W.N.1)	5,35,400		Sundry Assets	2,32,200	
Add: Additional	1,70,000		Add: Machinery	63,600	
Net Profit	30,800			2,95,800	
	7,36,200		Less: Depreciation	55,000	2,40,800
Less: Drawings	8,600	7,27,600	Stock in trade		2,22,400
Sundry Creditors		2,48,000	Sundry debtors (W.N.2)		3,57,400
Expenses O/s		6,600	Cash in hand		24,000
			Cash in Bank		1,37,600
		9,82,200			**9,82,200**

Working Notes:

(1) Statement of Affairs as at 31st March, 2004

Liabilities	₹	Assets	₹
Sundry creditors	3,15,400	Sundry Assets	2,32,200
Outstanding expenses	12,000	Stock	1,60,800
Ramji's Capital(Balancing figure)	5,35,400	Debtors	3,30,600
		Cash in hand	59,200
		Cash at Bank	80,000
	8,62,800		8,62,800

(2) **Sundry Debtors Account**

	₹		₹
To Balance b/d	3,30,600	By Cash	12,50,000
To Sales (14,36,200 – 92,000)	13,44,200	By Discount	30,000
		By Returns (Sales)	29,000
		By Bad debts	8,400
		By balance c/d	3,57,400
	16,74,800		16,74,800

(3) **Sundry Creditors Account**

	₹		₹
To Bank payment	12,05,400	By Balance c/d	3,15,400
To discount	14,000	By Purchase credit (Bal. fig)	11,60,000
To Returns	8,000		
To Balance (closing bal.)	2,48,000		
	14,75,400		14,75,400

(4) Depreciation on Fixed Assets:

	₹
Opening balance	2,32,200
Add: Additions	63,600
	2,95,800
Less: Closing balance	2,40,800
Depreciation	55,000

(5) Expenses to be shown in profit and loss account

Expenses (in cash)	1,91,400	
Add: Outstanding of 2005	6,600	
	1,97,800	
Less: Outstanding of 2004	12,000	1,86,000

(6) **Cash and Bank Account**

	Cash ₹	**Bank ₹**		**Cash ₹**	**Bank ₹**
To Balance b/d	59,200	80,000	By Purchases	20,600	-
To Capital		1,70,000	By Expenses	1,91,400	
To Debtors		12,50,000	By Plant & Machinery		63,600
To Bank	1,84,800		By Drawings		8,600
To Cash		1,00,000	By Creditors		12,05,400
To Sales	92,000		By Cash		1,84,800
			By Bank	1,00,000	
			By Balance c/d	24,000	1,37,600
	3,36,000	**16,00,000**		**3,36,000**	**16,00,000**

(b) General Ledger Adjustment Account in Debtors Ledger

Date	**Particulars**	**₹**	**Date**	**Particulars**	**₹**
1.4.2015	To Balance b/d	3,400	1.4.2015	By Balance b/d	2,46,200
1.4.2015 to 30.4.2015	To Debtors ledger adjustment A/c:		1.4.2015 to 30.4.2015	By Debtors ledger adjustment A/c:	
	Sales return	21,700		Sales	9,74,900
	Cash received	8,62,100		B/R dishonoured	3,500
	Discount allowed	39,200	30.4.2015	By Balance c/d	5,200
	B/R received	51,200			
30.4.2015	To Balance c/d (Bal. fig.)	2,52,200			
		12,29,800			**12,29,800**

Debtors Ledger Adjustment A/c in General Ledger

Date	Particulars	₹	Date	Particulars	₹
1.4.2015	To Balance b/d	2,46,200	1.4.2015	By Balance b/d	3,400
1.4.2015 to 30.4.2015	To general ledger adjustment A/c:		1.4.2015 to 30.4.2015	By general ledger adjustment A/c:	
	Sales	9,74,900		Sales return	21,700
	B/R dishonoured	3,500		Cash received	8,62,100
30.4.2015	To Balance c/d	5,200		Discount allowed	39,200
				B/R received	51,200
			30.4.2015	By Balance c/d (Bal. fig.)	2,52,200
		12,29,800			**12,29,800**

Ans. 6

(i) **Profit and Loss Adjustment Account**

	₹		₹
To Expenses not provided for (years 2012-2015)	1,10,000	By Income not considered (for years 2012-2015)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		1,10,000

(ii) Partners' Capital Accounts

	Laurel ₹	Hardy ₹	Chaplin ₹		Laurel ₹	Hardy ₹	Chaplin ₹
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000	-	-	By Laurel	-	60,000	-
To Balance c/d	1,29,000	1,89,500	63,800	By cash	-	-	63,800
	2,11,500	**2,11,500**	**63,800**		**2,11,500**	**2,11,500**	**63,800**
				By Balance b/d	1,29,000	1,89,500	63,800

(iii) Balance Sheet of LH & Co.

as on 1.4.2015

(After admission of Chaplin)

Liabilities	₹	Assets	₹
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 +63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		**7,19,800**

Working Notes:

1) **Computation of Profit and Loss distributed among partners**

	₹
Profit for the year ended 31.3.2012	1,40,000
31.3.2013	2,60,000
31.3.2014	3,20,000
31.3.2015	3,60,000
Total Profit	10,80,000

	Laurel ₹	**Hardy ₹**	**Total ₹**
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	5,40,000	5,40,000	10,80,000
Excess share	60,000		
Deficit share		(60,000)	

Laurel to be debited by ₹ 60,000 and Hardy to be credited by ₹ 60,000.

2) **Capital brought in by Chaplin**

	₹
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of ₹ 3,19,000)	63,800

Ans. 7

(a) Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

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

(ii) Consistency: The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the change is required (i) by a statute, (ii) by an accounting standard or (iii) for more appropriate presentation of financial statements.

(iii) Accrual basis of accounting: Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

(b) **In the books of Mr. Mishra**

Investment Account for the year ended 31st Dec. 2012

(Scrip: Equity Shares of Fillco Ltd.)

Date	Particulars	Nominal Value	Cost (₹)	Date	Particulars	Nominal Value	Cost (₹)
1.5.2012	To Bank A/c	8,000	42,080	30.11.12	By Bank A/c	2,000	11,400
30.10.2012	To Bonus Share	2,000	-	31.12.12	By Balance c/d	8,000	33,664
31.12.2012	To Profit & Loss A/c	-	2,984				
		10,000	**45,064**			**10,000**	**45,064**

Working Notes:

(i) Cost of equity shares purchased on 1.5.2012 = 800 × ₹ 50 + 5% of ₹ 40,000 + .002 of ₹ 40,000 = ₹ 42,080.

(ii) Sale proceeds of equity shares sold on 30.11.2012 = 200 × ₹ 60 – 5% of ₹ 12,000 = ₹ 11,400

(iii) Profit on sale of bonus shares on 30.11.12
= Sales proceeds - Average cost

Sales proceeds = ₹ 11,400

Average Cost = ₹ $\frac{42,080}{10,000}$ x 2,000 = ₹ 8,416

Profit = ₹ 11,400 – ₹ 8,416 = ₹ 2,984

(iv) Valuation of equity shares on 31st Dec., 2012 Cost

= (₹ 42,080/10,000 x 8,000) = ₹ 33,664 Market

Value = 800 × ₹ 60 = 48,000

Closing balance has been valued at ₹ 33,664 being lower than the market value

(c) **Laxman in Account Current with Ram as on 31st Oct, 2014**

Dr. Cr.

		₹	Days	Product (₹)			₹	Days	Product (₹)
01.07.14	To Bal. b/d	750	123	92,250	20.08.14	By Sales Returns	200	72	14,400
15.8.14	To Sales	1,250	77	96,250	22.09.14	By Bank	800	39	31,200
31.10.14	To Interest	18.48			15.10.14	By Cash	500	16	8,000
						By Balance of Products			1,34,900
					31.10.14	By Bal. c/d	518.48		
		2018.48		1,88,500			2018.48		1,88,500

Interest = ₹ 1,34,900 x $\frac{5}{100}$ x $\frac{1}{365}$ = ₹ 18.48

(d)

Journal Entries

		₹	₹
(i) Equity share Capital A/c.	Dr.	20,00,000	
To Equity Stock			1,00,000
(Being conversion of 2 lakh equity shares			
of ₹ 10 each into stock of ₹ 1,00,000 and			
balance as fully convertible debentures as			
per resolution)			
(ii) Equity Share Capital A/c (₹ 2.50)	Dr.	100,00,000	
To Equity Share Capital A/c (₹ 10)			100,00,000
(Being consolidation of 40 lakh shares of			
₹ 2.50 each into 10 lakh shares of ₹ 10			
each as per resolution)			
(iii) 11% Preference Shares Capital A/c (₹ 50)	Dr.	500,00,000	
To 11% Preference Share Capital A/c (₹ 10)			500,00,000
(Being subdivision of 10 lakh preference shares			
of ₹ 50 each into 50 lakh shares of ₹ 10 each as			
per resolution)			
(iv) 12% Preference Share Capital A/c	Dr.	5,00,000	
To 14% Preference Share Capital			3,00,000
To 12% Non-cumulative Preference Share Capital			2,00,000
(Being conversion of preference shares as per resolution)			

(e)

(i) **Loans and advances given and interest earned**

(1) to suppliers — Operating Cash flow
(2) to employees — Operating Cash flow
(3) to its subsidiary companies — Investing Cash flow

(ii) **Investment made in subsidiary company and dividend received**
Investing Cash flow

(iii) **Dividend paid for the year**
Financing Cash Outflow

(iv) **TDS on interest income earned on investments made**
Investing Cash Outflow

(v) **TDS on interest earned on advance given to suppliers**
Operating Cash Outflow

(vi) **Insurance claim received of amount loss of fixed asset by fire**
Extraordinary item to be shown under a separate heading as 'Cash inflow from Operating activities'.

❑❑❑