

Solution 1 :

(i) When a businessman wants to reduce the burden of Insurance Premium and wants to take an insurance policy which is less than the value of average stock, it is known as under insurance. For discouraging the under-insurance, fire insurance policies contain an average clause. In such a case, the net claim is calculated by using following formula:
Amount of claim = Actual Loss X (Amount of Policy/Insurable amount)

(ii) **Journal entry to be passed for accounting unrealized Profit on stock:**

Under amalgamation in the nature of merger:

Capital Reserve/General Reserve/Profit and Loss A/c Dr.

To Stock A/c (Stock Reserve A/c)

(Being amount adjusted for unrealized profit on stock)

OR

If amalgamation is in nature of purchase, Journal entry would be:

Goodwill or Capital Reserve A/c Dr.

To Stock A/c (Stock Reserve A/c)

(Being adjustment for unrealized profit on stock)

(iii) New ratio of A:M:G:N = 9:6:5:5

(iv) 1st year = Amount outstanding for interest after down payment 3,00,000

2nd year = Amount outstanding for interest after 1st Instalment 2,40,000

3rd year = Amount outstanding for interest after 2nd instalment 1,80,000

4th year = Amount outstanding for interest after 3rd instalment 1,20,000

5th year = Amount outstanding for interest after 4th instalment 60,000

Total interest = Hire Purchase price – Cash Price = 3,30,000 – 3,00,000 = 30,000

Instalment outstanding ratio = 3,00,000 : 2,40,000 : 1,80,000 : 1,20,000 : 60,000
= 5:4:3:2:1

	Rs.
Interest for 1 year =	10,000
Interest for II year =	8,000
Interest for III year =	6,000
Interest for IV year =	4,000
Interest for V year =	<u>2,000</u>
30,000	

(v) Total amount payable 1,000 X 96	=	96,000
Less: Interest included in the price for January, February and March i.e. 1,00,000 X 3/12 X 10%	=	<u>2,500</u>
Cost of the Investment		93,500

(vi) Two methods of accounting for amalgamation as contemplated by AS 14 are:

- (a) The pooling of interests method and
- (b) The purchase method

(vii) Calculation of remuneration of the Managing Director

	Rs. in Lacs
Net profit as per books	43.00
Add: Provision for taxation	17.20
Annual profit for the purpose of managerial remuneration	60.20
Managing Director's Remuneration @ 5% of above	3.01
Minimum remuneration to be paid to the Managing Director = Rs.25,000 per month X12	3.00
Hence, in this case, remuneration to be paid to the Managing Director of A Ltd. = Rs.3,01,000.	

(viii) **Construction Contract** : A construction contract is a contract for the construction of an asset or a combination of assets that are closely interrelated or interdependent.

Construction contracts include:

- (a) Contracts for the **rendering of services** which are directly related to the construction of the asset, for example, the services of project managers and architects; and
- (b) Contracts for **destruction or restoration** of assets.

(ix) The price revision was effected during the current accounting period, 1992-93. As a result the company stands to receive Rs. 5,20,000 from its customers in respect of sales made during 1992-93. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognised in 1992-93 as per the provisions of AS-9.

(x) **Following assets are not covered by AS-6 :**

- (i) forests, plantations and similar regenerative natural resources;
- (ii) wasting assets including expenditure on the exploration for and extraction of minerals, oils, natural gas and similar non-regenerative resources;
- (iii) expenditure on research and development;
- (iv) goodwill;
- (v) live stock.
- (vi) land, if it has unlimited useful life

Solution 2 (a) :

Profit & Loss Adjustment Account			
Dr.		Rs.	Cr.
			Rs.
To Partner's capital accounts (profit on revaluation)			4,000
A	7,800		15,600
B	15,600	23,400	3,800
		23,400	23,400

Partners' capital Account

	A	B	C		A	B	C
To Balance c/d	53,200	53,200	53,200	By Balance b/d	26,400	33,600	-
				By Contingency reserve	2,000	4,000	-
				By Profit & loss adjustment A/c	7,800	15,600	-
				By Sundry assets	-	-	22,400
				By Bank A/c	17,000	-	30,800
	<u>53,200</u>	<u>53,200</u>	<u>53,200</u>		<u>53,200</u>	<u>53,200</u>	<u>53,200</u>

Balance Sheet of New Firm as on 1st April, 2006

Liabilities	Rs.	Rs.	Assets	Rs.
Capital accounts:			Goodwill (18,000+6,000)	24,000
A	53,200		Land & building	30,000
B	53,200		Furniture (6,000+ 2,800)	8,800
C	53,200	1,59,600	Stock (26,000+13,600)	39,600
Sundry creditors		9,000	Sundry debtors	6,400
			Cash at bank	59,800
		<u>1,68,600</u>		<u>1,68,600</u>

Note : Capital accounts of partners are to be so adjusted as to be equal and therefore, additional cash is to be brought in by the partner or partners concerned. For this purpose, highest capital of the partners is to be taken as base. In this case B's capital becomes highest, accordingly A is required to bring in Rs. 17,000 (53,200-36,200) and C has to bring in Rs. 30,800 (53,200-22,400).

Solution 2 (b) :

Computation of Purchase Consideration

Value of 15,000 equity shares @ Rs.80 per share =	Rs.12,00,000
Shares to be issued by Y Co. Ltd. (Rs,12,00,000/120 per share = 10,000 shares @ Rs.120 each)	12,00,000
11% Preference shareholders to be issued equivalent 11% Redeemable Debentures by Y Co. Ltd.	<u>5,00,000</u>
Total Purchase consideration	17,00,000

Journal Entries in the books of Y Co. Ltd.

	Rs.	Rs.
Business Purchase A/c	Dr.	17,00,000
To Liquidator of X Co. Ltd.		17,00,000
(Being the amount payable to X Co. Ltd's liquidator)		
Land & Building A/c	Dr.	10,00,000
Plant & Machinery A/c	Dr.	7,00,000
Furniture & Fittings A/c	Dr.	2,00,000
Stock in Trade A/c	Dr.	3,00,000

Sundry Debtors A/c	Dr.	2,00,000	
Cash & Bank A/c	Dr.	1,00,000	
To Sundry Creditors			2,00,000
To Capital Reserve (Balancing figure)			6,00,000
To Business Purchase			17,00,000
(Being the value of assets and liabilities taken over from X Co. Ltd.)			
Liquidators of X Co. Ltd. Account	Dr.	17,00,000	
To Equity Share Capital			10,00,000
To Securities Premium Account			2,00,000
To 11% Debentures			5,00,000
(Being purchase consideration discharged)			

Solution 3 :

Journal Entries in the Books of Trinity Ltd.

		<i>Dr.</i>	<i>Cr.</i>
		<i>Rs.</i>	<i>Rs.</i>
Securities Premium A/c	Dr.	10,000	
To Premium on Redemption of Preference shares			10,000
(Being amount of premium payable on redemption of preference shares)			
10% Redeemable Preference Capital	Dr.	10,00,000	
Premium on redemption of Preference Shares	Dr.	10,000	
To Preference Shareholders			1,10,000
(Being the amount payable to preference shareholders on redemption)			
General Reserve A/c	Dr.	1,00,000	
To Capital Redemption Reserve			1,00,000
(Being transfer to the latter account on redemption of shares)			
Bank A/c	Dr.	45,000	
Profit and Loss A/c	Dr.	5,000	
To Investments			50,000
(Being amount realised on sale of Investments and loss thereon adjusted)			
Preference shareholders A/c	Dr.	1,10,000	
To Bank			1,10,000
(Being payment made to preference shareholders)			
Capital Redemption Reserve A/c	Dr.	1,00,000	
To Bonus to Shareholders			1,00,000
(Amount adjusted for issuing bonus share in the ratio of 1 : 1.)			

Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital			1,00,000
(Balance on former account transferred to latt)			

(b) Cash and Bank A/c

<i>Dr.</i>			<i>Cr.</i>	
		<i>Rs.</i>		<i>Rs.</i>
To Balance b/d		50,000	By Preference Dividend	10,000
To Cash from operations:			By Preference shareholders	1,10,000
Profit	15,000		By Balance c/d	30,000
Add : Depreciation	20,000			
Add : Miscellaneous				
Expenditure written off	<u>20,000</u>	55,000		
To Investments	45,000			
		<u>1,50,000</u>		<u>1,50,000</u>

(c) **Balance Sheet of Trinity Limited**
as at 31st March, 1996 (after redemption)

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital		Fixed Assets	
Authorised Capital	<u>10,00,000</u>	Gross Block	3,00,000
Issued, Subscribed and Paid-up Capital		Less : Depreciation	
20,000 Equity Share		upto 31.3.95	1,00,000
of Rs. 10 each fully paid	2,00,000	For the year	<u>20,000</u>
(10,000 shares have been allotted as Bonus Shares by capitalising capital Redemption Reserve)			<u>1,20,000</u>
Reserves and Surplus		Investments	50,000
General Reserve	20,000	(Market Value Rs. 45,000)	
Securities Premium	60,000	Current Assets, Loans and Advances	
Profit and Loss A/c	<u>18,500</u>	Inventory	25,000
Current Liabilities and Provisions		Debtors	25,000
Sundry Creditors	11,500	Cash and Bank Balance	<u>30,000</u>
			80,000
	<u>3,10,000</u>		<u>3,10,000</u>

Working Notes:

(i) Profit and Loss Account for the year ending 31st March, 1996	Rs.
Balance as on 1.4.1995	18,500
Add : Profit for the year	<u>15,000</u>
	33,500
Less : Preference Dividend	10,000
Loss on sale of investments	<u>5,000</u> <u>15,000</u>
Balance as on 31.3.1996	<u>18,500</u>
 (ii) General Reserve	 1,20,000
Less : Transfer to Capital Redemption Reserve	<u>1,00,000</u>
Balance as on 31.3.1996	<u>20,000</u>
 (iii) Securities Premium	 70,000
Less : Premium on Redemption of Preference shares	<u>10,000</u>
Balance as on 31.3.1996	<u>60,000</u>
 (iv) Capital Redemption Reserve	 1,00,000
Less : Transfer for Bonus Shares	1,00,000
Balance as on 31.3.1996	NIL
 (v) Sale of Investments:	
Cost of Investments	50,000
Less :Cash Received	45,000
Loss on Sale of Investments	5,000
Total Investments:	1,00,000
Less : Cost of Investments sold	50,000
Cost of Investments on hand	50,000
Market value (90% of Rs. 50,000)	45,000

Solution 4(a).

Cash Flow Statement for the year ending on March 31, 2006

	Rs.	Rs.
I. Cash flows from Operating Activities		
Net profit made during the year (W.N.1)	2,60,000	
Adjustment for depreciation on Machinery (W.N.2)	55,000	
Adjustment for depreciation on Land & Building	<u>20,000</u>	

Operating profit before change in Working Capital	3,35,000	
Decrease in Stock	20,000	
Increase in Sundry Debtors	(20,000)	
Decrease in Sundry Creditors	(1,00,000)	
Income-tax paid	<u>(45,000)</u>	
Net cash from operating activities		1,90,000
II. Cash flows from Investing Activities		
Purchase on Machinery	(1,25,000)	
Sale of Investments	<u>60,000</u>	(65,000)
III. Cash flows from Financing Activities		
Issue of equity shares (2,50,000-1,00,000)	1,50,000	
Repayment of Long term loan	(1,00,000)	
Dividend paid	<u>(1,00,000)</u>	<u>(50,000)</u>
Net increase in cash and cash equivalent		75,000
Cash and cash equivalents at the beginning of the period		<u>5,00,000</u>
Cash and cash equivalents at the end of the period		5,75,000

Working Notes:

(i) Net Profit made during the year ended 31.3.2006

Increase in P & L (Cr.) Balance	30,000	
Add: Transfer to general reserve	50,000	
Add: Provision for taxation made during the year	55,000	
Add: Provided for proposed dividend during the year	<u>1,25,000</u>	2,60,000

(ii) Machinery Account

	Rs.		Rs.
To Balance b/d	7,50,000	By Depreciation (Bal. Fig.)	55,000
To Bank	1,25,000	By Balance c/d	9,20,000
To Equity share capital	1,00,000		
	9,75,000		9,75,000

(iii) Provision for Taxation Account

	Rs.		Rs.
To Cash (Bal. Fig.)	45,000	By Balance b/d	50,000
To Balance c/d	60,000	By P & L A/c	55,000
	1,05,000		1,05,000

(iv) Proposed Dividend Account

	Rs.		Rs.
To Bank	1,00,000	By Balance b/d	1,00,000
To Balance c/d	1,25,000	By P & L A/c (Bal. Fig.)	1,25,000
	2,25,000		2,25,000

(v) Investment Account

	Rs.		Rs.
To Balance b/d	1,00,000	By Bank A/c	60,000
To Capital Reserve A/c (Profit on sale of investment)	10,000	(Balancing figure for investment sold)	
		By Balance c/d	50,000
	1,10,000		1,10,000

Solution 4(b).

In the books of Self Ltd.

Total Debtors Account

	Rs.		Rs.
To Balance b/d	78,000	By Cash	4,25,000
To Bank (Cheque dishonoured)	7,500	By Discount Allowed	3,000
To B/R (Dishonoured)	2,500	By B/R	20,000
To Interest	1,200	By Returns Inward	8,500
To Sales	4,90,000	By Bad Debts	1,000
To Sundry Creditors (endorsed bill dishonoured with noting charges)	5,575	By Balance c/d	1,27,275
	5,84,775		5,84,775

Total Creditors Account

	Rs.		Rs.
To Cash	1,62,000	By Balance b/d	85,000
To B/R (endorsed)	7,900	By Purchases	2,80,000
To Discount received	2,500	By Sundry Debtors A/c	
To Bills Payable	16,000	(endorsed B/R dishonoured with noting charges)	5,575
To Return outward	3,700	By Cash (over payments refunded)	600
To Balance c/d	1,79,075		
	3,71,175		3,71,175

Note: Transactions relating to cash sales or purchases; honour of bills receivable or payable; and discount or endorsement of bill will not be entered in Total Debtors and Total Creditors A/c.

Solution 5(a).

In the books of Sameera Corporation

**Hire Purchase Trading Account
for the year ended 31st March, 2003**

	Rs.		Rs.
To balance b/d		By Cash Account	24,92,500
- Hire Purchase Stock	50,000	By Opening Stock Reserve	10,000
To Goods sent on HP	36,00,000	(Rs. 50,000 x 20%)	
To Closing Stock Reserve	2,10,000	By Goods sent on HP	7,20,000
(Rs. 10,50,000 x 20%)		(Rs. 36,00,000 x 20%)	
To Profit and Loss Account	4,99,000	By Goods Repossessed	24,000
		(2 x Rs. 24,000 x 50%)	
		By balance b/d	
		- HP Debtors	62,500
		- Hire Purchase Stock	10,50,000
	43,59,000		43,59,000

Working Notes:

	Hire Purchase Stock Account		
To Balance/d	50,000	By H.P. Debtors A/c (b/f)	25,95,000
(1 X 20 X 2,500)		By Goods Repossessed A/c	5,000
To Good sent on HP	36,00,000	[(1X2) 2500]	
(120 X 30,000)		By Balance c/d	10,50,000
		[(6 X 50+ 4 X 20 + 1 X 40) 2,500]	
	36,50,000		36,50,000

	Hire Purchase Debtors Account		
To Balance b/d	---	By Bank A/c (b/f)	24,92,500
To Hire Purchase Stock A/c	25,95,000	By Goods Repossessed A/c	40,000
		[(2X8) 2,500]	
		By Balance c/d	62,500
		[(4X 4+ 1 X 9)2,500]	
	25,95,000		25,95,000

Solution 5(b).

(b) Computation of the amount of claim for consequential loss

(i) Calculation of short sales Rs.

Standard turnover for the period 1st September to 1st October (preceding year)	2,25,000
Add: Increase of 10% due to upward trend	<u>22,500</u>
Adjusted turnover	2,47,500
Less: Actual turnover during disruption period i.e. 1st September to 1st October (following year)	<u>67,500</u>
	1,80,000

(ii) Increased rate of G.P. = 18% + 2% = 20% on sales.

(iii) Loss of profit on short sales = 20% of Rs.1,80,000 = Rs.36,000.

(iv) Calculation of claim for increased cost of working capital

Increased cost of working will be lower of Rs.

(i) Actual expenses	12,000
(ii) <u>Additional expenses X G.P. on Annual turnover</u>	
G.P. on Annual turnover + Uninsured standing charges	11,523
(iii) G.P. on additional sales = 30,000 x 20%	6,000

Rs. 6,000 is lower of above three, so additional expenses would be Rs. 6,000.

Net claim for increased cost of working capital = Rs.6,000 minus savings in insured standing charges = Rs.6,000 – Rs.4,500 = Rs.1,500

(v) Calculation of adjusted annual sales Rs.

Sales for 12 months preceding the date of fire	6,60,000
Add: 10% of increase in trend	<u>66,000</u>
Adjusted Annual Sales	7,26,000

(vi) Insurable Amount i.e gross profit on adjusted annual sales Rs.

Adjusted annual sales	7,26,000
Rate of Gross Profit	20%
Insurable amount (Rs.7,26,000 x 20%)	1,45,200

(vii) Amount of Insurance Claim = (Insured Amount /Insurable Amount) X Total Loss = Rs.28,125.

Solution 6.

(i) Amalgamation in the Nature of Merger: An amalgamation in the nature of merger should satisfy all the following conditions:

- 1) All the assets and liabilities of the transferor company become the assets and liabilities of the transferee company.
- 2) Shareholders holding at least 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company (shares already held by the transferee company or its subsidiaries or their nominees are not to be considered for the purpose of 90%).
- 3) Purchase consideration is discharged wholly by the issue of equity shares in the transferee company; however, cash may be paid in respect of any fractional shares.
- 4) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- 5) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Amalgamation in the Nature of Purchase: An amalgamation should be considered to be an amalgamation in the nature of purchase, when any one or more of the conditions specified above is not satisfied.

(ii) As per AS-2, on 'Valuation of inventories', inventories should be valued at lower of cost and net realizable value. In the present case, the net realizable value is a negative figure per unit (Rs. 690- Rs. 650 – Rs. 125). The company should make a provision for the –ve realizable value of Rs. 85,000 besides reducing the value of relevant stock to Nil. The note explaining the reasons for the –ve value as referred to earlier would also be necessary.

(iii) Disclosure of Accounting Policies :

1. All significant accounting policies adopted in the preparation and presentation of financial statements **should be disclosed**. Such a disclosure is required to ensure proper understanding of financial statements.
2. The disclosure of the significant accounting policies as such should form part of the financial statements and should normally be **disclosed in one place**.
3. Any **change in accounting policies** which has a **material effect** in the current period or in later periods should be disclosed.

In the case of a change in accounting policies which have a material effect in the period, the amount by which any item is affected by such change should also be disclosed to the extent ascertainable and if amount is not ascertainable, the fact should be indicated.

4. If the **fundamental accounting assumptions**, viz., going concern, consistency and accrual are followed in financial statements specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(v)

Investment Account in the books of A
[Equity shares in Omega Co. Ltd.]

	Nominal Value Rs.	Cost Rs.		Nominal Value Rs.	Cost Rs.
To Cash	50,000	62,500	By Cash Sale	50,000	45,000
To Bonus shares	50,000		By Balance c/d	50,000	31,250
To P & L A/c	13,750				
	1,00,000	76,250		1,00,000	76,250

Note : The total cost of 1,000 share including bonus is Rs. 62,500 Therefore, cost of 500 shares (carried forward) is $(62,500 * 500) / 1,000 = \text{Rs. } 31,250$
Cost being lower than the market price, shares are carried forward at cost.

- (vi) Fund based accounting essentially involves preparation of financial statements fundwise. Not-for profit organisations, particularly educational institutions, sometimes maintain separate account or fund for specific activities of the organisation such as sports prizes, refreshments, and presentation of information in financial statements is made fund wise. In such cases, contribution and donations for income from and expenses on those activities are not recorded in income and expenditure account but are directly adjusted in specific fund account.

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