ACCOUNTS

(Three hours)

(Candidates are allowed additional 15 minutes for only reading the paper.
They must NOT start writing during this time.)

Answer **Question 1** (compulsory) and **Question 2** (compulsory) from Part I
and any other **five** questions from Part II.

The intended marks for questions or parts of questions are given in brackets [ ].

Transactions should be recorded in the answer book.

All calculations should be shown clearly.

All working, including rough work, should be done on the same sheet as, and adjacent to, the rest of the answer.

PART I (30 Marks)

Answer **all** questions.

Question 1 **[10 × 2]**

Answer briefly each of the following questions:

(i) What is the accounting treatment of forfeiture of shares which were originally issued at a premium but subsequently forfeited for non payment of calls when:

(a) The allotment money including premium has been paid by the shareholder

(b) The allotment money including premium has not been paid by the shareholder.

(ii) How will you deal with current year's 'Proposed Dividend' and previous year's 'Unclaimed Dividend' at the time of preparation of final accounts of a joint stock company?

(iii) How will you deal with 'Purchased Goodwill' at the time of preparation of cash flow statement from two consecutive years' balance sheet without any adjustments?

(iv) Give two differences between debtors turnover ratio and creditors turnover ratio.

(v) How would you adjust the capital accounts of the partners, when the share of profit of a partner is guaranteed by:

(a) the firm

(b) another partner.

(vi) Define an intangible asset as per AS-26, issued by The Institute of Chartered Accountants of India.

(vii) A firm maintains three ledgers:

(a) General Ledger

(b) Debtors Ledger

(c) Creditors Ledger

At the end of the year, a trial balance is extracted from the three ledgers taken together. Explain how you will extract a trial balance if the sectional balancing system is incorporated.

(viii) What is the meaning of underwriting of shares in the context of a joint venture business?

(ix) When a company purchases the business of another company, what are the two possibilities that may arise in the books of the purchasing company, if the value of net assets is not equal to the purchase price?

(x) How would you value the goodwill of a partnership firm on the basis of:

(a) capitalization of average profit method?

(b) capitalization of super profit method?

Question 2 **[10]**

Burton and Sons, a partnership firm is about to admit a partner and so decides to value goodwill in the books. The partners are considering three different methods of valuation as follows:

(a) On the basis of two years' purchase of the average profits of the last five consecutive years. These were: 2006 – ₹ 56,000; 2007 – ₹ 48,000; 2008 – ₹ 46,000; 2009 – ₹ 58,000 and 2010 – ₹ 66,000.

(b) On the basis of three years' purchase of total super profits of the last five years. For this purpose, the normal profit is to be taken as ₹ 40,000 per annum.

(c) On the basis of capitalizing the average super profit. For this purpose, the following information is provided:

(i) Adjusted forecast maintainable profits ₹ 60,000.

(ii) Normal rate of return 20%.

(iii) Capital employed ₹ 2,00,000

(iv) Capitalization rate 25%.

You are required to calculate the value of goodwill on the basis of each of the three methods (a) to (c) above.

PART II (70 Marks)
Answer **any five** questions**.**

Question 3 **[14]**

The following information is available from the books of Robinson and Company Limited:

Debit balance as on 1.7.97, ₹ 87,200 in Debtors account and Credit balance as on 1.7.97, ₹ 600 in Debtors account.

Transactions during the six months ended 31.12.97

Total sales were ₹ 94,000 including cash sales of ₹ 4,000.

Debtors whose balance was in credit were paid off ₹ 600.

Payments received by cheque from debtors ₹ 60,000.

Payments received by cash from debtors ₹ 48,000.

Payment received by bills receivable ₹ 26,000.

Bills receivable received from debtors were dishonoured for ₹ 6,000 and noting charges of ₹ 60 were paid.

Bills amounting to ₹ 10,000 were discounted with the bank for ₹ 9,900.

Cheques received from customers were dishonoured for ₹ 800.

Out of bills receivable received and included in ₹ 26,000 above, bills of ₹ 5,000 were endorsed to suppliers.

Bad debts written off during the period were ₹ 1,000.

Discount allowed for prompt payment were ₹ 700 and bad debts written off in 1995 and now recovered from debtors amounted to ₹ 900.

Interest debited for delay in payments was ₹ 1,250.

On 31.12.97, provision for doubtful debts was created for ₹ 2,100 and provision for discount on debtors for ₹ 500.

Hugo and Company Limited appeared in Debtors Ledger and also in Creditors Ledger.

The balance in Creditors Ledger was ₹ 900 and the same was transferred to Debtors Ledger.

Goods of ₹ 2,760 were rejected by customers.

From the given information, prepare a Total Debtors Account in the General Ledger.

Question 4 **[14]**

Andrew and Bill entered into a joint venture for underwriting the subscription at par of the entire share capital of Jacob and Company Limited consisting of 1,00,000 equity shares of ₹ 10 each and to pay all expenses up to allotment. The profits were to be shared by them in the ratio of 3:2 respectively.

The consideration in return for this agreement was the allotment of 12,000 other shares of ₹ 10 each to be issued to them as fully paid.

Andrew provided the funds amounting to ₹ 32,500 for various expenses and Bill contributed ₹ 27,500 on account of office expenses.

The prospectus was issued and application fell short of the issue by 15,000 shares.

Andrew took these over on joint account and paid for the same in full. The ventures received 12,000 fully paid shares as underwriting commission.

They sold their entire share holding at ₹ 12.50 less 50 paise brokerage per share. The net proceeds were received by Andrew for 15,000 shares and Bill for 12,000 shares.

You are required to show in the books of Andrew and Bill, the joint venture accounts as well as their personal accounts in their respective books.

Question 5 **[14]**

Bird and Company Limited issued 10,000 shares of ₹ 10 each payable as follows:

Application – ₹ 4 per share on 1.1.09

Allotment – ₹ 3 per share payable on 1.4.09

First call – ₹ 2 per share payable on 1.7.09 and

Second and final call – ₹ 1 per share payable on 1.10.09

All the shares were subscribed for and the money received subject to certain expectations:

(a) Mr. Harry holding 500 shares paid the entire amount of his holding at the time of allotment.

(b) Mr. Joe holding 200 shares failed to pay the allotment and first call money on the due dates but paid the entire amount due at the time of paying the second and final call.

Directors have decided to charge and allow interest, as the case may be, on calls in arrear and calls in advance respectively, as per the provisions of Table-A of the Companies Act, 1956.

The defaulting shareholders duly paid their interest on calls in arrear to the company while some shareholders were also paid interest on calls in advance by the company before the finalization of accounts on 31.12.09.

You are required to pass the consolidated adjustment and other relevant entries relating to interest on calls in arrear and interest on calls in advance only in all the appropriate books of account of Bird and Company Limited at the time of closing of annual accounts.

Question 6 **[14]**

The following is the Balance Sheet of Alice, Barry and Charles as on 1st January, 2010:

Liabilities	Amount ₹	Assets	Amount ₹
Alice's capital	40,000	Goodwill	10,000
Barry's capital	20,000	Building	50,000
Charles' capital	20,000	Machinery	40,000
General reserve	20,000	Furniture	10,000
Creditors	15,000	Stock	5,000
Bills payable	15,000	Debtors	5,000
		Bank	10,000
	1,30,000		1,30,000

The partners share profits and losses in the ratio of 2:2:1, but on the above date, they decided to change that to 2:1:1. The following adjustments are required;

(a) The value of the goodwill is ₹ 15,000.

(b) The value of machinery and furniture is to be increased by ₹ 15,000 and ₹ 5,000, respectively.

(c) The value of stock and debtors is to be decreased by ₹ 3,000 and ₹ 2,000, respectively.

(d) The capitals of the partners are to be adjusted according to the new profit and loss sharing ratio and for that, necessary capital is to be brought in or excess capital is to be withdrawn.

(e) No reserve will be shown in the new Balance Sheet.

Prepare revaluation account, partners' capital accounts and re-draft the balance sheet.

[14]

Question 7

The following are the ledger balances extracted from the books of Coopers and Company Limited:

		Amount ₹
Authorized share capital – 1,00,000 equity shares of ₹ 10 each.		10,00,000
Issued and subscribed share capital – 1,00,000 equity shares of ₹ 10 each		10,00,000
Calls in arrear		1,000
Profit and loss account(Cr)		1,00,000
10% Debentures		1,42,500
Debenture interest accrued but not due		7,500
Fixed deposits accepted		1,21,000
Provision for taxation		68,000
General reserve		2,10,000
Proposed dividend		60,000
Creditors		2,00,000
Plant and Machinery		5,25,000
Stock		2,50,000
Debtors		2,00,000
Land		2,00,000
Preliminary expenses	13,300	
Advances to directors	42,700	
Furniture	50,000	
Cash	30,000	
Bank	2,47,000	
Building	3,50,000	

Prepare the Balance Sheet of the company as per Schedule VI, Part I of the Companies Act, 1956.

Question 8 **[14]**

Balance Sheet as on 31st March 2010

Liabilities	Amount ₹	Assets		Amount ₹
Creditors	20,000	Goodwill		10,000
Bills payable	20,000	Building		25,000
Bank overdraft	8,000	Plant		25,000
Outstanding expenses	2,000	Investments		15,300
James' brother's loan	20,000	Stock		8,700
Henry's loan	10,000	Debtors	17,000	
Investment fluctuation fund	2,800	Less provision for bad Debts	2,000	15,000
Employees provident fund	1,200	Bills receivable		10,000
General reserve	2,000	Cash and bank		17,000
James' capital	20,000			
Henry's capital	20,000			
	1,26,000			1,26,000

The firm was dissolved on the above balance sheet date and the following arrangements were decided upon:

(a) James agreed to pay off his brother's loan.

(b) Debtors realized ₹ 12,000.

(c) Henry took over all the investment at ₹12,000.

(d) Other assets realized are as follows:

(i) Plant ₹ 20,000.

(ii) Building ₹ 50,000.

(iii) Goodwill ₹ 6,000.

(e) Creditors and bills payable were settled at 5% discount.

(f) Henry accepted stock at ₹ 8,000 and James took over bills receivable at 20% discount.

(g) Realization expenses amounted to ₹ 2,000.

You are required to prepare the necessary ledger accounts in order to close the books of the firm.

Question 9 **[14]**

The Balance sheets of Cowper and Company as on 31st December, 2009, and 31st December 2010, are given below:

Liabilities	31.12.09 Amount ₹	31.12.10 Amount ₹	Assets	31.12.09 Amount ₹	31.12.10 Amount ₹
Equity share capital of ₹ 100 each	10,00,000	20,00,000	Plant	15,00,000	20,00,000
General Reserve	10,00,000	11,00,000	Stock	6,00,000	6,00,000
Profit and Loss account	3,00,000	4,00,000	Debtors	10,00,000	9,00,000
Current liabilities	7,00,000	2,00,000	Cash	1,00,000	4,00,000
Provision for taxation	3,00,000	4,00,000	Miscellaneous expenditure	1,00,000	2,00,000
	33,00,000	41,00,000		33,00,000	41,00,000

Additional information:

(a) During the current year, the company paid ₹ 2,00,000 as equity dividend.

(b) During the current year, one plant whose book value was ₹ 1,00,000 was sold at a loss of ₹ 25,000 and the company purchased another plant for ₹ 8,00,000.

(c) A sum of ₹ 3,50,000 has been provided for taxation for the year.

(d) Miscellaneous expenditure included ₹ 1,10,000 as share issue expenses.

Prepare a Cash Flow Statement as per AS-3 for the year ended 31st December, 2010.

Question 10 **[14]**

(a) The following data is available from Allen and Company Limited:

Debtors turnover ratio – 4 times.

Cost of goods sold – ₹ 6,40,000

Gross profit ratio – 20%.

Closing debtors were ₹ 20,000 more than at the beginning.

Cash sales being $33\frac{1}{3}$ of credit sales.

From the above, calculate the amount of opening debtors and closing debtors.

(b) The following figures have been extracted from Regal and Company Limited:

Stock at the beginning of the year – ₹ 60,000

Stock at the end of the year – ₹ 1,00,000

Stock turnover ratio – 8 units.

Selling price 25% above cost.

Compute the amount of gross profit and sales.

(c) The following information is provided to you pertaining to Parker and Company Limited:

The above company has a current ratio 3:1

Its current liabilities are ₹ 25,000.

Calculate its current assets and working capital.

(d) The following information is available from Scott and Company Limited:

Opening stock	₹ 30,000
Closing stock	₹ 40,000
Carriage inwards	₹ 10,000
Purchases	₹ 1,00,000
Current assets	₹ 50,000
Current liabilities	₹ 20,000
Fixed assets	₹ 80,000
Indirect expenses	₹ 15,000
Sales	₹ 2,00,000

Calculate the Stock turnover ratio and Working Capital turnover ratio.

(e) The following information is available from Walter and Company Limited:

Stock turnover ratio – 5 times

Stock at the end of the year is ₹ 15,000 more than the stock in the beginning of the year.

Sales – ₹ 2,00,000

Gross profit ratio – 25%

Current liabilities – ₹ 50,000

Quick ratio – 0.75

Calculate the current assets of the company.