INTER CA – NOVEMBER 2018

Sub: ACCOUNTS
Topics – Company Accounts, Single Entry, Hire Purchase, Investments Accounts, Redemption of Debentures.
Test Code – N4
Branch: Multiple Date:

(50 Marks)

Question 1 (I – 3 marks, ii – 5 marks)
(8 MARKS)

(i) **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.

(ii) **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 Depreciation A/c	1,47,200
				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))	1,97,225
				By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,94,400-1,97,225)	97,175
				By Balance c/d ½ (7,36,000-1,47,200=5,88,800)	2,94,400
		7,36,000			7,36,000

Question 2 **(6 marks)**

Investment Account-Equity Shares in X Ltd.

Date		No. of shares	Divident	Amount	Date		No. of shares	Divident	Amount
			₹	₹				₹	₹
20X1 Jan. 1	To Balance b/d	20,000	–	3,20,000	20X1 Oct. 20	By Bank (dividend)*		30,000	7,500
June 1	To Bank	5,000	–	70,000	Nov. 1	By Bank	20,000		2,60,000
Aug. 2	To Bonus Issue	5,000	–	–	Nov. 1	By P & L A/c (W.N.2)			1,429
Sep. 30	To Bank (Right) (W.N.1)	5,000	–	75,000	Dec. 31	By Balance c/d (W.N.3)	15,000		1,96,071
Nov. 1	To Profit & Loss A/c (Dividend income)		30,000						
		35,000	30,000	4,65,000			35,000	30,000	4,65,000
Jan. 1, 20X2	To Balance b/d	15,000		1,96,071					

** Dividend = [20,000 x 10 x 15%] [5,000 x 10 x 15%]*

Working Notes :

1. **Right shares**

   No. of right shares issued = (20,000 + 5,000 + 5,000)/ 3 = 10,000 shares

   No. of right shares subscribed = 10,000 x 50% = 5,000 shares

   Amount of right shares issued = 5,000 x 15 = ₹ 75,000

   No. of right shares sold = 10,000 – 5,000 = 5,000 shares

   Sale of right shares = 5,000 x 1.5 = ₹ 7,500 to be credited to statement of profit and loss

2. Cost of shares sold

	₹
Amount paid for 35,000 shares (₹ 3,20,000 + ₹ 70,000 + ₹ 75,000)	4,65,000
Less: Dividend on shares purchased on June 1 (since the dividend pertains to the year ended 31st March, 20x1, i.e., the pre-acquisition period)	(7,500)
Cost of 35,000 shares	4,57,500
Cost of 20,000 shares (Average cost basis)	2,61,429
Sale proceeds	2,60,000
Loss on sale	1,429

3. Value of investment at the end of the year

   Assuming investment as current investment, closing balance will be valued based on lower of cost or net realisable value.

   Here, Net realisable value is ₹ 14 per share i.e. 15,000 shares x ₹ 14 = ₹ 2,10,000 and cost = $\frac{4,57,500}{35,000}$ X 15,000 = ₹ 1,96,071. Therefore, value of investment at the end of the year will be ₹ 1,96,071.

Question 3 (3 marks for each accounts, 3 marks for working) (12 marks)

In the Books of Progressive Ltd.

Debenture Account

2010		₹	2010		₹
Sept. 30	To Debenture Redemption A/c	1,20,000	Jan. 1	By Balance b/d	10,00,000
Dec. 31	To Balance c/d	8,80,000			
		10,00,000			10,00,000
2011		**₹**	**2011**		**₹**
May 31	To Debenture Redemption A/c	75,000	Jan. 1	By Balance b/d	8,80,000
Dec.31	To Debenture Redemption A/c	25,000			
	To Balance c/d	7,80,000			
		8,80,000			8,80,000
2012		**₹**	**2012**		**₹**
July 31	To Debenture Redemption A/c	1,15,000	Jan. 1	By Balance b/d	7,80,000
Dec.31	To Balance c/d	6,65,000			
		7,80,000			7,80,000

Debenture Redemption Account

2010		₹	2010		₹
Sept. 30	To Bank A/c (₹1,20,000×0.98 – ₹1,800)	1,15,800	Sept.30	By Debenture Stock A/c	1,20,000
	To Capital Reserve A/c	4,200			
		1,20,000			1,20,000
2011		**₹**	**2011**		**₹**
May 30	To Bank A/c (₹75,000 × 0.95)	71,250	May 31	By Debenture Stock A/c	75,000
	To Capital Reserve A/c (Profit on cancellation)	3,750	Dec. 31	By Debenture Stock A/c	25,000
Dec.31	To Bank A/c (Shortfall ₹1,00,000 – ₹75,000)	25,000			
		1,00,000			1,00,000

2012		₹	2012		₹
July 31	To Bank A/c (₹1,15,000 × .92 – ₹575)	1,05,225	July 31	By Debenture Stock A/c	1,15,000
	To Capital Reserve A/c (Profit on cancellation)	9,775			
		1,15,000			1,15,000

Debenture Interest Account

2010		₹	2010		₹
June 30	To Bank A/c	30,000	Dec. 31	By Profit and Loss A/c	58,200
Sept. 30	To Bank A/c	1,800			
Dec. 31	To Bank A/c	26,400			
		58,200			58,200
2011		**₹**	**2011**		**₹**
May 31	To Bank A/c	1,875	Dec. 31	By Profit and Loss A/c	50,175
June 31	To Bank A/c	24,150			
Dec. 31	To Bank A/c	24,150			
		50,175			50,175
2012		**₹**	**2012**		**₹**
June 30	To Bank A/c	23,400	Dec. 31	By Profit and Loss A/c	43,925
July 31	To Bank A/c	575			
Dec. 31	To Bank A/c	19,950			
		43,925			43,925

Working Notes :

Interest paid on Debentures @6% per annum:

Date	*Amount of Debentures*	*Period*	*Interest*
	₹		₹
2010			
June 30	10,00,000	6 months	30,000
Sept. 30	1,20,000	3 months	1,800
Dec. 31	8,80,000	6 months	26,400
2011			
May 31	75,000	5 months	1,875
June 30	8,05,000	6 months	24,150

Question 4 **(12 Marks)**

Trading and Profit and Loss Account of Sri. Agni Dev
for the year ended 31st March, 2011

		₹			₹
To	Opening Stock	33,000	By	Sales	9,60,000
To	Purchases	7,20,000	By	Closing Stock	33,000
To	Gross Profit c/d	2,40,000			
		9,93,000			9,93,000
To	Business Expenses	1,57,500	By	Gross Profit b/d	2,40,000
To	Repairs	3,500			
To	Depreciation	27,000			
To	Travelling Expenses	18,000			
To	Loss by theft	1,500			
To	Net Profit	32,500			
		2,40,000			2,40,000

3 marks

Balance Sheet of Sri Agni Dev as at 31st March, 2011

Liabilities	₹	₹	*Assets*	₹	₹
Capital	2,52,500		Machinery	1,20,000	
			Add: additions	60,000	
				1,80,000	
Add: Additional Capital	5,000		*Less*: Depreciation	(27,000)	1,53,000
Net Profit	32,500				
	2,90,000		Stock in Trade		33,000
Less: Loss of Furniture	(20,000)		Sundry Debtors		1,20,000
Drawings	(30,000)	2,40,000			
Bank Overdraft		2,667			
Sundry Creditors		55,833			
Outstanding Expenses		7,500			
		3,06,000			3,06,000

2 marks

Working Notes:

		₹
1.	Sales during 2010-2011	
	Debtors as on 31st March, 2010	1,00,000
	(Being equal to 2 months' sales)	

7 marks

	Total credit sales in 2009- 2010, ₹ 1,00,000 × 6	6,00,000
	Cash Sales, being equal to 1/3rd of credit sales or 1/4th of the total	2,00,000
	Sales in 2009- 2010	8,00,000
	Increase, 20% as stated in the problem	1,60,000
	Total sales during 2010-2011	9,60,000
	Cash sales : 1/4th	2,40,000
	Credit sales : 3/4th	7,20,000
2.	Debtors equal to two months credit sales	1,20,000
3.	Purchases	
	Sales in 2010-2011	9,60,000
	Gross Profit @ 25%	2,40,000
	Cost of goods sold being purchases	7,20,000
	(Since there is no change in stock level)	
4.	Sundry Creditors for goods	
	(₹ 7,20,000 – ₹ 50,000) /12 = ₹ 6,70,000/12	55,833
5.	Collections from Debtors	
	Opening Balance	1,00,000
	Add: Credit Sales	7,20,000
		8,20,000
	Less: Closing Balance	(1,20,000)
		7,00,000
6.	Payment to Creditors	
	Opening Balance	45,000
	Add: Credit Purchases (₹ 7,20,000 – ₹ 50,000)	6,70,000
		7,15,000
	Less: Closing Balance	(55,833)
	Payment by cheque	6,59,167

7. **Cash and Bank Account**

	Particulars	Cash	Bank		*Particulars*	Cash	Bank
To	Balance b/d	8,000	16,500	By	Payment to Creditors	50,000	6,59,167
To	Collection from Debtors	–	7,00,000	By	Misc. Expenses	1,45,000	5,000
To	Sales	2,40,000	–	By	Repairs	3,500	–
To	Additional Capital	–	5,000	By	Addition to Machinery	–	60,000
To	Balance c/d	–	2,667	By	Travelling Expenses	18,000	–
	(Bank overdraft)			By	Private Drawings	30,000	–
				By	Balance c/d (lost by theft)	1,500	
		2,48,000	7,24,167			2,48,000	7,24,167

Question 5

Solution

(i) Adjustment for raising & writing off of goodwill :

	Raised in old profit sharing ratio				Written off in new ratio		Difference	
	S & Co.	T & Co.	Total					
	3:1	2:1	₹		3:2:1		₹	
B	45,000	–	45,000	Cr.	55,000	Dr.	10,000	Dr.
S	15,000	33,333	48,333	Cr.	36,666	Dr.	11,667	Cr.
T	–	16,667	16,667	Cr.	18,334	Dr.	1,667	Dr.
	60,000	50,000	1,10,000		1,10,000			

1 mark

Books of BST & Co.
Journal Entries

			Dr.	Cr.
20X1			₹	₹
Oct. 31	Cash Account	Dr.	10,000	
	Bank Account	Dr.	15,000	
	T & Co.	Dr.	50,000	
	Sundry Debtors	Dr.	80,000	
	Stock Account	Dr.	60,000	
	Furniture Account	Dr.	10,000	
	Machinery Account	Dr.	90,000	
	Building Account	Dr.	50,000	
	To Provision for Doubtful debts			4,000
	To X & Co.			40,000
	To Sundry Creditors			60,000
	To B's Capital Account			1,65,750
	To S's capital Account			95,250
	(Sundry assets and liabilities of M/s S & Co. taken over at the values stated as per agreement dated.....)			
	Cash Account	Dr.	5,000	
	Bank Account	Dr.	20,000	
	X & Co. Account	Dr.	30,000	
	Sundry Debtors A/c	Dr.	1,00,000	

6 marks

	Stock Account	Dr.	70,000	
	Furniture Account	Dr.	3,000	
	Vehicles Account	Dr.	1,00,000	
	To Provision for Doubtful Debts			5,000
	To S & Co.			50,000
	To Sundry Creditors			58,000
	To S's Capital Account			1,43,333
	To T's Capital Account			71,667
	(Sundry assets and liabilities of M/s T & Co. taken over at the values stated as per agreement dated...)			
	B's Capital Account	Dr.	10,000	
	T's Capital Account	Dr.	1,667	
	To S's Capital Account			11,667
	(Adjustment in capital accounts consequent on raising goodwill of S & Co. for ₹ 60,000, T & Co. for ₹ 50,000 and writing off the same in the new ratio between B,S,T as per agreement)			
	S & Co.			
	To T Co.		50,000	
	(Mutual indebtedness of S & Co. and T & Co., cancelled on taking over of the two firms)			50,000
	B's Current Account	Dr.	54,250	
	To B's Capital Account			54,250
	(Amount credited to B's Capital to bring capital in profit-sharing ratio)			
	S's Capital Account	Dr.	1,10,250	
	To S's Current Account			1,10,250
	(Excess amount in S's Capital Account transferred to S's current account to reduce the balance in capital accounts in accordance with the profit sharing ratio)			

Working Notes :

(i) Balance of Capital Accounts on transfer of business to M/s BST & Co.

(a) S & Co.		B's Capital	S's Capital
	₹	₹	₹
As per Balance Sheet		1,20,000	80,000
Credit for Reserve		18,750	6,250
Profit on Revaluation	40,000		
Less : Provision for doubtful debts	(4,000)	27,000	9,000
		1,65,750	95,250
(b) T & Co.		**S's Capital**	**T's Capital**
	₹	₹	₹
As per Balance Sheet		1,00,000	50,000
Credit for Reserve		33,333	16,667
Profit on Revaluation	20,000		
Less : Provision for doubtful debts	(5,000)	10,000	5,000
		1,43,333	71,667

3 marks

(ii) Capital in the new firm

	B	S	T
	₹	₹	₹
Balance as taken over	1,65,750	95,250	
	–	1,43,333	71,667
	1,65,750	2,38,583	71,667
Adjustment for Goodwill	–10,000	+11,667	–1,667
	1,55,750	2,50,250	70,000
Total capital, ₹ 4,20,000* in the new ratio of 3:2:1, taking T's Capital as the basis	2,10,000	1,40,000	70,000
Transfer to Current Account	54,250 (Dr.)	1,10,250 (Cr.)	—

2 marks

*T's Capital is ₹ 70,000 and it is 1/6 of total. The total therefore is ₹ 4,20,000.

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